

**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 a licensed securities dealer, 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 and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, or other agents through whom the sale was effected for transmission to the purchaser(s) or transferee(s).

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**EVI Education Asia Limited**  
**EVI 教育亞洲有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**Stock code: 8090**

**PROPOSED SUBSCRIPTION OF  
4,300,000,000 NEW SHARES OF  
EVI EDUCATION ASIA LIMITED  
BY MIDLAND REALTY (HOLDINGS) LIMITED  
(INVOLVING APPLICATION FOR WHITEWASH WAIVER)**

**FINANCIAL ADVISER TO  
EVI EDUCATION ASIA LIMITED**



**SOMERLEY LIMITED**

**INDEPENDENT FINANCIAL ADVISER TO  
THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT SHAREHOLDERS**



**AMS Corporate Finance Limited**

A letter from the Independent Board Committee containing its recommendation in respect of the Subscription and the Whitewash Waiver to the Independent Shareholders is set out on page 20 of this circular.

A letter from AMS Corporate Finance Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 36 of this circular.

A notice convening the Extraordinary General Meeting to be held at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Wanchai, Hong Kong on 7 March 2005 at 4:00 p.m. is set out on pages 92 to 93 of this circular. A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, and in any event, not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting should you so wish.

*This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its publication.*

## 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. GEM-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 at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

*In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:*

“AMS”	AMS Corporate Finance Limited, a corporation licensed under the SFO to conduct types 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver
“acting in concert”	as defined in the Takeovers Code
“Announcement”	the joint announcement made by the Company and Midland dated 26 January 2005, in relation to, among other things, the Subscription and the Whitewash Waiver (as amended by the clarification announcement made by the Company dated 4 February 2005)
“associate(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	EVI Education Asia Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“Completion”	completion of the Subscription Agreement
“Completion Date”	the third business day after fulfillment or waiver of the last of the conditions of the Subscription Agreement or such other date as the parties involved may agree in writing prior to Completion, on which Completion shall take place
“connected person”	has the same meaning ascribed to it under the GEM Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the GEM Listing Rules
“Directors”	the directors of the Company
“Executive”	the Executive Director of the Corporate Finance Division of SFC or any delegates of the Executive Director

## DEFINITIONS

“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Wanchai, Hong Kong on Monday, 7 March, 2005 at 4:00 p.m. to consider and, if thought fit, approve the necessary resolutions in relation to the Subscription and the Whitewash Waiver
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended from time to time
“Government”	the Government of Hong Kong
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising Mr. Hung Tak Chow, Charles and Mr. Hung Fan Wai, Wilfred, both are the independent non-executive Directors
“Independent Shareholder(s)”	those Shareholder(s) who are not interested in or are not involved in the Subscription Agreement and who will be entitled to vote at the Extraordinary General Meeting
“Latest Practicable Date”	14 February 2005, being the latest practicable date for ascertaining certain information included on this circular
“Main Board”	Main Board of the Stock Exchange
“Management Shareholder”	has the same meaning ascribed to it under the GEM Listing Rules
“Midland”	Midland Realty (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board
“Midland Board”	the board of directors of Midland
“Midland Directors”	the directors of Midland

## DEFINITIONS

“Midland Group”	Midland and its subsidiaries
“Midland Share(s)”	share(s) of HK\$0.10 each in the share capital of Midland
“Midland Shareholder(s)”	holder(s) of the Midland Share(s)
“Mr. Pong”	Mr. Pong Wai San, Wilson, being the founder, the controlling shareholder, the Management Shareholder, the Chairman, executive Director and Chief Executive Officer of the Company
“PRC”	The People’s Republic of China which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Relevant Period”	the period commencing on the date falling six months prior to the date of the Announcement and ended on the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	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 Shares
“Sommerley”	Sommerley Limited, the financial adviser to the Company, is a corporation deemed licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Valuwit Assets Limited, an indirect wholly-owned subsidiary of Midland and the subscriber of the Subscription Shares under the Subscription Agreement
“Subscription”	the proposed subscription of 4,300,000,000 new Shares by the Subscriber pursuant and subject to the terms and conditions of the Subscription Agreement

## DEFINITIONS

“Subscription Agreement”	the conditional agreement dated 25 January 2005 entered into among, inter alia, the Subscriber and the Company with regard to the Subscription
“Subscription Price”	the subscription price of HK\$0.025 for each Subscription Share
“Subscription Share(s)”	4,300,000,000 new Shares, to be issued and allotted by the Company pursuant to the Subscription Agreement
“Summerview”	Summerview Enterprises Limited, the controlling shareholder of the Company and is also a warrantor of certain financial covenants (as described in this circular) under the Subscription Agreement. Its entire issued share capital is registered in the name of and beneficially owned by Mr. Pong
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Whitewash Waiver”	the waiver to be granted by the Executive from the obligation on the part of the Subscriber and parties acting or presumed acting in concert with it to make a mandatory general offer for all the issued Shares not already owned by them, which may otherwise arise as a result of the Completion under Rule 26 of the Takeovers Code
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

## LETTER FROM THE BOARD



# **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:*

Mr. Pong Wai San, Wilson  
*(Chairman and Chief Executive Officer)*  
Mr. Cheung Shi Kwan, Wings  
Ms. Pong Lo Shuk Yin, Dorothy  
Mr. Lau Wai Shu

*Independent Non-executive Directors:*

Mr. Hung Tak Chow, Charles  
Mr. Hung Fan Wai, Wilfred  
Mr. Lai Hin Wing, Henry

*Registered Office:*

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

*Head Office and*

*Principal Place of Business:*  
9th Floor  
Tai Sang Commercial Building  
24-34 Hennessy Road  
Wanchai  
Hong Kong

16 February 2005

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED SUBSCRIPTION OF  
4,300,000,000 NEW SHARES OF  
EVI EDUCATION ASIA LIMITED  
BY MIDLAND REALTY (HOLDINGS) LIMITED  
(INVOLVING APPLICATION FOR WHITEWASH WAIVER)**

### INTRODUCTION

On 26 January 2005, the Directors announced that the Company has entered into the Subscription Agreement with the Subscriber pursuant to which the Subscriber has conditionally agreed to subscribe for the Subscription Shares at a subscription price of HK\$0.025 per Subscription Share. The Subscription does not constitute a notifiable transaction of the Company under the GEM Listing Rules.

\* For identification purpose only



## LETTER FROM THE BOARD

Upon completion of the Subscription Agreement, the Subscriber will hold approximately 51.8% of the issued share capital of the Company as enlarged by the Subscription Shares. The Subscriber and Summerview, the current controlling shareholder of the Company, are presumed to be acting in concert with each other under the Takeovers Code. Upon Completion, the Subscriber and parties acting or presumed acting in concert with it (including Summerview) will in aggregate own 7,062,810,000 Shares, representing approximately 85.09% of the enlarged issued share capital of the Company. In the absence of the Whitewash Waiver, the Subscriber and the parties acting or presumed acting in concert with it will be required under Rule 26 of the Takeovers Code to make a general offer for all the issued shares of the Company other than those already owned or agreed to be subscribed by the Subscriber and parties acting or presumed acting in concert with it. An application has been made by Midland pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code to the Executive for the Whitewash Waiver and the Executive has indicated that, subject to the approval by the Independent Shareholders (i.e. Shareholders who are not interested nor involved in the Subscription) by way of votes taken by poll at the Extraordinary General Meeting, the Whitewash Waiver will be granted. As Summerview, Mr. Pong and the other executive Directors are involved in the negotiation of the Subscription Agreement, they will abstain from voting on the Whitewash Waiver. Other than Mr. Pong, Mr. Cheung Shi Kwan, Wings (“Mr. Cheung”) is the only executive Director who holds Shares and he is currently interested in 4,000,000 Shares. As at the Latest Practicable Date, Summerview, Mr. Pong and Mr. Cheung had in aggregate approximately 69.17% interest in the Company, details of their shareholding interests are set out under the paragraph headed “Shareholding Structure” below.

The Independent Board Committee, comprising Mr. Hung Tak Chow, Charles and Mr. Hung Fan Wai, Wilfred (both are the independent non-executive Directors), has been established for the purpose of advising the Independent Shareholders on the terms of the Subscription Agreement and the Whitewash Waiver. The other independent non-executive Director, Mr. Lai Hin Wing, Henry, is a partner of a legal firm which had provided legal professional services to a company of which Mr. Pong was then a substantial shareholder. Mr. Pong is the beneficial owner of Summerview which is a party to the Subscription Agreement. The other executive Directors were involved in the negotiation on the terms of the Subscription. Therefore, Mr. Lai Hin Wing, Henry and all the executive Directors are considered not independent for the purpose of giving advice on the Subscription and the Whitewash Waiver.

The purpose of this circular is to provide you with (i) further information on the Subscription Agreement and the Whitewash Waiver; (ii) the advice of the Independent Board Committee to the Independent Shareholders in respect of the Subscription Agreement and the Whitewash Waiver; (iii) the advice of AMS to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the Whitewash Waiver; and (iv) financial information on the Group. A notice convening the Extraordinary General Meeting for the purpose of considering and, if thought fit, approving the Subscription Agreement and the Whitewash Waiver, is set out on pages 92 to 93 of this circular.

## LETTER FROM THE BOARD

### THE SUBSCRIPTION AGREEMENT

On 25 January 2005, the Company entered into the Subscription Agreement with the Subscriber. Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue and allot the Subscription Shares at the Subscription Price of HK\$0.025 for each Subscription Share. Details of the Subscription Agreement are set out as follows:

#### Parties

Subscriber:	Valuewit Assets Limited, an indirect wholly-owned subsidiary of Midland, as the Subscriber;
Issuer of the Subscription Shares:	the Company;
Warrantor:	Summerview, giving warranties on certain financial covenants and a company wholly and beneficially owned by Mr. Pong; and
Guarantor of the Subscriber:	Midland

To the best of the Directors' knowledge, information and belief, and after having made all reasonable enquiry, each of the Subscriber and Midland is not a connected person of the Company.

#### The Subscription Shares

The Subscription Shares represent (i) approximately 107.50% of the issued share capital of the Company as at the Latest Practicable Date, or (ii) approximately 51.81% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

#### The Subscription Price

The Subscription Price represents:

- a) a discount of approximately 58.33% to the closing price of HK\$0.06 per Share as quoted on the Stock Exchange on 24 January 2005, (the last trading day prior to the date of the Subscription Agreement);
- b) a discount of approximately 53.70% to the average closing price of HK\$0.054 per Share as quoted on the Stock Exchange for the last five trading days up to and including 24 January 2005;
- c) a discount of approximately 71.26% to the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

## LETTER FROM THE BOARD

- d) a premium of approximately 509.76% over the audited net tangible asset value per Share of approximately HK\$0.0041 as at 30 September 2004.

The total consideration for the Subscription amounts to HK\$107.5 million.

### Conditions precedent of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon:

- a) the Listing Committee of GEM granting the listing of, and permission to deal in, the Subscription Shares;
- b) the Executive granting the Whitewash Waiver to Midland and parties acting in concert with it from their obligations, as a result of the Subscription, to make a general offer for all of the issued shares other than those already owned or agreed to be subscribed by them under Note 1 on dispensations from Rule 26 of the Takeovers Code;
- c) the Independent Shareholders approving; (i) the issue and allotment of the Subscription Shares contemplated under the Subscription Agreement and (ii) the grant of the Whitewash Waiver at a general meeting of the Company;
- d) the Shares remaining listed and traded on GEM at all times prior to and on Completion, save for any suspension not exceeding ten (10) consecutive business days (as defined in the GEM Listing Rules) (or such longer period as the Subscriber may reasonably accept in writing) or any temporary suspension in connection with the clearance by the Stock Exchange and the SFC of the Announcement;
- e) no indication being received on or before the Completion Date from the Stock Exchange or the SFC 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 Subscription Agreement;
- f) the satisfaction of the due diligence review be performed by the Subscriber on the Group, including but not limited to, the Group's assets, liabilities, contracts, commitments and business and financial and legal and taxation aspects. The due diligence review should be completed on or prior to 7 (seven) business days prior to the date of the Extraordinary General Meeting; and
- g) clearance of the Announcement by the Stock Exchange and the SFC.

The Subscriber may at its absolute discretion waive all or any of the conditions set out above (other than conditions (a), (b) and (c)) at any time by notice in writing to the Company. As at the Latest Practicable Date, only condition (g) has been satisfied.

## LETTER FROM THE BOARD

In the event that the conditions of the Subscription Agreement are not fulfilled or waived by 5:00 p.m. on the day falling three (3) calendar months from the date of the Subscription Agreement or such later date as may be agreed by the parties to the Subscription Agreement in writing, the Subscriber or the Company will be entitled by written notice to rescind and terminate the Subscription Agreement.

### **Financial covenants provided by Summerview**

Summerview represents, warrants and undertakes to the Subscriber that:

- (a) at Completion:
  - (i) the consolidated net tangible asset value of the Group (on the same valuation basis as adopted in preparation of the audited accounts of the Company) (after making all appropriate deductions, accruals and/or provisions for all fees, expenses and costs payable by the Group for the transactions under the Subscription Agreement (including the fees and expenses payable to the financial advisors of the Company)) will not be less than HK\$13,000,000; and
  - (ii) the total liabilities of the Group (excluding contingent liabilities which have been fully disclosed) will not be more than HK\$10,000,000;
- (b) the Group will have unencumbered cash-in-hand in a total amount of not less than HK\$13,000,000 immediately after Completion; and
- (c) all guarantees (if any) given by any member of the Group for Summerview or its associates will be released and discharged on the Completion Date.

The Directors confirm that there has never been any guarantee given by the Group for Summerview or its associates.

Completion will take place on the third business day after fulfillment or waiver of the last of the conditions of the Subscription Agreement or such other date as the parties involved may agree in writing prior to Completion.

### **LISTING AND DEALING**

The Subscription Shares, upon their issuance, will rank *pari passu* in all respects with all other Shares in issue on Completion, including the right to any dividends or other distributions declared by the Company on or after the Completion Date.

An application will be made by the Company to the Listing Committee of GEM for the listing of and the permission to deal in the Subscription Shares to be issued pursuant to the Subscription Agreement.

# LETTER FROM THE BOARD

## SHAREHOLDING STRUCTURE

The shareholding structures of the Company before and after completion of the Subscription are set out below:

Shareholder	Shares held as at the Latest Practicable Date		Shares held immediately following completion of the Subscription		Shares held immediately following completion of the Subscription and exercise of the Pre-IPO Share Option Scheme but before exercise of the Post-IPO Share Option Scheme (Note 2)		Shares held immediately following completion of the Subscription and exercise of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme (Note 2)	
	Shares	%	Shares	%	Shares	%	Shares	%
Summerview (Note 1)	2,609,200,000	65.23	2,609,200,000	31.43	2,609,200,000	30.62	2,609,200,000	30.58
Mr. Pong (Note 1)	153,610,000	3.84	153,610,000	1.85	253,610,000	2.98	253,610,000	2.97
<i>Sub-total</i>	<u>2,762,810,000</u>	<u>69.07</u>	<u>2,762,810,000</u>	<u>33.28</u>	<u>2,862,810,000</u>	<u>33.60</u>	<u>2,862,810,000</u>	<u>33.55</u>
<i>Other executive Directors</i>								
Ms. Pong Lo Shuk Yin, Dorothy	-	-	-	-	81,000,000	0.95	81,000,000	0.95
Mr. Lau Wai Shu	-	-	-	-	4,000,000	0.05	6,500,000	0.08
Mr. Cheung	4,000,000	0.10	4,000,000	0.05	29,000,000	0.34	29,000,000	0.34
Public shareholders of the Company	1,233,190,000	30.83	1,233,190,000	14.86	1,243,190,000	14.59	1,252,690,000	14.68
The Subscriber or its nominee	-	-	4,300,000,000	51.81	4,300,000,000	50.47	4,300,000,000	50.40
<b>Total</b>	<u>4,000,000,000</u>	<u>100.00</u>	<u>8,300,000,000</u>	<u>100.00</u>	<u>8,520,000,000</u>	<u>100.00</u>	<u>8,532,000,000</u>	<u>100.00</u>

*Notes:*

- The entire issued share capital of Summerview is registered in the name of and beneficially owned by Mr. Pong.
- The Company adopted two share option schemes on 28 February 2001, namely the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, pursuant to which the Board may invite any employees and executive directors of the Company to take up options to subscribe for the Shares. Details of the two share option schemes are described in Appendix I headed "Financial information on the Group" to this circular.

