



# **EVI Education Asia Limited**

# **EVI 教育亞洲有限公司\***

(incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)  
 Stock Code 股份代號 : 8090

# 2006

Annual Report 年報

\* For identification purpose only 僅供識別

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

### **香港聯合交易所有限公司（「聯交所」）創業板（「創業板」）之特色**

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.

創業板為帶有高投資風險之公司提供一個上市之市場。尤其在創業板上市之公司毋須有過往溢利紀錄，亦毋須預測未來溢利。此外，在創業板上市之公司可能因其新興性質及該等公司經營業務之行業或國家而帶有風險。有意投資之人士應了解投資該等公司之潛在風險，並應經過審慎周詳之考慮後方作出投資決定。創業板之較高風險及其他特色表示創業板較適合專業及其他資深投資人士。

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.

由於創業板上市公司的新興性質所然，在創業板買賣的證券可能會較於主板買賣的證券承受較大的市場波動風險，同時無法保證在創業板買賣的證券會有高流通量的市場。

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.

創業板主要通過聯交所為創業板而設之互聯網網頁發布消息。上市公司一般毋須在憲報指定報章刊登付款公布披露資料。因此，有意投資之人士應注意彼等須閱覽創業板網站，以便取得創業板上市發行人之最新資料。

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.

本年報（EVI教育亞洲有限公司董事共同及個別對此負上全責）所載資料乃遵照創業板證券上市規則之規定提供有關EVI教育亞洲有限公司之資料。各董事在作出一切合理查詢後確認，就其所深知及確信：(1)本年報所載資料在各重要方面均屬準確及完整，且並無誤導成分；(2)本年報並無遺漏其他事宜，以致本年報任何內容產生誤導；及(3)本年報所表達一切意見乃經審慎周詳考慮後始行作出，並建基於公平合理之基準及假設。

## CONTENTS

---

Corporate Information	2
Letter from Chief Executive Officer	3
Management Discussion and Analysis	6
Report of the Directors	7
Corporate Governance Report	16
Independent Auditors' Report	21
Consolidated Income Statement	22
Consolidated Balance Sheet	23
Balance Sheet	24
Consolidated Cash Flow Statement	25
Consolidated Statement of Changes in Equity	27
Notes to the Financial Statements	28
Financial Summary	64

## CORPORATE INFORMATION

---

### BOARD OF DIRECTORS

#### Executive Directors

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. KOO Fook Sun, Louis (*committee chairman*)

Mr. LAU Wai Shu

Mr. SHA Pau, Eric

Mr. YING Wing Cheung

### NOMINATION COMMITTEE

Mr. KOO Fook Sun, Louis (*committee chairman*)

Mr. LAU Wai Shu

Mr. SHA Pau, Eric

Mr. YING Wing Cheung

### COMPANY SECRETARY

Mr. HUI Hin Sing

### COMPLIANCE OFFICER

Mr. LAU Wai Shu

### AUTHORISED REPRESENTATIVES

Mr. LAU Wai Shu

Mr. HUI Hin Sing

### QUALIFIED ACCOUNTANT

Mr. CHAN Kei, Jeffrey

### AUDITORS

Grant Thornton

13th Floor, Gloucester Tower

The Landmark, 15 Queen's Road Central

Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited

2nd Floor, Strathvale House

North Church Street

P.O. Box 513

Grand Cayman KY1-1106

Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

### REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9th Floor, Tai Sang Commercial Building

24-34 Hennessy Road

Hong Kong

### WEBSITE ADDRESS

[www.evi.com.hk](http://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

## LETTER FROM CHIEF EXECUTIVE OFFICER

---

### FINANCIAL PERFORMANCE

EVI Education Asia Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately HK\$27,124,000 for the year ended 31st December 2006 (the "Year"), representing an increase of 2% when compared to the unaudited results for twelve-month period ended 31st December 2005. The following comparisons and analysis are based on the unaudited results for year ended 31st December 2005.

