



EVI Education Asia Limited

(incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2003/2004

(For the six months ended 31st March, 2004)

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.

FINANCIAL HIGHLIGHTS

- Revenue reached HK\$10,610,000, a 23% increase from the previous period
- On-line Revenue grew by 16% to HK\$5,103,000
- Off-line Revenue grew by 30% to HK\$5,507,000
- Loss attributable to shareholders narrowed to HK\$1,221,000, from HK\$4,350,000 in the previous period, represented a decrease of 72%
- Positive cash flow for the period, amounted to HK\$851,000 compared to a cash outflow of HK\$736,000 in previous period

The unaudited consolidated results for the three and six months ended 31st March, 2004 and the comparisons with last year are set out in the accompanying table.

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 the three and six months ended 31st March, 2004 (the "Period") together with the comparative figures for the corresponding Period in 2003 in bracket.

Financial Performance

The outbreak of SARS in the first half of 2003 created a difficult operating environment for most Hong Kong and Mainland China businesses, including many of the Group's businesses. Despite of these challenges, EVI has achieved positive cash flow for the first time during the half period of current year. This is a significant milestone for the Group, which indicated the great potential of educational related business. The improvement of cash flow over the period was due to increase of project revenue together with effective cost control on operations. The Group is now targeting cash breakeven for the whole year. In essence, during the adverse economic cycle, the Group would continue to apply all necessary cost saving policies in order to retain its financial resources and to maximise its staying power for the benefits of our shareholders.

The Group's unaudited consolidated turnover for the six months ended 31st March, 2004 increased by about 23% to approximately HK\$10,610,000 over the corresponding period last year (2003: HK\$8,628,000). Net loss attributable to shareholders for the six months ended 31st March, 2004 was approximately HK\$1,221,000 (2003: HK\$4,350,000), representing a decrease by about 72%. Although the Group was still running at a loss, the net cash flow of the Group changed into a positive cash inflow amounted to HK\$851,000 from the corresponding period compared to the last corresponding period cash outflow amounted to approximately HK\$736,000.

In this quarter, the Group achieved an increase of turnover for the three months ended 31st March, 2004 to approximately HK\$5,488,000 (2003: HK\$4,094,000). The net loss attributable to shareholders for the three months ended 31st March, 2004 was approximately HK\$361,000 (2003: HK\$2,566,000).

Comparing segment financial performance to the same period last year, Internet Group revenue for the first half of 2004 increased 16% to approximately HK\$5,103,000, representing 48% of total turnover. The recurrent subscription fees from the EVI On-line System from Hong Kong kindergartens remain the core revenue sources of the Group. Off-line revenue grew by 30% amounted to approximately HK\$5,507,000, among which approximately 33% of the total turnover was attributable to the sales and installation of computer hardware and software and 13% of the total turnover was attributable to the provision of computer and information technology (“IT”) training courses and 6% of the total turnover was attributable to website development and other commercial projects. The offline revenue increased significantly because of increasing contracts of Multi-Media Learning Centre (the “MMLC”) projects engaged by schools.

The Group maintained solid financial position with approximately HK\$22.8 million cash on hand with no outstanding debt as at 31st March, 2004. The Directors remained their positive perception towards the Group’s future financial position due to stable recurring subscription income and rooms of growth for its on-line and off-line business.

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, Parents and Kids Zone, the Members Zone and the I-Cube. Despite the weak economic condition for the period; the Group was still capable to solicit new business for its On-line System and receiving subscription fees from the Parents and Kids Zone. EVI now has built a user base of over 50,000 users comprising of students, parents and teachers from over 200 kindergartens and 400 primary schools respectively.

Besides the provision of core on-line education services, the Group also capitalized on its school network and is now utilizing its web site development know-how with different commercial partners to bring in additional revenue. The Group now offers range of quality side-products and services such as display kiosk to organizing exhibitions, functions and events. The Group’s subsidiary Silicon Workshop Limited, being the sole-distributor of iKonnet’s “HiShare” and “HiClass” software in the Hong Kong was well received by the market. The Office of the Telecommunications Authority (OFTA) appointed the Group to serve the 29th APEC TEL Telecommunications and Information Working Group Meeting held from 21st to 26th March, 2004 which witnessed the Group’s high standard and quality of services on provision of the multi-users and broadcasting software. In addition, the Group has continued to receiving development contracts from the Education and Manpower Bureau and other commercial entities.