The shareholding of the Subscriber will, as a result of the Subscription, be increased from 0% to approximately 51.81% upon Completion.

The Subscriber and Summerview are presumed to be acting in concert with each other under the Takeovers Code and, upon Completion, the Subscriber and parties acting or presumed acting in concert with it (including Summerview) will in aggregate own 7,062,810,000 Shares, representing approximately 85.09% of the enlarged issued share capital of the Company.

## LETTER FROM THE BOARD

### INFORMATION ON THE SUBSCRIBER AND THE MIDLAND GROUP

The Subscriber is an indirect wholly-owned subsidiary of Midland. Midland is a company listed on the Main Board, and the Midland Group is engaged in property broking service in Hong Kong, Macau and the PRC.

Set out below is a summary of the financial information of the Midland Group extracted from its annual report for the two years ended 31 December 2003 and interim report for the six months ended 30 June 2004:

	Financial year ended		For the six
	31 December		months ended
	2002	2003	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Audited	Unaudited
Turnover	911,711	1,179,963	952,079
Profit/(loss) from operations	(68,220)	150,811	195,466
Profit/(loss) attributable to the Midland Shareholders	(73,725)	122,749	165,809
Total assets	703,690	1,013,415	1,235,895
Net tangible assets	442,175	563,144	694,479
Net tangible assets per Midland Share ( <i>HK\$</i> ) ( <i>Note</i> )	0.726	0.801	0.986

*Note:* Based on 703,090,000 Midland Shares in issue as at 31 December 2003 (609,447,000 Midland Shares in issue as at 31 December 2002); and 704,390,000 Midland Shares in issue as at 30 June 2004.

The Midland Board comprises eight directors, namely Mr. Wong Kin Yip, Freddie, Mr. Cheung Kam Shing, Ms. Lam Fung Fong, Mr. Chan Kwan Hing and Mr. Kwok Ying Lung as executive Midland Directors; Mr. Koo Fook Sun, Louis, Mr. Sun Tak Chiu and Mr. Wang Ching Miao, Wilson as independent non-executive Midland Directors.

## LETTER FROM THE BOARD

### INFORMATION ON THE COMPANY

The Group is principally engaged in the selling and installation of computer hardware and software, the provision of computer training services and the provision of internet education services. Set out below is a summary of the Group's financial information for the two years ended 30 September 2004 and the three months ended 31 December 2004:

	<b>Financial year ended</b>		<b>Three months ended</b>
	<b>30 September</b>	<b>31 December</b>	<b>ended</b>
	<b>2003</b>	<b>2004</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Audited	Unaudited
Turnover	19,959	20,206	4,705
Operating loss	(9,606)	(4,740)	(684)
Loss attributable to the Shareholders	(9,476)	(4,205)	(446)
Total assets	30,299	26,961	<i>Not being published</i>
Net assets	22,994	18,861	<i>Not being published</i>
Net tangible assets	21,266	16,328	<i>Not being published</i>
Net tangible assets per Share ( <i>HK\$</i> ) ( <i>Note</i> )	0.0053	0.0041	<i>Not being published</i>

*Note:* Based on 4,000,000,000 Shares in issue as at 30 September 2004 and 2003.

The Group has reported losses for each of the above-mentioned financial year/period. However, those losses have narrowed, mainly due to the implementation of cost control measures, including the gradual relocation of the Group's production team to the PRC.

The Group is now developing its own SMS telecommunication system so that in the future, communication with its customers can be done via SMS as well as internet. The Group is also considering (at a preliminary and conceptual stage) the possibility to invest into kindergartens in the PRC. With the increasing household income in PRC, the Board considers that investment in kindergartens in the PRC may provide attractive return and has therefore decided to study into this possible investment. As at the Latest Practicable Date, the Directors have not identified any target kindergartens in the PRC for investment. In the event that the Company decides to make such investments, they would be financed by the internal resources of the Group.

As published in the Company's annual report for the year ended 30 September 2004, the Group recorded an audited consolidated net tangible assets of HK\$16.33 million, with cash and cash equivalent amounted to approximately HK\$19.12 million. As at 31 December 2004, the Group did not have any outstanding bank borrowings.

## LETTER FROM THE BOARD

### FUTURE INTENTIONS OF THE MIDLAND GROUP TO THE GROUP

#### **Business**

In view of the expertise and experience of the Group in the development and marketing of computer training and internet education services, the Subscriber and the existing management of the Company have no intention to discontinue the existing principal businesses of the Group after Completion.

In addition, the management of Midland considers that the continued professional training is becoming an essential element for enhancing employees' competitiveness in today's business environment. Given the above-mentioned expertise of the Group, the management of Midland believes that the Group is an appropriate platform upon which to develop and promote on-line training programs for practitioners in the real estate broking business and/or other regulated or licensed servicing industries in Hong Kong, Macau and the PRC. As such, by investing in the Company via the Subscription, Midland will gain an additional platform to pursue this new growing area of business.

However, given that the development and promotion of on-line training programs for real-estate brokers and related licence examinations in Hong Kong, Macau and/or the PRC may take some time due to various technicalities and/or the relevant regulatory approval process, the actual launch of such on-line training programs may take six to nine months from development. In view of this situation, the Subscriber and the management of the Company will continue to seek to develop other new businesses, such as property investment and property management, as and when opportunities arise.

Upon Completion, the Subscriber together with the management of the Company will carry out a detailed review of the existing operating mode of the Company before formulating any concrete plans to develop the new businesses (including but not limited to property investment and property management, and the development and promotion of on-line training programs for real-estate brokers and related examinations in Hong Kong, Macau and/or the PRC) and planning the future business strategy of the Group. In addition, both the Directors and the Subscriber do not expect any material change to the continued employment of the management and employees of the Group as a result of the Subscription.

As at the Latest Practicable Date, the Subscriber has no concrete plan or decision pertaining to the assets or businesses of itself or its associates to be injected into the Group. In the event that the Subscriber injects any new assets or businesses from itself or its associates into the Group, such transaction may constitute a "reverse takeover" under the GEM Listing Rules and the Company will have to comply with the requirements as prescribed in the GEM Listing Rules from time to time (such as being deemed as a new applicant for listing and thus subject to independent shareholders' vote at general meeting).



## LETTER FROM THE BOARD

### Management of the Company

The Board currently comprises seven Directors, namely Mr. Pong, Mr. Cheung, Ms. Pong Lo Shuk Yin, Dorothy and Mr. Lau Wai Shu as executive Directors, and Mr. Hung Tak Chow, Charles, Mr. Hung Fan Wai, Wilfred and Mr. Lai Hin Wing, Henry as independent non-executive Directors. Upon Completion, the Subscriber will nominate Ms. Ip Kit Yee, Kitty and Mr. Chan Kin Chu, Harry as executive Directors and Mr. Tsang Link Carl, Brian as non-executive Director to the Board; and two of the existing executive Directors, Ms. Pong Lo Shuk Yin, Dorothy and Mr. Lau Wai Shu will resign from the Board. Mr. Pong will resign as Chairman but shall remain as an executive Director and the Chief Executive Officer of the Company. Further announcement will be made in accordance with Rule 17.50(2) of the GEM Listing Rules upon such Board changes being formalised. The newly nominated Directors will operate the Group separate from the Midland Group, and it is expected that the Group will be operated as a separate entity for the future development of the above-mentioned new businesses. Midland may from time to time provide general and/or strategic directions to its nominated representatives on the Board, and via them to reveal their suggestion for the Board to consider (as appropriate).

Set out below is the brief description of the three individuals who will be nominated to the Board:

**Ms. IP Kit Yee, Kitty**, aged 44, has been appointed as the managing director (corporate affairs) of Midland Group since September 2004 and was appointed as a director of Midland in October 1993. She is responsible for overall corporate affairs, management and administrative functions of the Midland Group. She is also participating in formulating plans and policies to improve effectiveness in operation and control of the Midland Group. Ms. Ip has many years of experience in property administration and real estate broking and marketing in Hong Kong and the PRC. In 2002, She participated in the establishment of the Midland Group's franchise operation in the PRC. She has been in charge in all aspects of the training of Midland Group and established Midland Campus which is a renowned training center in the field of real estate agency. As at the Latest Practicable Date, Ms. Ip was personally interested in 810,000 Midland Shares, representing approximately 0.11% of the existing issued share capital of Midland, and Ms. Ip did not hold any interests in the securities of the Company within the meaning of Part XV of the SFO. Save as a managing director (corporate affairs) of the Midland Group, she is not connected to (i) any directors, chief executive or substantial shareholder of Midland or its subsidiaries and their respective associates, or their connected persons; or (ii) any directors, chief executive or substantial and Management Shareholder of the Company or its subsidiaries and their respective associates, or their connected persons.

**Mr. CHAN Kin Chu, Harry**, aged 35, is the company secretary of Midland and is responsible for overseeing legal and compliance functions of the Midland Group. He also participated in the business development work of the Midland Group. Mr. Chan graduated at The University of Hong Kong with a Bachelor of Laws degree and also obtained a Master of Laws degree in The University of London. He

## LETTER FROM THE BOARD

is admitted to the High Court of Hong Kong SAR to practice law in Hong Kong. Before joining legal profession, he had been working with the sales and marketing arms of a sizeable property developer where he was engaged in property development and property management activities. As at the Latest Practicable Date, Mr. Chan did not hold any interests in the securities of Midland or the Company within the meaning of Part XV of the SFO. Save as the company secretary of Midland, he is not connected to (i) any directors, chief executive or substantial shareholder of Midland or its subsidiaries and their respective associates, or their connected persons; or (ii) any directors, chief executive or substantial and Management Shareholder of the Company or its subsidiaries and their respective associates, or their connected persons.

**Mr. TSANG Link Carl, Brian**, aged 41. He is a practising solicitor in Hong Kong and is a partner of the Hong Kong law firm of Iu, Lai & Li, legal adviser to Midland. He graduated from King's College, London with an LLB. Degree in 1985. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. He is currently a non-executive director of CITIC Resources Holdings Limited (Stock Code: 1205) and Pacific Century Premium Developments Limited (Stock Code: 432), both are public companies listed on the Main Board. As at the Latest Practicable Date, Mr. Tsang did not hold any interests in the securities of Midland or the Company within the meaning of Part XV of the SFO. He is not connected to (i) any directors, chief executive or substantial shareholder of Midland or its subsidiaries and their respective associates, or their connected persons; or (ii) any directors, chief executive or substantial and Management Shareholder of the Company or its subsidiaries and their respective associates, or their connected persons.

Each of the nominated Director will serve till the next annual general meeting of the Company and will offer themselves for re-appointment at the next annual general meeting of the Company in accordance with the Company's Articles of Association.

As at the Latest Practicable Date, no service contract is expected to be entered into with the nominated Directors.

### BACKGROUND AND REASONS

The Group is principally engaged in the selling and installation of computer hardware and software, provision of computer training services and the provision of internet education services in Hong Kong and PRC. The Group's objective is to establish an education community consisting of kindergartens, primary and secondary school, teachers, parents and pre-school children and kids through the use of the Group's on-line and off-line services, where children can learn with their parents on the Company's education platform which is tailor-made for each kindergarten featuring on-line teaching, learning and education-related management tools together with its off-line services including extracurricular training courses, products promotion, seminars, e-media productions and information technologies related services. However, the Company's financial performance has been affected by the low birth rate in Hong Kong.

## LETTER FROM THE BOARD

Upon completion of the Subscription, the Company will obtain a net cash proceeds of approximately HK\$104.5 million. The Directors consider that the proceeds from the Subscription can improve the Group's capital base and strengthen its financial position. The Subscription will provide the Group with the necessary funding to develop new businesses such as property management and property investment and in particular, the on-line professional training services for real-estate brokers and related examination which would in turn enhance the Group's revenue stream.

Out of the net cash proceeds, the Subscriber and the management of the Company intend to utilise:

- (i) approximately HK\$20 million on the development of the software for the on-line professional training services (for the practitioners in the real estate broking business);
- (ii) approximately HK\$15 million to upgrade and/or enhance the existing hardware for the development of on-line professional training services (for the practitioners in the real estate broking business);
- (iii) approximately HK\$15 million to promote and launch the on-line professional training services (for the practitioners in the real estate broking business); and
- (iv) the balance of approximately HK\$54.5 million will be used, as opportunities arise, to develop other new businesses, including but not limited to, property investment and property management; and/or as general working capital.

Upon Completion, the Subscriber and the management of the Company expect to establish a special task force (i) to survey and analyse the market (initially Hong Kong, then followed by the PRC and Macau) with regard to the specific needs of the users for on-line professional training services (from the consumers' perspective), and the availability of choices/programmes for the target consumers; and (ii) to review the existing human resources and the list of software and hardware of the Group. It is expected that this special task force will take 6 to 8 weeks to complete the aforesaid review and make recommendations (including the proposed timeframe to develop and launch the on-line professional training services, the required human resources arrangement, the required list of hardware and software, and the budget for this business) for the Board to consider and approve. As soon as the Board approves the budget/business plan, resources will be deployed to implement the business plan. Normally, it is expected to develop a training programme within a period of 3 to 4 months and to take another 2 to 3 months for further fine-tuning to suit consumer needs. Assuming the development stage proceeds as planned and smoothly, the Company may be able to launch the on-line professional training services to the market before the end of 2005.

Meanwhile, during the course of developing the on-line professional training programmes, the management of the Company will continue to seek to develop other new businesses, and as appropriate, utilise part of the remaining balance of the cash proceeds from the Subscription for property investment (approximately HK\$20 million) and property management (approximately HK\$20 million), as and when opportunities arise.

## LETTER FROM THE BOARD

Up to now, the Group has not identified any specific target investment. Upon Completion, the Company will, subject to the property market condition in Hong Kong, recruit a team of professional staff with a specific task to review and recommend property investment opportunities for the Board to consider and approve from time to time. In addition, the Company will make announcement to the public (as and when appropriate) and comply with the relevant requirements of the GEM Listing Rules.

With regard to property management, the Group will also, subject to the property market conditions in Hong Kong (initially), recruit another team of professional staff to promote and sell the property management service as well as to supervise/monitor the quality of service. As soon as there is any new development to this line of business, the Company will make announcement to the public (as and when appropriate) and comply with the relevant requirements of the GEM Listing Rules.

Having considered the thin trading volume of the Shares and the recent price performance of the Shares and the above potential benefits which the Subscription may bring to the Group, the Directors are of the view that the Subscription Agreement is in the interest of the Company and the Shareholders as a whole, and that the terms of the Subscription Agreement, including the Subscription Price of HK\$0.025, are fair and reasonable.

### LISTING STATUS OF THE COMPANY

Immediately after Completion, the Company will become an indirect subsidiary of Midland. It is the intention of Midland to maintain the listing of the Company on GEM after Completion.

It should be noted that upon Completion, the public float of the Company will be approximately 14.9% (if no action or arrangement, such as placing of existing Shares, has been made to maintain the public float of the Company at no less than 20%) and therefore trading in the Shares may be suspended until a sufficient public float is attained. Both the Company and Midland have undertaken to GEM to take appropriate steps (prior to Completion) to ensure that the public float of the Company will maintain at no less than 20% following Completion.

### WHITEWASH WAIVER APPLICATION

Upon completion of the Subscription, the shareholding of the Subscriber in the Company will increase from 0% to approximately 51.81% as enlarged by the Subscription Shares. The Subscriber and Summerview are presumed to be acting in concert with each other under the Takeovers Code and, upon Completion, the Subscriber and parties acting or presumed acting in concert with it (including Summerview) will in aggregate own 7,062,810,000 Shares, representing approximately 85.09% of the enlarged issued share capital of the Company. In the absence of the Whitewash Waiver, the Subscriber and parties acting or presumed acting in concert with it will be required under Rule 26 of the Takeovers Code to make a general offer for all the issued Shares not already owned or to be subscribed by the Subscriber and parties acting or presumed acting in concert with it. An application

## LETTER FROM THE BOARD

has been made by Midland to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, and the Executive has indicated that, subject to the approval by the Independent Shareholders (i.e. Shareholders who are not interested nor involved in the Subscription) by way of votes taken by poll at the Extraordinary General Meeting, the Whitewash Waiver will be granted. As Summerview, Mr. Pong and the other executive Directors were involved in the negotiation of the Subscription Agreement, they will abstain from voting on the Whitewash Waiver. Other than Mr. Pong, Mr. Cheung is the only executive Director who holds Shares and he is currently interested in 4,000,000 Shares. As at the Latest Practicable Date, Summerview, Mr. Pong and Mr. Cheung have in aggregate approximately 69.17% interest in the Company, details of their shareholding interests are set out under the paragraph headed "Shareholding Structure" below.

