THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **EVI Education Asia Limited**, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

EVI Education Asia Limited

EVI教育亞洲有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8090)

CONNECTED TRANSACTION
AND VERY SUBSTANTIAL ACQUISITION
in respect of the acquisition of the Sale Shares

CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED CHANGE OF NAME

Joint Financial Advisers to EVI Education Asia Limited

SOMERLEY LIMITED

集團 滙富 KingswayGroup
Kingsway Capital Limited

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

ICEA
A subsidiary of ICBC

A letter from the Board is set out on pages 5 to 23 of this circular. A letter from the Independent Board Committee is set out on page 24 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 47 of this circular.

A notice convening the EGM to be held at 12:00 noon, on 31 May 2007 at Rooms 2505-08, 25th Floor, World-wide House, 19 Des Voeux Road Central, Hong Kong is set out on pages 147 to 149 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

* *For identification purpose only*

7 May 2007

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate.

Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context indicates otherwise:

"Announcement"	the joint announcement dated 30 March 2007 published by Midland and the Company
"associates"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day(s)"	the day(s) on which banks in Hong Kong are open generally for business, except a Saturday, Sunday public holiday and any day on which a tropical cyclone warning No.8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
"BVI"	the British Virgin Islands
"Company" or "EVI"	EVI Education Asia Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on GEM
"Completion"	completion of the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration"	the aggregate consideration payable by the Company to the Vendor under the Sale and Purchase Agreement
"Controlling Shareholder"	the controlling shareholder (as such term is defined under the GEM Listing Rules) of the Company
"Convertible Note"	the convertible note in the principal amount of HK$540 million to be issued by the Company to the Noteholder in settlement of HK$540 million of the Consideration
"Conversion Shares"	the Shares to be issued and credited as fully paid upon conversion of the conversion rights attached to the Convertible Note at the conversion price of HK$0.1 per Share (subject to adjustment)

"Cross Referral Services Agreement"	the cross referral services agreement to be entered into between the Company and Midland upon Completion in relation to the cross referral services between the relevant members of the Group and Midland Group
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company proposed to be held for the purpose of approving the transactions contemplated under the Sale and Purchase Agreement, the issue of the Convertible Note, the allotment and issue of the Conversion Shares, the Cross Referral Services Agreement, the annual caps and the proposed change of name of the Company
"Enlarged Group"	the Company and its subsidiaries immediately after Completion including Ketanfall Group
"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"GEM Listing Committee"	has the meaning ascribed to such term under the GEM Listing Rules
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HKFRS"	The Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	the independent board committee, comprising the independent non-executive Directors, namely Messrs. Sha Pau, Eric and Ying Wing Cheung
"Independent Financial Adviser" or "ICEA"	ICEA Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a corporation registered under the transitional arrangement of the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities (as defined under the SFO)

"Independent Shareholders"	those Shareholder(s) of the Company other than Midland and its associates
"Ketanfall"	Ketanfall Group Limited, a company incorporated in the BVI and is wholly-owned by the Vendor
"Ketanfall Group"	Ketanfall and its subsidiaries
"Latest Practicable Date"	3 May 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Midland"	Midland Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the main board operated by the Stock Exchange
"Midland Group"	Midland and its subsidiaries
"Non-Competition Deed"	the deed of non-competition undertaking to be entered into between Midland and the Company upon Completion
"Noteholder"	the Vendor or its subsidiary or subsidiaries as it may direct in writing as nominee holder of the Convertible Note
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Sale Shares"	fourteen (14) shares of US$1.00 each in the issued share capital of Ketanfall, which represents the entire issued share capital of Ketanfall
"Sale and Purchase Agreement"	the conditional sale and purchase agreement entered into on 26 March 2007 between the Vendor and the Company pursuant to which the Vendor has agreed to sell and the Company has agreed to acquire the Sale Shares at the Consideration
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trademark Licence Agreement"	the trademark licence agreement to be entered into between the Company and Midland, the Vendor and Elitesmart Holdings Limited upon Completion in relation to the right to use the relevant trademarks and service marks held by the licensors by the relevant members of the Group on a non-exclusive basis
"Vendor"	Midland Realty (Strategic) Limited, an indirect wholly-owned subsidiary of Midland
"%"	percent

EVI Education Asia Limited

EVI教育亞洲有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8090)

Executive Directors:
Ms. Ip Kit Yee, Kitty
Mr. Pong Wai San, Wilson
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

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,
24-34 Hennessy Road,
Hong Kong

7 May 2007

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION
AND VERY SUBSTANTIAL ACQUISITION
in respect of the acquisition of the Sale Shares

CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED CHANGE OF NAME

INTRODUCTION

On 26 March 2007, the Company entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell the Sale Shares to the Company at a total consideration of HK$640 million. The Consideration will be satisfied as to HK$540 million by the Company issuing the Convertible Note to the Noteholder and as to HK$100 million by cash upon Completion. Immediately after Completion, Ketanfall will become a wholly-owned subsidiary and a principal operating subsidiary of the Company and will be a 51.81% indirect subsidiary of Midland. In addition, Midland will continue to be the Controlling Shareholder.

* *For identification purpose only*

Midland is the Controlling Shareholder holding indirectly approximately 51.81% of the issued share capital of the Company and hence, a connected person of the Company. The Sale and Purchase Agreement constitutes a connected transaction for the Company under the GEM Listing Rules. As the applicable percentage ratios under Chapter 19 of the GEM Listing Rules exceed 100%, the transactions contemplated under the Sale and Purchase Agreement also constitute a very substantial acquisition for the Company.

In addition, the Group will continue to enter into certain continuing connected transactions with Midland Group pursuant to the Cross Referral Services Agreement following Completion. The consideration ratio in respect of the proposed annual caps of the Cross Referral Services Agreement is expected to be more than 2.5%.

The Sale and Purchase Agreement (including the issue of the Convertible Note thereunder), the Cross Referral Services Agreement and the annual caps are therefore subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. Midland and its associates will abstain from voting on the resolutions proposed at the EGM regarding (a) the Sale and Purchase Agreement; (b) the issue of the Convertible Note; (c) the allotment and issue of the Conversion Shares; (d) the Cross Referral Services Agreement; and (e) the annual caps.

The Directors propose that the name of the Company be changed from "EVI Education Asia Limited (Chinese translation being EVI教育亞洲有限公司, for identification purposes only)" to "Midland IC&I Limited (Chinese translation being 美聯工商舖有限公司, for identification purposes only)". The proposed change of name of the Company is subject to the passing of a special resolution at the EGM by the Shareholders.

An independent board committee comprising the independent non-executive Directors, namely Messrs. Sha Pau, Eric and Ying Wing Cheung, has been formed to advise the Independent Shareholders. ICEA Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note thereunder) and the Cross Referral Services Agreement as well as the annual caps.

The purpose of this circular is to provide you with (i) further information in respect of the transactions described herein; (ii) the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms and conditions of the Sale and Purchase Agreement (including the issue of the Convertible Note thereunder) and the Cross Referral Services Agreement as well as the annual caps; (iii) certain financial information as required under the GEM Listing Rules; (iv) further information in respect of the change of name of the Company; and (v) a notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

Date	:	26 March 2007
Parties	:	the Company (as purchaser); and Midland Realty (Strategic) Limited (as vendor)
Particulars of the Sale Shares	:	Fourteen (14) shares of US$1 each in the issued share capital of Ketanfall, which represents the entire issued share capital of Ketanfall.
Consideration	:	The consideration for the sale and purchase of the Sale Shares shall be HK$640 million and will be satisfied as to HK$540 million by the issue of the Convertible Note to the Noteholder and as to HK$100 million by cash. The Consideration was arrived at after arm's length negotiations between the Vendor and the Company on normal commercial terms with reference to, *inter alia*, (a) the unaudited combined management accounts of Ketanfall Group for the three years ended 31 December 2006; (b) the price-to-earning ratio of approximately 15.35 times based on the unaudited combined net profits of Ketanfall Group for the year ended 31 December 2006 for determining the consideration, this price-to-earning ratio is determined after arm's length negotiations by reference to the market price-to-earnings ratio of Midland and the operation and scale of this business segment in the overall operation of Midland Group; and (c) the future prospects of industrial and commercial (office and shops) property broking business in Hong Kong. As far as the Board is concerned, Midland is the only company listed in Hong Kong which is engaged in industrial and commercial (office and shops) property broking business in Hong Kong. In addition, the Board is not aware of any publicly available financial information of unlisted company which is engaged in similar business with Ketanfall Group in Hong Kong. Furthermore, given the unique nature of Hong Kong property market, the Board does not consider the market price-to-earning ratio of other listed companies in Hong Kong which are engaged in industrial and commercial (office and shops) property broking business outside Hong Kong meaningful for comparison purpose. Taking into account the financial performance of Ketanfall Group for the past few years and the reasons and benefits as stated in the paragraph below headed "Reasons for and benefits of entering into the Sale and Purchase Agreement", the Board considers that the consideration is fair and reasonable to and in the interests of the Company and the Shareholders as a whole.

Conditions : Completion is conditional upon:–

(a) the passing of the necessary resolution(s) by the Independent Shareholders in the EGM;

(b) the GEM Listing Committee granting the listing of, and permission to deal with, the Conversion Shares without any conditions or restrictions (or subject to such conditions or restrictions as may be agreed by the Vendor);

(c) the Shares remaining listed and traded on GEM at all times prior to and on Completion, excluding any suspension not exceeding ten (10) consecutive business days (as defined in the GEM Listing Rules) or any temporary suspension in connection with the clearance by the Stock Exchange of the Announcement or transactions contemplated under the Sale and Purchase Agreement;

(d) no indication being received on or before the date of Completion from the Stock Exchange to the effect that the listing of the Shares may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of Completion or in connection with the terms of the Sale and Purchase Agreement or for any reason;

(e) the Company being satisfied with its due diligence review of the legal and financial affairs of Ketanfall Group in all material respects;

(f) the Vendor's warranties remaining true and accurate, and not misleading, in all material respects between the date of the Sale and Purchase Agreement and up to the date of Completion; and

(g) the warranties of the Company remaining true and accurate, and not misleading, in all material respects between the date of the Sale and Purchase Agreement and up to the date of Completion.

The Company may waive the conditions (e) and (f), and the Vendor may waive the conditions (c) and (g) by giving written notice to the other party.

If the conditions are not fulfilled or waived (as the case may be) and remain unfulfilled by 5:00 p.m. (Hong Kong time) on 30 June 2007 (or such later date as may be agreed by the parties in writing), the Sale and Purchase Agreement will be terminated and none of the parties to it shall have any claim against the other provided that rights and liabilities of any of the parties which have accrued prior to termination shall subsist.

As at the Latest Practicable Date, none of the above conditions had been waived by any party or fulfilled for Completion purpose.

Completion : Completion will take place on the third Business Day after the date on which the last of the conditions above is fulfilled (or waived).

CONVERTIBLE NOTE

The Convertible Note to be issued by the Company to the Noteholder upon Completion carry the following principal terms:–

Principal amount **:** An aggregate of HK$540 million

Interest : The Convertible Note will bear interest at a rate of one (1)% per annum on the principal amount of the Convertible Note outstanding, payable semi-annually in arrears.

Maturity : The fifth anniversary of the date of issue of the Convertible Note.

Conversion price : The conversion price is HK$0.1 per Conversion Share, subject to adjustment. The initial conversion price of HK$0.1 per Conversion Share represents:–

(a) a discount of approximately 55.36% to the closing price of HK$0.224 per Share as quoted on GEM on the Latest Practicable Date;

(b) a discount of approximately 53.27% to the closing price of HK$0.214 per Share as quoted on GEM on 20 March 2007, being the last trading day prior to the publication of the Announcement;

(c) a discount of approximately 31.51% to the average closing price of approximately HK$0.146 per Share for the last five trading days up to and including 20 March 2007, being the last trading day prior to the publication of the Announcement;

(d) a discount of approximately 26.47% to the average closing price of approximately HK$0.136 per Share for the last ten trading days up to and including 20 March 2007, being the last trading day prior to the publication of the Announcement; and

(e) a premium of approximately 566.67% to the net asset value per Share of HK$0.015 as at 31 December 2006 based on the latest published audited financial results of the Group and the number of 8,300,000,000 issued Shares as at the Latest Practicable Date.

The conversion price of HK$0.1 per Conversion Share is determined after arm's length negotiations with reference to the average closing prices of Shares as quoted on GEM prior to the entering of the Sale and Purchase Agreement, the potential dilution effect on the shareholding structure of the Company and the terms of the Convertible Note. The conversion price of the Convertible Note is subject to adjustment provisions. The adjustment events will arise as a result of certain change in the share capital of the Company including, inter alia, consolidation or sub-division of the Shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company.

Conversion Rights : The conversion rights under the Convertible Note shall not be exercised for a period of six (6) months from the date of issue of the Convertible Note (unless with the prior written consent from the Company) and the exercise of which shall be subject to the GEM Listing Rules.

Further, the Noteholder shall not exercise conversion rights attached to the Convertible Note to such an extent that results or will result in the Company in breach of any provision of the GEM Listing Rules, including the public float requirements under the GEM Listing Rules. Subject to these provisions, the conversion rights may be exercised from the date of issue of the Convertible Note up to the fifth Business Day before the maturity date of the Convertible Note.

Conversion	:	The Noteholder may convert the whole or part of the principal amount of the relevant Convertible Note (in an integral multiple of HK$10,000,000) into new Conversion Shares unless the principal amount of the outstanding Convertible Note are less than HK$10,000,000 in which case the whole (but not part only) of such outstanding principal amount of the Convertible Note shall be converted. If there shall be any outstanding principal amount of the Convertible Note at its maturity date, the conversion rights in respect of the whole of the then outstanding principal amount of the Convertible Note shall be deemed to be automatically and duly exercised.
Ranking	:	The Conversion Shares will rank pari passu in all respects with all existing Shares in issue at the date of the notice of conversion.
Status of the Convertible Note	:	The Convertible Note constitute general, unconditional, unsecured and unsubordinated obligations of the Company and rank, and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.
Transferability	:	The Convertible Note may be assigned or transferred to any party but subject to, inter alia, the prior approval of the Stock Exchange, if so required.
Voting Rights	:	The Convertible Note does not confer any voting rights at any meetings of the Company.
Listing	:	No application will be made for the listing of the Convertible Note. Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

NON-COMPETITION UNDERTAKING BY MIDLAND

On Completion, Midland and the Company will enter into the Non-Competition Deed. Under the Non-Competition Deed, Midland Group shall not be engaged, interested or involved (whether alone or in conjunction with other third parties) in any business that is in direct or indirect competition with the Relevant Business (as defined below) carried out by those members of the Group (through Ketanfall Group) in Hong Kong after Completion. "Relevant Business" means the business of doing estate agency work in respect of industrial and commercial properties (including shops) in Hong Kong, as currently carried out by Ketanfall Group.

The term of the Non-Competition Deed will commence upon Completion and shall automatically end on the earliest of (a) the date when Midland, together with its associates (other than the Group), ceases to be Controlling Shareholder; (b) the date when the Company ceases to be listed on the Stock Exchange; or (c) the date falling on the fifteenth anniversary of the Non-Competition Deed.

The restrictions under the Non-Competition Deed shall not, however, forbid:

(a) any business opportunity (and agreements entered in relation to such opportunity) that is referred by Midland Group to the Group under the Cross Referral Services Agreement, provided that the obligations of Midland Group under such agreement are duly fulfilled; or

(b) shareholding interest held by Midland Group in any company engaged in such competitive business mentioned above, provided that the amount of such shareholding (i) does not exceed 5% of the issued share capital of such company (in case the company is listed on a stock exchange) or (ii) is less than 20% of the issued share capital of such company (in case such company is not listed on a stock exchange); or

(c) any shareholding held, directly or indirectly, by Midland in the Group itself; or

(d) (in so far as (a) above does not apply) any co-operation arrangements entered by any member of Midland Group with any third parties on arm's length basis in respect of those business opportunities (i) not falling within the Relevant Business of the Group in Hong Kong and/or (ii) in view of the specific requirements of the relevant clients, being on terms not acceptable by the Group, provided Midland Group has given sufficient information to relevant members of the Group for reaching full and informed assessment before making its decision.

CONTINUING CONNECTED TRANSACTIONS FOR THE COMPANY FOLLOWING COMPLETION

Following Completion, the Company will enter into certain continuing connected transactions with Midland and members of Midland Group pursuant to the Cross Referral Services Agreement and the Trademark Licence Agreement.

(a) Exempt continuing connected transaction

The transactions to be contemplated under the Trademark Licence Agreement will constitute continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules by reason that the consideration for the trademark licence of HK$1 and falls within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules.

Pursuant to the Trademark Licence Agreement, Midland, the Vendor and Elitesmart Holdings Limited as licensors will grant to the Group, on terms set out in the Trademark Licence Agreement, a non-exclusive licence to use the relevant trademarks in Hong Kong, Macau Special Administrative Region of the PRC and the PRC where the Group carries on business during the terms of the Trademark Licence Agreement.

The licensed trademarks and service marks include nine trademarks registered in Hong Kong, Macau Special Administrative Region of the PRC and the PRC held by Midland, the Vendor and Elitesmart Holdings Limited, respectively. Both the Vendor and Elitesmart Holdings Limited are wholly-owned subsidiaries of Midland and are therefore connected persons of the Company.

The licence granted to the Group will take effect from the date of the Trademark Licence Agreement and shall automatically continue until the earliest date when any of the following events occur:

(i) Midland ceases to be the Controlling Shareholder;

(ii) the Company ceases to be listed on the Stock Exchange; and

(iii) members of the Group using the relevant licence ceases to be a member of the Group, unless such member of the Group agrees mutually with the relevant licensor to extend such licence.

(b) Non-exempt continuing connected transactions

As part of their respective usual and normal course of business currently conducted, the relevant members of Midland Group may refer estate agency business in respect of industrial and commercial (office and shops) properties to Ketanfall Group from time to time; and Ketanfall Group may refer estate agency business in respect of residential properties to the relevant members of Midland Group from time to time.

The referral transactions are conducted on a case-by-case basis and are on normal commercial terms. Such referral transactions will continue after Completion, and the Group and Midland Group will enter into the Cross Referral Services Agreement to expressly govern such transactions in compliance with the GEM Listing Rules.

The transactions contemplated under the Cross Referral Services Agreement will constitute continuing connected transactions for the Company which must comply in full with the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules as the consideration ratio in respect of each proposed annual caps of the Cross Referral Services Agreement is more than 2.5%.

The Cross Referral Services Agreement to be entered into between the Company and Midland upon Completion provides to the effect that any business opportunity falling within the Group's estate agency business in respect of industrial and commercial (office and shops) properties in Hong Kong, Macau Special Administrative Region of the PRC and the PRC may be referred by Midland Group to the relevant members of the Group on a case-by-case basis; and any business opportunity falling within Midland Group's estate agency business in respect of residential properties in Hong Kong, Macau Special Administrative Region of the PRC and the PRC may be referred by the Group to the relevant members of Midland Group also on case-by-case basis. There is no commitment on any member of the Group or Midland Group to refer to the other such transactions of any minimum or maximum number and/or amount. Where concluded between the relevant parties, the terms and conditions for the provision of such cross referral services shall be reduced into individual written agreements.

In any event, under the Cross Referral Services Agreement, the allocation of commission income actually received from the customers and other terms thereof shall be either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the relevant members of the Group than terms available to or from (as appropriate) independent third parties.

According to the records of Midland Group, during each of the three years ended 31 December 2004, 2005 and 2006, the internal referral fees paid by its industrial and commercial property brokerage segment to other members of Midland Group amounted to approximately HK$28.67 million, HK$35.55 million and HK$21.25 million, respectively. During the same period, the internal referral fees received by the industrial and commercial property brokerage segment from other members of Midland Group amounted to approximately HK$9.67 million, HK$11.77 million and HK$4.52 million, respectively.

It is proposed that the annual caps for the referral fees payable by the Group to Midland Group under the Cross Referral Services Agreement for the three years ending 31 December 2007, 2008 and 2009 will be HK$50 million, HK$50 million and HK$50 million, respectively. The Directors propose that the annual caps for the referral fees to be received by the Group from Midland Group under the Cross Referral Services Agreement for the three years ending 31 December 2007, 2008 and 2009 will be HK$14 million, HK$14 million and HK$14 million, respectively.

The Board believes that 2004 to 2006 were steady years for the industrial and commercial property brokerage business and expects the market momentum to continue or even exceed previous years. The split of the commission income between members of the Group and Midland Group as a result of cross referral services is generally dependent on the property market sentiment, efforts and work done of relevant agents and members of the Group and Midland Group. Therefore, the annual caps are based on the maximum annual fee level internally recorded by Midland Group during 2004 to 2006 and a buffer to allow more flexibility.

The term of the Cross Referral Services Agreement will expire on 31 December 2009.

The Board considers that the terms of the continuing connected transactions contemplated under the Cross Referral Services Agreement and the annual caps are based on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT

As mentioned in the 2005 annual report of the Company, the Directors have been looking for property management or investment opportunities in both the residential and commercial sectors. In view of the growth trend of local property market, the Company has been preparing to, by leveraging on the expertise and experience of Midland, commence property agency business. The Board considers that the proposed transactions are consistent with this business strategy of the Group and will represent a major milestone for the Company to venture into the industrial and commercial (office and shops) property broking business. As set out in the announcement issued by the Company on 19 January 2007, the Company was negotiating with a connected person for a possible acquisition of certain business, which if materialized, would constitute a notifiable transaction for the Company.

The Board believes that the acquisition of Ketanfall would allow the Company to move into a solid business area with good prospects, which will generate recurrent cashflow and also contribute positively to the operating results of the Company in the future. In view of the continued economic growth in Hong Kong, it is generally perceived that the industrial and commercial (office and shops) property broking business will continue to maintain its momentum. The Board will also look into further development opportunities of this business in the high-end property investment market in Hong Kong in order to capture the industry trend.

The Board has no immediate intention to dispose of the existing business of the Company after Completion and will, after Completion, conduct a more detailed review of its operation with a view of developing a corporate strategy to enhance its existing business and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing business or divesting of loss-making operations should appropriate opportunities arise.

In view of the above, the Board considers that the terms of the Sale and Purchase Agreement (including the issue of Convertible Note thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECT OF THE SALE AND PURCHASE AGREEMENT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

Immediately following Completion, Ketanfall will become a wholly-owned principal operating subsidiary of the Company. Therefore, the financial results of Ketanfall Group will be included into the financial results of the Group on a merger basis. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the financial effects on the earnings and assets and liabilities of the Company is set out as follows:–

Effect on earnings

According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, the unaudited consolidated profit attributable to equity holders of the Enlarged Group would be HK$36,346,000 after the Completion, as compared to the net loss of the Group for the year ended 31 December 2006. The Board considers that the entering of the Sale and Purchase Agreement will enhance the Group's financial performance and broaden its earnings base.

Effect on total assets

The total assets of the Group as at 31 December 2006 was HK$131,493,000, according to the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma total assets of the Enlarged Group will be increased to HK$273,677,000 after the Completion. The increase in total assets of the Enlarged Group is mainly attributable to the acquisition of Ketanfall Group and the cash payment of HK$100 million for partial settlement of the Consideration which shall be payable upon the Completion.

Effect on liabilities

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, the total liabilities of the Enlarged Group would be HK$178,753,000 as compared with the total liabilities of the Group of HK$5,629,000 as at 31 December 2006. The discrepancy is mainly due to the total liabilities of Ketanfall Group taken up. As set out in the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, the gearing ratio of the Group, which was calculated by the total liabilities of the Group divided by the total assets of the Group before and after the Completion, would be increased from approximately 4.28% to 65.32% immediately after the Completion. The Directors are of the view that there would not be any material capital commitment nor contingent liability arising from the Completion that will have material adverse impact on the financial position of the Group immediately after the Completion.

IMPLICATIONS FOR THE COMPANY UNDER THE GEM LISTING RULES

Midland is the Controlling Shareholder holding indirectly approximately 51.81% of the issued Shares and hence, a connected person of the Company. The Sale and Purchase Agreement constitutes a connected transaction for the Company under the GEM Listing Rules. As the applicable percentage ratios under Chapter 19 of the GEM Listing Rules exceed 100%, the transactions contemplated under the Sale and Purchase Agreement also constitute a very substantial acquisition for the Company. In addition, the Cross Referral Services Agreement will become a continuing connected transaction for the Company upon the Completion and the consideration ratio in respect of the proposed annual caps thereunder is expected to be more than 2.5%. As such, both the Sale and Purchase Agreement and the Cross Referral Services Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. Midland and its associates will abstain from voting on the relevant resolutions proposed at the EGM.

The consideration payable by the Company to Midland, the Vendor and Elitesmart Holdings Limited under the Trademark Licence Agreement will be less than HK$1 million per annum. As such, the continuing connected transactions under the Trademark Licence Agreement will be exempted from the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, Midland was interested in approximately 51.81% of the issued share capital of the Company. Upon Completion and assuming there is an immediate full conversion of the Convertible Note at the conversion price of HK$0.1 by the Noteholder, the Company will issue an aggregate of 5,400,000,000 Conversion Shares, representing approximately 65.06% of the existing, and approximately 39.42% of the enlarged issued share capital of the Company. The Conversion Shares will be allotted and issued pursuant to the passing of the relevant resolution at the EGM and the approval from the GEM Listing Committee.

