



EVI Education Asia Limited

(incorporated in the Cayman Islands with limited liability)



QUARTERLY REPORT 2002/2003
(For the third quarter ended 30th June, 2003)

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

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

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

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

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

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the third quarterly report of EVI Education Asia Limited (the "Company") and its subsidiaries (together, the "Group") for the nine months ended 30th June, 2003 (the "Period") together with the comparative figure for the corresponding period in 2002 in bracket.

FINANCIAL PERFORMANCE

Turnover of the Group for the nine months ended 30th June, 2003 increased by about 1.2 times to approximately HK\$13,546,000 over the corresponding period last year (2002: HK\$6,416,000), of which 49% was attributable to the recurrent subscription fees from the EVI On-line System from Hong Kong kindergartens which amounted to approximately HK\$6,614,000. Off-line revenue grew by 1.2 times, among which approximately 18% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 33% of the total turnover was attributable to the sales and installation of computer hardware and software and website development. Net loss attributable to shareholders for the period was approximately HK\$5,553,000 (2002: HK\$10,526,000), representing a decrease by about 47%. In essence, during the adverse economic cycle, the Group would continue to apply all necessary cost control measures in order to retain its financial resources and to maximise its staying power for the benefits of our shareholders.

For the three months ended 30th June, 2003, the Group achieved an increase of turnover to approximately HK\$4,918,000 (2002: approximately HK\$2,821,000). The net loss attributable to shareholders for the three months ended 30th June, 2003 was approximately HK\$1,202,000 (2002: approximately HK\$4,390,000).

The Group maintained solid financial position with approximately HK\$22.7 million cash on hand with no outstanding debt as at 30th June, 2003. The Directors remained their positive perception toward the Group's future financial position due to stable recurring subscription income and rooms of growth for its on-line and off-line business.

OPERATIONAL REVIEW

There was a global slowdown in the economy for the period under review. Despite the adverse sentiments in operating environment and customers' consumption power, the Group had employed proper developments strategies and built up good recognition with the e-education service sector. The kindergartens and nurseries in Hong Kong are facing keen competition due to continuous decline of birth rate in recent years. Besides, the spread of "atypical pneumonia" had led to suspension of all schools' classes in April and May, which seriously affected our business operation. However, it also raises school practitioners' attention towards the need of electronic means of delivery and communications. The Group believes the company will move on the growth track again shortly. In order to sustain growth and remain competitive within the market, the Group shall continue to focus on the core EVI On-line System by constant upgrading efforts on both the features and products.

Customer base and Revenue

Being a prominent Internet education provider in Hong Kong, the Group offers both Chinese and English language-based pre-school education services targeting kindergartens, primary and secondary schools, teachers, parents, pre-school children and kids. From time to time, the EVI On-line System continues to gain favourable response from its users. The EVI On-line System now comprises of the Kindergartens Zone, Parents and Kids Zone and the Member Zone. Despite the adverse economic condition, the Group has solicited new kindergarten groups to subscribe the EVI On-line System commencing on September 2003 school term. The Group has also started receiving subscription fees from the Parents and Kids Zone since September 2002. In order to widen our user groups, a new “Member Zone” was launched in December 2002 and more interactive features and articles were added over the period. The EVI Group has built up a user base of over 30,000 users including students, parents and teachers using the Group On-line or server base programs on both teaching and learning activities.

Besides the provision of core on-line education services, the Group also cooperated with commercial partners on marketing and selling of its proprietary cartoon characters and development capabilities. The Group is now capable to offer range of quality products and supporting services from display kiosk to organizing exhibition functions and events. The project “50 Common Trees in Hong Kong Series I” developed for the Education and Manpower Bureau was ranked the first runner up in “The Best Websites competition by Yahoo.com.hk” in 2002 and the Group have been rewarded the development work on “50 Common Trees in Hong Kong Series II”.

Marketing

Despite of the SARS impact, the Group has participated series of social and charity events such as “Appreciation messages to the front line medical staffs” and the “Re-build Hong Kong Charity Walk” for “Fund-raising Special for Anti-SARS Emergency Relief Fund” being held on 8th June, 2003. The Group will continue to demonstrate its good corporate citizenship and support of community events.

I-Cube (www.icubeworld.com), the Group’s portal with aim to selling revision exercise and entertainment to the primary school students and parents groups has successfully established its foothold with over 200 primary schools. Number of paid members is increasing. The portal is now updating revision exercises on monthly basis covering primary one to primary six levels. The “I-Cube Inter-school Intelligent Competition II” was held at the “Hong Kong Book Fair 2003” with active respond from primary schools. The Group believes I-Cube would continue to generate additional revenue and reinforce its recognition within the educational sector.