The granting of the Whitewash Waiver from the Executive is one of the conditions precedent to the Subscription Agreement. This condition cannot and will not be waived. If the Whitewash Waiver is granted, the Subscriber and the parties acting or presumed acting in concert with it will not be required to make a general offer to Shareholders under Rule 26 of the Takeovers Code as a result of the issue and allotment of the Subscription Shares pursuant to the Subscription Agreement.

The aggregate shareholding of the Subscriber and parties acting or presumed acting in concert with it after completion of the Subscription will exceed 50% of the issued share capital of the Company as enlarged by the Subscription Shares to be issued pursuant to the Subscription Agreement. Accordingly, if the Whitewash Waiver is approved by the Independent Shareholders, any additional acquisition of Shares by the Subscriber and parties acting or presumed acting in concert with it will not incur any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The Subscriber, Midland, Summerview and Mr. Pong have confirmed that they had not dealt in the Shares during the Relevant Period.

### **EXTRAORDINARY GENERAL MEETING**

Set out in this circular is a notice convening the Extraordinary General Meeting which will be held at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Wanchai, Hong Kong on Monday, 7 March 2005, at 4:00 p.m. at which resolutions will be proposed to approve the Subscription Agreement and the Whitewash Waiver.

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instruction printed thereon as soon as possible to Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting. Completion and return of a form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting should you so wish.

## LETTER FROM THE BOARD

### Procedures for demanding a poll

According to Article 66 of the Company's Articles of Association, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholder having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares 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 Shares conferring that right.

The resolutions to be proposed at the Extraordinary General Meeting in relation to the allotment and issue of the Subscription Shares and the Whitewash Waiver will be voted by way of a poll.

### RECOMMENDATIONS

Having considered the potential benefits which the Subscription may bring to the Group and the advice given by AMS as contained in this circular, the Directors (including the independent non-executive Directors) believe that the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to approve the Subscription Agreement and the Whitewash Waiver.

Independent Shareholders are urged to read carefully the opinion of AMS and the advice of the Independent Board Committee before deciding on how to vote at the Extraordinary General Meeting.

### GENERAL

Completion of the Subscription Agreement is conditional upon fulfillment of the conditions set out above. The issue of this circular does not indicate that the Subscription Agreement will be successfully implemented and completed.

Your attention is drawn to the letters from AMS and the Independent Board Committee and the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the board  
**Pong Wai San, Wilson**  
*Chairman*

# LETTER FROM THE INDEPENDENT BOARD COMMITTEE



## **EVI Education Asia Limited** **EVI 教育亞洲有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**Stock code: 8090**

16 February 2005

*To the Independent Shareholders*

Dear Sir or Madam,

As the independent board committee of the Company, we have been appointed to advise you in connection with the Subscription Agreement and the Whitewash Waiver, details of which are set out in the Letter from the Board contained in the circular to the Shareholders dated 16 February 2005 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Subscription Agreement and the Whitewash Waiver and the advice of AMS in relation thereto as set out on pages 21 to 36 of the Circular, we are of the opinion that the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and entering into the Subscription Agreement is in the interests of the Company and Shareholders as a whole. We therefore recommend you to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting to approve the Subscription Agreement and the Whitewash Waiver.

Yours faithfully,

*Independent Board Committee*

**Hung Tak Chow, Charles Hung Fan Wai, Wilfred**

*Independent non-executive Directors*

\* For identification purpose only

## LETTER FROM AMS

*The following is the full text of the letter from AMS, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.*



博資財務顧問有限公司  
AMS Corporate Finance Limited

20th Floor  
Hong Kong Diamond Exchange Building  
8-10 Duddell Street  
Central, Hong Kong

16 February 2005

*To the Independent Board Committee and  
Independent Shareholders of EVI Education Asia Limited*

Dear Sirs,

### **SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR WHITEWASH WAIVER**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of EVI Education Asia Limited (the "Company") in respect of the terms of the Subscription Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 16 February 2005 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 26 January 2005, the Company and Midland jointly announced, among other things, that the Subscription Agreement was entered into between the Company and the Subscriber, which is an indirect wholly-owned subsidiary of Midland, on 25 January 2005 pursuant to which the Subscriber has conditionally agreed to subscribe for 4,300,000,000 new Shares, representing approximately 107.5% of the existing issued share capital of the Company or approximately 51.81% of the issued share capital of the Company as enlarged by the Subscription, at the subscription price of HK\$0.025 per Share. Since the Subscriber will be interested in approximately 51.81% of the voting rights of the Company as a result of the Subscription, the Subscriber is obliged under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all of the issued Shares which are not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it. Midland has applied to the Executive for the Whitewash Waiver under Note 1 on dispensation from Rule 26 of the Takeovers Code. The granting of the Whitewash Waiver is subject to



## LETTER FROM AMS

the approval at a general meeting of the Company by the Independent Shareholders who are not involved or interested in the Subscription. The voting of the Independent Shareholders shall be taken by poll.

As at the date hereof, the Board comprises four executive Directors, namely Mr. Pong Wai San, Wilson, Mr. Cheung Shi Kwan, Wings, Ms. Pong Lo Shuk Yin, Dorothy and Mr. Lau Wai Shu, and three independent non-executive Directors, namely Mr. Hung Tak Chow, Charles, Mr. Hung Fan Wai, Wilfred and Mr. Lai Hin Wing, Henry. The four executive Directors, namely Mr. Pong Wai San, Wilson, Mr. Cheung Shi Kwan, Wings, Ms. Pong Lo Shuk Yin, Dorothy and Mr. Lau Wai Shu, are also the salaried employees of the Company. In addition, Mr. Pong Wai San, Wilson is the beneficial owner of Summerview, which is a party to the Subscription Agreement. Mr. Lai Hin Wing, Henry, an independent non-executive Director, has disclosed that he is a partner of a legal firm, which had provided legal professional services to a company, of which Mr. Pong Wai San, Wilson was a substantial shareholder, in 2002/2003. Therefore, all of the executive Directors and Mr. Lai Hin Wing, Henry are considered not independent for the purpose of giving advice to the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. The Independent Board Committee, comprising Mr. Hung Tak Chow, Charles and Mr. Hung Fan Wai, Wilfred (both are independent non-executive Directors), has been established for the purpose of advising the Independent Shareholders on the terms of the Subscription Agreement and the Whitewash Waiver. Each of Mr. Hung Tak Chow, Charles and Mr. Hung Fan Wai, Wilfred has confirmed that he does not have any conflict of interest in the Subscription and the Whitewash Waiver. Based on such representation, we consider that these two independent non-executive Directors are eligible to be members of the Independent Board Committee to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver.

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 whether or not each of the Subscription Agreement and the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and whether their respective terms are fair and reasonable so far as the Independent Shareholders are concerned.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied upon the accuracy of the information and representations contained in the Circular. We have assumed that all statements and representations made or referred to in the Circular were true at the time when they were made and will continue to be true as at the date of the Circular and the date of the Extraordinary General Meeting. We have assumed that all statements of belief and opinions and intention made by the Directors or the Subscriber in the Circular were reasonably made after due care and enquiry.

## LETTER FROM AMS

We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. The Directors and the Subscriber have confirmed respectively that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular, including this letter, misleading. We have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company, the Subscriber or their respective advisers. We have not, however, conducted an independent verification of the information provided, nor have we carried out an in-depth investigation into the business or affairs of the Group or the Subscriber or the prospects of the markets in which they respectively operate.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Subscription Agreement and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

#### A. The Subscription Agreement

##### 1. *Financial performance and prospects of the Group*

The Group is principally engaged in the provision of internet education services, the selling and installation of computer hardware and software and the provision of computer training services in Hong Kong and the PRC. The Company became listed on GEM in March 2001 by way of a placing of new Shares through which net proceeds of approximately HK\$46.0 million were raised. 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 three financial years ended 30 September 2004 and the latest unaudited financial results of the Group for the three months ended 31 December 2004.

	For the year ended 30 September			For the three months ended 31 December	
	2002	2003	2004	2003	2004
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
<b>Turnover</b>					
– Internet education	3,985	7,775	8,820	2,556	2,270
– Sales and installation of computer hardware and software	3,490	7,484	7,102	1,605	1,420
– Computer training	2,530	3,142	2,553	615	610
– Others	464	1,558	1,731	346	405
	10,469	19,959	20,206	5,122	4,705

## LETTER FROM AMS

	For the year ended 30 September			For the three months ended 31 December	
	2002	2003	2004	2003	2004
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
<b>Segment (loss)/profit</b>					
– Internet education	(13,933)	(6,396)	(3,155)	(769)	(370)
– Sales and installation of computer hardware and software	(2,800)	(2,255)	(1,385)	(101)	(226)
– Computer training	279	754	632	201	168
– Others	(641)	(757)	(282)	73	(39)
	<u>(17,095)</u>	<u>(8,654)</u>	<u>(4,190)</u>	<u>(596)</u>	<u>(467)</u>
Unallocated costs	<u>(1,214)</u>	<u>(952)</u>	<u>(550)</u>	<u>(205)</u>	<u>(217)</u>
<b>Loss from operations</b>	<u><u>(18,309)</u></u>	<u><u>(9,606)</u></u>	<u><u>(4,740)</u></u>	<u><u>(801)</u></u>	<u><u>(684)</u></u>
<b>Loss attributable to shareholders</b>	<u><u>(17,877)</u></u>	<u><u>(9,476)</u></u>	<u><u>(4,205)</u></u>	<u><u>(860)</u></u>	<u><u>(446)</u></u>

For the year ended 30 September 2002

The Group recorded a turnover and a loss from operations of approximately HK\$10.5 million and HK\$18.3 million, respectively. Loss attributable to shareholders amounted to approximately HK\$17.9 million. As indicated in the Company's annual report, the loss for the year was mainly due to the continuing loss recorded by the Group's internet education segment which revenue was yet to reach the critical mass.

For the year ended 30 September 2003

The Group's turnover amounted to approximately HK\$20.0 million, representing a substantial growth of over 90% from the previous year. The Group's financial results also improved significantly as loss attributable to shareholders decreased from approximately HK\$17.9 million to HK\$9.5 million. As stated in the Company's annual report, the improvement in its operating results was mainly due to the Group's cost control on operations and increase in revenue sources.

## LETTER FROM AMS

For the year ended 30 September 2004

While the Group's turnover increased slightly to approximately HK\$20.2 million, the loss attributable to shareholders decreased further from approximately HK\$9.5 million to HK\$4.2 million. As noted from the Company's latest annual report for the year ended 30 September 2004 (the "Annual Report"), the improvement in the Group's operating results was mainly attributable to the Group's continuing efforts in cost control, decrease in depreciation and amortization charges and expanding the revenue base.

For the three months ended 31 December 2004

The unaudited turnover and operating loss of the Group were approximately HK\$4.7 million and HK\$0.7 million, respectively. As compared with the unaudited turnover and operating loss of approximately HK\$5.1 million and HK\$0.8 million, respectively, for the three months ended 31 December 2003, there was a slight drop in the turnover and the operating loss of the Group remained relatively stable for the three months ended 31 December 2004. Loss attributable to shareholders for the three months ended 31 December 2004 narrowed to approximately HK\$0.4 million, representing a further improvement from the net loss of approximately HK\$0.9 million for the corresponding period last year. As discussed with the management of the Company (the "Management"), the operations of the Group during the three months period ended 31 December 2004 were substantially consistent with those of the previous quarters and the Group had continued to adopt cost saving policies in order to preserve its financial resources.

As indicated in the above financial results summary, although there were signs of improvement in the Group's operating results during the period under review, the Group has not yet reported any profit. As stated in the Annual Report, the fact that Hong Kong has the lowest birth rate in the world has created a difficult operating environment for providers of education in Hong Kong, including the Group. Given the lackluster financial performance of the Group during the past three years and the nature of the Group's businesses which focus on providing education via the internet, it 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 potential 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. The successful implementation of the Subscription is expected to bring in a new controlling Shareholder which will not only provide the Group with immediate financial support, but also assist the Group in expanding its existing businesses and diversifying into the property related businesses.

## LETTER FROM AMS

The net proceeds from the Subscription are estimated to be approximately HK\$104.5 million. As stated in the Letter from the Board, the Directors believe that the Subscription will provide the Company the funding needed to diversify into various new businesses, including but not limited to, property management and property investment as well as on-line professional training services such as training programs for real-estate brokers and related license examinations in Hong Kong, Macau and/or the PRC. The Directors also believe that such business diversification will ultimately enhance the Group's revenue stream.

The current plan of the Subscriber and the Management for the new business development following the Completion is set out in the Letter from the Board. Nevertheless, as at the Latest Practicable Date, neither the Company nor the Subscriber had identified or finalized any concrete plans as to the future development of the new businesses of the Group after Completion. Accordingly, we are not in a position to comment on any such business plans. In addition, the Subscriber and the Management currently have no intention to discontinue the existing principal businesses of the Group. As discussed above, the Group has been operating at a loss since its establishment in 1999. However, as indicated by the financial results for the past three years, the Group's businesses have been improving with increased turnover while the operating loss was narrowing. In light of this, we consider it in the interests of the Company and the Shareholders as a whole that the Subscriber intends to explore new business opportunities while continuing to develop the Group's existing principal businesses after the Completion. We also consider that the successful implementation of the Subscription will strengthen the financial position and capital base of the Group, which will be essential for new business developments, and therefore the Subscription is in the interests of the Company and the Shareholders as a whole.

### 2. *Terms of the Subscription Agreement*

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for 4,300,000,000 new Shares, representing approximately 107.5% of the existing issued share capital of the Company or approximately 51.81% of the issued share capital of the Company as enlarged by the Subscription, at the subscription price of HK\$0.025 per Share.

## LETTER FROM AMS

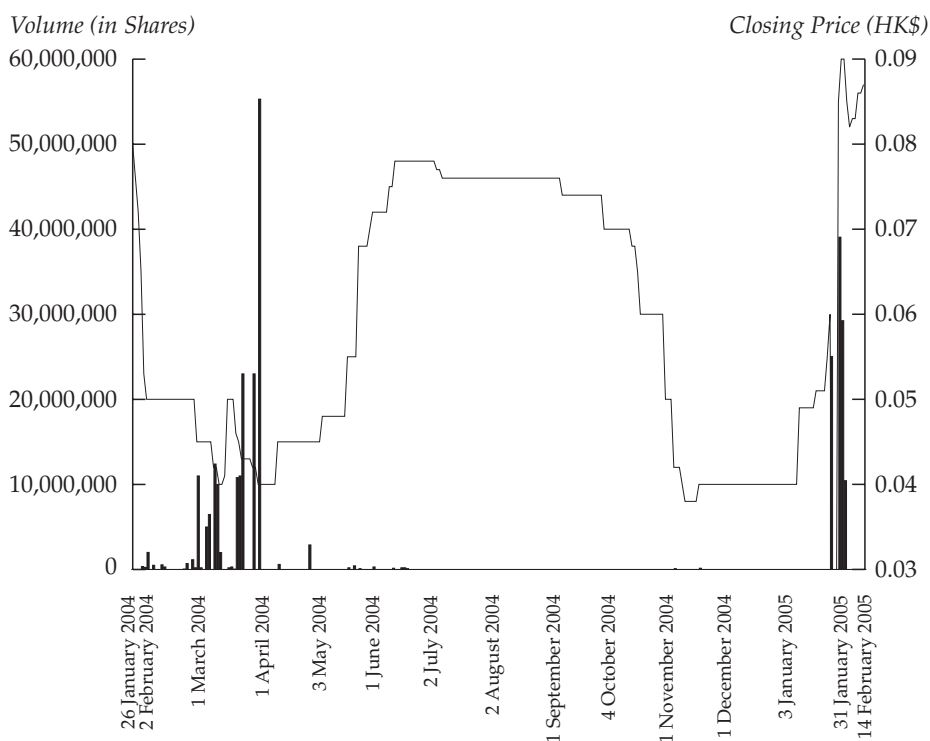
The Subscription Price of HK\$0.025 per Share represents:

- (i) a discount of approximately 58.3% to the closing price of HK\$0.06 per Share as quoted on the Stock Exchange on 24 January 2005, being the last full trading day prior to the suspension of trading in the Shares on the Stock Exchange on 25 January 2005 (the "Suspension Date") pending release of the Announcement;
- (ii) a discount of approximately 51.5% to the average closing price of HK\$0.0515 per Share for the ten consecutive full trading days before the Suspension Date;
- (iii) a discount of approximately 46.0% to the average closing price of approximately HK\$0.0463 per Share for the month before the Suspension Date;
- (iv) a discount of approximately 43.4% to the average closing price of approximately HK\$0.0442 per Share for the three months before the Suspension Date;
- (v) a discount of approximately 57.1% to the average closing price of approximately HK\$0.0583 per Share for the six months before the Suspension Date;
- (vi) a discount of approximately 71.3% to the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vii) a discount of approximately 70.8% to the average closing price of approximately HK\$0.0857 per Share for the period from 27 January 2005 (being the first trading day immediately following the Announcement) to the Latest Practicable Date; and
- (viii) a premium of approximately 509.8% over the audited net tangible asset value of approximately HK\$0.0041 per Share as at 30 September 2004.