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and assuming full conversion of the Convertible Note into Conversion Shares (assuming no exercise of outstanding share options); and (iii) immediately after Completion and assuming full conversion of the Convertible Note into Conversion Shares and full exercise of outstanding share options of the Company:–

	As at the Latest Practicable Date *(Note 4)*		Immediately after Completion and upon full conversion of the Convertible Note (assuming no exercise of outstanding share options)		Immediately after Completion and upon full conversion of the Convertible Note and full exercise of outstanding share options	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Midland *(Note 1)*	4,300,000,000	51.81	4,300,000,000	31.38	4,300,000,000	31.20
Noteholder	–	–	5,400,000,000	39.42	5,400,000,000	39.18
Sub-total	4,300,000,000	51.81	9,700,000,000	70.80	9,700,000,000	70.38
The Directors						
Mr. Pong Wai San, Wilson *(Note 2)*	2,332,910,000	28.11	2,332,910,000	17.03	2,332,910,000	16.93
Mr. Lau Wai Shu	3,000,000	0.03	3,000,000	0.02	3,000,000	0.02
Mr. Tsang Link Carl, Brian *(Note 3)*	–	–	–	–	83,000,000	0.60
Sub-total	2,335,910,000	28.14	2,335,910,000	17.05	2,418,910,000	17.55
Public Shareholders	1,664,090,000	20.05	1,664,090,000	12.15	1,664,090,000	12.07
Total	**8,300,000,000**	**100.00**	**13,700,000,000**	**100.00**	**13,783,000,000**	**100.00**

Notes:

1. There was no change in the controlling interest of Midland in the Company for the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date.

2. 2,182,300,000 Shares were registered in the name of and beneficially owned by Summerview Enterprises Limited and 150,610,000 Shares were registered in the name of Mr. Pong Wai San, Wilson. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong Wai San, Wilson.

3. On 16 January 2006, share options were granted under the share option scheme of the Company to Mr. Tsang Link Carl, Brian for subscription of 83,000,000 Shares at the exercise price of HK$0.06 each.

4. As at the Latest Practicable Date, the authorised share capital of the Company amounted to HK$500,000,000, divided into 50,000,000,000 shares of HK$0.01 each.

As at the Latest Practicable Date, the Company had 83,000,000 outstanding share options granted to a Director with exercise price of HK$0.06 per Share. Out of which 41,500,000 outstanding share options are exercisable during the period from 1 April 2006 to 31 March 2009 and the remaining 41,500,000 outstanding share options are exercisable during the period from 1 June 2006 to 31 May 2009. The exercise in full of the subscription rights attaching to the share options will result in the issue of an additional 83,000,000 Shares, representing 1% of the total issued share capital of the Company as at the Latest Practicable Date. Save for the aforesaid, the Company has no other outstanding options, warrants, derivatives or other securities that are convertible into Shares.

As the full conversion of the Convertible Note by the Noteholder may result in the Company failing to meet the minimum public float requirement as prescribed under the GEM Listing Rules, under the terms of the Convertible Note, the exercise of the conversion rights under the Convertible Note is subject to the compliance with the public float requirements under the GEM Listing Rules.

INFORMATION RELATING TO THE VENDOR AND MIDLAND

The Vendor is an investment holding company incorporated in Hong Kong on 16 June 1989. The Vendor is currently wholly-owned by Midland, and the immediate holding company of Ketanfall.

The principal business activities of Midland Group are provision of property brokerage services in Hong Kong, the PRC and Macau Special Administrative Region of the PRC, immigration consultancy, wealth management, mortgage referral as well as professional training for real estate agency practitioners.

INFORMATION RELATING TO KETANFALL

Ketanfall is an investment holding company incorporated in the BVI on 22 September 2006, the principal business of which is investment holding. Ketanfall is the holding company of a group of companies principally engaged in the business of industrial and commercial (office and shops) property broking in Hong Kong, representing the entire industrial and commercial (office and shops) property broking business of Midland in Hong Kong. The principal subsidiaries of Ketanfall have been operating in this field for more than 17 years, and currently, there are over 450 employees working for these subsidiaries. The top executives of Ketanfall Group, including the chief executive officer, the chief operation officer and two other sales directors have over 14 years of management and business experience in property brokerage field in Hong Kong. The Directors consider that it is beneficial for the Company to retain them as senior management to enhance the operation and management capability of Ketanfall Group in this brokerage business. The initial investment cost of the Vendor basically represented the aggregate of the initial set up capital of the subsidiaries of Ketanfall amounted to approximately HK$1.5 million.

The combined financial information of Ketanfall Group for the two financial years ended 31 December 2006, which are prepared in accordance with the HKFRS, were as follows:–

	Year ended 31 December 2005	**Year ended 31 December 2006**
	HK$'000	*HK$'000*
Turnover	314,274	265,826
Net profits before taxation	43,984	50,500
Net profits after taxation	36,601	41,711

	As at 31 December 2005	**As at 31 December 2006**
	HK$'000	*HK$'000*
Total assets	263,281	245,284
Net assets	108,407	95,118

INFORMATION RELATING TO THE COMPANY

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of internet education services, sale and installation of computer hardware and software, website development and commercial projects and provision of computer training service.

PROPOSED CHANGE OF NAME OF THE COMPANY

The Directors propose that the name of the Company be changed from "EVI Education Asia Limited (Chinese translation being EVI教育亞洲有限公司, for identification purposes only)" to "Midland IC&I Limited (Chinese translation being 美聯工商舖有限公司, for identification purposes only)".

The proposed change of name of the Company is subject to the passing of a special resolution at the EGM by the Shareholders.

Subject to the Completion and approval of Shareholders, the Company will carry out necessary filing procedures and actions with the Registrars of Companies in Hong Kong and in the Cayman Islands. The change of name will become effective upon the aforesaid special resolution being passed and becoming effective, that is, upon the date of Completion. The proposed change of name is to reflect the nature of the business of the Group after Completion as well as to highlight it as a member of Midland Group.

Upon the proposed change of name of the Company becoming effective, all existing share certificates of the Company in issue bearing the existing name of the Company will continue to be evidence of title to the Shares and will continue to be valid for trading, settlement, registration and delivery for the same number of Shares in the new name of the Company and the rights of any Shareholders will not be affected as a result of the proposed change of name. Once the proposed change of name has become effective, any issues of share certificates of the Company thereafter will be in the new name of the Company and the Shares will be traded on GEM in the new name. However, there will be no special arrangement for free exchange of the existing share certificates of the Company for new share certificates printed in the new name of the Company.

Further announcement will be made by the Company upon the change of name has become effective and the adoption of new stock short name and the proposed effective date.

EGM

An EGM will be convened at which the Independent Shareholders will consider and, where appropriate approve (a) the Sale and Purchase Agreement; (b) the issue of the Convertible Note; (c) the allotment and issue of the Conversion Shares; (d) the Cross Referral Services Agreement; and (e) the annual caps. At the EGM, the Shareholders will be asked to consider and, where appropriate to approve the proposed change of name of the Company.

The Independent Board Committee has been formed to advise the Independent Shareholders. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note thereunder) and the Cross Referral Services Agreement as well as the annual caps.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands a poll is duly demanded.

Subject to the provisions of the applicable laws and the GEM Listing Rules, a poll may be demanded:

(i) by the chairman of such meeting; or

(ii) by at least five members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(iv) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a member.

RECOMMENDATION

The Board considers that the terms of the Sale and Purchase Agreement (including the issue of Convertible Note thereunder) and the Cross Referral Services Agreement as well as the annual caps are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM. The Board also recommends the Shareholders to vote in favour of the special resolution to be proposed at the EGM to approve the proposed change of name of the Company.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out in this circular which contains the recommendation to the Independent Shareholders concerning (a) the Sale and Purchase Agreement; (b) the issue of the Convertible Note; (c) the allotment and issue of the Conversion Shares; (d) the Cross Referral Services Agreement; and (e) the annual caps. Further, your attention is also drawn to the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in these regards and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its advice.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Pong Wai San, Wilson
Executive Director and Chief Executive Officer

EVI Education Asia Limited

EVI 教育亞洲有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8090)

7 May 2007

To: The Independent Shareholders of the Company

Dear Sir or Madam,

CONNECTED TRANSACTION
AND VERY SUBSTANTIAL ACQUISITION
in respect of the acquisition of the Sale Shares
AND
CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 7 May 2007 (the ″Circular″) of which this letter forms part. Unless the context otherwise defines terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note thereunder) and the Cross Referral Services Agreement as well as the annual caps are fair and reasonable, on normal commercial terms and in the interests of the Company and Shareholders as a whole. Mr. Koo Fook Sun, Louis is an independent non-executive director of both the Company and Midland and therefore has not been appointed as member of the Independent Board Committee.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 23 and the letter from the Independent Financial Adviser as set out on pages 25 to 47 of the Circular respectively.

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that (a) the Sale and Purchase Agreement; (b) the issue of the Convertible Note; (c) the allotment and issue of the Conversion Shares; (d) the Cross Referral Services Agreement; and (e) the annual caps are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote for the relevant ordinary resolutions which will be proposed at the EGM to approve the relevant transactions.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Sha Pau, Eric **Ying Wing Cheung**
Independent Non-executive Directors

* *For identification purpose only*

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from ICEA Capital Limited in respect of the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement as well as the annual caps for the purpose of incorporation in the circular.

ICEA
A Subsidiary of ICBC

ICEA Capital Limited
26/F., ICBC Tower,
3 Garden Road, Central, Hong Kong
General Line: (852) 2231 8000
General Fax: (852) 2525 0967

工商東亞融資有限公司
香港中環花園道3號
中國工商銀行大廈26樓
總機：(852) 2231 8000
傳真：(852) 2525 0967

7 May 2007

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION
AND VERY SUBSTANTIAL ACQUISITION
in respect of the acquisition of the Sale Shares

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement as well as the annual caps, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 7 May 2007 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 30 March 2007, the Company and Midland jointly announced, among others, that they had, on 26 March 2007, entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of Ketanfall (which is currently an indirect wholly-owned subsidiary of Midland) to the Company at a total consideration of HK$640 million which will be satisfied as to HK$540 million by the Company issuing the Convertible Note to the Noteholder and as to HK$100 million by cash upon Completion. In addition, the Company and Midland also jointly announced that following Completion, they will enter into, among others, the Cross Referral Services Agreement, pursuant to which the relevant members of the Midland Group may refer estate agency business in respect of industrial and commercial (office and shops) properties to the Ketanfall Group from time to time, and the Ketanfall Group may refer estate agency business in respect of residential properties to the relevant members of the Midland Group from time to time for the three years ending 31 December 2009.

Since Midland is the Controlling Shareholder of the Company, Midland is a connected person of the Company and the transactions contemplated under each of the Sale and Purchase Agreement and the Cross Referral Services Agreement constitute respectively a connected transaction and continuing connected transactions of the Company. As the applicable percentage ratios under the GEM Listing Rules exceed the relevant thresholds, each of the Sale and Purchase Agreement and the Cross Referral Services Agreement will be subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

The Independent Board Committee, comprising the independent non-executive Directors, namely Messrs. Sha Pau, Eric and Ying Wing Cheung, has been established to consider the transactions contemplated under each of the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement and to advise the Independent Shareholders on the fairness and reasonableness of these transactions. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not each of the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement is in the interests of the Company and the Shareholders as a whole; and (ii) whether the respective terms of the Sale and Purchase Agreement, the Cross Referral Services Agreement and the relevant annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of the GEM Listing Rules.

BASIS OF OUR OPINION AND ASSUMPTIONS

In formulating our recommendation, we have relied, without assuming any responsibility for independent verification, on the information, opinions and facts provided and representations made to us by the Directors, who have assumed full responsibility for the accuracy of the information contained in the Circular, and that any information provided and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of the Circular.

We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the business affairs or assets and liabilities of the Company and Midland or any of their respective subsidiaries or associated companies. Additionally, we did not conduct any physical inspection of the properties or facilities of the Company and Midland or any of their respective subsidiaries or associated companies. It is not within our terms of engagement to comment on the commercial feasibility of the proposed acquisition of the business of industrial and commercial (office and shops) property broking in Hong Kong by the Company under the Sale and Purchase Agreement and the estate agency business referred from the Company to Midland and from Midland to the Company under the Cross Referral Services Agreement, which remains the responsibility of the Directors. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement and the determination of the proposed annual caps for the referral fees payable by EVI Group to Midland and the referral fees to be received by EVI Group from Midland Group under the Cross Referral Services Agreement. Our opinion has been made on the assumption that all obligations to be performed by each of the parties to the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement will be fully performed in accordance with the terms thereof.

Our opinion is necessarily based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information and opinions made available to us as of the date of this letter. We have no obligation to update this opinion to take into account events occurring after the date that this opinion is delivered to the Independent Board Committee and the Independent Shareholders. This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the fairness and reasonableness of the terms of the Sale and Purchase Agreement (including the issue of the Convertible Note), the Cross Referral Services Agreement and proposed annual caps for the referral fees payable and receivable by the Group under the Cross Referral Services Agreement, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Sale and Purchase Agreement and the Cross Referral Services Agreement, we have taken into consideration the following principal factors and reasons:

I. The Sale and Purchase Agreement

1. Background information and reasons for the Sale and Purchase Agreement

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of internet education services, sales and installation of computer hardware and software, website development and commercial projects and provision of computer training services. The Company became listed on GEM in March 2001 by way of a placing of new Shares through which net proceeds of approximately HK$52.1 million were raised. As a result of a share subscription exercise completed in March 2005, the Company raised net proceeds of approximately HK$106.4 million and Midland has become a controlling shareholder of the Company holding indirectly approximately 51.81% of its existing issued shared capital. The Group has been operated at a loss since its establishment in 1999. The following is a summary of the audited financial results of the Group for the latest financial year and prior periods as shown in the annual reports of the Company for 2005 and 2006.

	1 October 2003 to 30 September 2004	**1 October 2004 to 31 December 2005**	**1 January 2006 to 31 December 2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Turnover			
– Internet education services	8,820	10,164	7,775
– Sales and installation of computer hardware and software	7,102	13,954	11,149
– Website development and commercial projects	1,609	3,556	3,141
– Computer training services	2,553	3,035	3,274
– Sales of health and personal care products	–	441	1,669
– Others	122	108	116
	20,206	**31,258**	**27,124**
Segment loss			
– Internet education services	(3,155)	(2,837)	(1,480)
– Sales and installation of computer hardware and software	(1,385)	(1,814)	(654)
– Website development and commercial projects	(262)	(686)	(576)
– Computer training services	632	1,450	1,475
– Sales of health and personal care products	–	(149)	(2,667)
– Others	(20)	78	63
	(4,190)	(3,958)	(3,839)
Unallocated expenses	(550)	(995)	(2,474)
Unallocated income	–	85	429
Interest income	235	2,977	4,653
Loss before income tax	(4,505)	(1,891)	(1,231)
Income tax (expense)/credit	(16)	2	–
Loss for the period/year	**(4,521)**	**(1,889)**	**(1,231)**

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK$27.1 million and a net loss of approximately HK$1.2 million. The business in respect of sales and installation of computer hardware and software continued to be the largest business segment of the Group accounting for approximately 41.1% of the total turnover of the Group for the year ended 31 December 2006. As disclosed in the Company's annual report for 2006 (the "2006 Annual Report"), when compared to the unaudited financial results of the Group for the 12-month period ended 31 December 2005, the turnover for the year ended 31 December 2006 actually represented a slight increase of approximately 2% because of the increase in the turnover from computer training services and sales of health and personal care products. On the other hand, when compared to the corresponding 12-month period in 2005, the loss for the year ended 31 December 2006 narrowed slightly by approximately 1%, but the loss attributable to the equity holders of the Company increased substantially by approximately 64% as a result of the set up and marketing costs for the retail business of health and personal care products during 2006.

As indicated in the above financial results summary, the Group has not yet recorded any profit and except for the business segment in respect of computer training services, all other principal business segments of the Group had been loss making. As stated in the 2006 Annual Report, in view of the recent economic recovery and the new initiatives taken by the Hong Kong Government to encourage the local birth rate including the launch of the "Pre-Primary Education Voucher Scheme", the Company believes that the business outlook on online education targeting kindergartens in the local market has turned positive as kindergartens may need to upgrade their teaching and IT infrastructures and the Company will be in a well position to satisfy their needs.

In general, a continuous low birth rate in Hong Kong has created a difficult operating environment for providers of education in Hong Kong, including the Company. Although there are recently certain initiatives taken up by the Hong Kong Government to promote the local birth rate, it remains uncertain as to how effective such initiatives will be given that the birth rate is susceptible to many factors certain of which are long term and uncontrollable. In addition, given the lackluster financial performance of the Group during the past and the nature of the Group's businesses which focus on providing education via the internet, it also remains uncertain as to whether the existing business models of the Group will come to fruition in the future. As the Group is yet to demonstrate growth potentials and profitability, we consider it commercially sensible for the Group to explore other business opportunities with a view to diversifying into new areas of businesses.

As stated in the Letter from the Board, the Directors have been looking for property management or investment opportunities in both the residential and commercial sectors. In view of the growth trend of local property market, the Company has been preparing to, by leveraging on the expertise and experience of Midland, commence property agency business. The Board considers that the transactions contemplated under the Sale and Purchase Agreement are consistent with the aforesaid business strategy of the Group and will represent a major milestone for the Company to venture into the industrial and commercial (office and shops) property broking business. The Directors believe that the acquisition of Ketanfall would allow the Company to move into a solid business area with good prospects, which will generate recurrent cashflow and also contribute positively to the Company's operating results in the future. Accordingly, the Directors are of the view that the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

In view of the historical financial performance of the Group and the uncertainties about the future prospects of its existing business model which focuses on online education in the local market as discussed above, it is commercially sensible for the Group to explore other business opportunities with a view to diversifying into new areas of businesses and broadening its revenue base. As the Sale and Purchase Agreement provides an opportunity for the Group to enter into the property agency business which has been able to demonstrate a proven track record of profitability (details of the business and financial performance of the Ketanfall Group will be discussed in the relevant section below), we are also of the view that the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

2. Information on Midland

Midland has been listed on the Main Board of the Stock Exchange since 1995 and the Midland Group is principally engaged in the provision of property brokerage services in Hong Kong, the PRC and Macau Special Administrative Region of the PRC, immigration consultancy, wealth management, mortgage referral as well as professional training for real estate agency practitioners. The following five years financial summary of the Midland Group has been extracted from the latest annual report of Midland for the year ended 31 December 2006.

	For the year ended 31 December				
	2002	**2003**	**2004**	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Turnover	911,711	1,179,963	1,987,345	2,332,004	1,972,124
(Loss)/profit attributable to equity holders of Midland	(73,725)	122,749	330,726	213,626	149,940
Total assets	703,690	1,013,415	1,460,398	1,847,152	1,929,216
Total liabilities	255,110	441,916	648,123	774,765	734,797
Net assets	442,175	563,144	812,275	1,001,338	1,128,722

As noted from the above summary, the Midland Group had recorded profits for the last five financial years except in 2002 which the Midland Group reported a net loss of approximately HK$73.7 million following substantial revaluation deficit in respect of its investment properties. For the year ended 31 December 2006, the Midland Group recorded an audited turnover and profit attributable to the shareholders of approximately HK$1,972.1 million and HK$149.9 million, respectively. As at 31 December 2006, the Midland Group had net assets of over HK$1,100 million.

3. Information on the Ketanfall Group

As stated in the Letter from the Board, Ketanfall is the holding company of a group of companies principally engaged in the business of industrial and commercial (office and shops) property broking in Hong Kong, representing the entire industrial and commercial (office and shops) property broking business of Midland in Hong Kong. The principal subsidiaries of Ketanfall have been operating in the relevant field for more than 17 years and currently, there are over 450 employees working for these subsidiaries. The following summary of the Ketanfall Group's results of operations for each of the three years ended 31 December 2006 is extracted from the accountants' report (the "Accountants' Report") on Ketanfall as set out in Appendix II to the Circular.

	For the year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Turnover – agency fee revenue in respect of:			
Offices	97,436	114,866	109,892
Industrial properties	33,076	45,927	57,505
Shops	178,622	153,481	98,429
	309,134	314,274	265,826
Operating profit	57,170	43,984	50,500
Profit for the year	47,663	36,601	41,711

As noted from the above table, the Ketanfall Group was operating profitably for each of the three years ended 31 December 2006. The Ketanfall Group recorded a net profit of approximately HK$47.7 million, HK$36.6 million and HK$41.7 million for each of the three years ended 31 December 2006, respectively. Throughout the period under review, the turnover of the Ketanfall Group represented principally the agency fee revenues from property brokerage and marketing services in Hong Kong. While the turnover of the Ketanfall Group decreased from approximately HK$314.3 million for 2005 to approximately HK$265.8 million for 2006, its operating profit increased from approximately HK$44.0 million for 2005 to HK$50.5 million for 2006. The improvement in the operating profit of the Ketanfall Group for 2006 was mainly due to the significant decrease in rebate commissions, advertising and promotion expenses, impairment of receivables and management fee during that year.

Based on our review of the audited combined balance sheet of the Ketanfall Group as at 31 December 2006, we noted that the principal assets of the Ketanfall Group were current assets including (i) trade receivables of approximately HK$90.2 million which represent principally agency fee receivable from customers; and (ii) amount due from group companies of approximately HK$137.1 million. Other than property, plant and equipment and deferred tax assets with respective carrying amounts of approximately HK$4.7 million and HK$1.6 million, the Ketanfall Group did not have any other non-current assets as at 31 December 2006. The cash and bank balances of the Ketanfall Group amounted to approximately HK$2.3 million as at 31 December 2006. The current liabilities of the Ketanfall Group as at 31 December 2006 were mainly trade payables of approximately HK$56.8 million which represent principally commissions payable to property consultants and co-operative estate agents, dividend payable of HK$55 million and amount due to group companies of approximately HK$23.1 million. The Ketanfall Group did not have any bank borrowings as at 31 December 2006.

In view of the steady turnover and net profits recorded by the Ketanfall Group during the period under review, we are of the view that the Ketanfall Group has been able to demonstrate a proven track record of profitability and its business operations were substantially stable.

4. Principal terms of the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Vendor, which is a wholly-owned subsidiary of Midland, has conditionally agreed to sell the Sale Shares, which represented the entire issued share capital of Ketanfall as at the date of the Sale and Purchase Agreement and the Latest Practicable Date, to the Company at a total consideration of HK$640 million. The Consideration will be satisfied as to HK$540 million by the issue of the Convertible Note to the Noteholder and as to HK$100 million by cash. Particulars of the Convertible Note are discussed in the relevant section below.

As stated in the Letter from the Board, the Consideration was arrived at after arm's length negotiations between the Vendor and the Company on normal commercial terms with reference to, among others, (a) the unaudited combined management accounts of the Ketanfall Group for the three years ended 31 December 2006; (b) the price-to-earnings ratio of approximately 15.35 times based on the unaudited combined net profits of the Ketanfall Group for the year ended 31 December 2006 for determining the consideration (such price-to-earnings ratio was determined after arm's length negotiations by reference to the market price-to-earnings ratio of Midland and the operation and scale of the relevant business segment in the overall operation of Midland Group); and (c) the future prospects of industrial and commercial (office and shops) property broking business in Hong Kong. Having taken into account the financial performance of the Ketanfall Group for the past few years and the reasons for the acquisition, the Directors are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable.

5. Valuation of the Ketanfall Group

In order to assess the fairness and reasonableness of the Consideration and given the business nature of the Ketanfall Group, we have sought to compare the Ketanfall Group with those companies listed on the Stock Exchange which are principally engaged in the property agency business and recorded profitable results as shown in their latest published financial statements available as at 26 March 2007 (the "Comparable Companies"). Details of our findings on the Comparable Companies are summarised in the table below.

Company (Stock code)	Year end date	Audited net asset value per share	Audited basic earnings per share	Closing price of the share as at 26 March 2007	Price/ earnings multiple	Premium represented by the closing price over the net asset value
	(dd/mm/yyyy)	*(HK$)*	*(HK$)*	*(HK$)*	*(Times)*	*(%)*
Fortune Sun (China) Holdings Limited (352)	31/12/2005	0.56	0.2625	0.850	3.24	51.8
Hopefluent Group Holdings Limited (733)	31/12/2005	1.337	0.294	3.400	11.56	154.3
Midland Holdings Limited (1200)	31/12/2006	1.541	0.204	4.900	24.02	218.0
Average		*n/a*	*n/a*	*n/a*	***12.94***	***141.4***

As shown in the above table, the price/earnings multiples of the Comparable Companies range from approximately 3.24 times to 24.02 times, with an average of approximately 12.94 times. On this basis, the price/earnings multiple of approximately 15.34 times, as represented by the Consideration of HK$640 million over the audited combined net profit of the Ketanfall Group for the year ended 31 December 2006 of approximately HK$41.7 million, falls within the range of the price/earnings multiples of the Comparable Companies though it is higher than their average multiple of approximately 12.94 times.

As regards the price to book ratios, i.e. the closing price of the share over its net asset value, of the Comparable Companies, we note that the price to book ratios of the Comparable Companies all represented a premium ranging from approximately 51.8% to 218.0%. Based on the audited combined net asset value of the Ketanfall Group of approximately HK$95.2 million as at 31 December 2006, the Consideration of HK$640 million represents a premium of approximately 572.3% over such net asset value of the Ketanfall Group.

Since the market prices of the shares of all the Comparable Companies represented a premium over their respective net asset values, we consider the Consideration, which represents a premium over the net asset value of the Ketanfall Group, to be comparable and in line with the general market valuation of companies in a business similar to that of the Ketanfall Group. In general, valuation based on asset values is more appropriate when valuing businesses under liquidation or asset-based businesses such as property investment companies. Given the business nature and the proven track record of profitability of the Ketanfall Group, we consider that the use of price/earnings multiple, being one of the most commonly used references for valuing industrial companies with profitable operating results, to be more relevant and suitable in assessing the reasonableness and fairness of the Consideration. In the present case, the price/earnings multiple of about 15.34 times represented by the Consideration falls within the range of the price/earnings multiple of the Comparable Companies and is not substantially deviated from their average multiple of approximately 12.94 times. Accordingly, we are of the view that the Consideration of HK$640 million under the Sale and Purchase Agreement is fair and reasonable.

