



EVI Education Asia Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8090

Interim Report 2006



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

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

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

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

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

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Director

Mr. TSANG Link Carl, Brian

Independent non-executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr. LO Tsz Yung

Compliance Officer

Mr. LAU Wai Shu

Authorised Representatives

Mr. LAU Wai Shu
Mr. LO Tsz Yung

Qualified Accountant

Mr. CHAN Kei, Jeffrey

Auditors

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

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town, Grand Cayman
Cayman Islands, British West Indies

Hong Kong Branch Share Registrar and Transfer Office

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

Registered Office

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 G.T.
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
Hong Kong

Website Address

www.evi.com.hk

Stock Code

8090

Cayman Islands Legal Advisers

Conyers Dill & Pearman, Cayman
Suite 2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

Interim Results for the Six Months Ended 30th June 2006

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

Unaudited Consolidated Income Statement

For the three months and six months ended 30th June 2006

	Note	For the three months ended 30th June		For the six months ended 30th June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	(2)	6,816	6,227	12,558	11,081
Other income	(4)	1,224	722	2,298	870
Cost of merchandise		(1,692)	(2,448)	(3,521)	(3,630)
Cost of internet connectivity fee		(43)	(38)	(63)	(71)
Staff costs	(5)	(3,504)	(2,694)	(8,296)	(5,261)
Depreciation and impairment charges		(393)	(216)	(632)	(435)
Amortisation of intangible assets		(2)	(12)	(8)	(25)
General and administrative expenses		(2,341)	(1,090)	(4,238)	(1,955)
(Loss)/profit before income tax	(6)	65	451	(1,902)	574
Income tax credit/(expense)	(7)	–	2	–	(8)
(Loss)/profit for the period		65	453	(1,902)	566
Attributable to:					
Equity holders of the Company		95	665	(1,744)	966
Minority interests		(30)	(212)	(158)	(400)
		65	453	(1,902)	566
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period					
– Basic	(9)	<u>HK0.0011 cent</u>	<u>HK0.0080 cent</u>	<u>HK(0.0210) cent</u>	<u>HK0.0148 cent</u>
– Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Unaudited Consolidated Balance Sheet

As at 30th June 2006

	<i>Note</i>	(Unaudited) As at 30th June 2006 HK\$'000	(Audited) As at 31st December 2005 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	(10)	1,802	2,005
Financial asset at fair value through profit or loss	(11)	5,049	5,040
Intangible assets		–	8
		<hr/> 6,851	<hr/> 7,053
Current assets			
Inventories		203	204
Trade receivables	(12)	3,080	4,782
Due from customers on installation contracts		260	624
Prepayments, deposits and other receivables		2,588	1,988
Tax refundable		12	12
Cash and bank deposits		116,798	115,508
		<hr/> 122,941	<hr/> 123,118
Total assets		<hr/> 129,792	<hr/> 130,171
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital	(15)	83,000	83,000
Reserves	(16)	41,295	41,361
		<hr/> 124,295	<hr/> 124,361
Minority interest		551	709
Total Equity		<hr/> 124,846	<hr/> 125,070
Current liabilities			
Trade payables	(13)	840	964
Accruals and other payables		1,672	1,296
Deposits from customers		2,254	2,461
Due to minority shareholders of subsidiaries	(14)	180	380
		<hr/> 4,946	<hr/> 5,101
Total equity and liabilities		<hr/> 129,792	<hr/> 130,171
Net current assets		<hr/> 117,995	<hr/> 118,017
Total assets less current liabilities		<hr/> 124,846	<hr/> 125,070

Unaudited Consolidated Cash Flow Statement

For the six months ended 30th June 2006

	For the six months ended 30th June	
	2006 HK\$'000	2005 HK\$'000
Net cash inflow from operating activities	2,041	355
Net cash outflow from investing activities	(577)	(411)
Net cash (outflow)/inflow from financing activities	<u>(200)</u>	<u>106,164</u>
Increase in cash and cash equivalents	1,264	106,108
Cash and cash equivalents at the beginning of the period	115,508	18,658
Effect of foreign exchange rate changes	<u>26</u>	<u>(22)</u>
Cash and cash equivalents at the end of the period	<u>116,798</u>	<u>124,744</u>

Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30th June 2006

	For the six months ended 30th June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Balance at the beginning of the period:		
– Equity	124,361	18,788
– Minority interest	709	2,033
	<hr/>	<hr/>
Balance at the beginning of the period	125,070	20,821
Exchange translation difference (net income/(expense) recognized directly in equity)	26	(22)
(Loss)/profit for the period	(1,902)	566
Total recognized income and expense for the period	(1,876)	544
Issue of new shares	–	107,500
Share issue expense	–	(1,056)
Share option reserve	1,652	–
	<hr/>	<hr/>
Balance at the end of the period	<u>124,846</u>	<u>127,809</u>
Total recognized income and expense for the period attributable to:		
– Equity holders of the Company	(1,718)	944
– Minority interest	(158)	(400)
	<hr/>	<hr/>
Total recognized income and expense for the period	<u>(1,876)</u>	<u>544</u>

Notes to Consolidated Financial Statements

(1) Basis of preparation and principal accounting policies

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

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

HKAS 21(Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39(Amendment)	The Fair Value Option

The Group has not early adopted the following standards and interpretations that have been issued but are not yet effective. The adoption of such standards will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments – Disclosures
HK(IFRIC) Interpretation 8	Scope of HKFRS 2
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives

Notes to Consolidated Financial Statements

(2) Revenue

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

Revenue recognized during the Period is as follows:

	(Unaudited)			
	For the three months ended 30th June		For the six months ended 30th June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue				
Internet education service	2,139	2,234	4,384	4,427
Sales and installation of computer hardware and software	1,388	1,814	3,339	3,432
Website development and commercial projects	1,746	1,588	2,154	2,026
Computer training services	850	578	1,591	1,160
Sales of health and personal care products	690	–	1,046	–
Others	3	13	44	36
	<u>6,816</u>	<u>6,227</u>	<u>12,558</u>	<u>11,081</u>
Turnover	<u>6,816</u>	<u>6,227</u>	<u>12,558</u>	<u>11,081</u>

Notes to Consolidated Financial Statements

(3) Segment information

(a) Business segments

The Group operates under five main business segments, namely (i) provision of internet education services, (ii) sales and installation of computer hardware and software, (iii) website development and commercial projects, (iv) provision of computer training services and (v) sales of health and personal care products.

	(Unaudited)						Group HK\$'000
	For the six months ended 30th June 2006						
	Internet education services HK\$'000	Sales and installation of computer hardware and software HK\$'000	Website development and commercial projects HK\$'000	Computer training services HK\$'000	Sales of health and personal care products HK\$'000	Others HK\$'000	
Revenue							
- External sales	4,384	3,339	2,154	1,591	1,046	44	12,558
Segment results	16	(528)	(200)	683	(1,960)	26	(1,983)
Unallocated expenses							(2,217)
Operating loss							(4,200)
Interest income							2,298
Loss before income tax							(1,902)
Income tax expense							-
Loss for the period							(1,902)
Capital expenditure	113	46	13	69	326	1	568
Depreciation and impairment charges	218	18	24	131	241	-	632
Amortisation	8	-	-	-	-	-	8
	As at 30th June 2006						
Segment assets	2,250	2,322	759	661	1,257	1	7,250
Unallocated assets							122,542
Total assets							129,792
Segment liabilities	1,249	796	638	324	669	-	3,676
Unallocated liabilities							1,270
Total liabilities							4,946

Notes to Consolidated Financial Statements

(3) Segment information (continued)

(a) Business segments (continued)

	(Unaudited)						Others HK\$'000	Group HK\$'000
	For the six months ended 30th June 2005							
	Internet education services HK\$'000	Sales and installation of computer hardware and software HK\$'000	Website development and commercial projects HK\$'000	Computer training services HK\$'000	Sales of health and personal care products HK\$'000			
Revenue								
– External sales	4,427	3,432	2,026	1,160	–	36	11,081	
Segment results	140	(624)	(470)	598	–	24	(332)	
Unallocated income							82	
Unallocated expenses							(46)	
Operating loss							(296)	
Interest income							870	
Profit before income tax							574	
Income tax expense							(8)	
Profit for the period							566	
Capital expenditure	270	4	123	14	–	–	411	
Depreciation	371	10	51	3	–	–	435	
Amortisation	25	–	–	–	–	–	25	