## LETTER FROM AMS

### Historical price level of the Shares

The following chart sets out the daily turnover and the closing price of the Shares on the Stock Exchange for the period from 26 January 2004 (being the first trading day of the 12-month period prior to the Suspension Date) to the Latest Practicable Date:



Source: website of the Stock Exchange – [www.hkex.com.hk](http://www.hkex.com.hk)

- (i) During the 12-month period from 26 January 2004 to 24 January 2005 (being the last full trading day before the Suspension Date), the highest closing price per Share was HK\$0.080 which was recorded on 26 January 2004. The lowest closing price per Share was HK\$0.038 which was recorded from 10 November 2004 and up to 16 November 2004. The Subscription Price of HK\$0.025 per Share represents a discount of approximately 68.8% and 34.2% to the highest and the lowest closing prices per Share, respectively, during the 12-month period under review. The Subscription Price of HK\$0.025 per Share is below the lowest closing price of the Shares during such period.
- (ii) During the period from 27 January 2005 (being the first trading day immediately following the Announcement) to the Latest Practicable Date, the highest and the lowest closing prices per Share were HK\$0.090 (recorded on 28 and 31

## LETTER FROM AMS

January 2005) and HK\$0.082 (recorded on 2 February 2005) respectively. The average closing price during this period was HK\$0.0857 per Share. The Subscription Price represents a discount of approximately 70.8% to such average.

- (iii) The Subscription Price represents a discount of approximately 71.3% to the closing price of HK\$0.087 per Share on the Latest Practicable Date as quoted on the Stock Exchange.

Immediately following the Announcement, the market prices of the Shares surged to as high as HK\$0.090 on 28 and 31 January 2005 from HK\$0.06 per Share prior to the Suspension Date. While there may be no conclusive reason for the fluctuation in the Share price, we consider that the rise in market prices of the Shares after the Announcement would probably have been prompted by the positive market response to the Subscription.

For the purpose of assessing the fairness and reasonableness of the Subscription Price, we have identified, to the best of our knowledge, 4 fundraising exercises of companies listed on GEM by way of issue of new shares for amount ranging from about HK\$50 million to HK\$150 million successfully completed during the 12-month period preceding the date of the Announcement (the “Comparables”). Set out below is a summary of such fundraising exercises for the purposes of comparison in terms of the premium/(discount) of the issue price over/to the closing prices immediately before the date of announcement of the respective fundraising exercises:

Company (stock code)	Date of announcement of the fund raising exercise	Number of placing/ subscription shares (in million)	Issue price (in HK\$)	Fund raised (in HK\$ million)	Premium/(discount) of the issue price over/to the	
					Closing price as at the last trading day before the date of the announcement (%)	10-day average closing price up to the last trading day (%)
Golden Meditech Company Limited (8180)	9 January 2004	57.0	2.70	153.9	(10.7)	(4.0)
Beijing Beida Jade Bird Universal Sci-Tech Company Limited (8095)	8 June 2004	80.8	0.75	60.6	(1.3)	(4.3)
Yantai North Andre Juice Company Limited (8259)	28 June 2004	178.5	0.80	142.8	(10.1)	(9.1)
HC International, Inc. (8292)	1 November 2004	40.0	1.63	65.2	(1.2)	(5.1)
The Company	26 January 2005	4,300	0.025	107.5	(58.3)	(51.5)



## LETTER FROM AMS

As shown in the above table, the discount levels represented by the issue prices under the Comparables ranged from approximately 1.2% to 10.7%. The Subscription Price of HK\$0.025 in the case of the Company, which represents a discount of over 50% to the closing price at the last trading day as well as the average closing price for a 10-day period immediately before the date of the Announcement, is way above such range and does not seem to be favorable as far as the Shareholders are concerned.

Nevertheless, we have noted that the Shares had historically been traded at levels above its net asset value. As at 30 September 2004, the audited consolidated net tangible asset value per Share was approximately HK\$0.0041. The historical market prices of the Shares during the 12-month period prior to the Suspension Date were between HK\$0.038 and HK\$0.080, which represented a significant premium over the net tangible asset value of the Share. While there is no conclusive reason for the historical price levels of the Shares, we do not consider such relatively high share prices had been supported by good earnings prospects or strong fundamentals. Therefore, we are of the view that the historical price levels of the Shares do not provide a reasonable basis for comparison in assessing the fairness and reasonableness of the Subscription Price.

### **Historical Liquidity of the Shares**

The following table sets out the average daily trading volume and the relative value as a percentage of the Free Float Shares (as defined below) for the period commencing from 26 January 2004 (being the first

## LETTER FROM AMS

trading day of the twelve months prior to the Suspension Date) to the Latest Practicable Date:

<b>Month</b>	<b>Average daily trading volume (in Shares)</b>	<b>Percentage of the Free Float Shares* (%)</b>
<b>2004</b>		
January (from 26 January 2004)	120,000	0.01
February	833,500	0.07
March	6,935,652	0.56
April	183,684	0.01
May	51,500	Negligible
June	30,952	Negligible
July	0	0
August	0	0
September	0	0
October	0	0
November	11,364	Negligible
December	0	0
<b>2005</b>		
January (up to the Suspension Date)	1,565,625	0.13
From 27 January 2005, being the first trading Day immediately following the Announcement, up to and including the Latest Practicable Date	12,471,000	1.01

Source: website of the Stock Exchange – [www.hkex.com.hk](http://www.hkex.com.hk)

\* Based on 1,237,190,000 Shares (the “Free Float Shares”), being the total number of Shares in issue as at the Latest Practicable Date after deducting a total of 2,762,810,000 Shares which was beneficially owned by the controlling shareholder (as defined in the GEM Listing Rules) of the Company, namely Mr. Pong Wai San, Wilson, an executive Director and the founder of the Company.

As noted from the above table, the trading volume of the Shares during the period before the Suspension Date was thin with the highest average daily turnover amounted to approximately 6,935,652 Shares, equivalent to approximately 0.56% of the Free Float Shares. There was no trading in the Shares during the months of July to October as well as December in 2004. Independent Shareholders should note that out of a total of 251 trading days during the 12-month period prior to the Suspension Date, there was trading in the Shares in only 38 days. Independent Shareholders should also note that

## LETTER FROM AMS

the average daily turnover of the Shares during such period was constantly far below 0.6% of the Free Float Shares.

After the trading of Shares was resumed on 27 January 2005, the trading volume of the Shares increased substantially and the daily turnover reached as high as 39,070,000 Shares on 27 January 2005, representing approximately 3.2% of the Free Float Shares. Such increase would have been triggered by the rise in the market price of the Shares following the release of the Announcement. We believe that the increase in the market price and the trading volume of the Shares following the release of the Announcement may reflect the expectation of the Shareholders and potential investors in respect of the benefits that the Subscription will bring to the Company.

Given the lackluster financial performance of the Group and the low liquidity of the Shares, we consider that it would be very difficult, if not impossible, for the Company to raise a meaningful amount of equity at a level close to the market price of the Shares. Despite the fact that the Subscription Price represents a discount to the historical market price of the Shares, Shareholders should consider the positive financial effects of the Subscription, details of which will be discussed below.

### 3. *Financial effects of the Subscription*

#### **Effect on net tangible asset value**

As disclosed in the section headed “Unaudited pro forma statement of assets and liabilities” in Appendix I to the Circular, based on the audited consolidated net tangible asset value of approximately HK\$16.3 million as at 30 September 2004 and the estimated net proceeds from the Subscription of approximately HK\$104.5 million, the pro forma unaudited adjusted consolidated net tangible asset value of the Group will increase to approximately HK\$120.8 million as a result of the Completion, representing approximately HK\$0.015 per Share on the basis of 8,300,000,000 Shares in issue following the Completion. Such pro forma unaudited adjusted consolidated net tangible value of approximately HK\$0.015 per Share represents an increase of approximately 265.9% as compared with the audited consolidated net tangible asset value of approximately HK\$0.0041 per Share before the Completion.

Based on the enhancement on the net tangible asset value per Share as a result of the Subscription, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

## LETTER FROM AMS

### Liquidity and cash position

Based on the audited consolidated balance sheet of the Group as at 30 September 2004, the Group had cash and bank deposits of approximately HK\$19.1 million and net current assets of approximately HK\$17.8 million. As noted from the indebtedness statement of the Group contained in Appendix I to the Circular, the Group did not have any bank borrowings or outstanding loan as at 31 December 2004 except for the amount due to minority shareholders of the Company's subsidiaries in the amount of approximately HK\$660,000, which was subsequently reduced by HK\$280,000.

Assuming the financial position of the Group immediately before the Completion would not be materially different from that as at 30 September 2004, the cash and bank deposits of the Group is estimated to increase to approximately HK\$123.6 million as a result of the Subscription. In addition, the Group is estimated to have net current assets of approximately HK\$122.3 million or a current ratio of approximately 21.7 times, which represents a significant increase from the current ratio of approximately 4.0 times as at 30 September 2004. On the basis that the Subscription will substantially strengthen the cash position and liquidity of the Group, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

#### 4. *Background of the Subscriber*

As stated in the Letter from the Board, the Subscriber is an indirect wholly-owned subsidiary of Midland. The Midland Group is principally engaged in property broking service in Hong Kong, Macau and the PRC and has been listed on the Main Board since 1995. The following five year financial summary of the Midland Group has been extracted from the latest annual report of Midland for the year ended 31 December 2003.

	For the year ended 31 December				
	1999	2000	2001	2002	2003
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Turnover	727,232	780,014	916,446	911,711	1,179,963
Profit/(loss) attributable to shareholders	50,691	53,290	40,967	(73,725)	122,749
Total assets	742,185	945,303	952,109	703,690	1,013,415
Total liabilities	254,387	436,468	415,042	255,110	441,916
Net assets	478,260	492,358	518,819	442,175	563,144

## LETTER FROM AMS

As noted from the above summary, the Midland Group had recorded profits for the last five financial years except in 2002 when 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 2003, the Midland Group recorded an audited turnover and profit attributable to shareholders of approximately HK\$1,180.0 million and HK\$122.7 million, respectively. As at 31 December 2003, the Midland Group had total assets of over HK\$1,000 million. In addition, based on the interim report of Midland for the six months ended 30 June 2004, the Midland Group recorded an unaudited turnover and profit attributable to shareholders of approximately HK\$952.1 million and HK\$165.8 million, respectively. As at the date of the Subscription Agreement, the market capitalization of Midland was over HK\$2,700 million.

As mentioned in the Letter from the Board, Midland believes that the Company is an appropriate platform upon which to develop and promote on-line training programs for the practitioners in the real estate broking business and/or other regulated or licensed servicing industries in Hong Kong, Macau and the PRC. Upon Completion, the Subscriber will nominate three directors to the Board and two executive Directors will resign from the Board and Mr. Pong will also resign as Chairman but remain as an executive Director and the Chief Executive Officer of the Company. It is not expected that there will be any material change to the continued employment of the general management and employees of the Group by reason of the Subscription. As mentioned above, since the Company or the Subscriber had not yet identified or finalized any concrete plans as to the future business development of the Group after Completion, we are unable to comment on the business prospects of the Group as a result of any investment plans currently under formulation. Nevertheless, in view of the established track record and management expertise of the Midland Group, which is one of the leading property agencies in Hong Kong, we are of the view that the Group will benefit not only financially as a result of the Subscription, but also in a strengthened management team and a stronger foundation for business expansion and exploring new investment opportunities, particularly in areas related to property investment and management as well as real estate agency and related services.

### 5. *Dilution effect on shareholding*

If the Subscription Agreement is approved and becomes unconditional, the Company will issue 4,300,000,000 new Shares, representing approximately 107.5% of the existing issued share capital of the Company or approximately 51.81% of the issued share capital of the Company as enlarged by the Subscription. On this basis, the aggregate shareholding interests of the Independent Shareholders in the Company will be diluted by approximately 51.8% from approximately 30.93% to 14.91%. Having considered i) the favorable impact on the Group's liquidity and cash position; ii) the significant enhancement on the Group's net tangible asset value; iii) the opportunity to expand and diversify the Group's businesses; iv) the introduction of Midland, one of the leading property agencies in Hong Kong, as the controlling

## LETTER FROM AMS

Shareholder and v) the dilution effect of the Subscription on all the Shareholders is the same, 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.

### **B. THE WHITEWASH WAIVER**

Following the Completion, the Subscriber will be interested in approximately 51.81% of the enlarged issued share capital of the Company. In accordance with Rule 26.1 of the Takeovers Code, the Subscriber and parties acting in concert with it are obliged to make a mandatory general offer for all the issued Shares other than those already held by the Subscriber or parties acting in concert with it.

Midland has applied to the Executive for a waiver from its obligations to comply with the requirement pursuant to Note 1 on dispensation from Rule 26 of the Takeovers Code. The Subscription Agreement is conditional on the approval of the Whitewash Waiver by the Independent Shareholders by way of a poll at the Extraordinary General Meeting and on the grant of the Whitewash Waiver by the Executive. The Executive has indicated, subject to the approval by the Independent Shareholders on a vote taken by way of poll, to waive any obligations of the Subscriber and the parties acting in concert with it to make a general offer which might result from the Completion. As mentioned in the Circular, the grant of the Whitewash Waiver from the Executive is one of the conditions precedent to the Subscription Agreement which will not be waived by the Subscriber.

Based on our analysis of the terms of the Subscription Agreement as set out above, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the Subscription Agreement will be terminated in accordance with its terms and the Company will lose all the benefits and business opportunities that are expected to be brought by the successful completion of the Subscription. Accordingly, we are in the opinion that for the purposes of implementing the Subscription as discussed above, the grant of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable as far as the Independent Shareholders are concerned.

Shareholders should note that upon completion of the Subscription Agreement, the Subscriber will hold more than 50% of the enlarged issued share capital of the Company. Accordingly, so long as the minimum 20% public float requirement of the GEM Listing Rules is observed, the Subscriber may purchase additional Shares without incurring further obligations to make a general offer under the Takeovers Code.

## LETTER FROM AMS

### RECOMMENDATION

Having considered the factors and reasons set out above, we consider that each of the Subscription Agreement and the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and the respective terms of which are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolutions in relation to the Subscription Agreement and the Whitewash Waiver to be proposed at the Extraordinary General Meeting.