6. Principal terms of the Convertible Note

As mentioned above, the Consideration will be satisfied as to HK$540 million by the issue of the Convertible Note to the Noteholder. The principal terms of the Convertible Note are stated in the Letter from the Board. In particular, the Convertible Note will not be listed and will bear interest at 1% per annum payable semi-annually in arrears. The maturity date of the Convertible Note is the fifth anniversary of the date of the issue of the Convertible Note. The conversion rights under the Convertible Note shall not be exercised for a period of six months from the date of issue of the Convertible Note (unless with the prior written consent from the Company) and the exercise of which shall be subject to the GEM Listing Rules. In addition, the Noteholder shall not exercise the conversion rights under the Convertible Note in the event that any such exercise results or will result in the Company in breach of any provision of the GEM Listing Rules, including the public float requirements under the GEM Listing Rules. Subject to the aforesaid provisions, the conversion rights under the Convertible Note may be exercised from the date of issue of the Convertible Note up to the fifth Business Day before the maturity date of the Convertible Note.

The Noteholder may convert the whole or part of the principal amount of the relevant Convertible Note (in an integral multiple of HK$10,000,000 or where the outstanding principal amount of the Convertible Note is less than HK$10,000,000, the entirety at any one time of conversion) into new Conversion Shares unless the principal amount of the outstanding Convertible Note are less than HK$10,000,000 in which case the whole (but not part only) of such outstanding principal amount of the Convertible Note shall be converted. If there shall be any outstanding principal amount of the Convertible Note at its maturity date, the conversion rights in respect of the whole of the then outstanding principal amount of the Convertible Note shall be deemed to be automatically and duly exercised. The Convertible Note may be assigned or transferred to any party but subject to, among others, the prior approval of the Stock Exchange, if so required.

Based on the audited consolidated balance sheet of the Group as at 31 December 2006 set out in Appendix I to the Circular, the Group had cash and cash equivalents of approximately HK$117.0 million as at 31 December 2006. On this basis, the Group would not have sufficient internal financial resources to satisfy the Consideration if it were to be settled entirely in cash upon Completion. Since the substantial part of the Consideration, i.e. HK$540 million, will be satisfied in full by way of issuance of the Convertible Note, any outstanding principal amount of which will be automatically converted into the Conversion Shares at its maturity date, the issue of the Convertible Note is not expected to have any impact on the working capital position of the Group upon Completion or the maturity date of the Convertible Note. On this basis, we are of the view that it is in the interest of the Company to settle the Consideration as to HK$540 million by way of the issue of the Convertible Note.

In order to assess the fairness and reasonableness of the principal terms of the Convertible Note, we have sought to review those issues of convertible notes/bonds, which are denominated in Hong Kong dollars and announced by companies listed on the Stock Exchange (which are not placed into any stage of the delisting procedures) during the period from 1 January 2007 to the date of the Sale and Purchase Agreement (the "Comparable Notes"). In this connection, we have to the best of our knowledge identified a total of 23 Comparable Notes during the period under review. As the terms of a convertible note/bond are usually determined by reference to prevailing market conditions, we consider that the selected time frame, being the period from 1 January 2007 to the date of the Sale and Purchase Agreement, is appropriate for the purposes of our comparison which would also provide a reasonable number of comparables. The following analysis on the principal terms of the Convertible Note has been mainly based on our findings of the particulars of the Comparable Notes.

Date of Announcement	Name of Issuer	Principal Amount	Interest	Maturity	Conversion Price	Premium/(discount) to last trading day	5 day average	10 day average	Redemption at maturity
		HK$ million	*(p.a.)*	*years*	*HK$*				
2007-01-09	China Primary Resources Holdings Limited (8117)	246.3	4.5%	3.0	0.340	(4.20%)	3.00%	3.30%	100.00%
2007-01-10	Cosmopolitan International Holdings Limited (120)	56.0	0.00%	2.0	0.070	(56.25%)	(38.60%)	(29.51%)	107.19%
2007-01-23	Kerry Properties Limited (683)	2,350.0	0.00%	5.0	52.650	35.00%	39.20%	41.90%	117.20%
2007-01-25	Sino Gas Group Limited (260)	46.8	2.00%	2.0	0.650	14.04%	9.80%	n/a	100.00%
2007-01-26	GFT Holdings Limited (1003)	34.0	0.00%	2.0	0.040	(42.90%)	(33.30%)	(32.90%)	105.00%
2007-02-02	South Sea Petroleum Holdings Limited (76)	40.0	0.00%	3.0	105% of average 5 trading days closing price	n/a	n/a	n/a	100.00%

Date of Announcement	Name of Issuer	Principal Amount HK$ million	Interest (p.a.)	Maturity years	Conversion Price HK$	Premium/(discount) to last trading day	5 day average	10 day average	Redemption at maturity
2007-02-07	139 Holdings Limited (139)	102.0	2.00%	3.0	0.375	1.35%	(4.09%)	n/a	100.00%
2007-02-13	Interchina Holdings Company Limited (202)	111.7	3.50%	2.0	0.100	(7.40%)	10.10%	n/a	100.00%
2007-02-13	Guo Xin Group Limited (1215)	95.0	3.50%	2.0	0.106	(19.10%)	4.10%	n/a	100.00%
2007-02-13	China Star Entertainment Limtied (326)	168.5	0.00%	5.0	lower of $0.32 and average 10 trading days closing price with minimum $0.25	6.67%	5.96%	7.02%	100.00%
2007-02-15	Sun Innovation Holdings Limited (547)	12.6	5.00%	1.5	1.800	15.56%	n/a	11.70%	100.00%
2007-02-16	Sun Innovation Holdings Limited (547)	20.0	5.00%	1.5	2.000	24.00%	n/a	14.50%	100.00%
2007-02-26	Poly Investments Holdings Limited (263)	500.0	2.00%	3.0	1.000	(18.00%)	n/a	(13.00%)	100.00%
2007-02-27	Get Nice Holdings Limtied (64)	250.0	5.00%	3.0	1.000	20.48%	n/a	43.06%	100.00%
2007-03-05	China Special Steel Holdings Company Limited (2889)	625.0	3.00%	5.0	2.250	8.17%	17.80%	18.42%	137.00%
2007-03-05	LifeTec Group Limited (1180)	33.0	2.00%	1.0	0.120	8.11%	n/a	2.56%	100.00%
2007-03-09	Softbank Investment International (Strategic) Limited (648)	89.5	5.00%	2.0	0.100	44.90%	20.40%	17.60%	100.00%
2007-03-14	Milkyway Image Holdings Limited (8130)	25.0	0.00%	5.0	0.330	0.00%	24.53%	n/a	110.00%
2007-03-12	Willie International Holdings Limited (273)	200.0	0.00%	2.0	0.100	(14.53%)	(13.49%)	n/a	118.00%
2007-03-20	Hua Xia Healthcare Holdings Limited (8143)	33.0	2.00%	2.0	0.352	(17.18%)	(20.54%)	(13.94%)	100.00%
2007-03-20	Fushan International Energy Group Limited (639)	300.0	0.00%	5.0	2.330	(2.51%)	0.69%	(0.21%)	144.50%
2007-03-22	Wonson International Holdings Limited (651)	150.0	4.00%	2.0	0.170	0.00%	(2.90%)	(4.50%)	100.00%
2007-03-22	Teem Foundation Group Limited (628)	118.8	5.00%	10.0	2.200	29.41%	27.02%	24.72%	100.00%
Average			2.33%	3.1					106.04%
	– premium					18.88%	14.78%	18.48%	
	– discount					(18.21%)	(18.82%)	(15.68%)	

a. Annual interest rate

Based on our findings, the coupon interest rate of the Comparable Notes ranges from nil to 5.0% per annum with an average of approximately 2.33%. The annual interest rate of 1% in the case of the Convertible Note falls within the range for the Comparable Notes and is lower than their average. On this basis, we are of the view that the interest rate of 1% per annum for the Convertible Note is substantially in line with the market practice and is therefore fair and reasonable.

b. Maturity

The maturities of the Comparable Notes were between 1 year to 10 years with an average of about three years and there are a total of 5 Comparable Notes having a maturity of five years, which is the same as the maturity for the Convertible Note. Given that 5 out of a total of 23 Comparable Notes having the similar maturity of five years that had taken place since 1 January 2007 up to the date of the Sale and Purchase Agreement, we consider that the maturity of five years is not uncommon for an issue of convertible notes/ bonds by listed companies in the market. Accordingly, we consider that the maturity of the Convertible Note is in line with the market and fair and reasonable.

c. Conversion Price

As stated in the Letter from the Board, the conversion price of HK$0.1 per Conversion Share, which is subject to usual anti-dilution adjustments in certain events including, among others, share consolidation, share subdivision, capitalisation issue, capital distributions in cash or specie or subsequent issue of securities of the Company, (the "Conversion Price") was determined after arm's length negotiations with reference to the average closing prices of the Shares as quoted on GEM prior to the entering of the Sale and Purchase Agreement, the potential dilution effect on the shareholding structure of the Company and the terms of the Convertible Note. The Conversion Price of HK$0.10 per Conversion Share represents:

(i) a discount of approximately 53.27% to the closing price of HK$0.214 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 31.51% to the average closing price of approximately HK$0.146 per Share for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 26.47% to the average closing price of approximately HK$0.136 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and

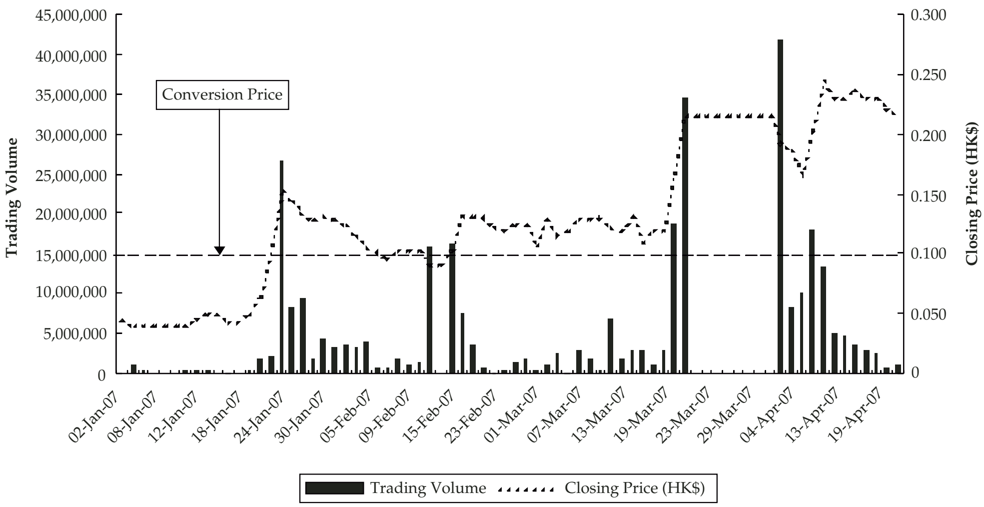
(iv) a discount of approximately 55.36% to the closing price of HK$0.224 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In assessing the fairness and reasonableness of the Conversion Price, we have sought to compare it with those of the Comparable Notes and noted that as regards the respective closing price per share on the last trading day, 11 Comparable Notes had a conversion price which represented a premium ranging from approximately 1.35% to 44.90%, whereas 9 Comparable Notes had a conversion price which represented a discount ranging from approximately 2.51% to 56.25% and 3 Comparable Notes had a conversion price which is equivalent to the respective closing price of the share. As regards the 5/10-day average closing price of the share prior to the last trading day, 15 Comparable Notes had a conversion price which represented a premium ranging from approximately 0.69% to 43.06%, 7 Comparable Notes had a conversion price which represented a discount ranging from approximately 0.21% to 38.60% and 1 Comparable Note had a conversion price which is equivalent to the average closing price of the share.

Since the majority of the conversion prices of the Comparable Notes were determined at a premium to the relevant closing price per share on the last trading day as well as the 5/10-day average closing price, we consider it a common practice in the market to issue convertible notes/bonds with a conversion price set at a premium over the prevailing market price of the share. In the present case, we note that the Conversion Price represents a discount to the closing price of the Share as quoted on the Stock Exchange on the Last Trading Day as well as the 5/10-day average closing price and such discounts are also among the highest values in the relevant ranges of the Comparable Notes.

Nevertheless, it should be noted that the market price of the Shares had been rising significantly since late January 2007. In particular, prior to 19 January 2007 when the Company announced publicly that it was in the negotiation with a connected person regarding a possible acquisition of business assets from the connected person, the Share price had only been about HK$0.05, which was significantly lower than its current level. On 23 January 2007, being the second trading day after the relevant announcement, the Share price surged to close at HK$0.152, which represented an increase of over 200% from the then prevailing level. Since then, the Share price fluctuated between the range of about HK$0.09 and HK$0.13 and reached its highest level of HK$0.214 on the Last Trading Day. Based on our review of the share price performance of the Shares during the 12-month period prior to 19 January 2007, we note that the market price of the Shares was about HK$0.06 for most of the time and the highest price was HK$0.061 which was recorded in mid-

August 2006. A chart of the historical closing price and trading volume of the Shares during the period from 1 January 2007 to the Latest Practicable Date is set out below:



In view of the recent price performance of the Shares as discussed above, we consider that the substantial discounts as represented by the Conversion Price to the closing price of the Shares on the Last Trading Day as well as the 5/10-day average closing prices are mainly due to the significant increase in the Share price on the Last Trading Day. If the Conversion Price is compared to the historical price level of the Shares at about HK$0.06, which had been sustainable for most of the time prior to late January 2007, the Conversion Price would represent a premium of approximately 66.7% over the market price of HK$0.06 per Share. In addition, such premium would be higher than all those premiums of the Comparable Notes. On this basis, we are of the view that the Conversion Price has been arrived at on a fair and reasonable basis.

d. *Redemption amount*

Based on our findings, the redemption amounts of the Comparable Notes range from 100% to 144.50% of their respective face value with an average of approximately 106.04%. As mentioned above, any outstanding principal amount of the Convertible Note will be automatically converted into the Conversion Shares at its maturity date in accordance with its terms. Accordingly, the Convertible Note will not be redeemed at its maturity date and the redemption amount of the Comparable Notes is not a relevant factor in our analysis.

In view of the above analysis of the principal terms of the Convertible Note including the annual interest rate, the maturity and the Conversion Price, we consider that the terms of the Convertible Note have been arrived at based on terms that are substantially in line with the market, and are therefore fair and reasonable as far as the Company is concerned.

7. Financial effects of the acquisition of the Ketanfall Group under the Sale and Purchase Agreement

a. Income effect

Based on the unaudited pro forma consolidated income statement of the Enlarged Group set out in Appendix IV to the Circular, which was prepared on the basis of the respective financial information of the Group and the Ketanfall Group for the year ended 31 December 2006, and on the assumption that the acquisition of the Ketanfall Group by the Company (the "Acquisition") had taken place on 1 January 2006, consolidation of the Ketanfall Group into the Group would result in a net profit of the Enlarged Group of approximately HK$36.0 million, as compared to the net loss of the Group of approximately HK$1.2 million before the Acquisition. Such change in the financial result is mainly due to (i) the inclusion of the net profit of the Ketanfall Group of approximately HK$41.6 million; (ii) the effective interest expense on the Convertible Note of approximately HK$1.3 million charged to the consolidated income statement; and (iii) the estimated legal and professional fees directly attributable to the Acquisition of approximately HK$3.1 million.

In view of the unaudited pro forma income effect as discussed above, the Acquisition is expected to have a positive impact on the operating results of the Enlarged Group. Accordingly, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

b. Liquidity and financial resources

Based on the audited consolidated balance sheet of the Group as at 31 December 2006 set out in Appendix I to the Circular, the Group had current assets of approximately HK$125.2 million and current liabilities of approximately HK$5.6 million, representing a net-current-assets position of approximately HK$119.6 million and a current ratio at approximately 22.4 (i.e. HK$125.2 million divided by HK$5.6 million). Besides, the Group's gearing ratio as at 31 December 2006 was approximately 4.3%, as represented by the Group's total liabilities of approximately HK$5.6 million as a percentage to its total assets of approximately HK$131.5 million as at 31 December 2006.

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix IV to the Circular, which was prepared on the basis of the respective balance sheet position of the Group and the Ketanfall Group as at 31 December 2006, and on the assumption that the Acquisition had taken place on 31 December 2006, consolidation of the Ketanfall Group into the Group would increase its current assets by approximately HK$135.9 million to approximately HK$261.1 million and its current liabilities by approximately HK$150.2 million to approximately HK$155.8 million, resulting in a net-current-assets position of approximately HK$105.3 million or a current ratio at approximately 1.7 (being current assets of approximately

HK$261.1 million divided by current liabilities of approximately HK$155.8 million), which we consider to be at an acceptable level. On the same basis, the gearing ratio of the Enlarged Group would increase to approximately 65.3% as a result of the inclusion of the total liabilities of the Ketanfall Group of approximately HK$150.2 million as well as the recognition of the liability component of the Convertible Note of approximately HK$23.0 million.

Although the financial gearing of the Enlarged Group is expected to increase as a result of the Acquisition, we are of the view that such effect on the Enlarged Group's liquidity position or capital structure will not lead to any material adverse impact on the Enlarged Group's operation or financial conditions in the foreseeable future. This is because of the fact that other than the Convertible Note and the deferred taxation liabilities, the Enlarged Group will not have any non current liabilities and their current liabilities comprise mainly trade payables, amounts due to group companies and dividend payable. As mentioned above, any outstanding principal amount of the Convertible Note will be automatically converted into the Conversion Shares at its maturity date in accordance with its terms. In other words, except for the annual interest payment of HK$5.4 million to the Noteholder during its term, the Convertible Note will not have any impact on the working capital position of the Enlarged Group. In view of the expected positive contribution to the Group's revenue as a result of the Acquisition, we are of the view that the aforesaid increase in the financial gearing of the Enlarged Group is acceptable.

c. Total equity

In accordance with the accounting policies of the Group, the Acquisition is expected to reduce the total equity of the Enlarged Group upon Completion as a result of the issue of the Convertible Note which is interest bearing. As indicated in the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix IV to the Circular (prepared on the assumption that the Acquisition had been completed on 31 December 2006), the total equity of the Enlarged Group would be reduced by approximately HK$31.0 million from approximately HK$125.9 million to HK$94.9 million upon Completion. Such decrease in total equity represents substantially the sum of (i) the estimated legal and professional fees directly attributable to the Acquisition of approximately HK$3.1 million; (ii) the estimated net present value of the aggregate interest payments of the Convertible Note of approximately HK$23.0 million payable to the Noteholder during its term (i.e. the liability component of the Convertible Note); and (iii) the amount of approximately HK$4.9 million representing the cash portion of the Consideration of HK$100 million in excess of the total equity of the Ketanfall Group of approximately HK$95.1 million as at 31 December 2006.

As mentioned above, the Group would not have sufficient internal financial resources to satisfy the Consideration of HK$640 million if it were to be settled entirely in cash upon Completion. The issue of the Conversion Note is in the interest of the Company as its coupon interest rate is only 1% and it will be automatically converted into the Conversion Shares at its maturity date, which means that the Convertible Note will not have any impact on the working capital position of the Group upon Completion or its maturity date. While the unaudited pro forma financial information as set out in the Appendix IV to the Circular indicates that the total equity of the Enlarged Group will decrease mainly because of the issue of the Convertible Note, we, having considered the reasons for the issue of the Convertible Note and its terms being fair and reasonable, are of the view that the expected decrease in the total equity of the Enlarged Group upon Completion is acceptable.

Based on the above, the Acquisition is expected to have a positive impact on the future operating results of the Enlarged Group. Upon Completion, the financial gearing of the Enlarged Group would increase and the total equity of the Enlarged Group would decrease as a result of the issue of the Convertible Note. Nevertheless, such increase in the financial gearing and the decrease in the total equity of the Enlarged Group are acceptable as they are not expected to have any material adverse impact on the Enlarged Group's financial position.

8. Dilution to the shareholdings of the Independent Shareholders

As at the Latest Practicable Date, Midland indirectly held approximately 51.81% of the issued share capital of the Company. In the event that the Convertible Note with principal amount of HK$540 million is fully converted into Conversion Shares at the Conversion Price of HK$0.1 per Conversion Share, a total of 5,400,000,000 Conversion Shares (representing approximately 65.06% of the existing issued share capital of the Company and approximately 39.42% of the enlarged issued share capital of the Company) will be allotted and issued to the Noteholder. On this basis, the aggregate shareholding interests of the Independent Shareholders in the Company will be diluted from approximately 20.05% to 12.15%, representing a decrease magnitude of approximately 39.40%.

Having considered the opportunity to expand and diversify into the property agency business which has been able to demonstrate a proven track record of profitability, we are of the view that such dilution on the shareholding interests in the Company is acceptable so far as the Independent Shareholders are concerned.

9. Management of the Ketanfall Group and the Non-Competition Deed

As advised by the Board, having taken into account the successful running of the Ketanfall Group by its existing management as evidenced by the continuous favourable financial performance of the Ketanfall Group in recent years, the Board considers that it is beneficial for the Company to retain the existing management of the Ketanfall Group following Completion. As stated in the Letter from the Board, the top executive of Ketanfall Group, including the chief executive officer, the chief operating officer and two other sales directors, have over 14 years of management and business experience in property brokerage field in Hong Kong and the Company will retain them as senior management to enhance the operation and management capacity of the Ketanfall Group after Completion. On this basis, we do not expect that the Acquisition may cause any material integration problem for the Group or disruption to the existing management of the Ketanfall Group that will result in an adverse impact on the business operations of either the Group or the Ketanfall Group.

In addition, as stated in the Letter from the Board, the Company and Midland will enter into the Non-Competition Deed on Completion, pursuant to which the Midland Group shall not be engaged, interested or involved (whether alone or in conjunction with other third parties) in any business that is in direct or indirect competition with the business of doing estate agency work in respect of industrial and commercial properties (including shops) in Hong Kong, as currently carried out by the Ketanfall Group (i.e. the Relevant Business). The term of the Non-Competition Deed will commence upon Completion and shall automatically end on the earliest of (i) the date when Midland, together with its associates (other than the Group), ceases to be the Controlling Shareholder; (ii) the date when the Company ceases to be listed on the Stock Exchange; or (iii) the date falling on the fifteenth anniversary of the Non-Competition Deed. As the Non-Competition Deed is able to safeguard the Group's interest in the Relevant Business from any potential competition arising from the business operations of the Midland Group following Completion, we are of the view that the Non-Competition Deed is in the interests of the Company the Shareholders as a whole.

II. The Cross Referral Services Agreement

1. Reasons for the Cross Referral Services Agreement

As stated in the Letter from the Board, from time to time and as part of their respective usual and normal course of business currently conducted, the relevant members of the Midland Group may refer estate agency business in respect of industrial and commercial (office and shops) properties to the Ketanfall Group and the Ketanfall Group may refer estate agency business in respect of residential properties to the relevant members of the Midland Group, and such referral transactions are conducted on a case-by-case basis and are on normal commercial terms. Since the aforesaid referral transactions between the Ketanfall Group and the Midland Group are expected to continue after Completion, they will constitute continuing connected transactions of the Company under the GEM Listing Rules. In this connection, the Company and Midland will enter into the Cross Referral Services Agreement upon Completion to expressly govern such referral transactions in compliance with the GEM Listing Rules. As the consideration ratio in respect of each of the proposed annual caps of the Cross Referral Services Agreement is more than 2.5%, the transactions to be contemplated under the Cross Referral Services Agreement will constitute non-exempt continuing connected transactions which are subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

In view of the nature of the property agency business and the fact that following Completion, the principal businesses of the Group will include estate agency business in respect of industrial and commercial (office and shops) properties whereas the Midland Group will focus on estate agency business in respect of residential properties, it is reasonable to expect that the Group and the Midland Group may refer estate agency business to each other in the future as business referral arrangement between property agencies is a common practice in the field of property brokerage business. Since the referral transactions to be contemplated under the Cross Referral Services Agreement will be able to enhance the business of the Group and increase its revenue, we concur with the view of the Directors that the Cross Referral Services Agreement is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Cross Referral Services Agreement

As stated in the Letter from the Board, the Cross Referral Services Agreement to be entered into between the Company and Midland upon Completion provides to the effect that any business opportunity falling within the Group's estate agency business in respect of industrial and commercial (office and shops) properties in Hong Kong, Macau Special Administrative Region of the PRC and the PRC may be referred by the Midland Group to the relevant member of the Group on a case-by-case basis; and any business opportunity falling within the Midland Group's in respect of residential properties in Hong Kong, Macau Special Administrative Region of the PRC and the PRC may be referred by the Group to the relevant member of the Midland Group on a case-by-case basis. There is no commitment on any member of the Midland Group or the Group to refer to the other such transactions of any minimum or maximum number and/or amount. The term of the Cross Referral Services Agreement will expire on 31 December 2009.

Subject to the terms of the Cross Referral Services Agreement, the terms and conditions for the provision of the cross referral services between the Group and the Midland Group shall be confirmed, set out or reduced into individual written agreements on a case-by-case basis. In any event, as in accordance with the terms of the Cross Referral Services Agreement, the allocation of commission income actually received from the customers and other terms specified in any individual written agreements shall be either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the relevant members of the Midland Group or the Group (as the case may be) than terms available to or from (as appropriate) independent third parties. The Board considers that the terms of the continuing connected transactions contemplated under the Cross Referral Services Agreement are based on normal commercial terms, are fair and reasonable to and are in the interests of the Company and the Shareholders as a whole.

Given that each cross referral transaction to be conducted between the Group and the Midland Group will be governed by an individual written agreement and the allocation of commission income will be either on normal commercial terms or on terms no less favourable to the relevant members of the Group, we are of the view that the terms of the Cross Referral Services Agreement to be entered into between the Company and Midland will be fair and reasonable as far as the Independent Shareholders are concerned.