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

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

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

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

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

### BUSINESS REVIEW

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

#### Internet Education Services

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

## **LETTER FROM CHIEF EXECUTIVE OFFICER** *(Continued)*

---

### **BUSINESS REVIEW** *(Continued)*

#### **Internet Education Services** *(Continued)*

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

#### **Sales and Installation of Computer Hardware and Software**

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

#### **Website Development and Commercial Projects**

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

#### **Computer Training Services**

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

#### **Sales on Health and Personal Care Products**

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

**OUTLOOK**

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

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

---

### LIQUIDITY AND FINANCIAL RESOURCES

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

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

### CAPITAL STRUCTURE AND FOREIGN EXCHANGE EXPOSURE

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

### SIGNIFICANT ACQUISITION

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

### SIGNIFICANT INVESTMENT PLAN

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

### EMPLOYEE INFORMATION

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

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

## REPORT OF THE DIRECTORS

---

The Directors of the Company present their report together with the audited financial statements of the Group for the Year.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in note 1 to the financial statements.

An analysis of the Group's performance for the Year by business segment is set out in note 6 to the financial statements.

### RESULTS AND APPROPRIATIONS

Details of the Group's results for the Year are set out in the consolidated income statement on page 22 of this report.

The Directors do not recommend the payment of final dividend for the Year.

### CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions amounted to HK\$781,000 (2005: HK\$55,101).

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 14 to the financial statements.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 64.

### SHARE CAPITAL

Details of the movements in share capital of the Company were set out in note 26 to the financial statements.

### SHARE OPTION SCHEME

At the Company's extraordinary general meeting held on 6th June 2005, a share option scheme (the "Share Option Scheme") of the Company was adopted and approved by its shareholders.

#### 1. Major Terms of the Share Option Scheme

The major terms of the Share Option Scheme are summarized as follows:

*(a) Purposes of the Share Option Scheme*

The principal purposes of the Share Option Scheme are to enable the Group and its Invested Entities to recruit and retain high calibre Eligible Persons and attract human resources that are valuable to the Group or Invested Entities, to recognise the contributions of the Eligible Persons to the growth of the Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to motivate and give incentives to these Eligible Persons to continue to contribute to the long term success and prosperity of the Group or Invested Entities.

*(b) Participants of the Share Option Scheme*

The Board may invite any Eligible Person as the Board may in its absolute discretion select, having regard to each person's qualifications, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Group or Invested Entity.

**SHARE OPTION SCHEME** *(Continued)*

**1. Major Terms of the Share Option Scheme** *(Continued)*

*(c) Total number of shares available for issue*

Total number of shares available for issue is 830,000,000 representing approximately 10% of the issued share capital of the Company as at the date of this report.

*(d) Maximum entitlement of each Eligible Person*

The maximum number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to each eligible person, in any 12-month period must not exceed 1% of the shares in issue.

Any further grant of share options in excess of the abovementioned limit shall be separately approved by the shareholders of the Company and, for so long as the Company remains a subsidiary of Midland, the shareholders of Midland in their respective general meeting with such grantee and his associates abstaining from voting and/or other requirements prescribed under 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") and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from time to time.

*(e) Maximum entitlement of each Eligible Person who is a connected person*

The maximum number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to each eligible person who is an independent non-executive director or substantial shareholder of the Company, in any 12-month period shall not exceed 0.1% of the shares in issue and an aggregate value which based on the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of each grant shall not exceed HK\$5,000,000.00.

Any further grant of share options in excess of the abovementioned limit shall be subject to the issue of a circular by the Company and shall be separately approved by the shareholders of the Company and, for so long as the Company remains a subsidiary of Midland, the shareholders of Midland in their respective general meeting with such grantee and his associates abstaining from voting and/or other requirements prescribed under the GEM Listing Rules and the Listing Rules from time to time.

*(f) Time of exercise of Option*

The Share Option Scheme will remain in force for a period of 10 years commencing from the Adoption Date, after which no further Options shall be granted. The Options which are granted during the life of the Share Option Scheme may, however continue to be exercisable in accordance with their terms of issue and, for such purposes only, the provisions of the Share Option Scheme shall remain in full force and effect.

*(g) Basis of determining the subscription price*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an Eligible Person but shall not be less than the highest of:

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date;
- (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the Offer Date; and
- (iii) the nominal value of a share.

*(h) Remaining life of the Share Option Scheme*

The Share Option Scheme became effective on 6th June 2005 will remain in force for a period of 10 years from the date of adoption.