Yours faithfully,  
For and on behalf of  
**AMS Corporate Finance Limited**  
**Jinny Mok**  
*Director*

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following the completion of Subscription Agreement will be as follows:

	<i>HK\$</i>
<i>Authorised:</i>	
50,000,000,000 Shares as at the Latest Practicable Date	500,000,000
<i>Issued and fully paid:</i>	
4,000,000,000 Shares in issue as at the Latest Practicable Date	40,000,000
4,300,000,000 Issue of the Subscription Shares	43,000,000
8,300,000,000 Shares in issue upon completion of the Subscription Agreement	83,000,000

All the existing Shares rank *pari passu* in all respects including all rights as to dividends, voting and capital. The Subscription Shares, when issued, will rank *pari passu* in all respects with the Shares then in issue including as regards to dividends, voting and return of capital. There have been no changes to the authorised and issued share capital of the Company since 30 September 2004 (being the end of the last financial year of the Company) up to the Latest Practicable Date.

The Company currently has two share options schemes which are detailed as follows:

### *Pre-IPO Share Option Scheme*

The Company adopted a share option scheme (the “Pre-IPO Share Option Scheme”) on 28th February, 2001. Under the Pre-IPO Share Option Scheme, options were granted to executive directors and certain employees of the Company to subscribe for an aggregate of 255,000,000 Shares at a price of HK\$0.076, exercisable during a three-year period from 15 March 2002 to 14 March 2005. The maximum number of Shares in which employees and executive Directors are entitled to subscribe for by exercising the options under the Pre-IPO Share Option Scheme shall not exceed (i) 30% of the total number of options during the first year of the three-year period; (ii) 60% of the total number of options during the second year of the three-year period; (iii) the remaining unexercised options during the third year of the three-year period. As at the Latest Practicable Date, options to subscribe for 220,000,000 Shares remaining outstanding under the Pre-IPO Share Option Scheme, of which options to subscribe 210,000,000 Shares were granted to the executive Directors, the details of which are set out under the section headed “Disclosure of interests” in Appendix II to this circular. The remaining options to subscribe for 10,000,000 Shares were granted to a consultant and employees of the Group.



*Post-IPO Share Option Scheme*

The Company adopted another share option scheme ("Post-IPO Share Option Scheme") on 28 February 2001, pursuant to which the Board may grant options to employees and executive directors of the Company to subscribe for Shares, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time. As at the Latest Practicable Date, options to subscribe for 12,000,000 Shares at an exercise price of HK\$0.208 remain outstanding under the Share Option Scheme, of which option to subscribe for 2,500,000 Shares were granted to an executive Director and the remaining options to subscribe for 9,500,000 Shares were granted to employees of the Group.

**2. SUMMARY OF CONSOLIDATED PROFIT AND LOSS ACCOUNT**

The following is a summary of the audited consolidated profit and loss accounts of the Group for each of the three years ended 30 September 2004 and the unaudited consolidated profit and loss accounts for three months ended 31 December 2004:

	Year ended 30 September			Three months ended
	2002	2003	2004	31 December 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>10,469</u>	<u>19,959</u>	<u>20,206</u>	<u>4,705</u>
Loss before taxation	(17,784)	(9,359)	(4,505)	(623)
Taxation	<u>(40)</u>	<u>(76)</u>	<u>(16)</u>	<u>(17)</u>
Loss before minority interests	(17,824)	(9,435)	(4,521)	(640)
Minority interests	<u>(53)</u>	<u>(41)</u>	<u>316</u>	<u>194</u>
Loss attributable to Shareholders	<u>(17,877)</u>	<u>(9,476)</u>	<u>(4,205)</u>	<u>(446)</u>
Loss per Share ( <i>cents</i> )				
– Basic ( <i>Note</i> )	<u>(0.45)</u>	<u>(0.24)</u>	<u>(0.11)</u>	<u>(0.01)</u>

*Note:* The loss per Share figures are calculated based on the weighted average number of 4,000,000,000 Shares in issue for each of the above-mentioned year/period. There were no dilutive potential ordinary shares in existence during each of the above-mentioned year/period.

The Group does not have any extraordinary items for each of the above-mentioned year/period.

## 3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the reproduction of the audited financial statements of the Group for the year ended 30 September 2004 as extracted from the Company's Annual Report 2004:

**"CONSOLIDATED INCOME STATEMENT**

*For the year ended 30 September 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	3	20,206	19,959
Costs of merchandise		(5,450)	(6,301)
Costs of internet connectivity fee		(291)	(525)
Staff costs		(10,039)	(10,248)
Depreciation		(1,306)	(3,269)
Amortisation of intangible assets		(1,645)	(2,963)
General and administrative expenses		(6,215)	(6,259)
Operating loss	4	(4,740)	(9,606)
Interest income	3	235	247
Loss before taxation		(4,505)	(9,359)
Taxation	7	(16)	(76)
Loss before minority interests		(4,521)	(9,435)
Minority interests		316	(41)
Loss attributable to shareholders	8	(4,205)	(9,476)
Loss per share	9		
– Basic		<u>HK(0.11) cent</u>	<u>HK(0.24) cent</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

As at 30 September 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	741	1,662
Intangible assets	11	2,533	1,728
Total non-current assets		<u>3,274</u>	<u>3,390</u>
Current assets			
Trade receivables	13	3,566	3,545
Due from customers on installation contracts	14	135	800
Prepayments, deposits and other current assets		863	647
Cash and bank deposits		19,123	21,917
Total current assets		<u>23,687</u>	<u>26,909</u>
Current liabilities			
Trade payables	15	(969)	(1,847)
Accruals and other payables		(1,739)	(1,922)
Deposits from customers		(2,473)	(2,918)
Due to minority shareholders of subsidiaries	16	(660)	(460)
Provision for tax		(34)	(67)
Total current liabilities		<u>(5,875)</u>	<u>(7,214)</u>
Net current assets		<u>17,812</u>	<u>19,695</u>
Total assets less current liabilities		21,086	23,085
Minority interests	17	(2,225)	(91)
Net assets		<u>18,861</u>	<u>22,994</u>
CAPITAL AND RESERVES			
Share capital	18	40,000	40,000
Reserves	20	37,362	37,290
Accumulated deficits	21	(58,501)	(54,296)
Shareholders' funds		<u>18,861</u>	<u>22,994</u>

**BALANCE SHEET***As at 30 September 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	12	18,851	10,020
Current assets			
Prepayments, deposits and other current assets		–	4
Cash and bank deposits		5	13,074
		5	13,078
Current liability			
Due to a director		–	(18)
Net current assets		5	13,060
Net assets		18,856	23,080
CAPITAL AND RESERVES			
Share capital	18	40,000	40,000
Reserves	20	24,881	24,881
Accumulated deficits	21	(46,025)	(41,801)
Shareholders' funds		18,856	23,080

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2004

	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities		
Loss before taxation	(4,505)	(9,359)
Adjustments for:		
Depreciation	1,306	3,269
Amortisation of intangible assets	1,645	2,963
Interest income	(235)	(247)
Loss on disposal of property, plant and equipment	–	53
	<hr/>	<hr/>
Operating loss before working capital changes	(1,789)	(3,321)
Increase in trade receivables	(21)	(639)
Decrease/(Increase) in due from customers on installation contracts	665	(1,026)
(Increase)/Decrease in prepayments, deposits and other current assets	(180)	137
(Decrease)/Increase in trade payables	(878)	896
Decrease in accruals and other payables	(147)	(144)
(Decrease)/Increase in deposits from customers	(445)	1,282
	<hr/>	<hr/>
Cash used in operations	(2,795)	(2,815)
Interest received	235	247
Income tax paid	(49)	(133)
	<hr/>	<hr/>
<i>Net cash used in operating activities</i>	<hr/> <i>(2,609)</i>	<hr/> <i>(2,701)</i>
Cash flows from investing activities		
Purchase of property, plant and equipment	(385)	(341)
Additions of intangible assets	–	(104)
	<hr/>	<hr/>
<i>Net cash used in investing activities</i>	<hr/> <i>(385)</i>	<hr/> <i>(445)</i>
Cash flows from financing activities		
Increase in due to minority shareholders of subsidiaries	200	–
	<hr/>	<hr/>
<i>Net cash from financing activities</i>	<hr/> <i>200</i>	<hr/> <i>–</i>
Net decrease in cash and cash equivalents	(2,794)	(3,146)
Cash and cash equivalents at beginning of year	21,917	25,063
	<hr/>	<hr/>
Cash and cash equivalents at end of year	<u>19,123</u>	<u>21,917</u>
Analysis of cash and cash equivalents:		
Cash and bank deposits	<u>19,123</u>	<u>21,917</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 30 September 2004*

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Total equity at beginning of year	22,994	32,470
Exchange translation differences	72	–
Loss attributable to shareholders	<u>(4,205)</u>	<u>(9,476)</u>
Total equity at end of year	<u><u>18,861</u></u>	<u><u>22,994</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands. The directors consider the Company's ultimate holding company is Summerview Enterprises Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 12 to the financial statements.

### 2. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements on pages 26 to 55 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention.

#### *Adoption of revised SSAP*

In the current year, the Company has adopted Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional arrangements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the current and prior years' net assets and results and accordingly, no prior year adjustment is required.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th September each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All material intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

**(c) Subsidiaries**

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

**(d) Property, plant and equipment***(i) Depreciation and amortisation*

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	50% or over the unexpired lease terms
Furniture and office equipment	25% to 33%
Computer equipment	20% to 33%

*(ii) Measurement bases*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the income statement.

**(e) Intangibles***(i) Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition/ investment over the Group's share of the fair value of the identifiable assets and liabilities acquired/invested. Goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 5 years. Goodwill is stated in the consolidated balance sheet at gross amount less accumulated amortisation and impairment losses.

*(ii) 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.

(iii) *Licensing rights*

Costs of licensing rights acquired during the year 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.

**(f) Impairment**

The carrying amounts of the Group's and Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price 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 assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversals of impairment*

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed 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.

**(g) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

**(h) Trade receivables**

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

**(i) 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.

**(j) Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

**(k) Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation 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 of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**(l) Contingent liabilities and contingent assets**

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 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 benefits 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.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(m) Income tax**

Income tax comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(n) Revenue recognition**

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group, on the following basis:

*(i) Sale and installation of computer hardware and software*

The Group enters into contracts with customers whereby the sale and installation of computer hardware and software are bundled together in one contract. Revenue from such contracts is 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.

(ii) *Service fees*

Service fees are recognised when the related services are rendered.

(iii) *Interest income*

Interest income is recognised on a time-proportion basis, taking into account the principal outstanding and the interest rates applicable.

**(o) Employee benefits**

(i) *Employee 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.

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

(ii) *Bonus plans*

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Pension obligations*

The Group contributes to a number of defined contribution retirement schemes which are available to all employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the schemes. The Group's contributions to these defined contribution retirement schemes are expensed as incurred.

Subsidiaries incorporated in the People's Republic of China other than Hong Kong ("PRC") participate in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to the income statement when incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(iv) *Share options*

No employee compensation cost is recognised when options are granted. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

**(p) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**(q) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**(r) 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, receivables and excluding operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to intangible assets and property, plant and equipment.

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

**3. TURNOVER, REVENUE AND SEGMENT REPORTING**

The Group is principally engaged in provision of internet education services, sale and installation of computer hardware and software and provision of computer training services. Revenues recognised during the year are as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover		
Internet education fee	8,820	7,775
Sales and installation of computer hardware and software	7,102	7,484
Computer training fee	2,553	3,142
Others	1,731	1,558
	<u>20,206</u>	<u>19,959</u>
Interest income	<u>235</u>	<u>247</u>
Total revenues	<u><u>20,441</u></u>	<u><u>20,206</u></u>

## (a) Business segments

The Group operates under three main business segments, namely internet education, sales and installation of computer hardware and software and computer training.

	Internet education 2004 HK\$'000	Sales and installation of computer hardware and software 2004 HK\$'000	Computer training 2004 HK\$'000	Others 2004 HK\$'000	Group 2004 HK\$'000
Turnover	<u>8,820</u>	<u>7,102</u>	<u>2,553</u>	<u>1,731</u>	<u>20,206</u>
Segment (loss)/profit	<u>(3,155)</u>	<u>(1,385)</u>	<u>632</u>	<u>(282)</u>	<u>(4,190)</u>
Unallocated costs					<u>(550)</u>
Operating loss					<u>(4,740)</u>
Interest income					<u>235</u>
Loss before taxation					<u>(4,505)</u>
Taxation					<u>(16)</u>
Loss before minority interests					<u>(4,521)</u>
Minority interests					<u>316</u>
Loss attributable to shareholders					<u><u>(4,205)</u></u>
Segment assets	3,735	2,972	649	187	7,543
Unallocated assets					<u>19,418</u>
Total assets					<u><u>26,961</u></u>
Segment liabilities	3,167	1,177	405	292	5,041
Unallocated liabilities					<u>834</u>
Total liabilities					<u><u>5,875</u></u>
Capital expenditure	2,835	-	-	-	2,835
Depreciation	1,306	-	-	-	1,306
Amortisation	<u>907</u>	<u>369</u>	<u>369</u>	<u>-</u>	<u><u>1,645</u></u>

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

	Internet education 2003 <i>HK\$'000</i>	Sales and installation of computer hardware and software 2003 <i>HK\$'000</i>	Computer training 2003 <i>HK\$'000</i>	Others 2003 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Turnover	7,775	7,484	3,142	1,558	19,959
Segment (loss)/profit	(6,396)	(2,255)	754	(757)	(8,654)
Unallocated costs					(952)
Operating loss					(9,606)
Interest income					247
Loss before taxation					(9,359)
Taxation					(76)
Loss after taxation					(9,435)
Minority interests					(41)
Loss attributable to shareholders					<u>(9,476)</u>
Segment assets	2,966	3,593	1,083	251	7,893
Unallocated assets					22,406
Total assets					<u>30,299</u>
Segment liabilities	3,107	2,120	466	497	6,190
Unallocated liabilities					1,024
Total liabilities					<u>7,214</u>
Capital expenditure	445	-	-	-	445
Depreciation	3,269	-	-	-	3,269
Amortisation	2,112	426	425	-	2,963

**(b) Geographical segments**

A geographical analysis of the Group's revenue is not presented as the Group's revenue in geographical segments other than Hong Kong are less than 10% of the aggregate amount of all segments.

The following tables show the carrying amount of segment assets and additions to property, plant, equipment and intangible assets by geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant, equipment and intangible assets	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK'000	HK\$'000
Hong Kong	19,997	30,299	164	445
PRC	6,964	–	2,671	–
	<u>26,961</u>	<u>30,299</u>	<u>2,835</u>	<u>445</u>

**4. OPERATING LOSS**

Operating loss is arrived at after charging:

	2004	2003
	HK\$'000	HK\$'000
Costs of merchandise	5,450	6,301
Costs of internet connectivity fee	291	525
Staff costs (including directors' emoluments (Note 5))	10,039	10,248
Operating lease rentals in respect of		
– premises	1,861	1,562
– computer servers	219	434
Depreciation	1,306	3,269
Amortisation of intangible assets		
– Website development costs	636	2,112
– Goodwill	1,009	851
Provision for doubtful debts	59	284
Auditors' remuneration	<u>180</u>	<u>308</u>



## 5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid/payable to directors of the Company during the year are:

	2004 HK\$'000	2003 HK\$'000
Fees for executive directors	–	–
Fees for independent non-executive directors	–	–
Other emoluments for executive directors		
– Salaries and allowances	1,090	1,200
– Pension costs – defined contribution retirement schemes	24	24
Other emoluments for independent non-executive directors		
– Salaries and allowances	50	50
	<u>1,164</u>	<u>1,274</u>

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2004	2003
Executive directors		
– Nil to HK\$1,000,000	4	4
Independent non-executive directors		
– Nil to HK\$1,000,000	3	3
	<u>7</u>	<u>7</u>

The executive directors received individual emoluments for the year ended 30th September, 2004 of approximately HK\$568,000 (2003: HK\$612,000), HK\$546,000 (2003: HK\$612,000), HK\$12 (2003: HK\$12) and HK\$12 (2003: HK\$12), respectively.

The independent non-executive directors received individual emoluments for the year ended 30th September, 2004 of approximately HK\$50,000 (2003: HK\$50,000), Nil (2003: Nil) and Nil (2003: Nil), respectively.

- (b) The five highest paid individuals during the year included two (2003: two) directors, details of whose emoluments are set out in Note 5(a) above. Details of emoluments of the remaining three (2003: three) non-director highest paid individuals for the year are set out below:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	1,254	1,337
Pension costs – defined contribution retirement schemes	36	36
	<u>1,290</u>	<u>1,373</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office. The emoluments of all of the five highest paid individuals (including directors and other employees) fall within the range of Nil to HK\$1,000,000.