3. Rationale for determining the annual caps in respect of the Cross Referral Services Agreement

Pursuant to GEM Listing Rules, the aggregate value of the referral fees payable by the Group to the Midland Group and the aggregate value of the referral fees receivable by the Group from the Midland Group under the Cross Referral Services Agreement are required to be subject to a respective annual cap for each financial year of the Company up to 31 December 2009. The following table sets out the respective maximum aggregate value of the referral fees payable by the Group to the Midland Group and the referral fees receivable by the Group from the Midland Group under the Cross Referral Services Agreement as proposed by the Board for each of the three financial years ending 31 December 2007, 2008 and 2009:–

	Referral fees payable by the Group to the Midland Group *(HK$ million)*	**Referral fees receivable by the Group from the Midland Group** *(HK$ million)*
For the financial year ending:		
31 December 2007	50	14
31 December 2008	50	14
31 December 2009	50	14

As stated in the Letter from the Board, based on the record of the Midland Group, during each of the three years ended 31 December 2004, 2005 and 2006, the internal referral fees paid by its industrial and commercial property brokerage segment to other members of the Midland Group amounted to approximately HK$28.67 million, HK$35.55 million and HK$21.25 million, respectively. During the same period, the internal referral fees received by the industrial and commercial property brokerage segment from other members of the Midland Group amounted to approximately HK$9.67 million, HK$11.77 million and HK$4.52 million, respectively.

The Directors believe that 2004 to 2006 have been steady years for the industrial and commercial property brokerage business and expect the market momentum to continue or even exceed previous years. The split of the commission income between members of the Group and the Midland Group in respect of the cross referral services is generally dependent on the property market sentiment, efforts and work done of the relevant agents and members of the Group and the Midland Group. As stated in the Letter from the Board, the above annual caps are based on the maximum annual fee level internally recorded by the Midland Group during 2004 to 2006 and a buffer to allow for flexibility. The Board is of the opinion that the annual caps in respect of the Cross Referral Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Based on the proposed annual caps for the referral fees payable and receivable by the Group under the Cross Referral Services Agreement for each of the three years ending 31 December 2009 and the relevant maximum historical referral fees recorded by the Midland Group during the three financial years ended 31 December 2006, the proposed annual cap of HK$50 million for each of the three financial years ending 31 December 2009 represents approximately 140.6% of the referral fees amounted to approximately HK$35.55 million paid by the industrial and commercial property brokerage segment of the Midland Group to its other members in 2005, whereas the other proposed annual cap of HK$14 million for the same period represents approximately 120.2% of the referral fees amounted to approximately HK$11.65 million received by the industrial and commercial property brokerage segment from other members of the Midland Group in 2005. As stated in the paragraph headed "Prospect of Ketanfall Group" in Appendix III – Financial Information of Ketanfall Group to the Circular, in view of the falling interest rate trend in 2007 as generally expected, the growing demand for prime office space, the strong economic growth, the Board believes that the office market is about to revive after a period of consolidation since the second half of 2005. Moreover, the Board also perceives that rising of price level of industrial properties is considered to have lagged behind that of properties of other sectors and therefore the industrial properties would offer more attractive returns for investors and stimulate investment sentiment, this is expected to create an attractive growth in the industrial property market. Tag along a rising salary level and households income in Hong Kong, according to the government's tally, encourages retail sales in Hong Kong. The Board, based on the above, believes that the local shop market would turnaround in coming years. We concur with the view of the Board.

As there were historical transactions in respect of the customer referral services between the industrial and commercial property brokerage segment and the residential property brokerage segment of the Midland Group during each of the three years ended 31 December 2006, it is likely to be commercially necessary for such referral transactions to continue following Completion. Given that (i) the proposed referral transactions to be contemplated under the Cross Referral Services Agreements will be conducted on normal commercial terms or on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties; (ii) it is generally in the interest of the Company to maximise the value of such referral transactions so as to increase the Group's revenue; and (iii) the non-exclusive arrangement under the Cross Referral Services Agreement provides the Group with the flexibility without any commitment on the actual transaction values as well as (iv) the reasons stated above, we are of the view that the proposed annul caps of HK$50 million referral fees payable by the Group to the Midland Group and HK$14 million referral fees receivable by the Group from the Midland

Group in respect of the Cross Referral Services Agreement for each of the three financial years ending 31 December 2007, 2008 and 2009 are fair and reasonable so far as the Independent Shareholders are concerned.

4. Conditions of the Annual Caps

There are certain conditions of the annual cap pursuant to the GEM Listing Rules, in particular, the restriction of the value of the non-exempt continuing connected transactions (i.e. the cross referral services between the Group and the Midland Group) by way of the annual cap in respect of each category of the transactions for each of the three financial years ending 31 December 2009 and the annual review by the independent non-executive Directors of the terms of such continuing connected transactions and the relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to the GEM Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among others, that such continuing connected transactions are conducted in accordance with the Cross Referral Services Agreement and that the relevant annual caps not being exceeded. In addition, pursuant to the GEM Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of the continuing connected transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the continuing connected transactions under the Cross Referral Services Agreement and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that each of the Sale and Purchase Agreement (including the issue of the Convertible Note) and the Cross Referral Services Agreement is on normal commercial terms, in the interests of the Company and the Shareholders as a whole and their respective terms are fair and reasonable. Therefore, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolutions to approve the Sale and Purchase Agreement (including the issue of the Convertible Note), the Cross Referral Services Agreement and the relevant annual caps at the EGM.

Yours faithfully,
For and on behalf of
ICEA Capital Limited
Fabian Shin
Executive Director

I. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the year ended 30 September 2004, for the period from 1 October 2004 to 31 December 2005 and for the year ended 31 December 2006, as extracted from the relevant annual reports of the Company which are not subject to any qualified opinion.

The Group has adopted the new/revised HKFRS in its 2006 financial statements, the financial statements for the period from 1 October 2004 to 31 December 2005 and the financial statements for the year ended 30 September 2004.

CONSOLIDATED INCOME STATEMENTS

	Year ended 30 September 2004	1 October 2004 to 31 December 2005	Year ended 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*
Revenue/Turnover	20,206	31,258	27,124
Other income	235	3,062	5,082
Costs of merchandise	(5,450)	(12,902)	(10,392)
Costs of internet connectivity fee	(291)	(176)	(76)
Staff costs	(10,039)	(12,897)	(13,880)
Depreciation	(1,306)	(1,021)	(959)
Amortisation of intangible assets	(1,645)	(58)	(8)
Impairment loss on goodwill	–	(1,831)	–
General and administrative expenses	(6,215)	(7,326)	(8,122)
Loss before income tax	(4,505)	(1,891)	(1,231)
Income tax (expense)/credit	(16)	2	–
Loss for the year/period	(4,521)	(1,889)	(1,231)
Attributable to:			
Equity holders of the Company	(4,205)	(1,007)	(920)
Minority interest	(316)	(882)	(311)
Loss for the year/period	(4,521)	(1,889)	(1,231)
Loss per share for loss attributable to the equity holders of the Company during the year/period			
– Basic	HK(0.105) cent	HK(0.015) cent	HK(0.011) cent
– Diluted	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEETS

	As at 30 September 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	741	2,005	1,240
Financial assets at fair value through profit or loss	–	5,040	5,054
Intangible assets	2,533	8	–
	3,274	7,053	6,294
Current assets			
Inventories	–	204	580
Trade receivables	3,566	4,782	4,979
Due from customers on installation contracts	135	624	269
Prepayments, deposits and other receivables	863	1,988	1,912
Tax refundable	–	12	–
Financial assets at fair value through profit or loss	–	–	130
Pledged deposits	–	–	294
Cash and bank deposits	19,123	115,508	117,035
	23,687	123,118	125,199
Total assets	26,961	130,171	131,493
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	40,000	83,000	83,000
Reserves	(21,139)	41,361	42,146
	18,861	124,361	125,146
Minority interest	2,225	709	718
Total equity	21,086	125,070	125,864
LIABILITIES			
Current liabilities			
Trade payables	969	964	1,692
Accruals and other payables	1,739	1,296	2,201
Deposits from customers	2,473	2,461	1,556
Due to minority shareholders of subsidiaries	660	380	180
Provision for tax	34	–	–
Total liabilities	5,875	5,101	5,629
Total equity and liabilities	26,961	130,171	131,493
Net current assets	17,812	118,017	119,570
Total assets less current liabilities	21,086	125,070	125,864

II. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited financial statements of the Group together with its notes for the year ended 31 December 2006 which are reproduced from pages 22 to 63 of the annual report of the Company for the year ended 31 December 2006.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

	Notes	Year ended 31st December 2006 HK$'000	1st October 2004 to 31st December 2005 HK$'000
Revenue/Turnover	5	27,124	31,258
Other income	7	5,082	3,062
Costs of merchandise	8	(10,392)	(12,902)
Costs of internet connectivity fee	8	(76)	(176)
Staff costs	12	(13,880)	(12,897)
Depreciation	8	(959)	(1,021)
Amortisation of intangible assets	8	(8)	(58)
Impairment loss on goodwill		–	(1,831)
General and administrative expenses		(8,122)	(7,326)
Loss before income tax	8	(1,231)	(1,891)
Income tax credit	9	–	2
Loss for the year/period	10	(1,231)	(1,889)
Attributable to:			
Equity holders of the Company		(920)	(1,007)
Minority interest	29	(311)	(882)
Loss for the year/period		(1,231)	(1,889)
Loss per share for loss attributable to the equity holders of the Company during the year/period			
– Basic	11	HK(0.011) cent	HK(0.015) cent
– Diluted	11	N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,240	2,005
Financial assets at fair value through profit or loss	16	5,054	5,040
Intangible assets	17	–	8
		6,294	7,053
Current assets			
Inventories	18	580	204
Trade receivables	19	4,979	4,782
Due from customers on installation contracts	20	269	624
Prepayments, deposits and other receivables		1,912	1,988
Tax refundable		–	12
Financial assets at fair value through profit or loss	16	130	–
Pledged deposits	21	294	–
Cash and bank deposits	22	117,035	115,508
		125,199	123,118
Total assets		131,493	130,171
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	26	83,000	83,000
Reserves	28	42,146	41,361
		125,146	124,361
Minority interest	29	718	709
Total equity		125,864	125,070
LIABILITIES			
Current liabilities			
Trade payables	23	1,692	964
Accruals and other payables		2,201	1,296
Deposits from customers	24	1,556	2,461
Due to minority shareholders of subsidiaries	25	180	380
Total liabilities		5,629	5,101
Total equity and liabilities		131,493	130,171
Net current assets		119,570	118,017
Total assets less current liabilities		125,864	125,070

BALANCE SHEET

As at 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	15	2,608	2,608
Current assets			
Due from subsidiaries	15	122,531	122,687
Cash and bank deposits		4	4
		122,535	122,691
Total assets		125,143	125,299
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	26	83,000	83,000
Reserves	28	42,143	42,299
Total equity		125,143	125,299
Net current assets		122,535	122,691
Total assets less current liabilities		125,143	125,299

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	Note	Year ended 31st December 2006 HK$'000	1st October 2004 to 31st December 2005 HK$'000
Cash flows from operating activities			
Loss before income tax		(1,231)	(1,891)
Adjustments for:			
Depreciation		959	1,021
Amortisation of intangible assets		8	58
Impairment loss on goodwill		–	1,831
Interest income		(4,653)	(2,977)
Equity-settled share-based payment expenses		1,652	–
Gain on disposal of a subsidiary		(381)	–
Exchange gain on financial assets at fair value through profit or loss		(14)	–
Fair value gain on financial assets at fair value through profit or loss		(48)	(85)
Loss on disposal of property, plant and equipment		372	21
Operating loss before working capital changes		(3,336)	(2,022)
Increase in pledged deposits		(294)	–
Increase in trade receivables		(306)	(1,216)
Increase in inventories		(376)	(204)
Decrease/(Increase) in due from customers on installation contracts		355	(489)
Increase in prepayments, deposits and other receivables		(111)	(1,060)
Increase/(Decrease) in trade payables		728	(5)
Increase/(Decrease) in accruals and other payables		1,767	(443)
Decrease in deposits from customers		(469)	(12)
Cash used in operations		(2,042)	(5,451)
Interest received		4,653	2,977
Income tax refunded/(paid)		12	(44)
Net cash generated from/(used in) operating activities		2,623	(2,518)
Cash flows from investing activities			
Purchase of property, plant and equipment		(762)	(2,309)
Acquisition of financial assets at fair value through profit or loss		(82)	(5,801)
Proceeds from disposal of property, plant and equipment		–	3
Net cash outflow from disposal of a subsidiary	33	(52)	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	846
Net cash used in investing activities		(896)	(7,261)

	Note	Year ended 31st December 2006 HK$'000	1st October 2004 to 31st December 2005 HK$'000
Cash flows from financing activities			
Proceeds from issue of shares		–	107,500
Share issue expenses		–	(1,056)
Decrease in due to minority shareholders of subsidiaries		(200)	(280)
Net cash (used in)/generated from financing activities		(200)	106,164
Net increase in cash and cash equivalents		1,527	96,385
Cash and cash equivalents at beginning of year/period		115,508	19,123
Cash and cash equivalents at end of year/period		117,035	115,508
Analysis of cash and cash equivalents:			
Cash and bank deposits		117,035	115,508

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2006

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Balance at beginning of the year/period	125,070	21,086
Exchange translation difference (net income recognised directly in equity)	54	65
Loss for the year/period	(1,231)	(1,889)
Total recognised income and expense for the year/period	(1,177)	(1,824)
Issue of new shares	–	107,500
Share issue expenses	–	(1,056)
Minority interest in a subsidiary disposed of	319	–
Employee share-based benefits credited to employee share-based benefits reserve	1,652	–
Adjustment to goodwill attributable to minority interest	–	(636)
Balance at the end of the year/period	125,864	125,070
Total recognised income and expense for the year/period attributable to:		
Equity holders of the Company	(867)	(944)
Minority interest	(310)	(880)
Total recognised income and expense for the year/period	(1,177)	(1,824)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2006

1. GENERAL INFORMATION

EVI Education Asia Limited (the "Company") was incorporated and domiciled in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and, its principal place of business is located at 9th Floor, Tai Sang Commercial Building, 24 – 34 Hennessy Road, Hong Kong. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is controlled by Valuewit Assets Limited, a limited liability company incorporated and domiciled in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is Midland Holdings Limited ("Midland"), a company incorporated in Bermuda and listed on the Main Board of the Stock Exchange.

The Company and its subsidiaries (the "Group") are principally engaged in provision of internet education services, sales and installation of computer hardware and software, website development and commercial projects, provision of computer training services, and sales of health and personal care products.

The consolidated financial statements of the Group on pages 22 to 63 of the annual report of the Company for the year ended 31 December 2006 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The Company changed its financial year end from 30th September to 31st December commencing from 2005 so as to align itself with the financial year end of Midland. The comparative figures covered the period from 1st October 2004 to 31st December 2005. Accordingly, the comparative figures are not comparable with the figures presented in the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes thereon for the year ended 31st December 2006.

The financial statements for the year ended 31st December 2006 were approved by the board of directors on 7th March 2007.

2. ADOPTION OF NEW AND AMENDED HKFRSs

From 1st January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1st January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies.

New and amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company is currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

Amendment to HKAS 1	"Presentation of Financial Statements" – Capital Disclosures[1]
HKFRS 7	"Financial Instruments: Disclosures"[1]
HK(IFRIC) Interpretation 7	"Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies"[2]
HK(IFRIC) Interpretation 8	"Scope of HKFRS 2"[3]
HK(IFRIC) Interpretation 9	"Reassessment of Embedded Derivatives"[4]
HK(IFRIC) Interpretation 10	"Interim Financial Reporting and Impairment"[5]
HK(IFRIC) Interpretation 11	"Group and Treasury Share Transactions"[6]

[1] Effective for annual periods beginning on or after 1st January 2007
[2] Effective for annual periods beginning on or after 1st March 2006
[3] Effective for annual periods beginning on or after 1st May 2006
[4] Effective for annual periods beginning on or after 1st June 2006
[5] Effective for annual periods beginning on or after 1st November 2006
[6] Effective for annual periods beginning on or after 1st March 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for financial assets held for trading or are designated by the Group as at fair value through profit or loss upon initial recognition. These financial assets have been measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the Group's interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Foreign currency translation

The financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the exchange translation reserve in equity. Goodwill arising on the acquisitions of foreign operations before 1st January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales and installation of computer hardware and software from contracts with customers, whereby the sale and installation of computer hardware and software are bundled together in one contract, are recognised by reference to the stage of completion of the contracts, which is measured by reference to actual costs incurred for work performed to date as a percentage of total estimated costs for each contract.

Service fees are recognised when the related services are rendered.

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

3.6 Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination or investment in a jointly controlled entity is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.7 Other intangible assets and research and development activities

Other intangible assets include internally developed websites used in production or administration and licensing rights. They are accounted for as follows:

(i) Research and website development costs

The costs for developing websites which include external direct cost of materials and services consumed in developing the website are capitalised, and the capitalisation of such costs ceases no later than the point at which the website is substantially completed and ready for its intended purpose, except that such costs involve provision of additional functions or features to the website. Website development costs are amortised on a straight-line basis over a period of three years, which represent the expected useful life of the website. Capitalised website development costs are stated at cost less accumulated amortisation and impairment losses.

Research and other development costs relating to website development and website maintenance costs are expensed in the year in which they are incurred.

(ii) Licensing rights

Costs of licensing rights acquired are capitalised and amortised using the straight-line method over their estimated useful lives of two years. Capitalised costs of licensing rights are stated at cost less accumulated amortisation and impairment losses.

3.8 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

The gain or loss arising on the disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives as follows:

Leasehold improvements	2 years or over the unexpired lease terms, whichever is shorter
Furniture and office equipment	3 to 4 years
Computer equipment	3 to 5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.9 Impairment of assets

Goodwill, other intangible assets, property, plant and equipment and interests in subsidiaries are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the lease periods except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

3.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

The Group classifies its financial assets into the following categories: loans and receivables, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and where allowed and appropriate, re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in "trade receivables", "due from customers on installation contracts" and "prepayment, deposits and other receivables" in the balance sheet.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

- the financial asset contains an embedded derivative that would need to be separately recorded.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or not classified in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

Purchases of investments are recognised on trade date – the date on which the Group commits to purchase the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.12 Inventories

Inventories represent purchased goods. At the balance sheet date, inventories are carried at the lower of cost and net realisable value. Cost represents the purchase cost of the goods computed using weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

3.13 Installation work in progress

When the outcome of an installation contract can be estimated reliably, contract revenue and costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to actual costs incurred for work performed to date as a percentage of total estimated costs for each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of an installation contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that will be recoverable. Contract costs are recognised when incurred.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on installation contracts under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on installation contracts under current liabilities.

3.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the share premium to the extent they are incremental costs directly attributable to the equity transaction.

3.17 Pension obligations and short term employee benefits

Pensions to employees are provided through several defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions after payment of the fixed contributions.

The contributions recognised in respect to defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

3.18 Share-based employee compensation

All share-based payment arrangements granted after 7th November 2002 and had not vested on 1st January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (employee share-based benefits reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in employee share-based benefits reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in employee share-based benefits reserve will be transferred to retained profits.

3.19 Financial liabilities

The Group's financial liabilities include trade and other payables. They are included in balance sheet line items as "Trade payables", "Accruals and other payables" and "Due to minority shareholders of subsidiaries".

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.20 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered as contingent assets.

3.21 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is a member of the key management personnel of the Company or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

3.22 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories and receivables, and mainly exclude corporate assets, financial assets at fair value through profit or loss and cash and bank deposits. Segment liabilities comprise operating liabilities and exclude items such as accrual for common expenses.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the place in which the customer is located and total assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibility and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

Estimated fair value of financial assets

The estimation of fair value of financial assets required the Group to estimate the future market value expected to be received from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

Estimated fair value of share options expenses

The Black-Scholes valuation model has been employed in the estimation of the fair value of the share options granted during the year. The Black-Scholes valuation model requires the input of highly subjective assumptions, including the volatility of share prices, changes in the subjective assumptions can materially affect the fair value of the share options estimated.

Depreciation and amortisation

The Group depreciated and amortised the property, plant and equipment and the intangible assets other than goodwill on a straight-line basis over the estimated useful lives of two to five years, starting from the date on which the assets are available for use. The estimated useful lives reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and the intangible assets.

5. REVENUE/TURNOVER

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. The Group's turnover recognised during the year represents revenue from:

	Year ended 31st December 2006	**1st October 2004 to 31st December 2005**
	HK$'000	*HK$'000*
Internet education services	7,775	10,164
Sales and installation of computer hardware and software	11,149	13,954
Website development and commercial projects	3,141	3,556
Computer training services	3,274	3,035
Sales of health and personal care products	1,669	441
Others	116	108
	27,124	31,258

6. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group operates under five main business segments, namely (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.

	Year ended 31st December 2006						
	Internet education services	Sales and installation of computer hardware and software	Website development and commercial projects	Computer training services	Sales of health and personal care products	Others[1]	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue							
– External sales	7,775	11,149	3,141	3,274	1,669	116	27,124
Segment results	(1,480)	(654)	(576)	1,475	(2,667)	63	(3,839)
Unallocated expenses							(2,474)
Unallocated income							429
Interest income							4,653
Loss before income tax							(1,231)
Income tax credit							–
Loss for the year							(1,231)
Segment assets	1,378	4,464	414	795	985	2	8,038
Unallocated assets							123,455
Total assets							131,493
Segment liabilities	1,032	1,474	182	306	766	–	3,760
Unallocated liabilities							1,869
Total liabilities							5,629
Capital expenditure	160	122	62	44	373	1	762
Depreciation	450	43	158	117	190	1	959
Amortisation charge	8	–	–	–	–	–	8

	1st October 2004 to 31st December 2005						
	Internet education services	**Sales and installation of computer hardware and software**	**Website development and commercial projects**	**Computer training services**	**Sales of health and personal care products**	**Others[1]**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue							
– External sales	10,164	13,954	3,556	3,035	441	108	31,258
Segment results	(2,837)	(1,814)	(686)	1,450	(149)	78	(3,958)
Unallocated expenses							(995)
Unallocated income							85
Interest income							2,977
Loss before income tax							(1,891)
Income tax credit							2
Loss for the period							(1,889)
Segment assets	2,427	4,679	269	624	954	353	9,306
Unallocated assets							120,865
Total assets							130,171
Segment liabilities	2,330	1,296	406	386	30	3	4,451
Unallocated liabilities							650
Total liabilities							5,101
Capital expenditure	1,326	64	–	538	381	–	2,309
Depreciation	846	62	97	16	–	–	1,021
Amortisation charge	58	–	–	–	–	–	58
Impairment loss on goodwill	1,542	144	–	145	–	–	1,831

Note:

(1) Others represent mainly computer maintenance and advertising services.

(b) Secondary reporting format – geographical segments

No geographical analysis is provided as less than 10% of the consolidated revenue and less than 10% of total assets of the Group are attributable to locations outside Hong Kong.

7. OTHER INCOME

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Interest income	4,653	2,977
Fair value gain on financial assets at fair value through profit or loss	48	85
Gain on disposal of a subsidiary	381	–
	5,082	3,062

8. LOSS BEFORE INCOME TAX

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Operating lease charges:		
– Premises	2,986	1,895
– Computer servers	204	246
	3,190	2,141
Costs of merchandise	10,392	12,902
Costs of internet connectivity fee	76	176
Staff costs (including directors' emoluments)	13,880	12,897
Depreciation	959	1,021
Amortisation of intangible assets other than goodwill	8	58
Loss on disposal of property, plant and equipment	372	21
(Write back)/Provision for impairment on trade receivables	(20)	66
Auditors' remuneration	300	200
Net foreign exchange loss/(gain)	108	(24)

9. INCOME TAX CREDIT

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Current tax – Hong Kong profits tax		
Tax for the year/period	–	–
Over-provision in prior years	–	(2)
Income tax credit	–	(2)

No Hong Kong Profits tax has been provided in the financial statements as the companies within the Group either did not derive any assessable profit for the current year or had tax losses brought forward from previous years to offset against the current year's assessable profit.

Reconciliation between income tax and accounting loss at applicable tax rates is as follows:

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Loss before income tax	(1,231)	(1,891)
Tax on loss, calculated at the rates applicable to profits in the tax jurisdiction concerned	(432)	(619)
Tax effect of non-deductible expenses	1,109	1,118
Tax effect of non-taxable revenue	(849)	(550)
Tax effect of temporary differences not recognised	484	213
Tax effect of prior year's tax losses utilised this year/period	(312)	(162)
Over provision in prior years	–	(2)
Income tax credit	–	(2)

The tax effect of temporary differences for deferred tax assets not recognised in the financial statements is in respect of the following:

	Group 2006	2005
	HK$'000	*HK$'000*
Accelerated depreciation allowance	(52)	26
Tax loss*	(9,289)	(9,524)
	(9,341)	(9,498)

* *Tax loss of the Group is subject to the agreement of the Hong Kong Inland Revenue Department and can be carried forward indefinitely. No deferred tax asset has been recognised due to the unpredictability of future profit streams against which the asset can be utilised.*

10. LOSS FOR THE YEAR/PERIOD

Of the consolidated loss for the year ended 31st December 2006 of HK$1,231,000 (1st October 2004 to 31st December 2005: HK$1,889,000), a loss of HK$1,808,000 (1st October 2004 to 31st December 2005: HK$1,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company for the year ended 31st December 2006 of HK$920,000 (1st October 2004 to 31st December 2005: HK$1,007,000) and on 8,300,000,000 (1st October 2004 to 31st December 2005: weighted average of 6,747,483,589) ordinary shares in issue during the year.