SHARE OPTION SCHEME (Continued)

2. Grant Movements during the Year

During the Year, a total of 83,000,000 shares options were granted to Mr. TSANG Link Carl, Brian ("Mr. TSANG"), a non-executive Director of the Company, under the Share Option Scheme. Details of movements of the share options outstanding during the Year are as follows:

Name	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2006	Options granted during the year	Exercised/Cancelled/Lapsed	Balance outstanding as at 31st December 2006	Exercisable period
Mr. TSANG	16th January 2006	0.06	-	41,500,000	-	41,500,000	1st April 2006 to 31st March 2009
		0.06	-	41,500,000	-	41,500,000	1st June 2006 to 31st May 2009
Total			-	83,000,000	-	83,000,000	

3. Value of Share Options

The Company adopted the Black-Scholes options pricing model (the "Model") to value the share options granted during the Year. The Model is one of the valuation models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

At the date of grant, 16th January 2006, the closing price of the shares of the Company as quoted on the Stock Exchange was HK\$0.06 per share. Details of the fair values of share options determined at the date of grant using the Model with significant variables and assumptions are as follows:

Expected exercise date <sup>(1)</sup>	Expected no. of options to be exercised <sup>(2)</sup>	Risk free rate <sup>(3)</sup> [%]	Expected volatility <sup>(4)</sup> [%]	Expected dividend payout ratio <sup>(5)</sup> [%]	Exercise price (HK\$)	Fair value (HK\$)
1st April 2007	13,833,333	3.60	52	0	0.06	202,600
1st June 2007	13,833,333	3.62	52	0	0.06	216,600
1st April 2008	13,833,333	3.71	52	0	0.06	276,200
1st June 2008	13,833,333	3.72	52	0	0.06	286,600
16th March 2009	13,833,334	3.77	52	0	0.06	330,700
16th May 2009	13,833,334	3.79	52	0	0.06	339,300
	83,000,000					1,652,000

## REPORT OF THE DIRECTORS *(Continued)*

---

### SHARE OPTION SCHEME *(Continued)*

#### 3. Value of Share Options *(Continued)*

Notes:

1. Expected exercise date of share options is based on average life used in the Model.
2. Expected number of share options to be exercised is based on average number of options to be exercised in the Model.
3. Risk free rate being the yields to maturity of respective Hong Kong Exchange Fund Note as at 16th January 2006.
4. Expected volatility was determined by using historical volatility of the Company's share price in the past 2 years immediately before the date of grant.
5. Expected dividend payout ratio being the approximate average cash dividend payout ratio for the past financial years.

### BOARD OF DIRECTORS

The directors who held office during the year and up to the date of this report are:

#### Executive Directors

Mr. PONG Wai San, Wilson *(Chief Executive Officer)*

Mr. LAU Wai Shu *(appointed on 4th March 2006)*

Mr. CHU Tak Long *(former Managing Director) (appointed on 19th January 2006 and resigned on 1st March 2007)*

Ms. IP Kit Yee, Kitty *(resigned on 13th April 2006)*

Mr. CHAN Kin Chu, Harry *(resigned on 19th January 2006)*

Mr. CHEUNG Shi Kwan, Wings *(resigned on 4th March 2006)*

#### Non-executive Director

Mr. TSANG Link Carl, Brian

#### Independent non-executive Directors

Mr. KOO Fook Sun, Louis

Mr. SHA Pau, Eric *(appointed on 13th March 2006)*

Mr. YING Wing Cheung

Mr. HUNG Tak Chow, Charles *(resigned on 13th March 2006)*

Mr. LAI Hin Wing, Henry *(resigned on 4th March 2006)*

According to Article 87 of the Company's Articles of Associations, Mr. LAU Wai Shu and Mr. TSANG Link Carl, Brian shall retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND EXECUTIVES

### Executive Directors

**Mr. PONG Wai San, Wilson**, aged 37, is the founder and Chief Executive Officer of the Company. He is responsible for the overall management, business development, and implementation of strategy and policy of the Group. He holds various positions in a number of charity organizations in Hong Kong. Prior to founding the Group, he had held various senior management positions with various local and international securities houses and a multinational company. Mr. PONG is also a director of Summerview Enterprises Limited which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**Mr. LAU Wai Shu**, aged 46, has been the Executive Director of the Company since March 2006. Mr. LAU is responsible for the business operations and general administration of the Group. Mr. LAU holds a bachelor degree in applied science (civil engineering) from the University of Ottawa, Ontario, Canada. Prior to joining the Group in December 2000, he worked with various companies and has over 16 years of experience in management and marketing. Mr. LAU had been appointed as an executive director of the Company in November 2001 and resigned on 15th March 2005. Mr. LAU is also a member of the remuneration committee and nomination committee of the Company.