	(Audited)						1,307	9,306
	As at 31st December 2005							
Segment assets	2,427	4,679	269	624	–		9,306	
Unallocated assets							120,865	
Total assets							130,171	
Segment liabilities	2,330	1,296	406	386	–	33	4,451	
Unallocated liabilities							650	
Total liabilities							5,101	

Notes to Consolidated Financial Statements

(3) Segment information *(continued)*

(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 is an analysis of the carrying amount of segment assets, additions to property, plant and equipment and intangible assets by geographical areas in which the assets are located:

	Segment assets		Capital expenditures	
	(Unaudited) As at 30th June 2006 HK\$'000	(Audited) As at 31st December 2005 HK\$'000	(Unaudited) For the six months ended 30th June 2006 HK\$'000	2005 HK\$'000
Hong Kong	127,570	127,319	530	406
The People's Republic of China ("PRC")	2,222	2,852	38	5
	<u>129,792</u>	<u>130,171</u>	<u>568</u>	<u>411</u>

(4) Other income

Other income represents mainly interest income generated from bank deposits.

(5) Staff costs

	(Unaudited)			
	For the three months ended 30th June		For the six months ended 30th June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Staff costs (including directors' emoluments) represent:				
Salaries and allowances	2,998	2,507	6,369	4,904
Pension costs	131	187	275	357
Share option expenses	375	–	1,652	–
	<u>3,504</u>	<u>2,694</u>	<u>8,296</u>	<u>5,261</u>

Notes to Consolidated Financial Statements

(6) (Loss)/profit before income tax

	(Unaudited)			
	For the three months ended 30th June		For the six months ended 30th June	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before income tax is arrived at after charging:				
Operating lease charges:				
– Premises	1,019	331	1,770	557
– Computer servers	52	53	105	106
	<u>1,071</u>	<u>384</u>	<u>1,875</u>	<u>663</u>
Cost of merchandise	1,692	2,448	3,521	3,630
Cost of internet connectivity fee	43	38	63	71
Staff costs (including directors' emoluments)	3,504	2,694	8,296	5,261
Depreciation and impairment charges	393	216	632	435
Amortisation of website development costs	2	12	8	25
Loss on disposal of property, plant and equipment	139	–	139	–
(Reversal of)/provision for impairment on trade receivables	(5)	35	(8)	5
And crediting:				
Interest income	<u>1,224</u>	<u>722</u>	<u>2,298</u>	<u>870</u>

Notes to Consolidated Financial Statements

(7) Income tax credit/(expense)

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

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

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

(8) Interim dividend

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

(9) (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the Period was based on the unaudited consolidated loss attributable to equity holders of the Company of HK\$1,744,000 (2005: Profit attributable to equity holders of HK\$966,000) and on the 8,300,000,000 ordinary shares (2005: weighted average number of 6,541,988,950 ordinary shares) in issue throughout the Period.

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

Notes to Consolidated Financial Statements

(10) Property, plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2006				
Cost	1,486	474	5,841	7,801
Accumulated depreciation	(409)	(360)	(5,027)	(5,796)
Net book amount	<u>1,077</u>	<u>114</u>	<u>814</u>	<u>2,005</u>
Net book amount at 1st January 2006	1,077	114	814	2,005
Additions	287	115	166	568
Disposals	(139)	–	–	(139)
Depreciation	(295)	(32)	(174)	(501)
Impairment charges	(131)	–	–	(131)
Net book amount at 30th June 2006	<u>799</u>	<u>197</u>	<u>806</u>	<u>1,802</u>
At 30th June 2006				
Cost	1,594	589	6,007	8,190
Accumulated depreciation and impairment	(795)	(392)	(5,201)	(6,388)
Net book amount	<u>799</u>	<u>197</u>	<u>806</u>	<u>1,802</u>

(11) Financial asset at fair value through profit or loss

Financial asset at fair value through profit or loss represents a 5 years non-call 3 months US dollars Callable Range Accrual Note.