No diluted loss per share was presented for the year ended 31st December 2006 and for the period from 1st October 2004 to 31st December 2005 because impact of the exercise of the share options was anti-dilutive.

12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Wages and salaries	11,709	12,295
Share options granted	1,652	–
Pension costs – defined contribution plans	519	602
	13,880	12,897

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

13.1 Directors' emoluments

	Fees	Salaries, allowances and benefits in kind	Contribution to defined contribution plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st December 2006				
Executive directors				
Mr. Pong Wai San, Wilson[1]	–	–	–	–
Mr. Cheung Shi Kwan, Wings	–	96	2	98
Mr. Lau Wai Shu	–	529	10	539
Ms. Ip Kit Yee, Kitty	–	11	–	11
Mr. Chan Kin Chu, Harry	–	8	–	8
Mr. Chu Tak Long	–	10	–	10
	–	654	12	666
Non-executive director				
Mr. Tsang Link Carl, Brian	90	1,652	–	1,742
Independent non-executive directors				
Mr. Hung Tak Chow, Charles	60	–	–	60
Mr. Lai Hin Wing, Henry	60	–	–	60
Mr. Ying Wing Cheung	97	–	–	97
Mr. Sha Pau, Eric	48	–	–	48
Mr. Koo Fook Sun, Louis	122	–	–	122
	387	–	–	387
	477	2,306	12	2,795

	Fees	Salaries, allowances and benefits in kind	Contribution to defined contribution plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1st October 2004 to 31st December 2005				
Executive directors				
Mr. Pong Wai San, Wilson[1]	–	–	–	–
Ms. Pong Lo Shuk Yin, Dorothy[1]	–	–	–	–
Mr. Cheung Shi Kwan, Wings	–	713	15	728
Mr. Lau Wai Shu	–	246	6	252
Ms. Ip Kit Yee, Kitty	–	–	–	–
Mr. Chan Kin Chu, Harry	–	–	–	–
	–	959	21	980
Non-executive director				
Mr. Tsang Link Carl, Brian	–	–	–	–
Independent non-executive directors				
Mr. Hung Tak Chow, Charles	50	–	–	50
Mr. Lai Hin Wing, Henry	50	–	–	50
Mr. Hung Fan Wai, Wilfred	100	–	–	100
Mr. Ying Wing Cheung	–	–	–	–
Mr. Koo Fook Sun, Louis	–	–	–	–
	200	–	–	200
	200	959	21	1,180

Note:

1. Directors' emoluments received by Mr. Pong Wai San, Wilson amounted to HK$12 (1st October 2004 to 31st December 2005: HK$15). Directors' emoluments received by Ms. Pong Lo Shuk Yin, Dorothy amounted to HK$6 for the period from 1st October 2004 to 31st December 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31st December 2006 and the period from 1st October 2004 to 31st December 2005. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year ended 31st December 2006 and the period from 1st October 2004 to 31st December 2005.

13.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2006 included one director (1st October 2004 to 31st December 2005: one director) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (1st October 2004 to 31st December 2005: four) individuals are as follows:

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	1,502	1,992
Contributions to pensions schemes	45	54
	1,547	2,046

During the year ended 31st December 2006 and the period from 1st October 2004 to 31st December 2005, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office. The emoluments of all the five highest paid individuals fall within the range of Nil to HK$1,000,000.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improvements	Furniture and office equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2004				
Cost	1,865	739	6,254	8,858
Accumulated depreciation	(1,787)	(696)	(5,634)	(8,117)
Net book amount	78	43	620	741
Net book amount at 1st October 2004	78	43	620	741
Additions	1,409	122	778	2,309
Disposals	–	(3)	(21)	(24)
Depreciation	(410)	(48)	(563)	(1,021)
Net book amount at 31st December 2005	1,077	114	814	2,005
At 31st December 2005				
Cost	1,486	474	5,841	7,801
Accumulated depreciation	(409)	(360)	(5,027)	(5,796)
Net book amount	1,077	114	814	2,005
Net book amount at 1st January 2006	1,077	114	814	2,005
Additions	342	158	262	762
Exchange difference	(2)	–	(3)	(5)
Disposals	(372)	–	–	(372)
Disposal of a subsidiary	(75)	(23)	(93)	(191)
Depreciation	(535)	(72)	(352)	(959)
Net book amount at 31st December 2006	435	177	628	1,240
At 31st December 2006				
Cost	1,127	591	5,650	7,368
Accumulated depreciation	(692)	(414)	(5,022)	(6,128)
Net book amount	435	177	628	1,240

15. INTERESTS IN SUBSIDIARIES – COMPANY

	2006	**2005**
	HK$'000	*HK$'000*
Investments at cost – Unlisted shares	2,608	2,608

	2006	**2005**
	HK$'000	*HK$'000*
Due from subsidiaries	169,505	169,505
Less: Provision for impairment	(46,974)	(46,818)
	122,531	122,687

The outstanding balances with the subsidiaries are unsecured, interest free and repayable on demand.

Particulars of the subsidiaries at 31st December 2006 are as follows:

Name	**Place of incorporation and kind of legal entity**	**Particulars of issued share capital**	**Percentage of interest held by the Company**	**Principal activities and place of operations**
Network Focus Consultancy Corporation	British Virgin Islands, limited liability company	2,000 ordinary shares of US$1 each	100% *	Investment holding in Hong Kong
EVI Services Limited	Hong Kong, limited liability company	21,053 ordinary shares of HK$1 each	100%	Sales and installation of computer hardware and software, provision of computer training services and internet education services in Hong Kong
Sino Sky Enterprises Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	100%	Provision of internal office administrative services in Hong Kong
Web Work Industries Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	Development of information technology system and infrastructure in Hong Kong
EVI MP Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	Inactive
Value Media International Limited	British Virgin Islands, limited liability company	100 ordinary shares of US$1 each	100%	Investment holding in Hong Kong
System New International Limited	British Virgin Islands, limited liability company	100 ordinary shares of US$1 each	75%	Inactive

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital	Percentage of interest held by the Company	Principal activities and place of operations
Silicon Workshop Limited	Hong Kong, limited liability company	100 ordinary shares of HK$1 each	80%	Sales and installation of computer hardware and software and provision of computer training services in Hong Kong
廣州搖籃軟件開發有限公司	PRC, foreign wholly-owned limited liability company	Registered capital of HK$150,000	100%	Development and sales of computer software and hardware and provision of advisory services in the PRC
EVI-MDV Technical Development Limited	PRC, co-operative joint venture with limited liability	Registered capital of HK$5,000,000	70%	Development and sales of computer software and provision of technical support and after-sales services in the PRC
Sinodelta Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	100%	Provision of SMS messaging services and trading of music boards and attendance systems in Hong Kong
Star and Rose (Hong Kong) Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	Investment holding in Hong Kong
Truegoal Group Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	Licence holding
Eternal Beauty Group Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	Licence holding
Eternal Nice International Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Sales of health and personal care products in Hong Kong
Big Atop Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Sales of health and personal care products in Hong Kong
Excel Wit Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Sales of health and personal care products in Hong Kong
Jumbo Result Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Sales of health and personal care products in Hong Kong

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital	Percentage of interest held by the Company	Principal activities and place of operations
Expressland Investments Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	Investment holding in Hong Kong
Smart Deal Investments Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Inactive
Major Base Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Sales of health and personal care products in Hong Kong
Gainwell Group Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100% *	Investment holding in Hong Kong
EVI eTraining Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Provision of online training courses in Hong Kong
Genius Team Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Investment holding in Hong Kong
Leader Concord Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	100%	Investment holding in Hong Kong
Prosperity Property Agency Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	Inactive

* *Shares held directly by the Company.*

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2006	**2005**
	HK$'000	*HK$'000*
Non-current		
Derivative financial instrument designated as financial asset at fair value through profit or loss on initial recognition	5,054	5,040

	2006	**2005**
	HK$'000	*HK$'000*
Current		
Equity securities listed in Hong Kong (held for trading)	130	–
Market value of listed equity securities	130	–

17. INTANGIBLE ASSETS – GROUP

	Goodwill	Website development costs	Licensing rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2004				
Gross carrying amount	4,961	6,534	6,318	17,813
Accumulated amortisation and impairment	(2,494)	(6,468)	(6,318)	(15,280)
Net carrying amount	2,467	66	–	2,533
Net carrying amount at 1st October 2004	2,467	66	–	2,533
Amortisation charge	–	(58)	–	(58)
Adjustment of goodwill	(636)	–	–	(636)
Impairment loss	(1,831)	–	–	(1,831)
Net carrying amount at 31st December 2005	–	8	–	8
At 31st December 2005				
Gross carrying amount	1,831	6,534	6,318	14,683
Accumulated amortisation and impairment	(1,831)	(6,526)	(6,318)	(14,675)
Net carrying amount	–	8	–	8
At 1st January 2006	–	8	–	8
Amortisation charge	–	(8)	–	(8)
Net carrying amount at 31st December 2006	–	–	–	–
At 31st December 2006				
Gross carrying amount	1,831	6,534	6,318	14,683
Accumulated amortisation and impairment	(1,831)	(6,534)	(6,318)	(14,683)
Net carrying amount	–	–	–	–

18. INVENTORIES – GROUP

	2006	2005
	HK$'000	*HK$'000*
Finished goods	580	204

19. TRADE RECEIVABLES – GROUP

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

The ageing analysis of the Group's trade receivables was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 to 30 days	3,350	3,206
31 to 60 days	366	553
61 to 90 days	258	296
Over 90 days	1,444	1,286
	5,418	5,341
Less: provision for impairment of receivables	(439)	(559)
	4,979	4,782

Included in trade receivables are amounts due from fellow subsidiaries of HK$93,000 (2005: HK$252,000), representing internet education fee received on behalf of the Group. The fellow subsidiaries are controlled by Midland.

20. DUE FROM CUSTOMERS ON INSTALLATION CONTRACTS – GROUP

	2006	**2005**
	HK$'000	*HK$'000*
Installation work in progress		
Contract costs incurred plus recognised profits less foreseeable losses to date	269	624
Less: progress billings to date	–	–
	269	624
Included in current assets under the following captions:		
Due from customers on installation contracts	269	624

As at 31st December 2006, no retention was held by customers for contract work (2005: Nil).

21. PLEDGED DEPOSITS

Certain banking facilities of the Group were secured by a charge on the bank deposits.

22. CASH AND BANK DEPOSITS – GROUP

Cash and bank deposits include the following components:

	2006	**2005**
	HK$'000	*HK$'000*
Cash at banks and in hand	5,481	7,769
Short-term bank deposits	111,554	107,739
	117,035	115,508

The short-term bank deposits carried interest at market rates which ranged from 3.75% to 5.1% (2005: ranged from 1.6% to 5.28%). They have a maturity of 30 days and are eligible for immediate cancellation without any penalty but any interest for the last deposit period would be forfeited.

Included in bank and cash balances of the Group is an amount of HK$579,000 (2005: HK$1,582,000) representing bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

23. TRADE PAYABLES – GROUP

At 31st December 2006, the ageing analysis of the trade payables was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 to 30 days	1,211	633
31 to 60 days	173	27
61 to 90 days	80	218
Over 90 days	228	86
	1,692	964

24. DEPOSITS FROM CUSTOMERS – GROUP

At 31st December 2006, the ageing analysis of the deposits from customers was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 to 30 days	1,048	2,402
31 to 60 days	37	–
61 to 90 days	18	8
Over 90 days	453	51
	1,556	2,461

25. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES – GROUP

The amount is unsecured, non-interest bearing and repayable on demand. During the year ended 31st December 2006, the Group made repayment amounting to HK$200,000 to a minority shareholder of a subsidiary.

26. SHARE CAPITAL

	2006	**2005**
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	500,000	500,000

	Number of shares	Ordinary shares HK$'000	Total HK$'000
Issued and fully paid:			
At 1st October 2004	4,000,000,000	40,000	40,000
Issue of shares	4,300,000,000	43,000	43,000
At 31st December 2005, 1st January 2006 and 31st December 2006	8,300,000,000	83,000	83,000

27. SHARE-BASED EMPLOYEE COMPENSATION

On 6th June 2005, the Company adopted a new share option scheme (the "Share Option Scheme") pursuant to an ordinary resolution. Pursuant to the Share Option Scheme, the Company may grant options to any employees, senior executives or officers, managers, directors (including executive, non-executive and independent non-executive directors) or consultants of the Group, or any other eligible persons, who, as determined by the directors of the Company, have contributed or will contribute to the growth and development of the Group to subscribe for shares of the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The exercise price will be determined by the directors, and will not be less than the higher of: (a) the nominal value of the shares; (b) the average of the closing price of the shares quoted on the GEM of the Stock Exchange on the five trading days immediately preceding the date of offer of the options; or (c) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of offer of the options, which must be a business day as defined in the GEM Listing Rules. The Share Option Scheme will remain in force for a period of 10 years commencing from 6th June 2005.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by shares in the Company.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price per share HK$	Number of options
Outstanding at 1st October 2004, 31st December 2005 and 1st January 2006	–	–
Granted	0.06	83,000,000
Outstanding at 31st December 2006		83,000,000

Share options outstanding at the end of year have the following exercisable periods and exercises prices:

	2006	
Exercisable period	**Exercise price per share** HK$	**Number of options**
1st April 2006 to 31st March 2009	0.06	41,500,000
1st June 2006 to 31st May 2009	0.06	41,500,000
As at 31st December 2006		83,000,000

The fair value of the options granted during the year determined using the Black-Scholes valuation model is approximately HK$1,652,000. The valuation was carried out on a market value basis. The significant inputs into the model were share price of HK$0.06 at the grant date, exercise price of HK$0.06, dividend yield of 0%. The expected exercise date and the risk free rates of the options were as follows:

Expected exercise date	Number of options to be exercised	Risk free rate
1st April 2007	13,833,333	3.60%
1st June 2007	13,833,333	3.62%
1st April 2008	13,833,333	3.71%
1st June 2008	13,833,333	3.72%
16th March 2009	13,833,334	3.77%
16th May 2009	13,833,334	3.79%

The risk free rates above represented the yields to maturity of respective Hong Kong Exchange Fund Note as at 16th January 2006.

The volatility of the options is 52%. The underlying expected volatility was determined by reference to historical share price volatility over the past 2 years.

In total, HK$1,652,000 of employee compensation expense has been included in the consolidated income statement for the year ended 31st December 2006 (1st October 2004 to 31st December 2005: Nil), the corresponding amount of which has been credited to employee share-based benefits reserve (note 28).

The exercise in full of the outstanding share options as at 31st December 2006 would, under the present capital structure of the Company, result in the issue of 83,000,000 additional ordinary shares of the Company and additional share capital of approximately HK$830,000 and share premium of HK$4,150,000 (before issue expenses).

28. RESERVES

Group

	Share premium	Capital reserve[1]	Exchange translation reserve	Employee share-based benefits reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2004	22,372	14,918	72	–	(58,501)	(21,139)
Issue of new shares	64,500	–	–	–	–	64,500
Share issue expenses	(1,056)	–	–	–	–	(1,056)
Exchange translation difference	–	–	63	–	–	63
Loss for the period	–	–	–	–	(1,007)	(1,007)
At 31st December 2005 and at 1st January 2006	85,816	14,918	135	–	(59,508)	41,361
Exchange translation difference	–	–	53	–	–	53
Employee share-based benefits	–	–	–	1,652	–	1,652
Loss for the year	–	–	–	–	(920)	(920)
At 31st December 2006	85,816	14,918	188	1,652	(60,428)	42,146

Company

	Share premium	Contributed surplus[2]	Employee share-based benefits reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2004	22,372	2,509	–	(46,025)	(21,144)
Issue of new shares	64,500	–	–	–	64,500
Share issue expenses	(1,056)	–	–	–	(1,056)
Loss for the period	–	–	–	(1)	(1)
At 31st December 2005 and at 1st January 2006	85,816	2,509	–	(46,026)	42,299
Employee share-based benefits	–	–	1,652	–	1,652
Loss for the year	–	–	–	(1,808)	(1,808)
At 31st December 2006	85,816	2,509	1,652	(47,834)	42,143

Notes:

(1) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation on 28th February 2001.

(2) Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation on 28th February 2001.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if it is, or would after the payment be, unable to pay its liabilities as they become due.

As at 31st December 2006, the Company had reserves available for distribution to shareholders amounted to HK$40,491,000 (2005: HK$42,299,000).

29. MINORITY INTEREST

	2006	2005
	HK$'000	*HK$'000*
Balance at beginning of the year/period	709	2,225
Loss for the year/period	(311)	(882)
Disposal of a subsidiary	319	–
Adjustment of goodwill	–	(636)
Exchange translation difference	1	2
Balance at the end of the year/period	718	709

30. OPERATING LEASE COMMITMENTS

Group

At 31st December 2006, the total future minimum lease payments under non-cancellable operating leases payable by the Group are as follows:

	2006		2005	
	Premises	**Other assets**	**Premises**	**Other assets**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	834	128	2,597	131
In the second to fifth years	394	–	2,695	–
	1,228	128	5,292	131

The Group leases premises and computer servers under operating leases. The leases run for an initial period of three months to two years, with an option to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and respective landlords/lessors.

Company

The Company does not have any significant operating lease commitments at 31st December 2005 and 2006.

31. RETIREMENT PLANS

The employees of the Group in Hong Kong participate in the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the MPF Scheme at 5% of the employees' earnings with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month and thereafter contributions are voluntary.

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by the relevant authorities for its PRC employees. The Group is required to make contributions to the retirement plans which are calculated based on certain prescribed rates and the salaries, bonuses and certain allowances of its PRC employees.

The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

There are no forfeited contributions available under the schemes.

During the year, the aggregate contributions made by the Group to the retirement schemes amount to approximately HK$519,000 (1st October 2004 to 31st December 2005: HK$602,000).

32. RELATED PARTY TRANSACTIONS

32.1 Except as disclosed elsewhere in these financial statements, the following transactions were carried out with related parties:

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Insurance expenses paid to a fellow subsidiary	78	–
SMS messaging service income received from a fellow subsidiary	59	–

The above transactions were made in the normal course of business and according to the prices and terms agreed between the parties.

32.2 Key management compensation

	Year ended 31st December 2006	1st October 2004 to 31st December 2005
	HK$'000	*HK$'000*
Directors' fees	477	200
Salaries and allowances	654	959
Share options granted	1,652	–
Contribution to defined contribution plan	12	21
	2,795	1,180

The amount represents emolument paid or payable to the Company's directors for the year/period.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of a subsidiary

	Year ended 31st December 2006
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	191
Trade receivables	109
Prepayments, deposits and other receivables	187
Cash and bank deposits	218
Accruals and other payables	(1,067)
Deposits from customers	(436)
Minority interest	319
	(479)
Disposal of loan due from a subsidiary	264
	(215)
Gain on disposal of a subsidiary	381
Total consideration	166
Satisfied by	
Cash	166

An analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Year ended 31st December 2006 *HK$'000*
Cash consideration	166
Cash and bank deposits disposed	(218)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(52)

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

34.1 Foreign currency risk

Most of the Group's working capital and funds were placed in Hong Kong dollar short-term interest bearing deposits with banks in Hong Kong. Amongst the funds, the Group placed approximately HK$4,959,000 in US dollar short-term interest bearing deposits with banks in Hong Kong, approximately HK$579,000 in Renminbi saving accounts with banks in the PRC. In addition, approximately HK$5,054,000 was placed in US dollar Callable Range Accrual Note which was recognised as derivative financial instruments designated as fair value through profit or loss on initial recognition. The directors believed that the foreign exchange exposure to Renminbi and US dollars is not material.

The revenues of the Group are mainly denominated in Hong Kong dollars and the Group has adequate recurring cash flows to meet the working capital requirements. Hence, the Group's exposure to fluctuations in the exchange rates is considered to be minimal and there is no need to make use of financial instruments for hedging purposes.

34.2 Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers and most of them were schools or education bodies. Hence, the directors considered that the credit risk is low.

34.3 Cash flow and fair value interest rate risks

The Group has no significant interest bearing assets apart from cash and bank deposits. The Group currently has no financial liabilities with floating interest rates.

III. INDEBTEDNESS OF THE ENLARGED GROUP

Guarantees and charges

As at 31 March 2007, the Enlarged Group had cross guarantee arrangement with certain fellow subsidiaries, under which the Enlarged Group and these fellow subsidiaries agreed to guarantee each other's bank facilities to the maximum amount up to HK$40 million. As at 31 March 2007, no bank loan was drawn under such cross guarantee.

As at 31 March 2007, the Enlarged Group had pledged bank fixed deposit of HK$85,000 as bank guarantee to a landlord, and an amount of HK$211,000 pledged against facilities granted by a bank.

Disclaimer

Save as abovementioned, as at 31 March 2007, the Enlarged Group did not have any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees of other material contingent liabilities.

IV. WORKING CAPITAL

Taking into account the internal resources available to the Enlarged Group, the Board is of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

V. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board was not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

VI. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management discussion and analysis of the Group's business, financial results and position extracted from annual reports of the Company for the year ended 31 December 2006, for the fifteen-months ended 31 December 2005 and for the year ended 30 September 2004, respectively.

(i) For the year ended 31 December 2006

Financial performance

The Group recorded a turnover of approximately HK$27,124,000 for the year ended 31 December 2006 (the "Year"), representing an increase of 2% when compared to the unaudited results for twelve-month period ended 31 December 2005. The following comparisons and analysis are based on the unaudited results for the year ended 31 December 2005.

In terms of segmental performance, revenue from sales and installation of computer hardware and software maintained a similar level as in last year at HK$11,149,000, accounting for about 41.10% of the Group's turnover. Income from internet education service decreased by 2% to HK$7,775,000, accounting for 29% of the total turnover. The decrease was mainly due to the disposal of I-Cube Education Limited ("I-Cube") which provides on-line education for primary schools. Revenue from website development and commercial projects slightly decreased by 2% to HK$3,141,000, contribution 11.58% to the total turnover. Due to the satisfactory results of the web-based teaching books for both primary schools and kindergartens and the increase in training fee income from learning centre during the first nine months, revenue from computer training services recorded an increase of approximately 35% to HK$3,274,000, accounting for 12% to the total turnover. Income from sales of health and personal care products leaped dramatically to HK$1,669,000, representing 6% to the total turnover.

Among the other incomes, HK$4,653,000 of which was generated from the bank interest income.

The loss for the Year narrowed slightly by 1% to HK$1,231,000. The loss attributable to equity holders of the Company increased by 64% to HK$920,000, mainly deriving from the set up and marketing costs for the retail business of health and personal care products which recorded a loss of approximately HK$2,667,000 during the Year.

The loss from online education business narrowed significantly by HK$790,000 to HK$1,480,000. The sales and installation of computer hardware and software sector also achieved an improvement as its loss narrowed notably by HK$797,000 to HK$654,000. The computer training sector recorded a profit of approximately HK$1,475,000.

As at 31 December 2006, the Group had pledged deposits and cash and bank balances of approximately HK$117,329,000 and financial asset at fair value through profit and loss of approximately HK$5,184,000 and no outstanding bank loan.

Liquidity and financial resources

As at 31 December 2006, the Group maintained healthy financial position with pledged deposit and cash and bank balances of approximately HK$117,329,000 and financial asset at fair value through profit or loss of approximately HK$5,184,000 and no outstanding bank loan.

The Group generally finances its operations and investing activities with internally generated cash flows, the balance of proceeds from the initial placing of shares of the Company at initial listing on GEM and the proceeds from Midland's share subscription. As at 31 December 2006, the Group had audited net current assets of approximately HK$119,570,000 (2005: HK$118,017,000), including pledged deposits and cash and bank balances approximately HK$117,329,000 (2005: HK$115,508,000). There were nil consolidated total non-current liabilities (2005: Nil). The Group did not have any bank borrowings and pledged its fixed bank deposits of HK$294,000 as at 31 December 2006 (2005: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 31 December 2006 was Nil (2005: Nil). The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments, current working capital requirements and further development.

Capital structure and foreign exchange exposure

The unutilized proceeds from Midland's share subscription together with interest income generated therefrom amounted to approximately HK$107,329,000 and the unutilized original working capital amounted to approximately HK$9,705,000 were all placed in interest bearing deposits with banks in Hong Kong and the PRC. Amongst the fund, the Group placed approximately HK$4,959,000 in US dollar interest bearing deposits with banks in Hong Kong, approximately HK$579,000 in Renminbi saving accounts with banks in the PRC. In addition, for a higher interest return, approximately HK$5,054,000 was placed in US dollar Callable Range Accrual Note. The Directors believed that the Group's foreign exchange exposure to Renminbi and US dollars is mild as it could compensate from the relatively high interest income generated. The incomes of the Group are mainly dominated in Hong Kong Dollar 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 and not to enter into derivative transactions for speculative purposes. Hence, the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is no need to make use of financial instruments for hedging purposes.

Significant acquisition

The Company did not have any significant acquisition in the Year.

Significant investment plan

As at 31 December 2006, the Group did not have any significant investment plans.

Employee information

As at 31 December 2006, the Group had a total of 90 staff. Employee costs (including directors' remuneration) were approximately HK$13,880,000 (12 months ended 31 December 2005 (unaudited): HK$10,318,000).

In addition to salary, other fringe benefits include discretionary bonus and medical subsidies, mandatory provident fund, defined contribution retirement plans organised by the relevant authorities for PRC employees, share options and training are offered to all employees of the Group. Performance of the employees is reviewed on an annual basis with adjustment compatible to the market.

Business review

Revenue of the Group mainly generated from five sectors: – (i) internet education services; (ii) sales and installation of computer hardware and software; (iii) website development and commercial projects; (iv) computer training services; and (v) sales of health and personal care products.