### Non-executive Director

**Mr. TSANG Link Carl, Brian**, aged 43, has been the Non-executive Director of the Company since March 2005. He is a practising solicitor in Hong Kong and is a partner of the Hong Kong law firm of Lu, Lai & Li, legal adviser to Midland. He graduated from King's College, London with a LLB. Degree in 1985. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. He is currently a non-executive director of CITIC Resources Holdings Limited (Stock Code: 1205) and Pacific Century Premium Developments Limited (Stock Code: 432), both are public companies listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Main Board"). In 2005, he has been appointed as an adjudicator of the Registration of Persons Tribunal. In 2006, he has also been appointed as a member of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of the Appeal Panel on Housing.

### Independent Non-executive Directors

**Mr. KOO Fook Sun, Louis**, aged 50, has been the Independent non-executive Director of the Company since June 2005. Mr. KOO is also the managing director of Hercules Capital Limited, a corporate finance advisory firm. Mr. KOO has many years of experience in investment banking and professional accounting. He was the managing director and head of the corporate finance department of a major international bank, a director and chief executive officer of a main board listed company. He currently also serves as an independent non-executive director of another six companies listed on the Main Board, one of which is Midland. Mr. KOO graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. KOO is also the chairman of the audit committee, remuneration committee and nomination committee of the Company.

**Mr. SHA Pau, Eric**, aged 49, has been the Independent non-executive Director of the Company since March 2006. Mr. SHA is the founder of and is currently a managing director of Konda Industries Limited, a special leather goods manufacturing and exporting firm. Mr. SHA has over 21 years' solid experience in international marketing field and is now specified in corporate strategies formulation and overall management and marketing. He holds a Bachelor's degree in Business Administration from Windsor University, Ontario, Canada. Mr. SHA is also a member of audit committee, remuneration committee and nomination committee of the Company.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND EXECUTIVES *(Continued)*

#### Independent Non-executive Director *(Continued)*

**Mr. YING Wing Cheung**, aged 56, has been the Independent non-executive Director of the Company since May 2005. Mr. YING has over 32 years' experience in electronic products manufacturing business and is well versed in marketing and corporate strategic planning. Mr. YING is currently a managing director of Way Mild Company Limited and a director of Yangzhou Jiang Jia Electronics Co. Ltd. He has been appointed as a member of Guangdong Committee of Chinese People's Political Consultative Conference for the Eighth Term and the Ninth Term since 1998 to 2008. Mr. YING was also a member of Jiangmen Committee of Chinese People's Political Consultative Conference for the Eighth Term and the Ninth Term since 1993 to 2003. Mr. YING serves in many social organisations, he is currently a president of Sze Yap Clansmen Association (New Territories, Hong Kong) Limited and a member of Jiangsu Province Chinese Overseas Friendship Association. Mr. YING is also a member of audit committee, remuneration committee and nomination committee of the Company.

#### Executives

##### *Company Secretary*

**Mr. HUI Hin Sing**, aged 39, is currently the Senior Legal Counsel and Head of Legal Department of Midland. Mr. HUI is a member of the Law Society of Hong Kong and has over seven years of legal experience.

##### *Qualified Accountant*

**Mr. CHAN Kei, Jeffrey**, aged 33, is the Financial Controller of the Company. He is responsible for the Group's financial management. Mr. CHAN has over 9 years of experience in auditing, accounting and financial management and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The independent non-executive Directors, namely Mr. KOO Fook Sun, Louis, Mr. SHA Pau, Eric and Mr. YING Wing Cheung were appointed for a one-year term expiring on 23rd June 2007, 12th March 2007 and 16th May 2007 respectively.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and every guidelines set out in Rule 5.09 of the GEM Listing Rules.

### CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

Save as disclosed under the section headed "Share Option Scheme" above, during the Year, neither the Company nor any of its subsidiaries issued or granted any convertible securities, options, warrants or similar rights and there was no exercise of any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted at any time by the Company or any of its subsidiaries.