#### 6. STAFF COSTS

Staff costs, including directors' emoluments, consisted of:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	9,343	9,264
Unutilised annual leave	–	289
Pension costs – defined contribution retirement schemes	696	695
	<u>10,039</u>	<u>10,248</u>

#### 7. TAXATION

The charge comprises:

	2004 HK\$'000	2003 HK\$'000
Current tax – Hong Kong profits tax	<u>16</u>	<u>76</u>

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

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(4,505)</u>	<u>(9,359)</u>
Tax on loss, calculated at the rates applicable to losses in the tax jurisdictions concerned	(647)	(1,638)
Tax effect of non-deductible expenses	196	746
Tax effect of non-taxable revenue	(60)	(43)
Tax effect of deductible temporary differences not recognised	<u>527</u>	<u>1,011</u>
Total taxation	<u>16</u>	<u>76</u>

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

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. PRC tax is provided in accordance with the legislation and tax rates prevailing in the PRC.

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

	2004 HK\$'000	Group 2003 HK\$'000
Accelerated depreciation allowance	(85)	168
Tax loss*	(9,362)	(8,357)
Effect of change in tax rate	<u>–</u>	<u>(731)</u>
	<u>(9,447)</u>	<u>(8,920)</u>

\* Tax loss of the Group is subject to the agreement of the Hong Kong Inland Revenue Department and can be carried forward indefinitely.

#### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$4,224,000 (2003: HK\$9,810,000).

#### 9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately HK\$4,205,000 (2003: HK\$9,476,000) and on 4,000,000,000 shares (2003: 4,000,000,000 shares) in issue during the year.

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

## 10. PROPERTY, PLANT AND EQUIPMENT

	Group			Total HK\$'000
	Leasehold improvements HK\$'000	Furniture and office equipment HK\$'000	Computer equipment HK\$'000	
Cost				
At 1st October, 2003	1,788	715	8,161	10,664
Additions	77	31	277	385
Disposals	–	(7)	(2,184)	(2,191)
	<u>1,865</u>	<u>739</u>	<u>6,254</u>	<u>8,858</u>
At 30th September, 2004				
Accumulated depreciation				
At 1st October, 2003	1,758	639	6,605	9,002
Charge for the year	29	64	1,213	1,306
Disposals	–	(7)	(2,184)	(2,191)
	<u>1,787</u>	<u>696</u>	<u>5,634</u>	<u>8,117</u>
At 30th September, 2004				
Net book value				
At 30th September, 2004	<u>78</u>	<u>43</u>	<u>620</u>	<u>741</u>
At 30th September, 2003	<u>30</u>	<u>76</u>	<u>1,556</u>	<u>1,662</u>

## 11. INTANGIBLE ASSETS

	Group			Total HK\$'000
	Website development costs HK\$'000	Goodwill HK\$'000	Licensing rights HK\$'000	
At 1st October, 2003	702	1,026	–	1,728
Additions	–	2,450	–	2,450
Amortisation during the year	(636)	(1,009)	–	(1,645)
	<u>66</u>	<u>2,467</u>	<u>–</u>	<u>2,533</u>
At 30th September, 2004				
At 30th September, 2004				
Cost/Gross amount	6,534	4,961	6,318	17,813
Accumulated amortisation and impairment loss	(6,468)	(2,494)	(6,318)	(15,280)
	<u>66</u>	<u>2,467</u>	<u>–</u>	<u>2,533</u>
Net book value				
At 30th September, 2003	<u>702</u>	<u>1,026</u>	<u>–</u>	<u>1,728</u>
Cost/Gross amount	6,534	2,511	6,318	15,363
Accumulated amortisation and impairment loss	(5,832)	(1,485)	(6,318)	(13,635)
	<u>702</u>	<u>1,026</u>	<u>–</u>	<u>1,728</u>
Net book value				

## 12. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2,608	2,608
Due from subsidiaries	63,061	49,980
	<hr/>	<hr/>
<i>Less: accumulated impairment losses</i>	<i>65,669</i>	<i>52,588</i>
	<i>(46,818)</i>	<i>(42,568)</i>
	<hr/>	<hr/>
	<b>18,851</b>	<b>10,020</b>
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The outstanding balances with the subsidiaries are unsecured, interest-free and not repayable until the subsidiaries are financially capable to do so.

The following is a list of the subsidiaries as at 30th September, 2004:

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Interest held	Principal activities and place of operation
Network Focus Consultancy Corporation	British Virgin Islands, limited liability company	US\$2,000	100%*	Investment holding in Hong Kong
EVI Services Limited	Hong Kong, limited liability company	HK\$21,053	100%	Sales and installation of computer hardware and software, provision of computer training services and internet education services in Hong Kong
Jaques Kurtz Company Limited	British Virgin Islands, limited liability company	US\$1	100%	Inactive
Sino Sky Enterprises Limited	Hong Kong, limited liability company	HK\$2	100%	Provision of office administrative services to the Group in Hong Kong
Web Work Industries Limited	British Virgin Islands, limited liability company	US\$1	100%	Development of information technology system and infrastructure in Hong Kong
EVI MP Limited	British Virgin Islands, limited liability company	US\$1	100%	Provision of internet education services, design and media production in Hong Kong
Value Media International Limited	British Virgin Islands, limited liability company	US\$100	100%	Investment holding in Hong Kong

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Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Interest held	Principal activities and place of operation
System New International Limited	British Virgin Islands, limited liability company	US\$100	75%	Inactive
Silicon Workshop Limited	Hong Kong, limited liability company	HK\$100	80%	Sales and installation of computer hardware and software and provision of computer training services in Hong Kong
I-CUBE Education Limited	Hong Kong, limited liability company	HK\$10	60%	Provision of internet education services and design and media production, provision of internet education games in Hong Kong
廣州搖籃軟件開發有限公司	PRC, foreign wholly-owned limited liability company	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	HK\$5,000,000	51%	Development and sales of computer software and provision of technical support and after-sales services in the PRC

\* *Shares held directly by the Company.*

**13. TRADE RECEIVABLES**

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

At 30th September, 2004, the ageing analysis of the Group's trade receivables was as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	2,060	2,329
31 – 60 days	994	452
61 – 90 days	125	166
91 – 180 days	914	1,066
	<hr/>	<hr/>
	4,093	4,013
Less: provision for doubtful debts	(527)	(468)
	<hr/>	<hr/>
	<b>3,566</b>	<b>3,545</b>
	<hr/> <hr/>	<hr/> <hr/>

## 14. INSTALLATION WORK IN PROGRESS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus attributable profits less foreseeable losses to date	330	1,026
Less: progress billings to date	(195)	(226)
	<u>135</u>	<u>800</u>
Included in current assets under the following captions:		
Due from customers on installation contracts	<u>135</u>	<u>800</u>

As at 30th September, 2004, no retention was held by customers for contract work (2003: Nil).

## 15. TRADE PAYABLES

At 30th September, 2004, the ageing analysis of the Group's trade payables was as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	703	1,416
31 – 60 days	198	336
61 – 90 days	13	16
91 – 180 days	55	79
	<u>969</u>	<u>1,847</u>

## 16. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The balances due are unsecured, interest-free and have no fixed terms of repayment.

## 17. MINORITY INTERESTS

	<i>HK\$'000</i>
At 1st October, 2002	50
Share of profit of a subsidiary	<u>41</u>
At 30th September, 2003 and at 1st October, 2003	91
Establishment of a subsidiary	2,450
Share of net loss of subsidiaries	<u>(316)</u>
At 30th September, 2004	<u>2,225</u>

## 18. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
4,000,000,000 ordinary shares of HK\$0.01 each	<u>40,000</u>	<u>40,000</u>

## 19. SHARE OPTIONS

- (a) The Company adopted a share option scheme ("Pre-IPO Share Option Scheme") on 28th February, 2001. On the same date, options were granted to the executive directors and other employees of the Group to subscribe for an aggregate of 255,000,000 shares (as adjusted by the share subdivision on 30th November, 2001) of the Company at a price of HK\$0.076 per share (as adjusted), exercisable during a three-year period from 15th March, 2002 to 14th March, 2005. Maximum number of shares in which employees are entitled to subscribe for by exercising the options shall not exceed (a) 30% of the total number of options during the first year of the three-year period; (b) 60% of the total number of the options during the second year of the three-year period; and (c) the remaining unexercised options during the third year of the three-year period.

Movements of the share options under the Pre-IPO Share Option Scheme during the year ended 30th September, 2004 are as follows:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Number of shares			End of year
				Granted during the year	Lapsed during the year	Exercised during the year	
28th February, 2001	15th March, 2002 to 14th March, 2005	HK\$0.076	221,500	-	(1,500)	-	220,000

- (b) The Company adopted another share option scheme ("Share Option Scheme") on 28th February, 2001, pursuant to which it may grant options to employees (including executive directors) 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 subscription 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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

On 31st October, 2001, the Company granted 25,000,000 options (as adjusted) to certain employees of the Group to subscribe for the Company's shares in accordance with the Share Option Scheme. The share options are exercisable during the period from 1st November, 2002 to 31st October, 2005 at a subscription price of HK\$0.208 per share (as adjusted). During the year, 7,000,000 (2003: 2,000,000) of these options lapsed in connection with the cessation of employment of certain employees.



Movements of the share options under the Share Option Scheme during the year ended 30th September, 2004 are as follows:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Number of shares			End of year
				Granted during the year	Lapsed during the year	Exercised during the year	
31st October, 2001	1st November, 2002 to 31st October, 2005	HK\$0.208	21,000	-	(7,000)	-	14,000

## 20. RESERVES

	Group			Total
	Share premium	Capital reserve (a)	Foreign currencies translation reserve	
At 1st October, 2002, 30th September, 2003 and at 1st October, 2003	22,372	14,918	-	37,290
Exchange translation differences	-	-	72	72
At 30th September, 2004	<u>22,372</u>	<u>14,918</u>	<u>72</u>	<u>37,362</u>

	Company	
	2004	2003
Share premium	22,372	22,372
Contributed surplus (b)	2,509	2,509
	<u>24,881</u>	<u>24,881</u>

Notes:

- (a) 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.
- (b) 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 30th September, 2004, the Company had no reserves available for distribution to shareholders (2003: Nil).

## 21. ACCUMULATED DEFICITS

	<b>Group</b> <i>HK\$'000</i>	<b>Company</b> <i>HK\$'000</i>
At 1st October, 2002	(44,820)	(31,991)
Loss attributable to shareholders	<u>(9,476)</u>	<u>(9,810)</u>
At 30th September, 2003 and at 1st October, 2003	(54,296)	(41,801)
Loss attributable to shareholders	<u>(4,205)</u>	<u>(4,224)</u>
At 30th September, 2004	<u><u>(58,501)</u></u>	<u><u>(46,025)</u></u>

## 22. OPERATING LEASE COMMITMENTS

At 30th September, 2004, the Group had operating lease commitments under various non-cancellable operating lease agreements. The commitments payable under these agreements are analysed as follows:

	2004		2003	
	<b>Land and buildings</b> <i>HK\$'000</i>	<b>Other assets</b> <i>HK\$'000</i>	<b>Land and buildings</b> <i>HK\$'000</i>	<b>Other assets</b> <i>HK\$'000</i>
Within one year	556	194	1,884	192
In the second to fifth years	<u>1,205</u>	<u>-</u>	<u>446</u>	<u>-</u>
	<u><u>1,761</u></u>	<u><u>194</u></u>	<u><u>2,330</u></u>	<u><u>192</u></u>

## 23. 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 amounted to approximately HK\$696,000 (2003: HK\$695,000).

## 24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 26 to 55 were approved by the Board of Directors on 25th November, 2004."

#### 4. UNAUDITED CONSOLIDATED FINANCIAL RESULTS

The following is the reproduction of the unaudited first quarterly report of the Company for the three months ended 31 December 2004:

##### “CHAIRMAN’S STATEMENT

On behalf of the Board of Directors (the “Board”), I am pleased to present the unaudited consolidated results of EVI Education Asia Limited (the “Company”) and its subsidiaries (together, the “Group”) for three months ended 31st December, 2004 (the “Period”) together with the comparative figures for the corresponding period in 2003 in bracket.

##### Financial Performance

Hong Kong is one of the cities with lowest birth rate in recent years. This phenomenon has placed marketing constraints towards the growth and expansion of Group’s services within the Education sector. Despite of such challenges, EVI has achieved continuous improvement on its overall financial position because of incremental project revenue and effective cost control on operations. In essence, during the low economic period, 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 shareholders’ benefits.

The Group’s unaudited consolidated turnover for the Period slightly decreased to approximately HK\$4,705,000 over the corresponding Period last year (2003: HK\$5,122,000). Net loss attributable to shareholders for the Period was approximately HK\$446,000 (2003: HK\$860,000), representing a decrease by about 48%.

Comparing segment financial performance to last Period, Group revenue from the internet media for the Period remain stable at approximately HK\$2,270,000, representing 48% of total turnover. The recurrent subscription fees from the EVI On-line System from Hong Kong kindergartens remain the core revenue whilst other online revenue also reflected satisfactory growth in particular the Group’s portal, I-Cube, into the Primary school market. Off-line revenue was stable and amounted to approximately HK\$2,435,000, among which approximately 30% 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 training courses and 9% of the total turnover was attributable to website development and other commercial projects.

The Group maintained its healthy financial position with approximately HK\$18.7 million cash on hand with no outstanding debt as at 31st December, 2004. The Directors remained their positive perception towards the Group’s future financial position due to stable recurring subscription income together with more diversified services and the new People’s Republic of China (the “PRC”) business opportunities.

## BUSINESS OVERVIEW AND MAJOR ACHIEVEMENTS

### Customer base and Revenue

Being a prominent internet education provider in Hong Kong, the Group offers various On-line, off-line services, programs and products to kindergartens, primary schools and different individual user groups. From time to time, the EVI portals gain favorable response from its users. The EVI On-line System now comprises of the Kindergartens Zone ([www.evigroup.com](http://www.evigroup.com)), Parents, Kids and Members Zones ([www.evi.com.hk](http://www.evi.com.hk)), the I-Cube ([www.icubeworld.com](http://www.icubeworld.com)) and the Silicon ([www.drpcfamly.com](http://www.drpcfamly.com)). Despite the low tide of the education market; the Group was still capable to solicit new business for its On-line System and continue to receiving subscription fees from the EVI On-line System. EVI now has built a user base of over 50,000 users comprising of students, parents and teachers from over 200 kindergartens and 500 primary schools respectively.

Parallel with the provision of core on-line education services, the Group also capitalized on its school network and utilizing its web site development know-how with different commercial partners and the Education and Manpower Bureau (“EMB”) in order to bring in additional revenue. The Group organised the function “Frisocare Multi-intelligent Fun Fun Day” at Tseung Kwan O East Point City on 12th December, 2004, which was well received by our parent members and also displayed how EVI could build up the “added value” for our commercial clients.

Regarding the business development for the PRC market, both the Chinese Foreign Co-operative Joint Venture Company (“JV”) and the Group’s wholly foreign owned enterprise in Guangzhou have made remarkable progress on marketing and production works ([www.evimdv.com](http://www.evimdv.com)). The EVI simplified Chinese version ([www.haoertong.com](http://www.haoertong.com)) has obtained official endorsement from the “Central Electronic Education Bureau (“CEEB”) under the Ministry of Education of the PRC” at Beijing on 28th July, 2004. It was the first pre-school electronic platform being recognized for its advance design on “Home & Kindergarten” linkage with numerous resources available to different user groups. A new study on “Home & Kindergarten learning network platform – its application and research” was then proposed and being approved by CEEB under its 15th Topic Educational Technical Research program. The Group is now refining its promotion strategy from both the application and research prospective with the Guangdong Province as its centre for business development. The Group is now powering the JV with critical e-educational training and supporting techniques and believed such development will soon transform into revenue contribution by building up renowned model kindergartens and then replicated into other regions through JV partner’s massive connection and expert knowledge of the PRC market. Nevertheless both the Group and JV will continue to seek other forms of cooperation with various PRC educational related organizations and associations in different regions.