Internet Education Services

Online education services targeting the kindergarteners and their parents remained a stable and reliable income of the Group. Amid the efforts of marketing team, the Group successfully introduced its online educational programme to kindergartens in Macau last year. Besides, the Group took one step ahead in terms of research and development as the Group had injected new teaching elements into its Portal to enhance its attractiveness and value. Among those to-be-launched functions, "Interactive Activities" is a teaching tool designed for teaching kindergarteners mathematics and school songs, kindergarten activities records, search engine for students' information and teaching staff information records will be added into the existing "Kindergarten Management System", "Pictures Information System" is another new teaching materials designed for delivering information about particular pictures.

The online professional training programmes, which is designated for practitioners in the property agency industry and has consolidated the Company's IT knowledge and the training expertise of Midland, generated modest revenue for the Group during the Year.

Sales and Installation of Computer Hardware and Software

The income from the sales and installation of computer hardware and software for school users maintained at similar level as previous years. With the Group's capabilities in system infrastructure development and technology deployment, the Group had, in 2006, expanded its client base from school users to exhibitors. In the exhibition "ITU Telecom World 2006", we were engaged to supply computer hardware and supporting services to the major exhibitors, from which the Group achieved satisfactory profits.

Website Development and Commercial Projects

Leveraging expertise and well-established brand name among school sector, the Group had obtained new design and production projects from commercial partners and government departments during the Year. In particular, we got projects with variety from the Education and Manpower Bureau (EMB), ranging from production of CD ROM, e-learning package to website enhancement, targeting students at different ages. In order to stay competitive in terms of the market positioning, the Group developed and introduced new software systems to cater the ever changing needs of its different school and kindergarten users always rank high in our annual working plan. During the year, the Group developed several new supplementary application solutions including "library management system", "homework management system" and "visual internet meeting system".

Computer Training Services

The Group continues to co-operate with primary schools and kindergartens in providing class-room training services for their students. Its series of web-based teaching books "DR. P.C. Family" designated for both primary schools and kindergartens that were launched in academic year 2006 kept receiving satisfactory feedback from schools. In addition to its first teaching book "DR. P.C. Family, new e-teaching books in story mode like "an Ugly Duckling" and "the Three Little Pigs" were introduced during the Year. These series of teaching books not only have contributed to the Group's revenue, but also help enhancing the popularity of the EVI brand name among primary schools and kindergartens.

Sales on Health and Personal Care Products

Amid the overall rent rise in property leasing market and the tougher than expected competition in the local retail market, this business unit underwent a re-engineering, under which the marketing strategies were modified and the selling channel gradually switched from retail shops to consignment counters in department store. Besides, new product lines under various brand names and with different characters were introduced with an aim to increase its product varieties. These measures were proved to have effectively controlled the cost and increased sales in this business sector.

Outlook

In light of the economic recovery and new initiatives taken by the Government to encourage birth rate, the Company's outlook on its online education in the local market turned positive.

The Board believes that the launch of the "Pre-Primary Education Voucher Scheme" by the Government will bring about positive effects on the development of the Group's online education business targeting kindergartens. In view of the vision behind the Government's new initiatives for pre-primary education to deliver quality education for children, the Directors expect that this may give rise to business opportunities to the Company as kindergartens may need to upgrade their teaching and IT infrastructures. The Company will be well positioned to capture these opportunities by persistently reinforcing its research and development force.

Under the Company's effort to enrich the functions of EVI Online System, it has recently added new innovative element into this portal by establishing a new channel "Childish World Performing Channel" in the parent zone. Through this channel, parent users are free to share those funny videos of their kids in daily living. This new element has raised the attractiveness and content variety of the portal and the Company expects that, following the launch of this new function, the rate of subscription to the on-line education service will be stimulated to a higher level in the coming quarters. Looking ahead, the Company will keep on updating and upgrading the contents and functions in the kindergarten zone, parent and kid zone in the Portal not only for increasing the local market share, but also for entering into the tremendous markets in the PRC and Macau. Amid the different customer needs, culture and education system in these new markets, the Company will dedicate effort to website and content development and advancement in the coming year.

In view of the Government's intention to develop Hong Kong to be one of the international exhibition centers, the Company's outlook on its computer hardware installation service targeting exhibitors is positive. The Company bases its optimism towards the development of e-teaching book business on the satisfactory results of its first series of web-based teaching books "Dr. P.C. Family". Continuous marketing efforts will be allocated to the promotion of the Group's teaching books in an attempt to boost their sales in the coming new academic year.

Leveraging on information technology expertise and strong customers base in the academic sector, the Group will continue developing new business to achieve synergy, to diversify products lines under its retail business, and to enhance its market share with an aim to deliver a better return to its shareholders.

(ii) For the year ended 31 December 2005

Financial performance

The performance of the Group continued to improve for the period from 1st October 2004 to 31 December 2005 (the "Fifteen-Month Period"), compared to the period from 1st October 2003 to 30 September 2004 (the "Prior Year Twelve-Month Period"), thanks to the strategic move to increase Group's capital through the share subscription by Midland (the "Midland Share Subscription"). Market sentiment that turned optimistic along with the economic recovery also helped. Through networking among the kindergartens, primary schools, secondary schools, teachers, parents and children, the Group expanded its educational-commercial revenue base and reinforced its brand recognition within the education sector. The Group is now in a good position to meet the customer needs by matching appropriate commercial partners or elements with products or services.

The Company changed its financial year end date to 31 December. Consequently, all percentages are comparing a fifteen-month period to a twelve-month period.

For the Fifteen-Month Period, the Group's revenue increased by approximately 55% to HK$31,258,000. On a 12-month pro rata comparison basis, revenue for the reported period increased by 24% to annualized HK$25,006,000 from HK$20,206,000 in 2004. The increase was mainly due to improvement in offline revenue, including commercial projects and the Multi-media Learning Centre (the "MMLC") projects. For the Fifteen-Month Period, loss attributable to equity holders of the Company narrowed to approximately HK$1,007,000 from HK$4,205,000 in 2004, down 76%. On a 12-month pro rata comparison basis, loss attributable to equity holders of the Company dropped 81% from HK$4,205,000 to annualized HK$806,000.

In August 2005, a review on the first full-year performance of the Chinese-foreign joint venture (the "CJV") was performed and, the results were behind original expectation, the Group and its People's Republic of China (the "PRC") partner reached an agreement to alter their mode of cooperation. According to the new arrangement, the PRC partner is no longer required to grant certain software usage rights to the CJV as originally committed, while their stake reduced from 49% to 30%. The Company's shareholding was then increased from 51% to 70%, resulting in a reduction of the Group's goodwill arisen from the formation of the CJV. With the indication of impairment from this first full-year performance review of the CJV and the uncertainty about its future profit contribution; an impairment assessment was then performed and hence the remaining balance of goodwill arisen from the formation of the CJV of HK$1,542,000 and the entire sum was written off to the income statement in the current period. An impairment test was performed at period end, the carrying amount of another cash-generating unit exceeds its recoverable amount and the goodwill relating to Silicon Workshop Limited amounted to HK$289,000 was then fully written off to the income statement at period end.

In terms of segmental performance, the Group's revenue from the Internet business for the Fifteen-Month Period increased by 15% to approximately HK$10,164,000, representing about 33% of total revenue. On a 12-month pro rata comparison basis, Internet business revenue for the reported period decreased by 8% to annualized HK$8,131,000 from HK$8,820,000 in 2004. As free hardware was no longer included with subscription renewal, the rate of subscription fee fell. Together with the drop in student number per school, the recurrent subscription income from the EVI On-line System portals declined as well. As a percentage of total revenue for the Fifteen-Month Period of HK$31,258,000, income from the Internet segment decreased following a 85% increase in offline revenue to approximately HK$21,094,000 over the Prior Year Twelve Month Period of HK$11,386,000. On a 12-month pro rata comparison basis, offline revenue for the Fifteen-Month Period increased by 48% to annualized HK$16,875,000 from HK$11,386,000 in 2004. In terms of segmental contribution, sales and installation of hardware and software yielded approximately 45%, website development and other commercial projects, approximately 11%, computer training courses and other services, approximately 11%.

Riding on the Quality Education Fund (QEF) and matching grants to upgrade the schools' IT infrastructure, the Group strengthened its sale forces so as to expand its network, and was able to increase hardware and software sales during the Fifteen-Month Period. Revenue from website development and/or commercial projects also recorded significant growth, reflecting further business potential in this segment. The directors of the Company (the "Directors" or the "Board") expected that more business opportunities in commercial collaboration are likely. In addition to revenue from recurrent computer training courses, revenue started to generate since the fourth quarter from the provision of on-line professional training courses to practitioners in the real estate broking business. During the Fifteen-Month Period, interest income increased significantly along with the increase in the capital fund stemming from Midland Share Subscription.

As at 31 December 2005, the Group maintained a sound financial position with cash on hand of approximately HK$115.5 million and financial asset at fair value through profit or loss of approximately HK$5 million and no outstanding bank loan. In view of stable recurring income from the existing core education business as well as possible new business opportunities resulting from Midland Share Subscription, the Directors maintain an optimistic outlook on the Group's future financial position.

Liquidity, financial resources and gearing ratio

As at 31 December 2005, the Group maintained healthy financial position with cash and bank deposits of approximately HK$115.5 million and financial asset at fair value through profit or loss of approximately HK$5 million and no outstanding bank loan.

The Group generally finances its operations and investing activities with internally generated cash flows, the balance of proceeds from the initial placing of shares of the Company at initial listing on GEM and the proceeds from Midland Share Subscription. As at 31 December 2005, the Group had audited net current assets of approximately HK$118,017,000 (2004: HK$17,812,000), including cash and bank deposits of HK$115,508,000 (2004: HK$19,123,000). There were nil consolidated total non-current liabilities (2004: Nil). The Group did not have any bank borrowings nor any banking facilities as at 31 December 2005 (2004: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 31 December 2005 was Nil (2004: Nil). The financial position of the Group has strengthened significantly after Midland Share Subscription. 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 Midland Share Subscription together with interest income generated amounted to approximately HK$103,524,000 and the unutilized original working capital amounted to approximately HK$11,984,000 were placed in Hong Kong Dollar short-term interest bearing deposits with banks in Hong Kong. Amongst the fund, the Group placed approximately HK$4,762,000 in Australian dollar short-term interest bearing deposits with banks in Hong Kong and approximately HK$1,582,000 in Renminbi saving accounts with banks in the mainland China. In addition approximately HK$5,040,000 was placed in US dollars Callable Range Accrual Note in order to gain a higher interest return. The Directors believed that the foreign exchange exposure to Australian dollar, Renminbi and US dollars is mild as it could compensate from the relatively high interest income generated. The Group had not obtained any banking facilities for the Fifteen-Month Period. The incomes of the Group are mainly dominated in Hong Kong Dollar 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 and not to enter into derivative transactions for speculative purposes. Hence, the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is no 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 31 December 2005 (2004: Nil).

Significant acquisition

The Company did not have any significant acquisition in the Fifteen-Month Period.

Future plans for material investments and capital assets

There was no solid future plan for material investments and acquisition of material capital assets as at 31 December 2005.

Employee information

Staff costs, including directors' remuneration, were approximately HK$12,897,000 for the Fifteen-Month Period (2004: HK$10,039,000). On a 12-month pro rata comparison basis, staff costs were approximately HK$10,318,000. Headcount remained stable at 106 as at 31 December 2005 compared to 102 as at 30 September 2004. Headcount and staff costs remained stable compared with the previous corresponding period.

Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund scheme, defined contribution retirement plans organised by the relevant authorities for PRC employees, share options and necessary training. The Group's employee remuneration policy, bonus and share option schemes have been reviewed and rewarded against staff's performance on annual basis.

(iii) For the year ended 30 September 2004

Financial performance

Hong Kong becomes the lowest birth rate city in the world. This phenomenon created a difficult operating environment for the Hong Kong education market and the Group's businesses. Despite of these challenges, EVI has achieved an improvement on the Group cash flow position because the increase of project revenue together with effective cost control on operations. The Group achieved positive cash flow in the first half of current year, being a significant milestone, which indicated the business potential through the educational network. The Group has adjusted its cash breakeven target to coming year due to set up a co-operative joint venture in The People's Republic of China, other than Hong Kong ("PRC"). In essence, during the adverse economic cycle, the Group would continue to apply all necessary cost saving policies in order to retain its financial resources and to maximise its staying power for the shareholders' benefits.

The Group's audited consolidated turnover for the year ended 30 September, 2004 slightly increased to approximately HK$20,206,000 (2003: HK$19,959,000). Net loss attributable to shareholders for the year ended 30 September, 2004 was approximately HK$4,205,000 (2003: HK$9,476,000), representing a decrease by about 56%.

Comparing segment financial performance to last year, Internet Group revenue for the year ended 30 September, 2004 increased 13% to approximately HK$8,820,000, representing 44% of total turnover. The recurrent subscription fees from the EVI

On-line System from Hong Kong kindergartens remain the core revenue sources of the Group. The online revenue increased significantly because of extension of the Group's portal, I-Cube, into the Primary school market. Off-line revenue was stable and amounted to approximately HK$11,386,000, among which approximately 35% of the total turnover was attributable to the sales and installation of computer hardware and software and 13% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 8% of the total turnover was attributable to website development and other commercial projects.

The Group maintained solid financial position with approximately HK$19.1 million cash on hand with no outstanding debt as at 30 September, 2004. The Directors remained their positive perception towards 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 30 September, 2004, the Group had audited net current assets of approximately HK$17,812,000 (2003: HK$19,695,000), including cash and bank deposits amounted to approximately HK$19,123,000 (2003: HK$21,917,000). There were nil consolidated total non-current liabilities (2003: Nil). The Group did not have any bank borrowings nor any banking facilities as at 30 September 2004 (2003: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 30 September 2004 was Nil (2003: Nil). 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 mainly in Hong Kong dollar short-term interest bearing deposits with banks in Hong Kong. On financial management, the Group placed approximately HK$4,374,000 in Australia dollar short-term interest bearing deposits with banks in Hong Kong. The Directors believed that the foreign exchange exposure is mild as it could compensate from the relatively high interest income generated. The Group had not been granted any banking facilities for the year. The incomes of the Group are dominated in Hong Kong Dollar 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 and not to enter into derivative transactions for speculative purposes. Hence, the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is no 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 30 September 2004 (2003: Nil).

Significant acquisition

The Company does not have any significant acquisition for the year ended 30 September 2004 except the capital injection HK$5,000,000 in relation to the formation of a co-operative JV Company in April 2004 disclosed above which will be financed by internal resources of the Group.

Future plans for material investments and capital assets

In view of the latest business and PRC market development; the Group has established a co-operative JV Company and a Wholly Owned Foreign Enterprises in Guangzhou to fulfill part of its PRC development. The Group continues to holding talks and maintaining positive relationships with various PRC educational related organizations and associations in Beijing, Shanghai and Guangzhou. Other than that, there has been no solid future plan for material investments and acquisition of material capital assets as at 30 September 2004.

Employee information

Staff costs, including directors' remuneration, were approximately HK$10,039,000 for the year ended 30 September 2004 (2003: HK$10,248,000). Headcount was changed from 61 as at 30 September 2003 to 102 as at 30 September 2004. Headcount increased significantly because of the formation of Co-operative Joint Venture in PRC. However, it was noted the staff costs decrease with increasing headcount. It was because the Group shifted the production process from Hong Kong to PRC backup office during the year; the replacement of PRC staffs with the relative low salary against Hong Kong staffs. Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund in Hong Kong, retirement schemes operated by the local authorities in PRC, share options and necessary training. The Group's employee remuneration policy, bonus and share option schemes have been reviewed and rewarded against staff's performance on annual basis.

Contingent liabilities

The Group has no contingent liabilities as at 30 September 2004 (2003: Nil).

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

7 May 2007

The Directors
EVI Education Asia Limited

Dear Sirs

We set out below our report on the financial information relating to Ketanfall Group Limited ("Ketanfall") and its subsidiaries (hereinafter collectively referred to as the "Ketanfall Group") for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of EVI Education Asia Limited ("EVI") dated 7 May 2007 (the "Circular") in connection with the proposed acquisition of 100% equity interests in Ketanfall by EVI.

Ketanfall was incorporated in the British Virgin Islands on 22 September 2006 with limited liability. Pursuant to a group reorganisation as detailed in note 1 of section II headed "Group reorganisation" below (the "Reorganisation"), which was completed on 21 March 2007, Ketanfall became the holding company of the subsidiaries now comprising the Ketanfall Group.

As at the date of this report, Ketanfall has direct interests in the subsidiaries as set out in note 22 of section II below.

No audited financial statements have been prepared by Ketanfall since the date of its incorporation as it was newly incorporated and has not been involved in any significant business transactions other than the Reorganisation.

The audited financial statements of all subsidiaries of Ketanfall for each of the years during the Relevant Periods were audited by PricewaterhouseCoopers.

Respective responsibilities of directors and reporting accountants

The financial information as set out in sections I to III below (the "Financial Information") has been prepared based on the audited financial statements or, where appropriate, unaudited financial statements of all companies comprising the Ketanfall Group, on the basis set out in note 2 of section II below, after making such adjustments as are appropriate.

The directors of the respective companies comprising the Ketanfall Group are responsible for preparing the respective financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of EVI are responsible for the preparation of the Financial Information which gives a true and fair view.

It is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Basis of opinion

We have examined the audited financial statements or, where appropriate, the unaudited financial statements of all companies comprising the Ketanfall Group for the Relevant Periods or from their respective dates of incorporation to 31 December 2006, where it is a shorter period, and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Opinion

In our opinion, the Financial Information, for the purpose of this report and prepare on the basis set out in note 2 of section II below, gives a true and fair view of the state of affairs of the Ketanfall Group as at 31 December 2004, 2005 and 2006 and of the results and cash flows of the Ketanfall Group for the years then ended.

I FINANCIAL INFORMATION

(a) Combined income statements

	Section II Note	Year ended 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000
Turnover	5	309,134	314,274	265,826
Other income	6	1	9	35
Staff costs	7	(146,429)	(134,485)	(131,730)
Rebate commissions		(32,548)	(38,644)	(25,020)
Advertising and promotion expenses		(14,907)	(23,044)	(13,064)
Operating lease charges in respect of office and shop premises		(4,619)	(8,587)	(11,457)
Impairment of receivables		(21,625)	(26,924)	(8,802)
Management fee		(22,817)	(24,136)	(7,697)
Depreciation costs		(1,697)	(3,227)	(4,111)
Other operating costs	8	(7,323)	(11,252)	(13,480)
Operating profit		57,170	43,984	50,500
Taxation charge	9	(9,507)	(7,383)	(8,789)
Profit for the year		47,663	36,601	41,711
Earnings per share	11	N/A	N/A	N/A
Dividend	12	–	–	55,000

(b) Combined balance sheets

	Section II Note	As at 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000
ASSETS				
Non-current assets				
Property, plant and equipment	13	5,155	7,566	4,669
Deferred taxation assets	18	1,651	2,066	1,635
		6,806	9,632	6,304
Current assets				
Trade receivable	14	109,752	85,857	90,247
Amounts due from group companies	15	98,314	143,621	137,146
Other receivables, prepayments and deposits		3,310	15,332	5,956
Taxation recoverable		–	2,523	3,318
Cash and bank balances		4,991	6,316	2,313
		216,367	253,649	238,980
Total assets		223,173	263,281	245,284
EQUITY				
Equity holders				
Capital	17	1,500	1,520	1,520
Retained earnings		70,286	106,887	93,598
Total equity		71,786	108,407	95,118
LIABILITIES				
Non-current liabilities				
Deferred taxation liabilities	18	–	54	41
Current liabilities				
Trade payable	16	79,028	63,993	56,804
Amounts due to group companies	15	58,112	74,577	23,137
Other payables and accrued charges		5,135	14,632	9,369
Taxation payable		9,112	1,618	5,815
Dividend payable		–	–	55,000
		151,387	154,820	150,125
Total liabilities		151,387	154,874	150,166
Total equity and liabilities		223,173	263,281	245,284
Net current assets		64,980	98,829	88,855
Total assets less current liabilities		71,786	108,461	95,159

(c) Combined cash flow statements

	Section II Note	As at 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000
Cash flows from operating activities				
Net cash generated from operations	*19*	11,844	25,020	2,161
Hong Kong profits tax paid		(4,383)	(17,761)	(4,969)
Interest received		1	8	19
Net cash from/(used in) operating activities		7,462	7,267	(2,789)
Cash flows from investing activities				
Purchase of property, plant and equipment		(4,578)	(5,962)	(1,214)
Net cash used in investing activities		(4,578)	(5,962)	(1,214)
Cash flows from financing activities				
Issue of new shares		–	20	–
Net cash from financing activities		–	20	–
Net increase/(decrease) in cash and cash equivalents		2,884	1,325	(4,003)
Cash and cash equivalents at beginning of year		2,107	4,991	6,316
Cash and cash equivalents at end of year		4,991	6,316	2,313
Analysis of cash and cash equivalents				
Cash and bank balances		4,991	6,316	2,313

(d) Combined statements of changes in equity

	Capital	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	1,500	22,623	24,123
Profit for the year	–	47,663	47,663
At 31 December 2004	1,500	70,286	71,786
Issue of new shares	20	–	20
Profit for the year	–	36,601	36,601
At 31 December 2005	1,520	106,887	108,407
Profit for the year	–	41,711	41,711
Dividend	–	(55,000)	(55,000)
At 31 December 2006	1,520	93,598	95,118

II NOTES TO THE FINANCIAL STATEMENTS

1. Group reorganisation

Ketanfall was incorporated in British Virgin Islands on 22 September 2006 with limited liability. The authorised share capital of Ketanfall is 50,000 shares of US$1 each. The initial paid up capital of Ketanfall is US$4, comprising 4 shares at par value of US$1 each. The principal activity of Ketanfall is investment holding. The address of its registered office is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands and the address of its principal place of operation is Rooms 2505-8, 25th Floor, World-wide House, 19 Des Voeux Road Central, Hong Kong.

Ketanfall is a wholly owned subsidiary of Midland Realty (Strategic) Limited, incorporated in Hong Kong and the ultimate holding company is Midland Holdings Limited, incorporated in Bermuda and listed in Hong Kong.

Ketanfall and the subsidiaries now comprising the Ketanfall Group underwent the following Reorganisation which was completed on 21 March 2007:

(i) Ketanfall acquired 100% interests of Midland Project Consultancy Limited, Midland Alliance Limited, Midland Realty Enterprise Limited, Strong Well Limited, Midland Property Leasing (IX) Limited, Orient Sheen Limited, Metro Winner Limited, Midland Realty (Comm. & Ind.) Limited, Midland Realty (Comm.) Limited, Midland Realty (Shops) Limited from Midland Realty (Strategic) Limited by way of issue of 10 new shares of US$1 each to Midland Realty (Strategic) Limited; and

(ii) Ketanfall acquired 100% interests of Hong Kong Property Services (IC&I) Limited, Hong Kong Property (Services) Limited (formerly known as Hong Kong Property Surveyors Limited), Hong Kong Property Leasing (XI) Limited from Great Solution Limited, a fellow subsidiary, for a cash consideration of HK$4.

Upon completion of the Reorganisation, Ketanfall became the holding company of the companies comprising the Ketanfall Group, details of which are set out in note 22 below.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are in conformity with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and are set out below. The Financial Information set out in this report has been prepared under the historical cost convention. The Financial Information is the first set of the financial statements prepared by the Ketanfall Group in accordance with HKFRS. These policies have been consistently applied to all the years presented.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Ketanfall Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4 below.

At the date of this report, certain new standards, amendments and interpretations to the published standards that are relevant for the operation of the Ketanfall Group and are mandatory for accounting period beginning on or after 1 January 2007 or later periods that the Ketanfall Group has not early adopted, are as follows:

(i) HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 "Presentation of Financial Statements – Capital Disclosures" (effective for annual periods beginning on or after 1 January 2007) require additional disclosures relating to sensitivity analysis to market risk and capital disclosures. The Ketanfall Group will apply HKFRS 7 for the accounting period beginning on 1 January 2007, but it does not expect the application of this standard to have significant impact on its financial statements except for additional disclosures.

(ii) HKFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) suspersedes HKAS14 "Segment Reporting" and requires the reporting of financial and descriptive information about the reportable segments on the basis of internal reports that are regularly reviewed by its management. The Ketanfall Group will apply HKFRS 8 for the accounting period beginning on 1 January 2009, but it does not expect application of this standard to have sigificant impact on its financial statements.

(a) Basis of preparation

For the purpose of this report, the combined income statements, combined cash flow statements and combined statements of changes in equity of the Ketanfall Group for the Relevant Periods have been prepared on a combined basis and include the financial information of the companies under common control and comprising the Ketanfall Group as if the current group structure has been in existence throughout the Relevant Periods or since the date when the combining companies first came under the control of the controlling shareholder, where it is a shorter period. The combined balance sheets of the Ketanfall Group as at 31 December 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the companies under common control and now comprising the Ketanfall Group at these dates, as if the current group structure had been in existence as at these dates.

All significant intra-group transactions and balances have been eliminated on combination.

The Financial Information set out in this report has been prepared under the historical cost convention.

(b) Subsidiaries

Subsidiaries are all entities over which the Ketanfall Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Ketanfall Group controls another entity.

The Reorganisation refer to note 1 above which has been accounted for on the basis of regarding Ketanfall as being the holding company of the subsidiaries from the beginning of the earliest period presented, or since the date when combining companies first came under the control of the controlling shareholder, where it represents a shorter period, the purchase method of accounting is used to account for the acquisition of subsidiaries other than common control combination by the Ketanfall Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Ketanfall Group.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Functional and presentation currency

Items included in the financial statements of each of the entities in the Ketanfall Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars, which is Ketanfall's functional and presentation currency.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Ketanfall Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	2 to 3 years
Furniture and fixtures	4 years
Office equipment	4 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other operating cost, in the income statement.

(f) Impairment of non-financial assets

Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Trade and other receivable

Trade and other receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivable is established when there is objective evidence that the Ketanfall Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivable. Subsequent recoveries of amounts previously written off are credited against the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(i) Trade payable

Trade payable is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(j) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement scheme obligations

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the income statement when the contributions are payable to the fund.