Marketing

During the Period, series of brand building and marketing campaigns were launched in order to promote the Group's image. The Group organised the function "EVI-Tung Wah Group of Hospitals Kindergartens Group Joint Kindergartens Reading Promotion Scheme" at Central Library on 31st January, 2004 and 1st February, 2004. The Group has the honour to invite Mrs. Tse Ling Kit Ching, JP, the Deputy Secretary from Education and Manpower Bureau, together with Chairman of Tung Wah Group of Hospitals to officiate this event together with over 200 parents and kids. Various activities namely "EVI Child Intimacy Natural Tour" and "EVI Child Care General Knowledge Q&A Competition" were held during the Period with over 5,000 participants from 100 different kindergartens attending such events. The Group's "On-line Kids Broadcasting" also received warm feedback from the members and parents. The Group considered all these would help to strengthen customers' confidence and adhesiveness towards the EVI brand of quality. The Group continuous to participate social and charity events such as the "Charity Bobbing for Helping Hand" in order to demonstrate its support and good corporate citizenship.

For the Primary and secondary school market, I-Cube, the Group's portal with aim to selling revision exercise and entertainment card games to primary students and parents groups has successfully established its foothold with over 400 primary schools. A new version "I-Cube Intelligence Card" was introduced with open ceremony "Super-intelligence Competition" was held. Various marketing functions were held and well received by the primary schools and I-Cube members. I-Cube has continue to organise the event "I-Cube Inter-school Intelligent Competition 2" for year 2004 at Yung Wah Primary School on 24th April, 2004 with participation from over 40 primary schools. Through these promotion events, the number of paid members is increasing. I-Cube also expanded its product range to develop new comic and corresponding on-line games for kids, it has continued to research and develop new products in order to expand its revenue sources. The Group anticipates I-Cube will enter into fast growth period with substantial increase in revenue and commercial opportunities. I-Cube has successfully blended knowledge, learning with funs, participations from schools and parents that rendering it as one of the hottest sites among the primary students.

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 through the EVI On-line System. Besides the frequent content revision under different Zones, new photo library, e-commerce modules like on-line bookshops were launched.

System infrastructure and technology deployment

As for the technology development, the Group keeps on applying add-on features for the EVI On-line System, such as uses of web-cam and discussion forum. The Group's internal technical team has also employed bar code and other electronic devices in order to provide more helpful solutions to our kindergartens' customers. During the period, the Group has renewed its sole-distributor agreement with iKonnet on "HiShare" and "HiClass" software in Hong Kong. The Group believed these products together with the MMLC set, Light Emitting Diode (LED) display and raised floor system will continue to bring in steady revenue and contributions.

Strategic acquisitions

On 21st April, 2004, EVI Services Limited, a wholly owned subsidiary of the Company, entered into co-operative JV Agreement with an expertise in the PRC education market, in relation to the formation of the JV Company which will be principally engaged in the research & development, produce and sales of technical software or services both on-line and off-line for the PRC education market; including provision of supportive or after-sales solutions. The total investment and registered capital of the JV Company will be HK\$10,000,000 and HK\$5,000,000 respectively. The entire registered capital of the JV Company will be contributed by EVI Services Limited.

Outlook

The Group believes parents nowadays are more willing to invest in children education, products and services. Therefore, besides regular teaching and school activities; more and more parental focus and resources are directing to all-round skills development for the children. Parents are expecting more communication with schools whilst school transparency is one of the considerations for choosing the right school. Hence, the use of information technology or computer application is always one of the popular skills to be acquired by the children. The Group considers its portals or programs are effective and ideal channels to deliver such services and to reinforce the linkage, relationship between schools, families and students in their learning cycles. To sustain growth and remain competitive within the market, the Group constantly reviews and upgrades services and features under the EVI group of companies in Hong Kong in order to expand the revenue sources.