## Marketing

During the Period, series of brand building and marketing campaigns were launched in order to promote the Group's image. Various activities namely "EVI Child Care Natural Tour" and "EVI Happy Halloween Casting Competition 2004" were held during the Period and attracted over 200 participants from different kindergartens. The Group considered all these would reinforce EVI's brand of quality and help to strengthen parent members' loyalties. As a good corporate citizen toward the community in large, the Group keep supporting social and charity events such as the "Medicins Sans Frontieres Orienteering Competition 2005" and "Po Leung Kuk Bowling Competition for Charity".

For the primary sector, I-Cube has kept organizing its third "I-Cube Inter-school Intelligent Competition" preliminary contest and the final competition will be held in coming April 2005. I-Cube has also hosted the event "I-Cube Mock Exam sharing seminar" through its "I-Cube Multi-intelligent Mock Exam Questions Database" in December 2004. All these events witnessed the Group's high service quality and standard towards the sector. I-Cube has successfully blended the fun element into learning process where more and more schools and parents recognizing it as one of the hottest sites among the primary students.

For the PRC market, the JV has organized grand opening of the "Home & Kindergarten learning network platform – its application and research" under CEEB's 15th Topic Educational Technical Research program. The event was held at the Guangzhou Military Region Air Force Institutional Kindergarten with honorable government speakers from Beijing & provincial level CEEB. The research will last for two and half years and be led by Professor Gao Lan of the South China Normal University. There were over 200 kindergarten practitioners from nationwide attending the event and the JV will ride on such success in order to start its mass marketing efforts.

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

The Group considers the most effective way to generate additional revenue or to increase loyalty; adhesiveness from its existing customers is to provide more value-added services through the EVI On-line System.

## System infrastructure and technology deployment

As for the technology development, the Group keeps on researching and providing more user-friendly features for the EVI On-line System in order to enhance its value. The Group has renewed its sole-distributor agreement with iKonnet on "HiShare", "HiClass" and introducing the new "HiShow" software to the local market. The Group believed these products together with the MMLC and Light Emitting Diode (LED) display will continue to bring in steady revenue and contributions.

## Outlook

Despite the negative implication of low birth rate, the Group believes parents nowadays are more willing to invest in children education, products and services. More parental focus and resources are directed towards multiple skills and intelligence development beyond the regular class activities. It is expected that school transparency or effective communication would be one of the key factors for parental consideration. Hence, the Group believed that its portals or programs are effective and ideal channels to deliver such services and to reinforce linkage, relationship between schools, families and students in their learning cycles. With the rapidness of home or broadband internet installation, the directors remained their positive perception towards the e-educational service industry.

The Group constantly reviews and improves its products and services in order to sustain growth and remain competitive on the market. Besides the portal, I-Cube has established “I-Cube Kid’s Digital Learning Playground” at Causeway Bay in order to provide comfort facilities for members’ gathering or leisure activities.

Geographically, the Group recognizes the PRC market as its source of future growth and return. The fast economic growth and “one-child” policy certainly foster huge business potential for quality child products, education and related services. The Directors believe that the deployment of information technology as a new medium of delivering educational and learning contents within PRC presents tremendous commercial opportunities.

In the light of steady recovery on Hong Kong’s overall economic condition and the Group’s long term planning and growth, the Group and Midland Realty (Holdings) Limited have entered into a conditional subscription agreement on 25th January, 2005 and Midland agreed to subscribe for 4,300,000,000 new EVI Shares at the subscription price of HK\$0.025 per EVI Shares. Detail information has been separately disclosed in the announcement dated 26th January, 2005.

## APPRECIATION

Finally, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and partners for their continuous support, to the management and staff for their hard work, support and dedication throughout the Period.

By Order of the Board  
**EVI Education Asia Limited**  
**Pong Wai San, Wilson**  
*Chairman*

Hong Kong, 1st February, 2005

## UNAUDITED CONSOLIDATED PROFIT AND LOSS RESULTS

For three months ended 31st December, 2004

	Notes	(Unaudited)	
		For the Three Months Ended 31st December	
		2004	2003
		HK\$'000	HK\$'000
Turnover	(2)	4,705	5,122
Cost of merchandise		(1,009)	(956)
Cost of internet connectivity fee		(40)	(97)
Staff costs		(2,520)	(2,394)
Depreciation		(162)	(442)
Amortisation of intangible assets		(400)	(731)
General and administrative expenses		(1,258)	(1,303)
Operating loss		(684)	(801)
Interest income		61	34
Loss before taxation		(623)	(767)
Taxation	(3)	(17)	(46)
Loss after taxation		(640)	(813)
Minority interests		194	(47)
Loss attributable to shareholders		<u>(446)</u>	<u>(860)</u>
Loss per share – Basic	(4)	<u>HK(0.01) cent</u>	<u>HK(0.02) cent</u>

## NOTES:

## (1) Basis of preparation

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

**(2) Turnover and Revenue**

The Group is principally engaged in provision of internet education services, sales and installation of computer hardware and software and provision of computer training services. Revenues recognised during the Period are as follows:

	(Unaudited)	
	For the Three Months Ended 31st December	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Internet education fee	2,270	2,556
Sales and installation of computer hardware and software	1,420	1,605
Computer training fee	610	615
Others	405	346
	<u>4,705</u>	<u>5,122</u>
Interest income	61	34
	<u>4,766</u>	<u>5,156</u>

**(3) Taxation**

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

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong.

**(4) Loss per Share**

The calculation of basic loss per share for the Period, is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$446,000 (2003: HK\$860,000) and 4,000,000,000 shares (2003: 4,000,000,000 shares) in issue throughout the Period.

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

**(5) Movement of reserves**

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st October, 2003	22,372	14,918	0	(54,296)	(17,006)
Loss attributable to shareholders	<u>0</u>	<u>0</u>	<u>0</u>	<u>(860)</u>	<u>(860)</u>
At 31st December, 2003	<u>22,372</u>	<u>14,918</u>	<u>0</u>	<u>(55,156)</u>	<u>(17,866)</u>
At 1st October, 2004	22,372	14,918	72	(58,501)	(21,139)
Loss attributable to shareholders	0	0	0	(446)	(446)
Exchange difference	<u>0</u>	<u>0</u>	<u>(11)</u>	<u>0</u>	<u>(11)</u>
At 31st December, 2004	<u>22,372</u>	<u>14,918</u>	<u>61</u>	<u>(58,947)</u>	<u>(21,596)</u>



**(6) Interim Dividend**

The Board does not recommend the payment of interim dividend for the Period ended 31st December, 2004. The Group has not declared any dividends for the corresponding Period.

**DIRECTORS' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31st December, 2004, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors were as follows:

**Long Position in Shares of the Company:**

Name of director	Number of Shares of the Company			Total	Percentage of Shares outstanding
	Personal interests	Family interests	Corporate interests		
Mr. Pong Wai San, Wilson ("Mr. Pong") (Note 1)	153,610,000	-	2,609,200,000	2,762,810,000	69.07%
Mr. Cheung Shi Kwan, Wings	4,000,000	-	-	4,000,000	0.10%
Madam Pong Lo Shuk Yin, Dorothy (Note 2)	-	2,762,810,000	-	2,762,810,000	69.07%

*Notes:*

- As at 31st December, 2004, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited and 153,610,000 Shares are registered in the name of Mr. Pong. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong. The interest of Mr. Pong in the issued shares of the Company was, accordingly corporate interest in the Company as described in Rule 18.16(1) of the GEM Listing Rules.
- Mr. Pong is the son of Madam Pong Lo Shuk Yin, Dorothy, who is deemed to be interested in 2,609,200,000 Shares beneficially owned by Summerview Enterprises Limited and 153,610,000 Shares beneficially owned by Mr. Pong respectively.

**Short Position in Shares of the Company:**

None as recorded.

Save as disclosed in this paragraph, as at 31st December, 2004, none of the Directors nor chief executive of the Company had or deemed to have any interests or short positions in the shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors.

**DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES****(a) Pre-IPO Share Option Scheme**

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 28th February, 2001 (the “Pre-IPO Share Option Scheme”), options were granted on the same day to certain executive directors and staff of the Group to subscribe for an aggregate of 210,000,000 shares (as adjusted by the Share Subdivision as at 31st October, 2001) (the “Shares”) at a price of HK\$0.076 per share (as adjusted) exercisable in the period from 16th March, 2002 to 15th March, 2005.

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

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

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

- (a) 30% of the total number of option during the first year of such three-year period;
- (b) 60% of the total number of option during the second year of such three-year period; and
- (c) the remaining unexercised option during the third year of such three-year period.

**(b) Post-IPO Share Option Scheme**

Pursuant to the share option scheme adopted by the Group on 28th February, 2001 (the "Post-IPO Share Option Scheme"), option was granted on 31st October, 2001 to Mr. Lau Wai Shu, who was subsequently appointed as an executive director of the Company on 1st November, 2001, to subscribe for 2,500,000 Shares of the Company at a price of HK\$0.208 per share (as adjusted) exercisable during the period from 1st November, 2002 to 31st October, 2005.

Such options may be exercised within three years after the expiry of 12 months from the date of grant of the options, provided that the maximum number of shares the grantees are entitled to subscribe for by exercising the options shall not exceed:

- (a) 30% of the total number of option during the first year of such three-year period;
- (b) 60% of the total number of option during the second year of such three-year period; and
- (c) the remaining unexercised option during the third year of such three-year period.

None of the above options has been exercised during the Period.

Save as disclosed above, at no time during the Period was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## OUTSTANDING SHARE OPTIONS

As at 31st December, 2004, options to subscribe for an aggregate of 220,000,000 Shares has been granted pursuant to the Pre-IPO Share Option Scheme and option to subscribe for an aggregate of 12,000,000 Shares has been granted pursuant to the Post-IPO Share Option Scheme were outstanding. All of these options are subject to the same conditions on the timing of exercise as detailed in the section headed "Directors' Rights to Acquire Shares or Debentures" above.

### (a) Pre-IPO Share Option Scheme

Pursuant to a written resolution of all the shareholders of the Company passed on 28th February, 2001, options to subscribe for an aggregate of 255,000,000 Shares at an exercise price of HK\$0.076 (as adjusted) have been conditionally granted by the Company to certain directors and employees of the Company. All of these options may be exercised in the period from 16th March, 2002 to 15th March, 2005.

As at 31st December, 2004, options to subscribe for an aggregate of 220,000,000 Shares granted on 28th February, 2001 at an exercise price of HK\$0.076 per shares were outstanding and these options relate to the options granted to four directors, one consultant and two employees at the date of grant, details of which as at 31st December, 2004 are as follows:-

	<b>Number of share options</b>
As at 1st October, 2004	220,000,000
Less: share options lapsed during the period	—
	<hr/>
As at 31st December, 2004	<u><u>220,000,000</u></u>

### (b) Post-IPO Share Option Scheme

Pursuant to a written resolution of all the shareholders of the Company passed on 31st October, 2001, options granted for an aggregate of 25,000,000 Shares at an exercise price equal to HK\$0.208 (as adjusted) have been conditionally granted by the Company to fifteen full time employees of the Group (including options to subscribe for 2,500,000 Shares were granted to Mr. Lau Wai Shu who was appointed as director on 1st November, 2001 subsequently). All of these options may be exercised in the period from 1st November 2002 to 31st October, 2005.

As at 31st December, 2004, options to subscribe for an aggregate of 12,000,000 Shares granted on 31st October, 2001 at an exercise price of HK\$0.208 per Share were outstanding and these options relate to the options granted to one director and four employees at the date of grant, details of which as at 31st December, 2004 are as follows:

	<b>Number of share options</b>
As at 1st October, 2004	14,000,000
<i>Less:</i> share options lapsed during the period	<u>(2,000,000)</u>
As at 31st December, 2004	<u><u>12,000,000</u></u>

In view of small historical trading volume and fluctuation of the trading price of the Company's Shares, the directors are also noted that the value of the theoretical value of the share options granted during the Period depends on a number of variables which are difficult to ascertain. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances. A summary of the major terms of each share option scheme including details of all options granted hereunder are set out at pages 19-21 of the Annual Report 2004 of the Company.

## **SUBSTANTIAL SHAREHOLDERS**

So far as is known to the Directors, as at 31st December, 2004, the following persons or companies (not being a Director or chief executive of the Company) had, or deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

### **Long Position in Shares of the Company:**

Name	Number of issued shares	Capacity in which shares are held	Percentage holding
Summerview Enterprises Limited	2,609,200,000 ( <i>Note 1</i> )	Beneficial Owner	65.23%

#### *Notes:*

- As at 31st December, 2004, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong.

**Short Position in Shares of the Company:**

None as recorded.

Save as disclosed herein, as at 31st December, 2004, the Directors were not ware of any other persons or companies (not being a Director or chief executive of the Company) had, or deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**COMPETING INTERESTS**

The Directors believe that none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which cause or may cause significant competition with the business of the Group.

**BOARD PRACTICES AND PROCEDURES**

Throughout the Period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

**AUDIT COMMITTEE**

The Company has established an audit committee and has formulated its written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The members of the Audit Committee up to the date comprised the three independent non-executive directors, Mr. Hung Tak Chow, Charles, Mr. Hung Fan Wai, Wilfred and Mr. Lai Hin Wing, Henry. The primary duties of the Audit Committee are to review the Company's annual report, half-yearly reports and quarterly report and to provide advice and comments thereon to the Board of Directors. Up to the date of this announcement, one audit committee meetings were held in this Period to discuss the operating results, statements of affairs and accounting policies with respect to the first quarterly of 2004-2005.

**PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period ended 31st December, 2004.

As at the date of this report, Mr. Pong Wai San, Wilson, Mr. Cheung Shi Kwan, Wings, Madam Pong Lo Shuk Yin, Dorothy and Mr. Lau Wai Shu are the executive directors of the Company. Mr. Hung Tak Chow, Charles, Mr. Hung Fan Wai, Wilfred and Mr. Lai Hin Wing, Henry are the independent non-executive directors.

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

Hong Kong, 1st February, 2005"

## 5. (i) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

The following is the unaudited pro forma statement of assets and liabilities of the Group as enlarged by the Subscription announced on 26 January 2005 (the "Enlarged Group"), assuming the Subscription had been completed as at 30 September 2004 for the purpose of illustrating how the Subscription might have affected the financial position of the Group. As this unaudited pro forma statement of assets and liabilities is prepared for illustrative purpose only, after taking into account of the foregoing and because of its nature, it may not purport to represent what the assets and liabilities of the Enlarged Group are upon completion of the Subscription.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 30 September 2004 extracted from the annual report of the Company for the year ended 30 September 2004 and adjusted for the Subscription.

	The Group HK\$'000	Pro forma adjustments HK\$'000		Pro forma Enlarged Group HK\$'000
<i>Notes:</i>		<i>(a)</i>	<i>(b)</i>	
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	741	–	–	741
Intangible assets	2,533	–	–	2,533
	<u>3,274</u>	<u>–</u>	<u>–</u>	<u>3,274</u>
<b>Current assets</b>				
Trade receivables	3,566	–	–	3,566
Due from customers on installation contracts	135	–	–	135
Prepayments, deposits and other current assets	863	–	–	863
Cash and bank deposits	19,123	107,500	(3,000)	123,623
	<u>23,687</u>	<u>107,500</u>	<u>(3,000)</u>	<u>128,187</u>



	The	Pro forma		Pro forma
	Group	adjustments		Enlarged
	HK\$'000	HK\$'000	HK\$'000	Group
		(a)	(b)	HK\$'000
<i>Notes:</i>				
<b>Current liabilities</b>				
Trade payables	(969)	–	–	(969)
Accruals and other payables	(1,739)	–	–	(1,739)
Deposits from customers	(2,473)	–	–	(2,473)
Due to minority shareholders of subsidiaries	(660)	–	–	(660)
Provision for tax	(34)	–	–	(34)
	<u>(5,875)</u>	<u>–</u>	<u>–</u>	<u>(5,875)</u>
<b>Net current assets</b>	<u>17,812</u>	<u>107,500</u>	<u>(3,000)</u>	<u>122,312</u>
<b>Total assets less current liabilities</b>	21,086	107,500	(3,000)	125,586
Minority interests	<u>(2,225)</u>	<u>–</u>	<u>–</u>	<u>(2,225)</u>
<b>Net assets</b>	<u><u>18,861</u></u>	<u><u>107,500</u></u>	<u><u>(3,000)</u></u>	<u><u>123,361</u></u>
<b>Capital and reserves</b>				
Share capital	40,000	43,000	–	83,000
Reserves	37,362	64,500	(3,000)	98,862
Accumulated deficits	<u>(58,501)</u>	<u>–</u>	<u>–</u>	<u>(58,501)</u>
<b>Shareholders' funds</b>	<u><u>18,861</u></u>	<u><u>107,500</u></u>	<u><u>(3,000)</u></u>	<u><u>123,361</u></u>

*Notes:*

- (a) This adjustment reflects the gross amount of cash consideration received upon the issue of 4,300,000,000 new Shares at HK\$0.025 per Share.
- (b) This adjustment reflects the Directors' estimated amount of expenses, representing provisions estimated by the Directors in relation mainly to the legal and professional fees of the Subscription which are to be finalised upon completion of the Subscription.