(l) Provisions

Provisions are recognised when the Ketanfall Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(m) Revenue recognition

Revenue comprises the fair value of services in the ordinary course of the activities of the Ketanfall Group. Revenue is shown net of sales tax, returns, rebates and discounts and other revenue reducing factors.

Revenue is recognised when it is probable that future economic benefits will flow to the Ketanfall Group, the amount can be measured reliably and specific criteria for each of the activities have been met.

Agency fee from property brokerage and marketing services are recognised when the relevant agreement becomes unconditional or irrevocable.

Interest income is recognised on a time proportion basis using the effective interest method.

(n) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(o) Dividend distribution

Dividend distribution is recognised as a liability in the financial statements in the period in which the dividends become legal and contractual obligations of the Ketanfall Group.

(p) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Ketanfall Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3. Financial risk management

(a) Financial risk factors

The activities of the Ketanfall Group expose it to a variety of financial risks: credit risk and liquidity risk. The overall risk management programme of the Ketanfall Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Ketanfall Group.

(i) Credit risk

The Ketanfall Group has no significant concentrations of credit risk as the Ketanfall Group has a large number of customers. The Ketanfall Group has policy in place and the exposure of credit risk is closely monitored on an ongoing basis by the management.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The carrying amounts of the financial assets of the Ketanfall Group including cash and bank balances, deposits in approved financial institutions, trade receivable and amounts due from group companies; and financial liabilities including trade payable and amounts due to group companies, approximate their fair values due to their short-term maturities.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period is the impairment of trade receivable. The management determines that the provision for impairment of trade receivable based on the historical pattern of bad debts, fallen through by business segments, credit history of customers and the current market condition. Management reassesses the provision by each balance sheet date. The resulting accounting estimates will, by definition, seldom equal the related actual results.

5. Turnover and segment information

(a) Turnover

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Agency fee	309,134	314,274	265,826

(b) *Segment information*

The Ketanfall Group is organised into three main business segments including property brokerage businesses for office, industrial and shop.

	Year ended 31 December 2004			
	Office	**Industrial**	**Shop**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues				
Turnover – external sales	97,436	33,076	178,622	309,134
Segment results	24,070	(5,014)	38,133	57,189
Unallocated costs				(20)
Operating profit before interest income				57,169
Interest income				1
Profit before taxation				57,170
Taxation charge				(9,507)
Profit for the year				47,663
Segment assets	34,767	20,145	69,946	124,858
Unallocated assets				98,315
Total assets				223,173
Segment liabilities	24,069	19,634	49,119	92,822
Unallocated liabilities				58,565
Total liabilities				151,387
Capital expenditure	1,378	2,580	620	4,578
Depreciation costs	515	626	556	1,697
Impairment of receivables	5,570	2,398	13,657	21,625

	Year ended 31 December 2005			
	Office	**Industrial**	**Shop**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues				
Turnover – external sales	114,866	45,927	153,481	314,274
Segment results	20,359	(4,752)	28,421	44,028
Unallocated costs				(52)
Operating profit before interest income				43,976
Interest income				8
Profit before taxation				43,984
Taxation charge				(7,383)
Profit for the year				36,601
Segment assets	41,581	18,023	60,055	119,659
Unallocated assets				143,622
Total assets				263,281
Segment liabilities	24,883	8,799	46,599	80,281
Unallocated liabilities				74,593
Total liabilities				154,874
Capital expenditure	2,434	1,542	1,986	5,962
Depreciation costs	746	1,543	938	3,227
Impairments/(write back of impairment) of receivables	11,883	(6,186)	21,227	26,924

	Year ended 31 December 2006			
	Office	**Industrial**	**Shop**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues				
Turnover – external sales	109,892	57,505	98,429	265,826
Segment results	22,147	9,782	18,591	50,520
Unallocated costs				(39)
Operating profit before interest income				50,481
Interest income				19
Profit before taxation				50,500
Taxation charge				(8,789)
Profit for the year				41,711
Segment assets	43,682	31,075	33,380	108,137
Unallocated assets				137,147
Total assets				245,284
Segment liabilities	28,368	18,645	24,998	72,011
Unallocated liabilities				78,155
Total liabilities				150,166
Capital expenditure	206	696	312	1,214
Depreciation costs	1,256	1,496	1,359	4,111
Impairment of receivables	6,731	264	1,807	8,802

No analysis of the segment information by geographical segments is presented as no activities and operations of an internally reported geographical segment attributable to markets outside Hong Kong is more than 10% of the activities and operations of the Ketanfall Group.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, trade and other receivable and operating cash and mainly exclude amounts due from group companies. Segment liabilities comprise operating liabilities and mainly exclude amounts due to group companies.

6. Other income

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Interest	1	8	19
Sundries	–	1	16
	1	9	35

7. Staff costs

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	27,633	37,461	43,191
Commissions	116,506	93,851	85,159
Pension costs for defined contribution plans	2,290	3,173	3,380
	146,429	134,485	131,730

With effect from 1st December 2000, a mandatory provident fund ("MPF") scheme is set up which is available to eligible employees of the Ketanfall Group, including Executive Directors. Contributions to the MPF scheme by the Ketanfall Group and employees are calculated at rates specified in the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Ketanfall Group in an independently administered fund.

The MPF scheme cost charged to the income statement represents contributions paid and payable by the Ketanfall Group to the fund. Contributions totalling HK$228,000, HK$283,000 and HK$279,000 which are payable to the fund are included in other payable and accrued charges as at 31 December 2004, 2005 and 2006.

8. Other operating costs

Other operating costs include auditors' remuneration of HK$55,000, HK$117,000 and HK$177,000 for the years ended 31 December 2004, 2005 and 2006 respectively.

9. Taxation charge

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Hong Kong profits tax	11,825	7,870	8,489
Over provision in prior years	(701)	(126)	(118)
Deferred *(note 18)*	(1,617)	(361)	418
	9,507	7,383	8,789

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the Relevant Periods.

The tax on the profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	57,170	43,984	50,500
Calculated at a taxation rate of 17.5%	10,005	7,697	8,837
Income not subject to taxation	(17)	–	(3)
Expenses not deductible for taxation purposes	46	280	37
Utilisation of previously unrecognised tax losses	–	(983)	(70)
Recognition of previously unrecognised temporary differences	–	–	(32)
Tax losses not recognised	–	330	129
Others	(527)	59	(109)
Taxation charge	9,507	7,383	8,789

10. Directors emoluments and five highest paid individuals

(a) Directors emoluments

The remuneration of each director of the Ketanfall is set out below:

Name of director	Fees	Salaries, allowances, commission and benefits in kind	Discretionary bonuses	Retirement benefit costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2004					
Ms LAM Fung Fong	–	–	–	–	–
Ms IP Kit Yee, Kitty	–	–	–	–	–
Mr WONG Tsz Wa	–	8,732	15	12	8,759
	–	8,732	15	12	8,759
2005					
Ms LAM Fung Fong	–	–	–	–	–
Ms IP Kit Yee, Kitty	–	–	–	–	–
Mr WONG Tsz Wa	–	6,629	15	12	6,656
	–	6,629	15	12	6,656
2006					
Ms LAM Fung Fong	–	–	–	–	–
Ms IP Kit Yee, Kitty	–	–	–	–	–
Mr WONG Tsz Wa	–	3,819	529	12	4,360
	–	3,819	529	12	4,360

No director waived or agreed to waive any emoluments during the Relevant Periods. No incentive payment for joining the Ketanfall Group or compensation for loss of office was paid or payable to any directors during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Ketanfall Group during the Relevant Periods include one director whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining four individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	777	743	924
Discretionary bonuses	97	174	51
Contribution to MPF scheme	48	42	48
	922	959	1,023

The emolument of all individuals during the Relevant Periods is below HK$1,000,000.

11. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods on a combined basis as disclosed in note 1 above.

12. Dividend

No dividend has been paid by Ketanfall since its incorporation. Dividend declared during the Relevant Periods represents an interim dividend declared by Midland Realty (Comm. & Ind.) Limited, a subsidiary of Ketanfall, to its then shareholders prior to the Reorganisation.

The rates of dividend and the number of shares ranking for the dividend are not presented as such information is not considered meaningful for the purpose of this report.

13. Property, plant and equipment

	Leasehold improve–ments *HK$'000*	**Furniture and fixtures** *HK$'000*	**Office equipment** *HK$'000*	**Total** *HK$'000*
At 1 January 2004				
Cost	2,333	283	3,002	5,618
Accumulated depreciation	(1,223)	(201)	(1,920)	(3,344)
Net book amount	1,110	82	1,082	2,274
Year ended 31 December 2004				
Opening net book amount	1,110	82	1,082	2,274
Additions	2,365	312	1,901	4,578
Depreciation	(1,052)	(63)	(582)	(1,697)
Closing net book amount	2,423	331	2,401	5,155
At 31 December 2004				
Cost	4,698	595	4,903	10,196
Accumulated depreciation	(2,275)	(264)	(2,502)	(5,041)
Net book amount	2,423	331	2,401	5,155
Year ended 31 December 2005				
Opening net book amount	2,423	331	2,401	5,155
Additions	3,092	512	2,358	5,962
Disposals	(317)	–	(7)	(324)
Depreciation	(2,024)	(164)	(1,039)	(3,227)
Closing net book amount	3,174	679	3,713	7,566
At 31 December 2005				
Cost	7,353	1,107	7,254	15,714
Accumulated depreciation	(4,179)	(428)	(3,541)	(8,148)
Net book amount	3,174	679	3,713	7,566

	Leasehold improve– ments	Furniture and fixtures	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006				
Opening net book amount	3,174	679	3,713	7,566
Additions	558	–	656	1,214
Depreciation	(2,534)	(205)	(1,372)	(4,111)
Closing net book amount	1,198	474	2,997	4,669
At 31 December 2006				
Cost	7,911	1,107	7,910	16,928
Accumulated depreciation	(6,713)	(633)	(4,913)	(12,259)
Net book amount	1,198	474	2,997	4,669

14. Trade receivable

The trade receivable represents principally the agency fee receivable from customers whereby no general credit facilities are available. The customers are obliged to settle the amounts upon the completion of the relevant agreements. The aging analysis of the trade receivable of the Ketanfall Group is set out as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Not yet due	95,129	71,897	74,932
Within 30 days	3,454	3,112	6,404
31-60 days	3,445	2,155	3,420
61-90 days	1,549	2,620	1,739
Over 90 days	6,175	6,073	3,752
	109,752	85,857	90,247

15. Amounts due from/(to) group companies

	Year ended 31 December		
	2004	**2005**	**2006**
Amounts receivable:	*HK$'000*	*HK$'000*	*HK$'000*
Ultimate holding company	57	57	1,590
Immediate holding company	97,812	143,401	135,409
Fellow subsidiaries	445	163	147
	98,314	143,621	137,146

	Year ended 31 December		
	2004	**2005**	**2006**
Amounts payable:	*HK$'000*	*HK$'000*	*HK$'000*
Ultimate holding company	–	–	7,049
Fellow subsidiaries	58,112	74,577	16,088
	58,112	74,577	23,137

(a) The amounts receivable and payable are unsecured, interest-free and repayable on demand.

(b) Midland Realty (Strategic) Limited becomes the immediate holding company of the Ketanfall Group after the Reorganisation.

16. Trade payable

The trade payable represents principally the commissions payable to property consultants, cooperative estate agents and fellow subsidiaries. The trade payable is due for payment only upon the receipt of corresponding agency fees from customers. The trade payable includes commission payable of HK$11,209,000, HK$6,876,000 and HK$5,209,000 as at 31 December 2004, 2005, 2006 which is due for payment within 30 days, with all the remaining trade payable not yet due.

17. Capital

For the purpose of this report, the capital in the combined balance sheets as at 31 December 2004, 2005 and 2006 represents the combined capital of all the subsidiaries of the Ketanfall Group as at the respective balance sheet dates.

18. Deferred taxation

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Deferred taxation assets	1,651	2,066	1,635
Deferred taxation liabilities	–	(54)	(41)
	1,651	2,012	1,594

The net movements on the deferred taxation are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	34	1,651	2,012
Recognised in the income statement *(note 9)*	1,617	361	(418)
At 31 December	1,651	2,012	1,594

The movements in deferred taxation assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred taxation assets:

	Provision	Accelerated accounting depreciation	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	–	87	87
Recognised in the income statement	1,908	(86)	1,822
At 31 December 2004	1,908	1	1,909
Recognised in the income statement	707	(1)	706
At 31 December 2005	2,615	–	2,615
Recognised in the income statement	(927)	–	(927)
At 31 December 2006	1,688	–	1,688

Deferred taxation liabilities:

	Year ended 31 December		
	2004	**2005**	**2006**
Accelerated tax depreciation	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	(53)	(258)	(603)
Recognised in the income statement	(205)	(345)	509
At 31 December	(258)	(603)	(94)

Deferred taxation assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Ketanfall Group did not recognise deferred taxation assets of HK$983,000, HK$330,000 and HK$389,000 in respect of losses amounting to HK$5,617,000, HK$1,888,000 and HK$2,223,000 as at 31 December 2004, 2005 and 2006 respectively. These tax losses can be carried forward against future taxable income and have no expiry date.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Deferred taxation assets			
– to be recovered after more than 12 months	–	–	–
– to be recovered within 12 months	1,651	2,066	1,635
	1,651	2,066	1,635
Deferred taxation liabilities			
– to be settled after more than 12 months	–	–	–
– to be settled within 12 months	–	(54)	(41)
	–	(54)	(41)

19. Note to combined cash flow statements

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Operating profit	57,170	43,984	50,500
Depreciation	1,697	3,227	4,111
Loss on disposal of property, plant and equipment	–	7	–
Interest income	(1)	(8)	(19)
Operating profit before working capital changes	58,866	47,210	54,592
Change in balances with group companies	(36,682)	(28,525)	(44,965)
(Increase)/decrease in trade receivable, other receivables, prepayments and deposits	(52,389)	11,873	4,986
Increase/(decrease) in trade payable, other payables and accruals	42,049	(5,538)	(12,452)
Net cash generated from operations	11,844	25,020	2,161

20. Commitments

(a) Capital commitments

The Ketanfall Group did not have significant capital commitments as at 31 December 2004, 2005 and 2006.

(b) Operating lease commitments

The Ketanfall Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	1,485	7,396	7,170
Later than one year and not later than five years	1,761	4,617	3,889
	3,246	12,013	11,059

21. Related party transactions

The Ketanfall Group had the following material transactions with related parties during the Relevant Periods and balances with related parties at the balance sheet date:

(a) Transactions with related parties

		Year ended 31 December		
	Note	**2004**	**2005**	**2006**
		HK$'000	*HK$'000*	*HK$'000*
Agency fee income from fellow subsidiaries	*(i)*	9,674	11,770	4,515
Agency fee income from related companies	*(ii)*	1,880	239	870
Rebate commission expense to fellow subsidiaries	*(iii)*	28,666	35,549	21,245
Operating lease rental expense in respect of office and shop premises to related companies	*(iv)*	–	1,070	2,568
Web-site advertising expense to a fellow subsidiary	*(v)*	5	258	452
Management fee expense to a fellow subsidiary	*(vi)*	22,817	24,136	475
Management fee expense to ultimate holding company	*(vii)*	–	–	7,222

(i) Agency fee from fellow subsidiaries represents agency fee for property brokerage transactions referred to fellow subsidiaries on terms mutually agreed by both parties.

(ii) Agency fee from related companies represents agency fee for property brokerage transactions referred to certain companies in which, a director has beneficial interests of these companies, on terms mutually agreed by both parties.

(iii) Commission expense to fellow subsidiaries represents commission for property brokerage transactions referred by fellow subsidiaries on terms mutually agreed by both parties.

(iv) The Ketanfall Group entered into certain lease agreements with certain related companies, in which, a director of ultimate holding company has beneficial interests of these companies. The rental expenses are charged on terms mutually agreed by both parties.

(v) Web-site advertising expense to a fellow subsidiary, for the purpose of advertising and promotion on the website of the business, are charged on terms mutually agreed by both parties.

(vi) Management fee expense to fellow subsidiaries for the provision of general administration services is determined by predetermined rate according to the net agency fee income of the Ketanfall Group with a mark up of 10% for the years ended 31 December 2004 and 2005 and 5% for the year ended 31 December 2006 of the actual administration cost.

(vii) Management fee expense to ultimate holding company for the provision of general administration services is determined by predetermined rate according to net agency fee income of the Ketanfall Group with a mark up of 5% of the actual administration cost.

(b) The balances arising from receipt and provision of services included in trade receivable and trade payable are as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Due from fellow subsidiaries	5,778	10,256	5,623
Due to fellow subsidiaries	15,290	18,296	8,447

(c) Key management compensation

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances, commission and benefits in kind	8,747	6,644	4,348
Retirement benefit costs	12	12	12
	8,759	6,656	4,360

22. Particulars of subsidiaries

As at the date of this report, Ketanfall has direct interests in the following wholly owned subsidiaries, all of which are private companies incorporated in Hong Kong with limited liability and are operated in Hong Kong:

Company name	Date of incorporation	Issued/ registered and paid up capital	Principal activities
Hong Kong Property Leasing (XI) Limited	21 March 2005	1 share of HK$1	Property leasing
Hong Kong Property Services (IC&I) Limited	4 December 2002	2 shares of HK$1 each	Property agency
Hong Kong Property (Services) Limited– formerly known as Hong Kong Property Surveyors Limited	8 April 2005	1 share of HK$1	Property agency
Metro Winner Limited	5 January 2005	1 share of HK$1	Property leasing
Midland Alliance Limited	3 September 2004	1 share of HK$1	Property leasing
Midland Project Consultancy Limited	22 November 2004	20,000 shares of HK$1 each	Property leasing
Midland Property Leasing (IX) Limited	4 March 2005	1 share of HK$1	Property leasing
Midland Realty (Comm.) Limited	12 June 1990	500,000 shares of HK$1 each	Property agency
Midland Realty (Comm. & Ind.) Limited	12 June 1990	500,000 shares of HK$1 each	Property agency
Midland Realty (Shops) Limited	15 August 1989	500,000 shares of HK$1 each	Property agency
Midland Realty Enterprise Limited	10 September 2004	1 share of HK$1	Property leasing
Orient Sheen Limited	5 January 2005	1 share of HK$1	Property leasing
Strong Well Limited	9 October 1998	2 shares of HK$1 each	Property leasing

23. Ketanfall's balance sheet

Ketanfall was incorporated on 22 September 2006 and was not involved in any significant transactions apart from the Reorganisation. The balance sheet of Ketanfall as at 31 December 2006 was therefore not presented.

24. Subsequent event

Other than the Reorganisation disclosed in note 1 above, there has no significant event for the Ketanfall Group took place subsequent to 31 December 2006.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Ketanfall Group, Ketanfall or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2006 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared, made or paid by Ketanfall or any of its subsidiaries in respect of any period subsequent to 31 December 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management discussion and analysis of the business, financial results and position of Ketanfall Group for the three years ended 31 December 2006.

(i) For the year ended 31 December 2006

Financial performance

Ketanfall Group recorded a turnover of approximately HK$265.8 million for the year ended 31 December 2006, representing a decrease of approximately 15.4% compared with the previous year's turnover of approximately HK$314.3 million. Staff cost reduced by about 2.1% to about HK$131.7 million compared with approximately HK$134.5 million for the year ended 31 December 2005.

Despite the lower turnover recorded, profit for the year ended 31 December 2006 has improved to approximately HK$41.7 million, representing an increase of about 13.9% from 2005.

Liquidity, financial resources and funding

As at 31 December 2006, Ketanfall Group's non-current assets amounted to approximately HK$6.3 million and current assets amounted to approximately HK$239.0 million. Ketanfall Group had cash and bank balances of about HK$2.3 million and did not have any bank loan or overdraft. In addition, Ketanfall Group had neither any outstanding secured borrowing nor created any mortgages. The income and expenditure of the Group are mainly in Hong Kong dollars and the assets and liabilities of the Group were mainly denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations. The Group generally finances its operations and investing activities with internally generated cash flows. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

Gearing ratio

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Ketanfall Group as at 31 December 2006 was 61.2%.

Capital structure

There was no change in the capital structure of Ketanfall Group during the year.

Significant investments and material acquisitions

Ketanfall Group did not have any significant investments and material acquisitions during the year ended 31 December 2006.

Employee Information

As at 31 December 2006, Ketanfall Group employed 484 full time employees of which 423 were sales agents and 61 were back office supporting employees. The total remuneration for the year ended 31 December 2006 was about HK$131.7 million. Ketanfall Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, profit sharing and share option may be granted to eligible staff by reference to Ketanfall's performance and individual performance. Ketanfall Group also provides other benefits such as education subsidies, medical and retirement benefits for both the directors and employees.

Charges on assets

As at 31 December 2006, none of Ketanfall Group's assets had been charged.

Contingent liabilities

As at 31 December 2006, Ketanfall Group had no contingent liabilities.

Business review

In 2006, dogged by the uncertainty over the trend of interest rate in Hong Kong, residential property market has performed below expectation, the overall industrial and commercial properties also downturned with the main market.

The industrial property market was an exception in the depressed property market in 2006. The industrial segment of Ketanfall Group recorded 25% growth in revenues and substantial improvement in profit. According to Rating and Valuation Department's figures, both rents and prices rose 23% and 10% in the final quarter of 2006. Industrial building market turned more active and the transaction volume increased 12%. The strong growth was driven by the persistent downtrend of the vacancy rate, suggesting that demand outstripped supply in recent years. Such a good performance could also be attributed to the strong investment demand as there were quite of lot of big-ticket transactions took place in the industrial sector. For instance, there were 21 transactions valued at above HK$100 million in 2005 and 2006. Investment demand emerges because there is a huge price gap between industrial premises and the other types of properties. To grasp this market uptrend, the industrial segment has adopted a localization strategy by continuously enforcing its operating force particularly in those districts with active transactions.

The office property market had experienced rapid growth in 2004 and 2005, followed by a consolidation period in 2006. However, the commercial segment had sustained a stable performance this year. The transaction for selling of high-price property or an entire office building was robust, resulting in the registered consideration recorded at the Land Registry hitting a record high for the past nine years to HK$22.29 billion. The record also revealed that the number of registered office transactions fell from 3,001 in 2005 to 2,571 in 2006, reflecting a decrease of 14.3%. The accumulated appreciation in value of offices in prime districts has weakened the investment sentiment among investors. At the same time, the declining completion together with strong take up in the past two years propelled rent to a new high, driving end-users away from leasing market to long-term investment, resulting in capital value of offices remaining steady and the migration of small-to-medium size firms from prime districts to non-core or fringe districts.

The market sentiment to shop premises cooled down in 2006. Both transaction volume and values declined for about 40% to 3,162 and HK$21.61 billion respectively. The shop segment's revenue for 2006 also slumped at the same rate as the market.

(ii) For the year ended 31 December 2005

Financial performance

Ketanfall Group recorded a turnover of approximately HK$314.3 million for the year ended 31 December 2005, representing an increase of approximately 1.7% over the previous year's turnover of approximately HK$309.1 million. Staff cost reduced by about 8.1% to about HK$134.5 million from approximately HK$146.4 million for the year ended 31 December 2004.

Profit for the year ended 31 December 2005 was approximately HK$36.6 million, down by about 23.3% from that of 2004.

Liquidity, financial resources and funding

As at 31 December 2005, Ketanfall Group's non-current assets amounted to approximately HK$9.6 million and current assets amounted to approximately HK$253.6 million. Ketanfall Group had cash and bank balances of about HK$6.3 million and did not have any bank loan or overdraft. In addition, Ketanfall Group had neither any outstanding secured borrowing nor created any mortgages. The income and expenditure of the Group are mainly in Hong Kong dollars and the assets and liabilities of the Group were mainly denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations. The Group generally finances its operations and investing activities with internally generated cash flows. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

Gearing ratio

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Ketanfall Group as at 31 December 2005 was 58.8%.

Capital structure

The capital of Ketanfall Group increased by HK$20,000 to HK$1.52 million during the year.

Significant investments and material acquisitions

Ketanfall Group did not have any significant investments and material acquisitions during the year ended 31 December 2005.

Employee Information

As at 31 December 2005, Ketanfall Group employed 377 full time employees of which 332 were sales agents and 45 were back office supporting employees. The total remuneration for the year ended 31 December 2005 was about HK$134.5 million. Ketanfall Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, profit sharing and share option may be granted to eligible staff by reference to Ketanfall's performance and individual performance. Ketanfall Group also provides other benefits such as education subsidies, medical and retirement benefits for both the directors and employees.

Charges on assets

As at 31 December 2005, none of Ketanfall Group's assets had been charged.

Contingent liabilities

As at 31 December 2005, Ketanfall Group had no contingent liabilities.

Business review

With the continuous improvement in Hong Kong economy, the implementation of the solo traveler scheme for mainlander as well as the positive effect brought by CEPA, Ketanfall Group enjoyed robust performance in 2005.

Records at the Land Registry showed that both registered sale transactions and value for the year of 2005 have surpassed records of 2004, and also reflected an increase for the eighth consecutive year.

In terms of segmental analysis, the industrial property sector outperformed the others as it recorded a total of 5,675 sale transactions for the year according to the records at the Land Registry, representing an increase of 23.3% in comparison with the 4,603 sales registered in 2004. It was the first time for industrial sector to go beyond the level of 5,000 yearly transactions, and also was a historical breakthrough for the past ten years. The strengthened sales force in industrial segment of Ketanfall Group had sharpened its competitive edge, thus enabling it to ride on the active industrial property market.

In the shop sector, records at the Land Registry revealed that there was a total of 5,659 sales transactions registered in 2005, representing eight-year's record high. However, the registered value recorded a contrary slight decrease of 2.1% to HK$38.7 billion due to the fact that proportion of sale transactions of shop premises for HK$3 million or less in 2005 exceeded that of 2004.