Notes to Consolidated Financial Statements

(12) Trade receivables

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

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

	(Unaudited) At 30th June 2006 <i>HK\$'000</i>	(Audited) At 31st December 2005 <i>HK\$'000</i>
0 to 30 days	1,185	3,206
31 to 60 days	634	553
61 to 90 days	785	296
Over 90 days	1,027	1,286
	<hr/>	<hr/>
	3,631	5,341
Less: Provision for doubtful debts	(551)	(559)
	<hr/>	<hr/>
	3,080	4,782
	<hr/>	<hr/>

(13) Trade payables

The ageing analysis of the Group's trade payables is as follows:-

	(Unaudited) At 30th June 2006 <i>HK\$'000</i>	(Audited) At 31st December 2005 <i>HK\$'000</i>
0 to 30 days	511	633
31 to 60 days	84	27
61 to 90 days	4	218
Over 90 days	241	86
	<hr/>	<hr/>
	840	964
	<hr/>	<hr/>

Notes to Consolidated Financial Statements

(14) Due to minority shareholders of subsidiaries

The amount was unsecured, non-interest bearing and had no fixed repayment terms. During the Period, the Group made repayment to a minority shareholder of a subsidiary amounting to HK\$200,000.

(15) Share capital

	Number of shares	Nominal value (Ordinary Shares of HK\$0.01 each) <i>HK\$'000</i>
Authorised:		
At 30th June 2006 (unaudited) and 31st December 2005 (audited)	50,000,000,000	<u>500,000</u>
Issued and fully paid:		
At 30th June 2006 (unaudited) and 31st December 2005 (audited)	<u>8,300,000,000</u>	<u>83,000</u>

Notes to Consolidated Financial Statements

(16) Movement of reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2005	22,372	14,918	61	-	(58,563)	(21,212)
Issue of new shares	64,500	-	-	-	-	64,500
Share issue expenses	(1,056)	-	-	-	-	(1,056)
Profit for the period	-	-	-	-	966	966
Exchange translation difference	-	-	(22)	-	-	(22)
	<u>85,816</u>	<u>14,918</u>	<u>39</u>	<u>-</u>	<u>(57,597)</u>	<u>43,176</u>
At 1st January 2006	85,816	14,918	135	-	(59,508)	41,361
Loss for the period	-	-	-	-	(1,744)	(1,744)
Exchange translation difference	-	-	26	-	-	26
Share option expenses	-	-	-	1,652	-	1,652
	<u>85,816</u>	<u>14,918</u>	<u>161</u>	<u>1,652</u>	<u>(61,252)</u>	<u>41,295</u>

(17) 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)		(Audited)	
	As at 30th June 2006		As at 31st December 2005	
	Premises	Other Assets	Premises	Other Assets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,370	35	2,597	131
In the second to fifth years	2,089	-	2,695	-
	<u>4,459</u>	<u>35</u>	<u>5,292</u>	<u>131</u>

Financial Performance

During the Period, the Group recorded an increase of HK\$1,477,000 or 13% in revenue as compared with the corresponding period of previous year. The increase was derived from the improvement in website development and commercial projects and computer training services income, as well as the launch of a new retail business of health and personal care products. The loss attributable to equity holders of the Company for the Period amounting to approximately HK\$1,744,000 was mainly resulted from recognition of the share option expenses and the set up of abovementioned new retail business since October 2005.

In terms of segmental performance, the Group's revenue from the internet education services for the Period slightly decreased by 1% to approximately HK\$4,384,000, representing about 35% of total revenue. Revenue from sales and installation of computer hardware and software decreased by 3% to HK\$3,339,000, representing 27% of total revenue. Revenue from website development and other commercial projects increased by 6% to HK\$2,154,000, representing 17% of total revenue. Revenue from computer training services increased by 37% to HK\$1,591,000, representing 13% of total revenue. Sales of health and personal care products yielded approximately 8% of total revenue. Interest income increased significantly to HK\$2,298,000 stemming from the increase in the capital fund resulting from the acquisition by Midland Holdings Limited ("Midland"), our holding company.

As at 30th June 2006, the Group maintained healthy financial position with cash on hand of approximately HK\$117 million with financial asset at fair value through profit or loss of approximately HK\$5 million and no outstanding bank loan.