Geographically, the Group also recognizes its source of future growth potential and financial returns are from the PRC market. With the rapid growth of computer application in the PRC, the Directors believe that information technology has emerged as a new medium of delivering educational and learning contents in the PRC. Furthermore, given the “one-child” policy in the PRC, the parents in the PRC are more willing to invest in child education, products and services. As a result, the Directors consider that the market potential for education products and services in the PRC is tremendous. The Directors believe that with the expertise of the JV Partner in PRC education market and its massive school clientele and sales representative’s network, the establishment of the JV Company will offer the Group an excellent opportunity to develop and build up its education businesses within PRC starting from Guangdong province shortly. Given that the fast growing tracks of PRC education market, the Directors consider that the establishment of JV Company will broaden the Group’s income base and enhance the net asset value of the Group.

Also, the Group has already set up a wholly owned foreign enterprise in Guangzhou during the period and has engaged sales representative and trial run arrangements with several schools in different regions with very encouraging results. The Group is now refining its business development for the PRC market in different Provinces and the Group believes such latest PRC developments will soon transform the Group’s intrinsic value in e-education services into concrete business propositions.

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 contribution and dedicated efforts throughout the Period.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th May, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial Resources and Gearing Ratio

The Group generally financed its operations and investing activities with internally generated cash flows and the balance of the proceeds from the Placing. As at 31st March, 2004, the Group had unaudited net current assets of approximately HK\$20,194,000 (2003: HK\$19,695,000), including cash and bank deposits amounted to approximately HK\$22,768,000 (2003: HK\$21,917,000). There were nil consolidated total non-current liabilities (2003: Nil). The Group did not have any bank borrowings nor any banking facilities as at 31st March, 2004 (2003: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 31st March, 2004 was Nil (2003: Nil). The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and current working capital requirements.

Capital Structure and Foreign Exchange Exposure

The unutilized proceeds from the listing of the shares of the Company on GEM were placed mainly in Hong Kong dollar short-term interest bearing deposits with banks in Hong Kong. On Financial management, the Group placed approximately HK\$4,000,000 in Australia dollar short-term interest bearing deposits with banks in Hong Kong. The Directors believed that the foreign exchange exposure is mild as it could compensate from the relatively high interest income generated. The Group had not been granted any banking facilities for the period. The incomes of the Group are dominated in Hong Kong Dollar only and the Group has adequate recurring cash flow to meet the working capital requirement. The Group adhered to a prudent policy on financial risk management and the management of currency and interest rate exposures and not to enter into derivative transactions for speculative purposes. Hence, the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is no need to make use of financial instruments for hedging purposes.

Charge on Assets

The Group did not have any charge on their assets as at 31st March, 2004 (2003: Nil).

Significant Acquisition

The Company does not have any significant acquisition for the period ended 31st March, 2004 except the capital injection HK\$5,000,000 in relation to the formation of a co-operative JV Company in April 2004 disclosed above which will be financed by internal resources of the Group.

Future Plans for Material Investments and Capital Assets

In view of the latest business and PRC market development; the Group has established a co-operative JV Company and a Wholly Owned Foreign Enterprises in Guangzhou to fulfill part of its PRC development. The Group continues to holding talks and maintaining positive relationships with various PRC educational related organizations and associations in Beijing, Shanghai and Guangzhou. Other than that, there has been no solid future plan for material investments and acquisition of material capital assets as at 31st March, 2004.

Employee Information

Staff costs, including directors' remuneration, were approximately HK\$4,868,000 for the period ended 31st March, 2004 (2003: HK\$5,032,000). Headcount was changed from 61 as at 30th September, 2003 to 63 as at 31st March, 2004. Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training. The Group's employee remuneration policy, bonus and share option schemes have been reviewed and rewarded against staff's performance on annual basis.

Contingent Liabilities

The Group has no contingent liabilities as at 31st March, 2004 (2003: Nil).

UNAUDITED CONSOLIDATED PROFIT AND LOSS RESULTS

For the three and six months ended 31st March, 2004

	Notes	(Unaudited) For the Three Months Ended 31st March,		(Unaudited) For the Six Months Ended 31st March,	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	(2)	5,488	4,094	10,610	8,628
Cost of merchandise		(1,491)	(800)	(2,447)	(1,628)
Cost of internet connectivity fee		(77)	(142)	(144)	(275)
Staff costs		(2,474)	(2,506)	(4,868)	(5,032)
Depreciation		(348)	(1,372)	(789)	(2,112)
Amortisation of intangible assets		(216)	(735)	(947)	(1,552)
General and administrative expenses		(1,241)	(1,177)	(2,575)	(2,494)
Operating loss	(3)	(359)	(2,638)	(1,160)	(4,465)
Interest income		82	75	115	142
Loss before taxation		(277)	(2,563)	(1,045)	(4,323)
Taxation	(4)	(38)	(6)	(84)	(22)
Loss after taxation		(315)	(2,569)	(1,129)	(4,345)
Minority interests		(46)	3	(92)	(5)
Loss attributable to shareholders		(361)	(2,566)	(1,221)	(4,350)
Loss per share – Basic	(6)	(0.01) cent	(0.06) cent	(0.03) cent	(0.11) cent