The office property sector was active in the first half year of 2005, but slowed down by the interest rate hike commenced in the second half of 2005. Due to the robust commercial market activities in the first half year of 2005, the number of registered transaction as recorded at the Land Registry reached about 3,000, passing the record of 2,625 a year ago.

(iii) For the year ended 31 December 2004

Financial performance

Ketanfall Group recorded a turnover of approximately HK$309.1 million and profit of approximately HK$47.7 million for the year ended 31 December 2004. Main cost include staff cost of approximately HK$146.4 million, rebate commission of approximately HK$32.5 million.

Liquidity, financial resources and funding

As at 31 December 2004, Ketanfall Group's non-current assets amounted to approximately HK$6.8 million and current assets amounted to approximately HK$216.4 million. Ketanfall Group had cash and bank balances of about HK$5.0 million and did not have any bank loan or overdraft. In addition, Ketanfall Group had neither any outstanding secured borrowing nor created any mortgages. The income and expenditure of the Group are mainly in Hong Kong dollars and the assets and liabilities of the Group were mainly denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations. The Group generally finances its operations and investing activities with internally generated cash flows. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

Gearing ratio

The gearing ratio (defined as a percentage of total liabilities divided by total assets) of Ketanfall Group as at 31 December 2004 was 67.8%.

Capital structure

There was no change in the capital structure of Ketanfall Group during the year.

Significant investments and material acquisitions

Ketanfall Group did not have any significant investments and material acquisitions during the year ended 31 December 2004.

Employee Information

As at 31 December 2004, Ketanfall Group employed 225 full time employees of which 192 were sales agents and 33 were back office supporting employees. The total remuneration for the year ended 31 December 2004 was about HK$146.4 million. Ketanfall Group provided remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, profit sharing and share option may be granted to eligible staff by reference to Ketanfall's performance and individual performance. Ketanfall Group also provides other benefits such as education subsidies, medical and retirement benefits for both the directors and employees.

Charges on assets

As at 31 December 2004, none of Ketanfall Group's assets had been charged.

Contingent liabilities

As at 31 December 2004, Ketanfall Group had no contingent liabilities.

Business review

Year 2004 is a turning point for the property market, the property market rose across the board. Motivated by the strong economic growth in Hong Kong, demand for office climbed to a new height. Moreover, drawn by a series of positive developments, the market surge in 2004 for commercial, shops and industrial properties was vibrant, surpassing the transaction price in 1997. The surge in the commercial property in the second half of 2004 out raced the main market, but the sale and rental price per square foot still lagged behind the peak period in 1997; revealing a trend to be forged ahead.

The shop market experienced a rapid growth in 2004. Not only sales activities were vigorous, prices had also appreciated considerably. Catching the market uptrend, the shop segment achieved a strong performance this year.

In commercial property sector, Ketanfall Group recorded turnover of almost HK$100 million. The market for commercial properties came out from the doldrums, revealing a strong rebound. In particular, 2004 saw the most obvious surge in "Grade A" commercial properties. However, in terms of sale and rental price, it is still a distance away from the peak period in 1997. This indicated that there would be a trend for the office market to be forged ahead and had ability to reach a new high.

In the past years, the industrial property market was owner-occupant oriented. The management of Ketanfall Group anticipated that, with the sale price and rentals being lagged behind and the potential for a rise in market value, investors would be attracted to pour into this market. The future development for industrial property market would be optimistic. To get itself in a well position for an anticipated explosion in industrial market that may be triggered off anytime, Ketanfall Group had reinforced its sales force.

PROSPECT OF KETANFALL GROUP

For the commercial property market in general, favourable factors outweigh unfavourable ones in 2007, compared to the year before. Against this backdrop is the fact that the market has started to recover since the third quarter of 2006 after a consolidation from the second half of 2005.

The office market has entered into a consolidating period since the second half of 2005. In light of strong economic growth, the investors and end users of office properties seem to have regained their passion following a series of acquisition of large whole-block office projects by overseas investment funds. Moreover, the market generally expects interest rate to continue to fall in 2007, which is another positive factor which should be beneficial to the office market. On the other hand, the tendency of mainland Chinese enterprises pursuing to raise capital by listing in Hong Kong will also lead to a strong take up of prime office space from the finance and related companies particularly international investment banks. All these favorable factors will nurture the demand for office properties, push the rents and capital values surge and stimulate the transactions of office properties. It is generally believed that it is about time for the office market to revive after a period of consolidation.

The management of Ketanfall Group believes that the overall fundamentals of the industrial market are not likely to change and the uptrend is expected to continue. The rising of price level of industrial properties have lagged behind that of properties of other sectors, thus offering more attractive returns for investors and stimulating investment sentiment in this market. Even before the industrial property market turnaround set in last year, Ketanfall Group had the foresight to expand aggressively. In 2007, the industrial segment of Ketanfall Group would continue its localization strategy by extending its coverage to key locations. It shall also direct more efforts in upgrading its professionalism so as to capture market share in high-end market.

The management of Ketanfall Group is optimistic that the local shop market would turnaround in coming years. They believe that the retail sector can rely on domestic demand to drive it further upward. The reason for optimism is that Hong Kong people are earning more. According to government's tally, the family income of the households living in private residential units increased 5.1% year-on-year in the third quarter of last year. Based on the job market outlook, the uptrend in salary seems unstoppable. More importantly, the spending habits of Hong Kong may change if zero or negative real interest rate environment re-emerges. By then, Hong Kong people will lose appetite to save and increase their propensity to spend. In fact, the trend of retail sales figures is quite encouraging. The official statistics show that in December 2006, volume of retail sales increased by 11.5% over the year-earlier period. And if the economy conditions continue to improve, retailers can expect a further gain in sales. Therefore, the management of Ketanfall Group does expect the prices and rents of the shop will have good support in the current level and the uptrend is likely to continue. To catch the turnaround of shop market that may start anytime, the shop segment of Ketanfall Group has planned to expend its professional leasing teams targeting chain stores leasing market in 2007.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement of the Enlarged Group (collectively referred to as the "Unaudited Pro Forma Financial Information") have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed very substantial acquisition of 100% equity interests in Ketanfall Group Limited by the Company (the "Acquisition") as if it had taken place on 31 December 2006 for the pro forma consolidated balance sheet and on 1 January 2006 for the pro forma consolidated income statement and consolidated cash flow statement. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results, financial position and cash flow of the Enlarged Group had the Acquisition been completed as at 31 December 2006 and 1 January 2006 respectively or at any future date.

I. Unaudited pro forma consolidated income statement of the Enlarged Group

	Year ended 31 December 2006				
	The Group (Audited)	**Pro forma adjustments**			**The Enlarged Group**
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000* *(Note 4)*	*HK$'000* *(Note 5)*	*HK$'000*
Turnover	27,124	265,826			292,950
Other income	5,082	35			5,117
Costs of merchandise	(10,392)				(10,392)
Costs of internet connectivity fee	(76)				(76)
Staff costs	(13,880)	(131,730)			(145,610)
Rebate commissions	–	(25,020)			(25,020)
Advertising and promotion expenses	–	(13,064)			(13,064)
Management fee	–	(7,697)			(7,697)
Depreciation costs	(959)	(4,111)			(5,070)
Amortisation of intangible assets	(8)				(8)
General and administrative expenses	(8,122)	(33,739)	(3,100)		(44,961)
Operating (loss)/profit	(1,231)				46,169
Finance costs	–			(1,345)	(1,345)
(Loss)/profit before taxation	(1,231)				44,824
Taxation charge	–	(8,789)			(8,789)
(Loss)/profit for the year	(1,231)				36,035
Attributable to:					
Equity holders of the Company	(920)				36,346
Minority interests	(311)				(311)
	(1,231)				36,035

II. Unaudited pro forma consolidated balance sheet of the Enlarged Group

	As at 31 December 2006					
	The Group (Audited)	Pro forma adjustments				The Enlarged Group
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000* *(Note 2)*	*HK$'000* *(Note 3)*	*HK$'000* *(Note 4)*	*HK$'000*
ASSETS						
Non-current assets						
Property, plant and equipment	1,240	4,669				5,909
Investment in subsidiary	–		640,000(a)	(640,000)		–
Financial asset at fair value through profit or loss	5,054					5,054
Deferred taxation assets	–	1,635				1,635
	6,294					12,598
Current assets						
Inventories	580					580
Trade receivables	4,979	90,247				95,226
Amounts due from group companies	–	137,146				137,146
Due from customers on installation contracts	269					269
Prepayments, deposits and other receivables	1,912	5,956				7,868
Financial asset at fair value through profit or loss	130					130
Taxation recoverable	–	3,318				3,318
Pledged deposits	294					294
Cash and bank deposits	117,035	2,313	(100,000)(a)		(3,100)	16,248
	125,199					261,079
Total assets	131,493					273,677

As at 31 December 2006

	The Group (Audited)	Pro forma adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
EQUITY AND LIABILITIES						
Equity holders						
Share capital	83,000	1,520		(1,520)		83,000
Reserves	42,146	93,598	517,042(b)	(638,480)	(3,100)	11,206
	125,146					94,206
Minority interests	718					718
Total equity	125,864					94,924
Non current liabilities						
Long-term borrowing	–		22,958(b)			22,958
Deferred taxation liabilities	–	41				41
	–					22,999
Current liabilities						
Trade payables	1,692	56,804				58,496
Amounts due to group companies	–	23,137				23,137
Accruals and other payables	2,201	9,369				11,570
Deposits from customers	1,556					1,556
Due to minority shareholders of subsidiaries	180					180
Taxation payable	–	5,815				5,815
Dividend payable	–	55,000				55,000
Total current liabilities	5,629					155,754
Total liabilities	5,629					178,753
Total equity and liabilities	131,493					273,677
Net current assets	119,570					105,325
Total assets less current liabilities	125,864					117,923

III. Unaudited pro forma consolidated cash flow statement of the Enlarged Group

	Year ended 31 December 2006				
	The Group (Audited)	**Pro forma adjustments**			**The Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 5)*	*(Note 6)*	
Cash flows from operating activities					
Net cash (used in)/generated from operations	(2,042)	2,161			119
Hong Kong profits tax refund/(paid)	12	(4,969)			(4,957)
Interest received	4,653	19			4,672
Net cash from/(used in) operating activities	2,623				(166)
Cash flows from investing activities					
Purchase of property, plant and equipment	(762)	(1,214)			(1,976)
Acquisition of a subsidiary	–			(96,784)	(96,784)
Acquisition of financial asset at fair value through profit or loss	(82)				(82)
Net cash outflow from disposal of a subsidiary	(52)				(52)
Net cash used in investing activities	(896)				(98,894)
Cash flows from financing activities					
Interest paid to convertible note holder	–		(5,400)		(5,400)
Decrease in due to minority shareholders of subsidiaries	(200)				(200)
Net cash used in financing activities	(200)				(5,600)
Net increase/(decrease) in cash and cash equivalents	1,527				(104,660)
Cash and cash equivalents at beginning of year	115,508				115,508
Cash and cash equivalents at end of year	117,035				10,848

IV. Notes to the unaudited pro forma financial information of the Enlarged Group

(a) Basis of preparation

The pro forma adjustments are derived using the accounting policies as adopted in the audited consolidated financial statements of the Company for the year ended 31 December 2006 approved by the Board on 7 March 2007.

The Unaudited Pro Forma Financial Information has been prepared based on the audited consolidated financial statements of the Company for the year ended 31 December 2006 after giving effect to the pro forma adjustments described in the following.

(b) Pro forma adjustments

1. The adjustment represents the inclusion of the combined income statement, combined balance sheet and combined cash flow statement of the Ketanfall Group as of and for the year ended 31 December 2006 extracted from the accountants' report of the Ketanfall Group as set out in Appendix II of this circular. The operating lease charges in respect of office and shop premises and impairment of receivables of approximately HK$11,457,000 and HK$8,802,000 respectively have been included in general and administrative expenses to conform with the presentation of the audited income statement of the Group.

2. The adjustment reflects that:

   (a) The aggregate consideration attributable to the Acquisition of HK$640,000,000 as set out in the Sale and Purchase Agreement, of which HK$100,000,000 is to be satisfied by cash on the date of Completion and the remaining to be settled by the Company issuing the Convertible Note.

   (b) The fair value of the liability component of the Convertible Note on initial recognition is approximately HK$22,958,000 and the carrying value of the equity component of the Convertible Note, being the difference between the nominal value of the Convertible Note and estimated fair value of liability component of the Convertible Note, amounted to approximately HK$517,042,000. The fair value of the liability component of the Convertible Note at the date of Completion may be different from the fair value used in the preparation of the Unaudited Pro Forma Financial Information as the calculation of the fair value of the Convertible Note will be based on the market interest rate for an equivalent mandatory convertible note as at the date of Completion.

3. The adjustment represents the elimination of the investment cost in Ketanfall.

4. The adjustment represents the payment of estimated legal and professional fees directly attributable to the Acquisition of approximately HK$3,100,000.

5. The adjustment represents the estimated effective interest expense on the Convertible Note charged to the consolidated income statement and interest payment made to Noteholders. The actual amount of interest expense and interest payment will vary according to the timing of the whole or any part of the Convertible Note is being converted.

6. The adjustment to the net cash outflow arising from the Acquisition has been arrived at based on (i) cash consideration of HK$100,000,000 as set out in the Sale and Purchase Agreement and (ii) estimated legal and professional fees directly attributable to the Acquisition of approximately HK$3,100,000; net of (iii) cash and bank balances acquired from the Acquisition of HK$6,316,000.

7. No adjustment has been made to reflect any trading result, trading position, cash flow and other transaction of the Group and the Ketanfall Group entered into subsequent to 31 December 2006.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the sole purpose of inclusion in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

7 May 2007

The Directors
EVI Education Asia Limited

Dear Sirs,

We report on the unaudited pro forma financial information set out on pages 132 to 137 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" of EVI Education Asia Limited ("EVI") and its subsidiaries (the "Group") after completion of the Acquisition (the "Enlarged Group") (the "Unaudited Pro Forma Financial Information") in Appendix IV of the circular dated 7 May (the "Circular") of EVI, in connection with the proposed very substantial acquisition of 100% equity interests in Ketanfall Group Limited and its subsidiaries by EVI (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the Directors of EVI, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 132 to 137 of the Circular.

Respective responsibilities of Directors of EVI and Reporting Accountants

It is the responsibility solely of the Directors of EVI to prepare the Unaudited Pro Forma Financial Information in accordance with rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated balance sheet as at 31 December 2006, consolidated income statement and consolidated cash flow statement for the year ended 31 December 2006 of EVI with the audited financial statements of EVI for the year ended 31 December 2006 approved by the Board of Directors of EVI on 7 March 2007, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of EVI.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of EVI on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of EVI, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Group as at 31 December 2006 or any future date, or

– the results or cash flows of the Group for the year ended 31 December 2006 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of EVI on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all of their opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and the issued share capital of the Company immediately following the issue and allotment of the Conversion Shares will be as follows:-

Authorised Shares of nominal value of HK$0.01 each		*HK$*
50,000,000,000	Shares as at the Latest Practicable Date	500,000,000
Shares of nominal value of HK$0.01 each issued and credited as fully paid and to be issued		
8,300,000,000	Shares as at the Latest Practicable Date	83,000,000
5,400,000,000	Conversion Shares to be issued upon full conversion of the Convertible Note	54,000,000
13,700,000,000		137,000,000

No Shares were issued since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

All the Shares rank pari passu in all respects including as to dividends, voting and return of capital. The Conversion Shares to be issued and allotted will, when issued and fully paid, rank pari passu in all respects with all existing Shares in issue as at the date of notice of conversion.

3. INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Directors and chief executive

As at the Latest Practicable Date, none of the Directors or chief executive of the Company held any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange save as disclosed below:

In respect of the securities of the Company:

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 *(Note 1)*	150,610,000	–	2,182,300,000	–	2,332,910,000	28.11%
Mr. Lau Wai Shu	3,000,000	–	–	–	3,000,000	0.04%
Mr. Tsang Link Carl, Brian *(Note 2)*	–	–	–	83,000,000	83,000,000	1.00%

Notes:

1. 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 Wai San, Wilson ("Mr. Pong"). The entire issued share capital of Summerview was registered in the name of and beneficially owned by Mr. Pong.

2. On 16th January 2006, share options were granted under the Share Option Scheme to Mr. Tsang Link Carl, Brian for subscription of 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.

Substantial Shareholders

As at the Latest Practicable Date, so far as was known to any Director of chief executive of the Company, no other persons had an interest or a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or of any other member of the Group or in any options in respect of such capital save as disclosed below.

In respect of the Company:

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

Notes:

1. These Shares represent the same block of Shares. Valuewit Assets Limited is an indirect wholly-owned subsidiary of Midland Holdings Limited.

2. 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.

In respect of other members of the Group:

Name of substantial Shareholder	Name of relevant member of the Group	Percentage of the issued share capital
Horizon.com Limited	System New International Limited	25%
陳竹 (Chen Zhu)	EVI-MDV Technical Development Limited	30%
Nip Kai Yan	Silicon Workshop Limited	19%

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material importance known by the Directors to be pending or threatened against any member of the Enlarged Group.

6. COMPETING INTEREST

None of the Directors or their respective associate(s) is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this circular and are or may be material:

– a sale and purchase agreement dated 11 October 2006 (the "Agreement") entered into between EVI MP Limited ("MP"), an indirect wholly-owned subsidiary of the Company as vendor and a connected person who held 40% of the issued share capital of I-Cube Education Limited ("I-Cube") prior to the Agreement as purchaser, whereby MP agreed to (1) sell to the purchaser 60% of the issued share capital in I-Cube and (2) assign its rights, title and interests in a loan in the sum of HK$264,155 due from I-Cube to MP at the total consideration of HK$165,996; and

– the Sale and Purchase Agreement

8. EXPERTS

The following is the qualification of each of the experts who has given opinion or advice which is contained in this circular:

Name	Qualification
ICEA Capital Limited	a corporation registered under the transitional arrangement of the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified Public Accountants

Each of the above experts had given and had not withdrawn their respective written consents to the issue of this circular with inclusion of their respective letters, which has or have been prepared for inclusion in this circular, and references to their names in the form and context in which they were included.

As at the Latest Practicable Date, none of the above experts had any shareholding interest in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. GENERAL

– The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

– The head office and principal place of the Company in Hong Kong is at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Hong Kong.

– The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

– The compliance officer of the Company is Mr. Lau Wai Shu.

– The secretary of the Company is Mr. Hui Hing Sing who is currently the Senior Legal Counsel and Head of Legal Department of Midland. Mr. Hui is a member of the Law Society of Hong Kong and has over 7 years of legal experience.

– The qualified accountant of the Company is Mr. Chan Kei, Jeffrey who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over 9 years of experience in auditing, accounting and financial management.

– Under the terms of reference of the audit committee of the Company ("Audit Committee"), the Audit Committee is required to evaluate the overall effectiveness of the internal control and risk management frameworks, to review the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements, to monitor compliance with statutory and listing requirements and to oversee the relationship with the external auditors. It currently comprises 3 independent non-executive Directors, namely, Mr. Koo Fook Sun, Louis, Mr. Sha Pau, Eric and Mr. Ying Wing Cheung.

(a) Mr. Koo Fook Sun, Louis is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Mr. Koo has many years of experience in investment banking and professional accounting. He was the managing director and head of the corporate finance department of a major international bank, a director and chief executive officer of a main board listed company. He currently also serves as an independent non-executive director of another six companies listed on the main board and one company listed on GEM. Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Koo has been appointed as Midland's independent non-executive director since September 2004 and chairman of the audit committee and member of remuneration committee and nomination committee of Midland since March 2005. Mr. Koo has been appointed as independent non-executive Director, chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company all with effect from 24 June 2005.

(b) Mr. Sha Pau, Eric is the founder of and is currently managing director of Konda Industries Limited, a special leather goods manufacturing and exporting firm. Mr. Sha has over 21 years' solid experience in international marketing field and is now specified in formulating corporate strategies and overall management and marketing. He holds a bachelor's degree in Business Administration from Windsor University, Ontario, Canada. Mr. Sha has been appointed as independent non-executive Director as well as members of the audit committee, remuneration committee and nomination committee of the Company all with effect from 13 March 2006.

(c) Mr. Ying Wing Cheung has over 32 years' experience in electronic products manufacturing business and is well versed in marketing strategic and corporate strategic planning. Mr. Ying is a managing director of Way Mild Company Limited and a director of Yangzhou Jiang Jia Electronics Co. Ltd. He has been appointed as a member of Guangdong Committee of Chinese People's Political Consultative Conference for the Eighth Term and the Ninth Term since 1998 to 2008. Mr. Ying was also a member of Jiangmen Committee of Chinese People's Political Consultative Conference for the Eighth Term and the Ninth Term since 1993 to 2003. Mr. Ying serves in many social organisations; he is currently a president of Sze Yap Clansmen Association (New Territories, Hong Kong) Limited and a member of Jiangsu Province Chinese Overseas Friendship Association. Mr. Ying has been appointed as independent non-executive Director and members of audit committee, remuneration committee and nomination committee of the Company all with effect from 17 May 2005.

– Save as disclosed above:

  – there is no contract or arrangement subsisting at the date of this circular in which a Director is materially interested and which is significant in relation to the business of the Group.

- none of the Directors or any experts mentioned in the paragraph headed "Experts" in this Appendix had at the Latest Practicable Date any direct or indirect interest in any assets which have been or proposed to be acquired, disposed of or leased to any member of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

- The English text of this circular and the forms of proxy shall prevail over the Chinese text in the case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the EGM and at the EGM:

- the memorandum and articles of association of the Company

- the letter from the Independent Board Committee, the texts of which is set out in this circular

- the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the texts of which is as set out in this circular

- the accountants' report of the Ketanfall Group, the text of which is set out in Appendix II to this circular and the related statement of adjustments

- the letter from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular

- the annual reports of the Company for the fifteen months ended 31 December 2005 and for the year ended 31 December 2006

- the material contracts referred to in the section headed "Material Contracts" of this appendix

- the written letters of consent of the experts referred to in paragraph headed "Experts" of this appendix

- the discloseable and connected transaction circular of the Company dated 3 November 2006

- this circular

EVI Education Asia Limited

EVI 教育亞洲有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8090)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the Company will be held at Rooms 2505-08, 25th Floor, World-wide House, 19 Des Voeux Road Central, Hong Kong on 31 May 2007 at 12:00 noon for the purpose of considering and, if thought fit, passing the following resolutions of the Company with or without modifications, of which resolutions numbered 1 and 2 will be proposed as ordinary resolutions and resolution numbered 3 will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. "**THAT** the sale and purchase agreement entered into on 26 March 2007 ("Sale and Purchase Agreement") between Midland Realty (Strategic) Limited ("Vendor") as the vendor and the Company as the purchaser, a copy of the same having been produced at the meeting marked "A" and signed by the chairman of the meeting for identification purposes, under which the Vendor shall sell and the Company shall purchase the entire issued share capital of Ketanfall Group Limited at the total price of HK$640,000,000 to be settled as to HK$100,000,000 in cash and as to the remaining balance of HK$540,000,000 by the Company issuing a note ("Convertible Note"), in the equivalent principal sum, at 100 per cent of its face value, the principal amount which is convertible into new shares of the Company at the price of HK$0.10 each (subject to adjustment), on and subject to the terms and conditions contained therein and the transactions contemplated thereunder be and are hereby unconditionally approved, confirmed and ratified and that any one of the directors of the Company ("Directors"), or any two Directors if the affixation of the common seal of the Company is necessary, be and are hereby authorised to exercise all powers of the Company to allot, issue and deal with any new shares of the Company pursuant to the terms of the Convertible Note and to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to the provisions of the Sale and Purchase Agreement."

2. "**THAT** the form of the cross referral services agreement ("Cross Referral Services Agreement") in the agreed form attached to the Sale and Purchase Agreement (as defined in resolution numbered 1 set out in the notice ("EGM Notice") convening this extraordinary general meeting of which this resolution

* *For identification purpose only*

forms part) between the Company and Midland Holdings Limited ("Midland"), a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification (the "Agreement"), details of which are set out in the circular of the Company dated 7 May 2007 accompanying the EGM Notice (the "Circular") and the cross referral services transactions between the Company and its relevant subsidiaries on the one hand and Midland and its relevant subsidiaries on the other hand as described and contemplated under the Cross Referral Services Agreement and the Circular, together with the proposed cap amounts as set out in the Circular, be and are hereby approved and any one of the directors of the Company ("Director"), or any two Directors if the affixation of the common seal of the Company is necessary, be and are hereby authorised to do such acts and things and execute such other documents which in their opinion may be necessary, a Director of the Company shall notify such date to the secretary of the Company."

SPECIAL RESOLUTION

3. "**THAT** the following resolution to change the name of the Company shall be deemed passed, dated and effective as a special resolution from the date of completion of the Sale and Purchase Agreement (as defined in resolution numbered 1 set out in the notice convening this extraordinary general meeting, of which this resolution forms part) in accordance with its terms and a Director of the Company shall notify such date to the secretary of the Company,

   (a) the name of the Company be changed to "Midland IC&I Limited"; and

   (b) "美聯工商舖有限公司" be adopted as the Chinese name of the Company for identification purposes with effect from the date when the above change of the English name of the Company becomes effective."

By Order of the Board
HUI Hin Sing
Company Secretary

Hong Kong, 7 May 2007

Notes:

(1) A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or two proxies (if holding two or more shares) to attend and, in the event of a poll, vote in his/her stead. A proxy need not be a shareholder of the Company.

(2) A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.

(3) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's branch share registrars in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting, and in default, the instrument of proxy shall not be treated as valid.

(4) Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(5) Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose be deemed joint holders thereof.