The Group generally finances its operations and investing activities with internally generated cash flows, the balance of proceeds from the initial placing of shares of the Company at initial listing on GEM and the proceeds from Midland's share subscription. As at 30th June 2006, the Group had unaudited net current assets of approximately HK\$118 million (2005: HK\$124 million), including cash and bank deposits approximately HK\$117 million (2005: HK\$125 million). There were nil consolidated total non-current liabilities (2005: Nil). The Group did not have any bank borrowings nor any banking facilities as at 30th June 2006 (2005: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 30th June 2006 was nil (2005: Nil). The Directors believe that the Group's existing financial resources are sufficient to fulfill its commitments and current working capital requirements.

Foreign Currency Risk

Most of the Group's working capital and funds were placed in Hong Kong dollar short-term interest bearing deposits with banks in Hong Kong. Amongst the funds, the Group placed approximately HK\$4,746,000 in US dollar short-term interest bearing deposits with bank in Hong Kong, approximately HK\$1,839,000 in Renminbi saving accounts with banks in the PRC. In addition, approximately HK\$5,049,000 was placed in US dollar Callable Range Accrual Note. The Directors believed that the foreign exchange exposure to US dollars and Renminbi is not material.

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

Business Review

Internet Education

The EVI portals continued to receive favorable response from users. Attributable to the stable market share gained amongst local kindergartens over the years, EVI On-line System, our Internet-based on-line education services and community, remained a reliable and steady income stream for the Period. To fully utilize the revenue-generating potential of the system, we constantly develop and enrich the contents and e-commerce enabling features for our various users.

The Directors believed that one of the best ways to generate additional revenue is to expand our coverage to new markets. In view of the rapid growth of Internet users in the mainland China and Macau, the Directors believe that the market potential of Internet education service in these regions is tremendous. During the Period, we took an initial step by way of apportioning marketing effort to establish our presence in Macau market where we start generating subscription revenue.

Commercial Projects

The Group adopted active marketing strategy to enhance awareness and branding of EVI. We applied our website development know-how to collaborative projects with various commercial partners and government departments, for instance, the Education and Manpower Bureau. Whilst additional revenue could be achieved, our network business value could also be reinforced by collaborating with commercial partners in organizing a series of sale and marketing activities and campaigns. During the first half of the year, the Company ran a number of multiple intelligences, creative and knowledge-related games and contests with sponsorship from, among others, a leading oral health care company and a local insurance company. Feedback from primary schools towards these activities was impressive. "I-Cube Inter-school Intelligence Competitions" which was held in the second quarter, with participation of over 200 primary schools, were successful events to promote the Group amongst primary schools. Through these campaign activities, we went major further step in cementing our market position in primary schools sector.

Products Development

Leveraging our professional IT knowledge and client network among primary schools and students, during the Period, we launched a set of twelve web-based teaching books namely "Dr P.C. Family" targeting primary students. In light of its positive response received from market, the Company is aggressively planning for launching another set of web-based teaching books catering pre-school students.

Business Review

On-line Professional Training

Our Company's growth strategy is to exploit strengths of our core business while realizing synergies with our new activities. Leveraging on our IT knowledge and experience as well as the training expertise of Midland, we, in pursuing our strategy of related-business diversification, developed on-line professional training programs targeting practitioners in the property agency business last year. During the Period, several more professional courses and interactive activities were injected to this training portal for property agents and this division generated modest revenue. Given the property market during the Period was not that active and the Estate Agents Authority still has yet released concrete details on the mandatory implementation of the continuing professional development, we have adjusted our pace of development of this new line of business.

Prospect

By virtue of the successful experience we have accumulated in the past few years, the Group recognized that participating in the annual Hong Kong Book Fair could help stimulating our brand awareness and enhancing our exposure to larger clients. Considering that the market response to "Dr. P.C. Family", our touchstone in the teaching book market, was so encouraging, the Directors believe that the Company, being a prominent education service provider, has niche in this market and expect that our income source could be further diversified.

Given our newly launched retail business of health and personal care products in Hong Kong is in an initial stage of development and the market competition turned out to be more severe than expected, revenue derived from this business for the Period had not been satisfactory. Capturing the solid experience we gained in this business sector this year, we plan to undergo a re-engineering process by streamlining our retail network, fine tuning our sales strategies and strengthening our stringent cost control measures. The Directors hope that, with these streamlining initiatives, our presence can be steadily implemented in Hong Kong in near future. We can use it as our platform to develop the PRC market where potential for luxury products is so tremendous and thus high degree of expandability to this business.