CONSOLIDATED BALANCE SHEET

As at 31st March, 2004

		(Unaudited) As at 31st March, 2004	(Audited) As at 30th September, 2003
	Notes	HK\$'000	HK\$'000
Non-current assets			
Machinery and equipment	(7)	983	1,662
Intangible assets	(8)	781	1,728
		<hr/>	<hr/>
Total non-current assets		1,764	3,390
		<hr/>	<hr/>
Current assets			
Trade receivables	(9)	2,210	3,545
Due from customers on installation contracts		–	800
Prepayments, deposits and other receivables		641	647
Cash and bank deposits		22,768	21,917
		<hr/>	<hr/>
Total current assets		25,619	26,909
		<hr/>	<hr/>
Current liabilities			
Trade payables	(10)	(281)	(1,847)
Accruals and other payables		(1,794)	(1,922)
Deposits from customers		(2,789)	(2,918)
Due to minority shareholder of a subsidiary	(11)	(460)	(460)
Taxation payable		(101)	(67)
		<hr/>	<hr/>
Total current liabilities		(5,425)	(7,214)
		<hr/>	<hr/>
Net current assets		20,194	19,695
		<hr/>	<hr/>
Total assets less current liabilities		21,958	23,085
		<hr/>	<hr/>
Financed by:			
Share capital	(12)	40,000	40,000
Reserves	(14)	37,290	37,290
Accumulated deficit	(14)	(55,516)	(54,296)
		<hr/>	<hr/>
Shareholders' equity		21,774	22,994
Minority interests		184	91
		<hr/>	<hr/>
		21,958	23,085
		<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st March, 2004

	(Unaudited) For the six months ended 31st March, 2004 <i>HK\$'000</i>	(Unaudited) For the six months ended 31st March, 2003 <i>HK\$'000</i>
Net cash inflow/ (outflow) from operating activities	961	(363)
Net cash outflow in investing activities	<u>(110)</u>	<u>(373)</u>
Increase/(decrease) in cash and cash equivalents	851	(736)
Cash and cash equivalents at the beginning of the period	<u>21,917</u>	<u>25,063</u>
at the end of the period	<u><u>22,768</u></u>	<u><u>24,327</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 31st March, 2004

	(Unaudited) For the six months ended 31st March, 2004 <i>HK\$'000</i>	(Unaudited) For the six months ended 31st March, 2003 <i>HK\$'000</i>
Balance at beginning of the period	22,994	32,470
Net gain and loss not recognised in the profit and loss account – Exchange difference	1	0
Loss attributable to shareholders	<u>(1,221)</u>	<u>(4,350)</u>
Balance at the end of the period	<u><u>21,774</u></u>	<u><u>28,120</u></u>

NOTES TO INTERIM FINANCIAL STATEMENT:

(1) Basis of preparation

The accounts have been prepared in accordance with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”), 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) Segment Reporting

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

	For the Six Months Ended 31st March,									
	Internet education		Sales and installation of computer hardware and software		Computer training		Others		Group	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Turnover	5,103	4,387	3,534	2,145	1,303	1,748	670	348	10,610	8,628
Segment (loss) profit	(921)	(3,176)	(290)	(892)	290	144	(207)	(241)	(1,128)	(4,165)
Unallocated costs									(32)	(300)
Operating loss									(1,160)	(4,465)
Interest income									115	142
Loss before taxation									(1,045)	(4,323)
Taxation									(84)	(22)
Loss after taxation									(1,129)	(4,345)
Minority interests									(92)	(5)
Loss attributable to shareholders									<u>(1,221)</u>	<u>(4,350)</u>
Other Information										
Segment assets	1,785	4,984	1,727	1,124	673	1,519	121	123	4,306	7,750
Unallocated assets									23,077	24,882
Total assets									<u>27,383</u>	<u>32,632</u>
Segment liabilities	3,267	2,535	678	542	417	514	116	63	4,478	3,654
Unallocated liabilities									947	803
Total liabilities									<u>5,425</u>	<u>4,457</u>
Capital expenditure	110	373	–	–	–	–	–	–	110	373
Depreciation	749	1,922	19	47	4	109	17	34	789	2,112
Amortisation	569	1,050	189	251	189	251	–	–	947	1,552