## REPORT OF THE DIRECTORS *(Continued)*

### DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2006, the interests and short positions of each of the Directors, chief executives of the Company in the shares, underlying shares or debentures of the Company and or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required (i) to be recorded in the register to be kept under section 352 of the SFO; or (ii) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were stated as follows:

Name of Director	Number of shares of the Company				Total	Percentage of the issued share capital
	Personal interests	Family interests	Corporate interests	Equity derivative (Share option)		
Mr. PONG Wai San, Wilson ("Mr. PONG") <i>(Note 1)</i>	150,610,000	-	2,182,300,000	-	2,332,910,000	28.11%
Mr. TSANG <i>(Note 2)</i>	-	-	-	83,000,000	83,000,000	1.00%
Mr. LAU Wai Shu	3,000,000	-	-	-	3,000,000	0.04%

#### Notes:

1. As at 31st December 2006, 2,182,300,000 shares were registered in the name of and beneficially owned by Summerview Enterprises Limited ("Summerview") and 150,610,000 shares were registered in the name of Mr. PONG. The entire issued share capital of Summerview are registered in the name of and beneficially owned by Mr. PONG.
2. On 16th January 2006, share options were granted under the Share Option Scheme to Mr. TSANG for subscription for 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.

Save as disclosed above, as at 31st December 2006, 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 or any of its associated corporations (within the meaning of Part XV of the SFO).

## REPORT OF THE DIRECTORS *(Continued)*

---

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2006, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying 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 of the issued share capital
Valuwit Assets Limited ("Valuwit")	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. Valuwit is an indirect 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.

Save as disclosed herein, as at 31st December 2006, the Directors were not aware 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 under section 336 of the SFO.

### CONNECTED TRANSACTIONS

On 11th October 2006, a sale and purchase agreement (the "Agreement") was entered into between EVI MP Limited ("MP"), an indirect wholly-owned subsidiary of the Company as vendor and a connected person who held 40% of the issued share capital of I-Cube prior to the Agreement as purchaser whereby MP agreed to (1) sell to the purchaser 60% of the issued share capital in I-Cube (the "Sale Shares") and (2) assign its rights, title and interests in a loan in the sum of HK\$264,155 due from I-Cube to MP (the "Loan") at the total consideration of HK\$165,996, apportioned as to HK\$12 for the Sale Shares and HK\$165,984 for the Loan. The completion of the Agreement took place on the same date.

### PURCHASE, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the Year.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association nor restriction against such rights under the Companies Law (Revised) of the Cayman Islands.

**CUSTOMERS AND SUPPLIERS**

For the Year, the five largest customers of the Group accounted for approximately 9.6% [2005: 20.2%] of the Group's total turnover and the five largest suppliers accounted for approximately 59% [2005: 45.7%] of the Group's total purchases. The largest customer of the Group accounted for approximately 6.3% [2005: 6.3%] of the Group's total turnover while the largest supplier accounted for approximately 38% [2005: 27.4%] of the Group's total purchases.

None of the Directors, their associates, or any shareholder (which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers and suppliers.

**RETIREMENT PLANS**

Details of the retirement plans are set out in Note 31 to the financial statements.

**AUDITORS**

The financial statements of the Company for the Year have been audited by Grant Thornton, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

**PONG Wai San, Wilson**

*Executive Director and Chief Executive Officer*

Hong Kong, 7th March 2007

## CORPORATE GOVERNANCE REPORT

---

The Company had complied with all the code provisions set out in Appendix 15 – Code on Corporate Governance Practices (“CG Code”) of the GEM Listing Rules throughout the Year.

The key corporate governance principles and practices of the Company are summarized below:

### **DIRECTORS’ SECURITIES TRANSACTIONS**

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 the securities transactions by the Directors of the Company and has complied with the Required Standard. A copy of the Required Standard is sent to each Director of the Company upon appointment and a reminder is sent to each Director one month before the date of the board meetings to approve the Company’s annual, interim and quarterly results that the Director cannot deal in the shares of the Company until after such results have been published. All Directors have confirmed their compliance with the Required Standard throughout the Year.

### **BOARD OF DIRECTORS**

The Company is eager to maintain a strong independent element on the Board and has a balanced composition of executive and non-executive Directors. The Board comprised seven directors as at 31st December 2006, three of them are independent non-executive Directors.

At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise as required by the GEM Listing Rules. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and every guidelines set out in rule 5.09 of the GEM Listing Rules.

Taking into account the various experience of both the executive Directors and the non-executive Directors and the nature of the Group’s business, and the Board considered that the Directors have a balance of skills and experience for the business of the Group.

The full Board regularly meets in person and met five times for the Year. At least 14 days notice of all regular Board Meetings were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion. The Company Secretary assists the Directors in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are observed.