The Group will continue looking to opportunities in the extensive PRC market and will, from the second half of the year, actively build up our own sales and marketing network for penetrating into and attracting a larger group of children, parents and schools in the PRC to subscribe for our internet education services. We will also strive to utilise our expertise, brand recognition and experience achieved in Hong Kong to accelerate entry to the Macau market. The Directors expect that, through expansion into these new markets, our geographic exposure could also be diversified.

Share Options

At the Company's extraordinary general meeting held on 6th June 2005, a new share option scheme (the "Share Option Scheme") of the Company was adopted and approved by its shareholders. Principal terms of which are set out in the section headed "Share Options Schemes" in the Report of the Directors included in the Company's 2005 Annual Report.

On 16th January 2006, options were granted under the Share Option Scheme to Mr. Tsang Link Carl, Brian ("Mr. Tsang"), a non-executive director of the Company, to subscribe for an aggregate of 83,000,000 shares of the Company at the exercise price of HK\$0.06 per share (the "Options"). The closing price of the Company's shares as at 13th January 2006, the trading date immediately before the date of grant, was HK\$0.06.

The Options have an option period of three years and two months commencing from 1st April 2006 to 31st May 2009 (both days inclusive), provided that the maximum number of shares Mr. Tsang is entitled to subscribe for by exercising the Options shall not exceed:

1. 50% of the total number of Options during the period from 1st April 2006 to 31st March 2009; and
2. 50% of the total number of Options during the period from 1st June 2006 to 31st May 2009.

No Options had been exercised by Mr. Tsang during the Period.

Details of the outstanding options during the Period are as follows:

	Number of share options
Outstanding as at 1st January 2006	–
Granted during the Period	83,000,000
	<hr/>
Outstanding as at 30th June 2006	83,000,000
	<hr/>

Save as disclosed above, no option had been granted, exercised and lapsed pursuant to the Share Option Scheme for the Period.

Share Options

The fair value of the Options granted during the Period determined using the Black-Scholes valuation model (Note) is approximately HK\$1,651,739. The valuation was carried out on a market value basis. The significant inputs into the model were share price of HK\$0.06 at the grant date, exercise price of HK\$0.06, expected dividend yield of 0%, the option life expressed as weighted average life used in the modeling was 2.28 years and risk free rates of the Options were ranged from 3.6% to 3.793% (the rates represented the yields to maturity of respective Hong Kong Exchange Fund Note as at 16th January 2006). The volatility of the Options was 52.55%. Expected volatility was determined by using historical volatility of the Company's share price over the previous 3 years.

Note:

Because the Black-Scholes valuation model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

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

Name of director	Personal interests	Family interests	Corporate Interests	Equity derivative (Share Option)	Total	Percentage of Shares
Mr. Pong Wai San, Wilson ("Mr. Pong") (Note 1)	153,610,000	-	2,182,300,000	-	2,335,910,000	28.14%
Mr. Tsang (Note 2)	-	-	-	83,000,000	83,000,000	1.00%

Notes:

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

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

Substantial Shareholders

As at 30th June 2006, the interests or short positions of substantial shareholders and other persons of the Company in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Name of Shareholder	Number of issued shares	Capacity in which shares are held	Percentage holding
Valuewit Assets Limited ("Valuewit")	4,300,000,000 <i>(Note 1)</i>	Corporation interest	51.81%
Midland	4,300,000,000 <i>(Note 1)</i>	Interest in controlled corporation	51.81%
Summerview	2,182,300,000 <i>(Note 2)</i>	Corporation interest	26.29%

Notes:

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

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

Audit Committee

The Group's unaudited consolidated financial statements for the Period have been reviewed by the Company's audit committee.

Code on Corporate Governance

The Company had complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30th June 2006.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard") as the code of conduct regarding securities transactions by Directors and has complied with the Required Standard. A copy of the Required Standard is sent to each Director upon appointment and a reminder is sent to each Director one month before the date of the board meetings to approve the Company's quarterly results, interim results and annual results that the Director cannot deal in the shares of the Company until after such results have been published.

Having made specific enquiry of all Directors and the Company has not been notified of any non-compliance with the Required Standard.

Purchase, Sale and Redemption of the Company's Listed Securities

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

Appreciation

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

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

Hong Kong, 3rd August 2006