Development and Launch of new products, contents and features

The Group considers the most effective way to generate additional revenue or to increase the loyalty and adhesiveness from its existing customers is to supply more value-added services to the EVI On-line System. Besides the frequent contents revision under different Zones, new photos library, e-commerce modules like on-line bookshops were launched. Monthly EVI Newsletters was also published. Directors believed all these developments would help to reinforce customers’ confidence and adhesiveness towards the EVI brand of quality.

System infrastructure and technology deployment

As for the technology development, the Group keeps on searching and developing new add-on features for the EVI On-line System, such as web-cam, security systems and chat room forum. The Group's internal technical team has also applied the bar code and other electronic devices in order to provide more helpful solutions for our kindergartens' customers. During the period, the Group has co-operated with commercial partners and started to promote the "Hi-share" hardware cost savings solution for school customers.

Strategic acquisitions

Silicon Workshop Ltd. which was acquired last year continues its contribution to the Group by offering more services and off-line products to the customers.

Outlook

With the Group's profound experience in the education and IT sectors and its enthusiasm in providing quality education services to parents, teachers and kids, the Group strives to maximise its market share in Hong Kong. Meanwhile, the Group shall continue to explore new business lines and to solicit new web development works or other sponsorship programs from the commercial sector in order to generate more revenue for the Group.

Regarding the off-shore business opportunities and in particular, the PRC market, the Group has actively in contacts with different sales representatives in PRC and also the establishment of PRC office for its long term strategic and cost effectiveness on contents production. Nevertheless, to increase the number of users on EVI Platform and to further explore our business opportunities both in Hong Kong and other markets are always the key objectives for the Group.

Appreciation

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and partners for their continuous support, to the management and staff for their contribution and dedicated efforts throughout the period.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th August, 2003

CONSOLIDATED INCOME STATEMENT

For the three and nine months ended 30th June, 2003

	Notes	(Unaudited)		(Unaudited)	
		For the Three Months		For the Nine Months	
		Ended 30th June,		Ended 30th June,	
		2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(2)	4,918	2,821	13,546	6,416
Interest income		51	118	193	407
Cost of merchandise		(868)	(592)	(2,495)	(1,224)
Cost of internet connectivity fee		(150)	(117)	(425)	(298)
Staff costs		(2,439)	(3,195)	(7,471)	(8,791)
Depreciation		(659)	(806)	(2,770)	(2,209)
Amortisation of intangible assets		(739)	(1,411)	(2,291)	(4,066)
General and administrative expenses		(1,286)	(1,185)	(3,783)	(4,267)
Gain on disposal of interest in a subsidiary		–	–	–	6,318
Impairment loss on intangible assets		–	–	–	(2,786)
Loss before taxation		(1,172)	(4,367)	(5,496)	(10,500)
Taxation	(3)	(18)	–	(40)	–
Loss after taxation		(1,190)	(4,367)	(5,536)	(10,500)
Minority interests		(12)	(23)	(17)	(26)
Loss attributable to shareholders		<u>(1,202)</u>	<u>(4,390)</u>	<u>(5,553)</u>	<u>(10,526)</u>
Loss per share – Basic	(4)	<u>(0.03) cent</u>	<u>(0.11) cent</u>	<u>(0.14) cent</u>	<u>(0.26) cent</u>

NOTES TO THE QUARTERLY FINANCIAL STATEMENT:

(1) Basis of preparation

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). Certain comparative figures have been reclassified to conform to the current period presentation.

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

(2) Turnover and Revenue

The Group is principally engaged in selling and installation of computer hardware and software, provision of computer training services and provision of internet education services. Revenues recognised during the nine months and three months ended 30th June, 2003 are as follows:

	For the Three Months Ended 30th June,		For the Nine Months Ended 30th June,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Internet education fee	2,227	1,127	6,614	3,300
Selling and installation of computer hardware and software	1,056	604	3,125	1,299
Computer training fee	732	1,052	2,480	1,558
Others	903	38	1,327	259
	<u>4,918</u>	<u>2,821</u>	<u>13,546</u>	<u>6,416</u>
Total Turnover	4,918	2,821	13,546	6,416
Interest income	<u>51</u>	<u>118</u>	<u>193</u>	<u>407</u>
Total Revenue	<u>4,969</u>	<u>2,939</u>	<u>13,739</u>	<u>6,823</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% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong.