(3) Operating Loss

Operating loss is stated after charging the following:

	For the Three Months Ended 31st March,		For the Six Months Ended 31st March,	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Cost of provision of internet connectivity fee	77	142	144	275
Cost of merchandise	1,491	800	2,447	1,628
Staff cost (including directors' emoluments)				
– salaries	2,333	2,388	4,581	4,679
– pension costs -defined contribution plan	141	118	287	353
Operating lease rentals in respect of				
– premises	471	184	911	688
– computer servers	54	107	129	209
Depreciation	348	1,372	789	2,112
Amortisation of intangible assets:				
– Website development costs	37	526	569	1,050
– Goodwill	179	209	378	502
Net loss on disposal of machinery and equipment	–	–	–	53
Provision for doubtful debts	22	166	35	189

(4) Taxation

The amount of taxation charged to the unaudited consolidated profit and loss account for the period represented the Hong Kong profits tax provided on the estimated assessable profit arising in or derived from Hong Kong subsidiaries. During the period, there were no material unprovided deferred tax assets/liabilities which are expected to be crystallised in the foreseeable future.

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.

(5) Interim Dividend

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

(6) **Loss per Share**

The calculation of basic loss per share for the Period ended 31st March, 2004 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,221,000 (2003:HK\$4,350,000) and on the weighted average number of 4,000,000,000 shares (2003: 4,000,000,000 shares) deemed to be in issue throughout the Period.

Diluted loss per share is not presented for the period ended 31st March, 2004 because the effect is anti-dilutive.

(7) **Machinery and Equipment**

	Leasehold improvements	Furniture and office equipment	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000
Cost				
At 1st October, 2003	1,788	715	8,161	10,664
Additions for the period	—	7	103	110
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2004	1,788	722	8,264	10,774
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1st October, 2003	1,758	639	6,605	9,002
Charge of the period	13	45	731	789
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	1,771	684	7,336	9,791
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31st March, 2004	17	38	928	983
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th September, 2003	30	76	1,556	1,662
	<hr/>	<hr/>	<hr/>	<hr/>

(8) Intangible Assets

	Website development costs <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>	Licensing rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net Book Value				
At 1st October, 2003	702	1,026	0	1,728
Amortisation during the period	(569)	(378)	–	(947)
At 31st March, 2004	<u>133</u>	<u>648</u>	<u>–</u>	<u>781</u>
As at 31st March, 2004				
Cost	6,534	2,511	6,318	15,363
Accumulated amortisation and impairment loss	<u>(6,401)</u>	<u>(1,863)</u>	<u>(6,318)</u>	<u>(14,582)</u>
Net Book Value	<u>133</u>	<u>648</u>	<u>–</u>	<u>781</u>
As at 30th September, 2003				
Cost	6,534	2,511	6,318	15,363
Accumulated amortisation and impairment loss	<u>(5,832)</u>	<u>(1,485)</u>	<u>(6,318)</u>	<u>(13,635)</u>
Net Book Value	<u>702</u>	<u>1,026</u>	<u>–</u>	<u>1,728</u>

(9) Trade Receivables

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

As at 31st March, 2004, the ageing analysis of the Group trade receivables was as follows:

	(Unaudited) As at 31st March, 2004 <i>HK\$'000</i>	(Audited) As at 30th September, 2003 <i>HK\$'000</i>
0 to 30 days	1,617	2,329
31 to 60 days	142	452
61 to 90 days	33	166
Over 90 days	<u>850</u>	<u>1,066</u>
	2,642	4,013
Less: Provision for doubtful debts	<u>(432)</u>	<u>(468)</u>
	<u>2,210</u>	<u>3,545</u>

(10) Trade Payables

As at 31st March, 2004 the ageing analysis of the Group's trade payables was as follow:

	(Unaudited) As at 31st March, 2004 <i>HK\$'000</i>	(Audited) As at 30th September, 2003 <i>HK\$'000</i>
0 to 30 days	248	1,416
31 to 60 days	–	336
61 to 90 days	–	16
Over 90 days	33	79
	<hr/>	<hr/>
	281	1,847
	<hr/>	<hr/>

(11) Due to minority shareholder of a subsidiary

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

(12) Share Capital

	(Unaudited) As at 31st March, 2004 <i>HK\$'000</i>	(Audited) As at 30th September, 2003 <i>HK\$'000</i>
Authorised Ordinary Share Capital:		
50,000,000,000 Shares of 0.01 each	500,000	500,000
	<hr/>	<hr/>
Issued and fully paid Share Capital		
4,000,000,000 Shares of 0.01 each	40,000	40,000
	<hr/>	<hr/>

(13) Share Option Scheme

Details of Options outstanding as at 31st March, 2004 are as follows:

	Number of share options	
	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
As at 1st October, 2003	221,500,000	21,000,000
<i>Less:</i> share options lapsed during the period	–	–
	<hr/>	<hr/>
As at 31st March, 2004	221,500,000	21,000,000
	<hr/>	<hr/>

No share option was granted during the six months ended 31st March, 2004.

(14) Movement of reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange difference <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st October, 2002	22,372	14,918	0	(44,820)	(7,530)
Loss attributable to shareholders	0	0	0	(4,350)	(4,350)
	<u>22,372</u>	<u>14,918</u>	<u>0</u>	<u>(49,170)</u>	<u>(11,880)</u>
At 31st March, 2003	22,372	14,918	0	(54,296)	(17,006)
Loss attributable to shareholders	0	0	0	(1,221)	(1,221)
Exchange difference	–	–	1	–	1
	<u>22,372</u>	<u>14,918</u>	<u>1</u>	<u>(55,517)</u>	<u>(18,226)</u>

(15) Operating Lease Commitments

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

	(Unaudited) As at 31st March, 2004 <i>HK\$'000</i>	(Audited) As at 30th September, 2003 <i>HK\$'000</i>
Not later than one year	1,358	2,076
Later than one year and not later than five years	–	446
	<u>1,358</u>	<u>2,522</u>

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

As at 31st March, 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 March, 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 March, 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 at a price of HK\$0.076 per share (as adjusted) exercisable in the period from 16th March, 2002 to 15th March, 2005.

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

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

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

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

(b) Post-IPO Share Option Scheme

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

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

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

None of the above options has been exercised during the six months ended 31st March, 2004.

Save as disclosed above, at no time during the six months ended 31st March, 2004 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.

(2) Post-IPO Share Option Scheme

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

As at 31st March, 2004, options to subscribe for an aggregate of 21,000,000 Shares granted on 31st October, 2001 at an exercise price of HK\$0.208 per Share were outstanding and these options relate to the options granted to one director and ten employees at the date of grant, details of which as at 31st March, 2004 are as follows:

	Number of share options
As at 1st October, 2003	21,000,000
<i>Less:</i> share options lapsed during the period	<u> –</u>
As at 31st March, 2004	<u> 21,000,000</u>

In view of small historical trading volume and fluctuation of the trading price of the Company's Shares, the directors are also noted that the value of the theoretical value of the share options granted during the Period depends on a number of variables which are difficult to ascertain. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances. A summary of the major terms of each share option scheme including details of all options granted hereunder are set out at pages 21-22 of the Annual Report 2003 of the Company.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31st March, 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:

1. As at 31st March, 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 March, 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 report, two audit committee meetings were held this year to discuss the operating results, statement of affairs and accounting policies with respect to the first and second quarterly reports of 2003-2004.

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 March, 2004.

By Order of the Board
Pong Wai San, Wilson
Chairman

The Board of Directors comprises of:

Mr. Pong Wai San, Wilson (*Executive director*)
Mr. Cheung Shi Kwan, Wings (*Executive director*)
Madam Pong Lo Shuk Yin, Dorothy (*Executive director*)
Mr. Lau Wai Shu (*Executive director*)
Mr. Hung Tak Chow, Charles (*Independent non-executive director*)
Mr. Hung Fan Wai, Wilfred (*Independent non-executive director*)
Mr. Lai Hin Wing, Henry (*Independent non-executive director*)

Hong Kong, 13th May, 2004.