**(ii) REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES**

Following is the full text of the report prepared by Grant Thornton, the reporting accountant on the pro forma statement of assets and liabilities of the Group, for inclusion in this circular:

Certified Public Accountants  
Member of Grant Thornton International

**Grant Thornton**   
**均富會計師行**

16 February 2005

The Directors  
EVI Education Asia Limited  
9th Floor, Tai Sang Commercial Building  
24-34 Hennessy Road  
Wanchai  
Hong Kong

Dear Sirs,

**Re: EVI Education Asia Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)**

We report on the unaudited pro forma statement of assets and liabilities (the “Pro Forma Financial Information”) of the Group as enlarged by the proposed subscription of new shares as mentioned below (the “Enlarged Group”), and set out on pages 77 to 78 in Appendix I of the circular dated 16 February 2005 (the “Circular”), in connection with the proposed subscription of 4,300,000,000 new shares of the Company by Midland Realty (Holdings) Limited announced on 26 January 2005 (the “Subscription”). The Pro Forma Financial Information has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the Subscription might have affected the assets and liabilities of the Group as at 30 September 2004. The basis of preparation of the Pro Forma Financial Information is set out in the section headed “Unaudited pro forma statement of assets and liabilities” in Appendix I to the Circular.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the 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”).

It is our responsibility to form an opinion as required by Rule 7.31 of the GEM Listing Rules on the Pro Forma Financial Information and to report our opinion 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 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 work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it may not give 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 had the Subscription actually occurred on 30 September 2004 or of the Enlarged Group at any future date or for any future periods.

### **Opinion**

In our opinion:

- a. the Pro Forma Financial Information has been properly compiled 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 Pro Forma Financial Information as disclosed pursuant to Rule 7.31 of the GEM Listing Rules.

Yours faithfully  
**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong

## 6. INDEBTEDNESS

As at 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness of approximately HK\$660,000 which represented the amounts due to minority shareholders of the Company's subsidiaries.

The amounts due to minority shareholders of the Company's subsidiaries of approximately HK\$660,000 were unsecured, interest-free and had no fixed terms of repayment.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 31 December 2004, any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments, guarantees or other significant contingent liabilities.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 December 2004.

Subsequent to 31 December 2004, the Group made repayment to a minority shareholder of a subsidiary amounting to approximately HK\$280,000.

Save as aforesaid or as otherwise disclosed herein, the Directors have confirmed that there has been no material change in respect of the indebtedness or other contingent liabilities of the Group since 31 December 2004.

## 7. MATERIAL CHANGES

Save for the Subscription and as disclosed in the Group's unaudited consolidated results for the three months ended 31 December 2004, full text of which is contained in this Appendix, the Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 30 September 2004, the date to which the latest audited financial statements of the Company were made up.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those information relating to the Midland Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular relating to the Group have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in this circular relating to the Midland Group has been supplied by the Midland Directors. The Midland Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than those information relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular relating to the Midland Group have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests in the Company

#### (i) *Director's interests and short positions in the securities of the Company and its associated corporations*

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares and debentures or other securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been 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 are taken or deemed to have under such provisions of the SFO); or which 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 of listed companies to be notified to the Company and the Stock

Exchange; or which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code were as follows:

(aa) Directors' interests in issued Shares

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of existing issued share capital of the Company	Approximate percentage of the enlarged issued share capital of the Company immediately upon completion of the Subscription
Mr. Pong ( <i>Note</i> )	153,610,000	-	2,609,200,000	2,762,810,000	69.07%	33.28%
Mr. Cheung	4,000,000	-	-	4,000,000	0.10%	0.05%

*Note:* As at the Latest Practicable Date, 2,609,200,000 Shares were registered in the name of Summerview and 153,610,000 Shares were registered in the name of Mr. Pong. The entire issued share capital of Summerview was registered in the name of and beneficially owned by Mr. Pong.

(bb) Directors' interests in share options

Name of Director	Number of underlying Shares comprised in the options	Number of options outstanding as at the Latest Practicable Date	Date of Grant	Exercise period	Exercise price per Share (HK\$)
Mr. Pong	100,000,000	100,000,000	28 February 2001	15 March 2002 to 15 March 2005	0.076
Ms. Pong Lo Shuk Yin, Dorothy	81,000,000	81,000,000	28 February 2001	15 March 2002 to 15 March 2005	0.076
Mr. Cheung	25,000,000	25,000,000	28 February 2001	15 March 2002 to 15 March 2005	0.076
Mr. Lau Wai Shu	4,000,000	4,000,000	28 February 2001	15 March 2002 to 15 March 2005	0.076
Mr. Lau Wai Shu	2,500,000	2,500,000	31 October 2001	1 November 2002 to 31 October 2005	0.208

*Note:* The options were granted pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme adopted by the Company on 28 February 2001 pursuant to which the Board may invite any Directors and employees of the Company (excluding independent non-executive Directors) to take up options to subscribe for Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures or other securities of the Company or 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 which 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 of listed companies to be notified to the Company and the Stock Exchange or which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

(ii) *Substantial Shareholders*

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly 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 any member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital:

<b>Name of Shareholder</b>	<b>No. of Shares held</b>	<b>Capacity in which Shares are held</b>
Summerview	2,609,200,000	Beneficial Owner
Mr. Pong	2,609,200,000 ( <i>Note 1</i> ) 153,610,000	Controlled Company Beneficial Owner
Subscriber	4,300,000,000 ( <i>Note 2</i> )	Beneficial Owner
Midland	4,300,000,000 ( <i>Note 2</i> )	Controlled Company

*Notes:*

1. As at the Latest Practicable Date, 2,609,200,000 Shares were registered in the name of and beneficially owned by Summerview. The entire issued share capital of Summerview was registered in the name of and beneficially owned by Mr. Pong.

2. The Subscriber and Midland are deemed to be interested in the same tranche of Shares which will be issued to the Subscriber upon Completion pursuant to the Subscription Agreement.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who as directly or indirectly 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 any member of the Group.

*(iii) Midland and the Subscriber*

As at the Latest Practicable Date, save as disclosed in paragraph 2(a)(ii) above, the Subscriber, Midland and the directors of the Subscriber had no other interests in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

*(iv) Others*

As at the Latest Practicable Date,

- (aa) none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor Somerley nor AMS nor Grant Thornton nor any other advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had any interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.
- (bb) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code, or with the Subscriber or the Midland Group.
- (cc) no shareholding in the Company was managed on a discretionary basis by fund managers connected with it.



**(b) Dealings in Shares***(i) Directors*

During the Relevant Period, there were no dealings in the Shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company by the Directors.

*(ii) Midland, the Subscriber, and their respective directors*

During the Relevant Period, save for entering into the Subscription Agreement, none of the Subscriber, Midland and their respective directors and the parties acting or presumed acting in concert with it (including Summerview) had dealt for value in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

*(iii) Others*

As at the Latest Practicable Date, none of the Subscriber, Midland or their respective directors owned any Shares which would be available for transfer to any other persons. In addition, none of the aforesaid parties have any agreement, arrangement or understanding with any other persons about transferring any Subscription Shares to be issued to the Subscriber or its nominee under the Subscription Agreement following the Completion.

During the Relevant Period,

- none of the subsidiaries or associates of the Company, nor any pension funds of the Company or any of its subsidiaries, nor Somerley, AMS, Grant Thornton or any other advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had dealt for value in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.
- no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or the Subscriber or with any persons acting in concert with any of them had dealt for value in any Shares.

**(c) Interests and dealings in Subscriber and Midland**

None of the Directors nor the Company had any interest in the shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Subscriber and Midland nor had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Subscriber and Midland during the Relevant Period.

### 3. MARKET PRICES

The table below shows the respective closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months immediately preceding the date of the Announcement, (ii) on 24 January 2005 (being the last trading day immediately preceding the date of the Announcement); and (iii) on the Latest Practicable Date:

	<i>HK\$</i>
<b>2005</b>	
Latest Practicable Date	0.087
24 January	0.060
<b>2004</b>	
December	0.040
November	0.040
October	0.060
September	0.070
August	0.076
July	0.076

The highest and lowest closing market prices of the Shares recorded on the Stock Exchange during the six calendar months immediately preceding the suspension of trading of Shares on 25 January 2005 were HK\$0.078 on 26 July to 3 September 2004 and HK\$0.038 on 10 to 12, and 15 to 16 November 2004 respectively.

### 4. MATERIAL CONTRACTS

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

- (a) the Subscription Agreement; and
- (b) a co-operative contract dated 21 April 2004 entered into between EVI Services Limited, a wholly-owned subsidiary of the Company, and Guangdong MDV Technical Development Company Limited (廣東邁達威科技發展有限公司) pursuant to which, inter alia, the parties agreed to establish EVI-MDV Technical Development Limited (廣州邁達威維佳科技發展有限公司) as a sino-foreign co-operative joint venture, the registered capital of which in the amount of HK\$5 million would be solely contributed by EVI Services Limited. Upon its establishment, EVI – MDV Technical Development Limited (廣州邁達威維佳科技發展有限公司) would be owned as to 49% by Guangdong MDV Technical Development Company Limited (廣東邁達威科技發展有限公司) and as to 51% by EVI Services Limited.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this circular.

## 5. LITIGATION AND CLAIMS

Neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## 6. EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular

Name	Qualifications
AMS	a corporation licensed under the SFO to conduct types 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
Grant Thornton	Certified public accountants

- (a) Each of AMS and Grant Thornton has no shareholding in any member of the Group nor any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) Each of AMS and Grant Thornton does not have any direct or indirect interest in any assets which have been since 30 September 2004, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

## 7. CONSENTS

Each of the experts referred to in the section headed "Experts" in this appendix has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its opinion or letter, as the case may be, and the references to its name, opinion or letter in the form and context in which it respectively appears.

## 8. SERVICE AGREEMENTS

Except for Mr. Lau Wai Shu, each of the executive Director has entered into a service contract with the Company for an initial term of three years commencing from 1 March 2001. The service contracts shall continue thereafter until terminated by either party giving the other not less than three months' notice after the expiration of the said initial fixed term. The service contract entered into with Mr. Lau Wai Shu does not have a fixed term but shall continue thereafter until termination by either party giving the other not less than two months' notice.

Mr. Hung Fan Wai, Wilfred was appointed as the independent non-executive Director and audit committee member of the Company for an initial term of two years from 28 February 2001 and the relevant service contract was renewed for a further two years on 28 February 2003. Mr. Hung Tak Chow, Charles was appointed as the independent non-executive Director and audit committee chairman of the Company for an initial term of two years from 13 March 2001 and the relevant service contract was renewed for a further two years on 13 March 2003. Mr. Lai Hin Wing, Henry was appointed as the independent non-executive Director and audit committee member of the Company for an initial term of two years from 1 May 2003. All service contracts will renew automatically every two years after the expiration of the said fixed term but the Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

Each of the Directors is entitled to the respective basic salary per annum set out below (subject to review by the Board from time to time). In addition, the executive Directors are also entitled to a discretionary bonus as determined at the absolute discretion of the Board. The current basic annual salaries of the Directors are as follows:

Name	Amount of annual salary HK\$
Mr. Pong	12
Ms. Pong Lo Shuk Yin, Dorothy	12
Mr. Cheung	585,283
Mr. Lau Wai Shu	539,000
Mr. Hung Tak Chow, Charles	50,000
Mr. Hung Fan Wai, Wilfred	Nil
Mr. Lai Hin Wing, Henry	50,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group or any of the Company's associated companies or had entered into or amended any service contract within six months before the date of the Announcement.

## 9. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date,

- (a) there was no agreement, arrangement or understanding (including any compensation agreement) existing between the Subscriber or any person acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder having any connection with or dependence upon the Subscription Agreement or the Whitewash Waiver; and
- (b) there was no agreement, arrangement or understanding between any Director and any other person which is conditional on or dependent upon the outcome of the Subscription Agreement and the Whitewash Waiver or otherwise connected therewith.

**10. MISCELLANEOUS**

- (a) The company secretary and qualified accountant of the Company is Mr. Cheung Hon Fai, Maurice. Mr. Cheung Hon Fai, Maurice is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Subscriber is situate at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.
- (c) The financial adviser of Midland is Access Capital Limited, the office of which is located at Suite 606, 6th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman Islands, British West Indies.
- (f) The head office and principal place of business of the Company in Hong Kong is at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Wanchai, Hong Kong.
- (g) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's head office and principal place of business in Hong Kong at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Wanchai, Hong Kong up to and including 7 March 2005;

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 30 September 2004;
- (c) the unaudited first quarterly report of the Company for the three months ended 31 December 2004;
- (d) the material contracts referred to in the section headed "Material Contracts" (including the Subscription Agreement) in this Appendix;
- (e) The service agreements for each of the Directors;

- (f) the letter from AMS, the text of which is set out on pages 21 to 36 of this circular;
- (g) the written consents referred to in the section headed “Consents” in this Appendix;
- (h) the letter from Grant Thornton in respect of the unaudited pro forma statement of assets and liabilities as set out on pages 79 to 80 of this circular; and
- (i) the letter from the Independent Board committee, the text of which is set out on page 20 of this circular.

# NOTICE OF THE EXTRAORDINARY GENERAL MEETING



## **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 IS HEREBY GIVEN** that an extraordinary general meeting of EVI Education Asia Limited (the “**Company**”) will be held at 9th Floor, Tai Sang Commercial Building, 24-34 Hennessy Road, Wanchai, Hong Kong on Monday, 7 March 2005 at 4:00 p.m., Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions of the Company which will be proposed as ordinary resolutions:

### **ORDINARY RESOLUTIONS**

1. **“THAT:**

- (a) the subscription agreement (the “**Subscription Agreement**”) dated 25 January 2005 entered into between the Company, Valuwit Assets Limited, Summerview Enterprises Limited and Midland Realty (Holdings) Limited in relation to the subscription of 4,300,000,000 new shares (the “**Subscription Shares**”) of HK\$0.01 each (each a “**Share**”) in the capital of the Company at the price of HK\$0.025 each, a copy of which having been produced to the meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification, and the transactions contemplated therein be and are hereby approved, confirmed and ratified;
- (b) the allotment and issue of the Subscription Shares to Valuwit Assets Limited on the terms of the Subscription Agreement be and is hereby approved; and
- (c) any one or more directors of the Company be and is/are hereby authorised to do all such acts and things as he or they consider(s) necessary or expedient for the purpose of giving effect to the Subscription Agreement and completion of the transactions contemplated therein.”

2. **“THAT** conditional upon the passing of resolution no. 1 set out in the notice convening this meeting of which this resolution forms part, the waiver to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation of Valuwit Assets Limited and any party acting in concert with it

\* For identification purpose only

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

to make a general offer for all the shares of the Company not already owned or agreed to be subscribed by it and/or any party acting in concert with it as a result of completion of the Subscription Agreement (as defined in resolution no.1 set out in the notice of this meeting which this resolution forms part) be and is hereby approved.”

By order of the Board  
**EVI Education Asia Limited**  
**Cheung Hon Fai, Maurice**  
*Company Secretary*

Hong Kong, 16 February 2005

*Notes:*

1. A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, subject to the provisions of the Articles of Association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the extraordinary general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the extraordinary general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, to Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the extraordinary general meeting or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the extraordinary general meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the extraordinary general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. The voting on resolutions numbered 1 and 2 will be conducted by way of a poll.