(4) Loss per Share

The calculation of basic loss per share for the nine months and three months ended 30th June, 2003 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$5,553,000 and HK\$1,202,000 (2002: HK\$10,526,000 and HK\$4,390,000) respectively and on the weighted average number of both approximately 4,000,000,000 shares (2002: 4,000,000,000 shares) deemed to be in issue throughout the year.

Diluted loss per share is not presented for the nine months and three months ended 30th June, 2003 because the effect is anti-dilutive. Dilutive loss per share is not presented for the nine months and three months ended 30th June, 2002 as there were no dilutive potential ordinary shares in existence during the corresponding period.

(5) Movements of reserves

There have been no movements in the reserves of the Group during the period except for the accumulated loss recognised during the period. Details of reserves movement are provided in the condensed consolidated statement of changes in equity.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the nine months ended 30th June, 2003. The Group has not declared any dividends for the corresponding period in 2002.

DIRECTORS' INTEREST IN SHARES

As at 30th June, 2003, 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 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 positions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long Positions in Shares of the Company

Name of director	Number of Shares of the Company				Percentage of Shares outstanding
	Personal interests	Family interests	Corporate interests	Total	
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 30th June, 2003, 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.

2. 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 Positions in Shares of the Company

None as recorded

Save as disclosed in this paragraph, as at 30th June, 2003, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Parts XV of the SFO) which are required (a) to be notified to the Company and 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 provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant the Model Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Pre-IPO Share Option Scheme

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

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

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

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

- (a) 30% of the total number of option during the first year of such three-year period;

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

(b) Post-IPO Share Option Scheme

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

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

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

None of the above options has been exercised during the nine months ended 30th June, 2003.

Save as disclosed above, at no time during the nine months ended 30th June, 2003 was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OUTSTANDING SHARE OPTIONS

As at 30th June, 2003, options to subscribe for an aggregate of 221,500,000 Shares has been granted pursuant to the Pre-IPO Share Option Scheme and option to subscribe for an aggregate of 21,000,000 Shares has been granted pursuant to the Post-IPO Share Option Scheme were outstanding. All of these options are subject to the same conditions on the timing of exercise as detailed in the section headed “Directors’ Rights to Acquire Shares or Debentures” above.

(1) Pre-IPO Share Option Scheme

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

As at 30th June, 2003, options to subscribe for an aggregate of 221,500,000 Shares granted on 28th February, 2001 at an exercise price of HK\$0.076 per shares were outstanding and these options relate to the options granted to four directors, one consultant and three employees at the date of grant, details of which as at 30th June, 2003 are as follows:–

	Number of share options
As at 1st October, 2002	221,500,000
<i>Less:</i> share options lapsed during the period	–
	–
As at 30th June, 2003	221,500,000

(2) Post-IPO Share Option Scheme

Pursuant to a written resolution of all the shareholders of the Company passed on 31st October, 2001, options granted for an aggregate of 25,000,000 Shares at 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 30th June, 2003, options to subscribe for an aggregate of 21,000,000 Shares granted on 31st October, 2001 at an exercise price of HK\$0.208 per Share were outstanding and these options relate to the options granted to one director and ten employees at the date of grant, details of which as at 30th June, 2003 are as follows:–

	Number of share options
As at 1st October, 2002	23,000,000
<i>Less:</i> share options lapsed during the period	(2,000,000)
	–
As at 30th June, 2003	21,000,000

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the Directors were not aware of any other persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Parts 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 Positions 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%
Mr. Pong	2,762,810,000 (<i>Note 1</i>)	Beneficial Owner and Interest of a controlled corporation	69.07%
Madam Pong Lo Shuk Yin, Dorothy	2,762,810,000 (<i>Note 1</i>)	Family Interest	69.07%

Notes:

1. As at 30th June, 2003, 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. 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 Positions in Shares of the Company

None as recorded

SPONSORS INTERESTS

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited (the "Sponsor"), as at 30th June, 2003 neither of the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

Pursuant to the agreement dated 20th June, 2002 entered into between the Company and the Sponsor, the sponsor will receive a fee for acting as the Company's retained sponsor for the period from 20th June, 2002 to 30th September, 2003.

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company established an audit committee and has formulated its written terms of reference in compliance with Rules 5.23 and 5.25 of the GEM Listing Rules. The members of the Audit Committee up to the date comprised of the three independent non-executive directors, Mr. Hung Tak Chow, Charles, Mr. 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.

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 nine months ended 30th June, 2003.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th August, 2003