**BOARD OF DIRECTORS** *(Continued)*

The attendance record of the individual Directors at the Board meetings during the Year is set out below:

	<b>Attendance</b>	<b>Percentage</b>
<b>Executive Directors</b>		
Mr. PONG Wai San, Wilson	5/5	100%
Mr. LAU Wai Shu <i>(note 1)</i>	3/4	75%
Mr. CHU Tak Long <i>(note 2)</i>	5/5	100%
Ms. IP Kit Yee, Kitty <i>(note 3)</i>	1/1	100%
Mr. CHAN Kin Chu, Harry <i>(note 4)</i>	0/0	0%
Mr. CHEUNG Shi Kwan, Wings <i>(note 5)</i>	0/1	0%
<b>Non-executive Director</b>		
Mr. TSANG Link Carl, Brian	5/5	100%
<b>Independent non-executive Directors</b>		
Mr. KOO Fook Sun, Louis	5/5	100%
Mr. SHA Pau, Eric <i>(note 6)</i>	4/4	100%
Mr. YING Wing Cheung	5/5	100%
Mr. LAI Hin Wing, Henry <i>(note 7)</i>	0/1	0%
Mr. HUNG Tak Chow, Charles <i>(note 8)</i>	0/1	0%

*Notes:*

1. Mr. LAU Wai Shu was appointed as Executive Director on 4th March 2006.
2. Mr. CHU Tak Long was appointed as Executive Director on 19th January 2006 and resigned on 1st March 2007.
3. Ms. IP Kit Yee, Kitty resigned as Executive Director on 13th April 2006.
4. Mr. CHAN Kin Chu, Harry resigned as Executive Director on 19th January 2006.
5. Mr. CHEUNG Shi Kwan, Wings resigned as Executive Director on 4th March 2006.
6. Mr. SHA Pau, Eric was appointed as Independent non-executive Director on 13th March 2006.
7. Mr. LAI Hin Wing, Henry resigned as Independent non-executive Director on 4th March 2006.
8. Mr. HUNG Tak Chow, Charles resigned as Independent non-executive Director on 13th March 2006.

### BOARD OF DIRECTORS *(Continued)*

The Board meets regularly, normally quarterly, and additional meetings would be arranged, if and when required. The Company Secretary records the proceedings of each board meeting in detail by keeping detail minutes, including all decisions by the board together with concerns raised and dissenting views expressed, if any. Draft of board minutes are circulated to all Directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any Director.

All Directors have access to relevant and timely information at all times as the Managing Director will ensure that management will supply the Board and its Committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advice and services of the Company Secretary who is responsible to the Board of Directors for providing directors with board papers and related materials and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. If considered to be necessary and appropriate by the Directors, they may retain independent professional advisors at the Group's expense.

In case where a conflict of interest may arise involving a substantial shareholder or a Director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

The board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

The Managing Director of the Company performs the function of chairman and is responsible for leadership and management of the Board, the overall corporate direction, corporate strategy and policy making of the group. The Chief Executive Officer of the Company is responsible for overall management, business development, implementation of strategy and policy in achieving the overall commercial objectives. The roles of the Managing Director and the Chief Executive Officer are distinctive.

### REMUNERATIONS OF DIRECTORS AND EXECUTIVES

The Remuneration Committee was established in 2005 with specific written terms of reference setting out its role and responsibilities. The Remuneration Committee, among others, is responsible for approving the remuneration packages of the Executive Directors and executives, as well as reviewing and approving the Company's share option scheme. The Terms of Reference of the Remuneration Committee is available on the Company's website.

During the Year, the Remuneration Committee held three meetings. The members of the Committee and their attendance records are set out below:

	Attendance	Percentage
Mr. CHU Tak Long	1/1	100%
Mr. LAU Wai Shu	1/1	100%
Ms. IP Kit Yee, Kitty	2/2	100%
Mr. CHEUNG Shi Kwan, Wings	2/2	100%
Mr. KOO Fook Sun, Louis	3/3	100%
Mr. SHA Pau, Eric	1/1	100%
Mr. YING Wing Cheung	3/3	100%
Mr. HUNG Tak Chow, Charles	1/2	50%

**REMUNERATIONS OF DIRECTORS AND EXECUTIVES** *(Continued)*

The work of the Remuneration Committee during 2006 included reviewing the remuneration policy of the Group, approving the remuneration packages of Directors and the grant of share options to a Director.

**NOMINATION OF DIRECTORS**

The Nomination Committee was established in 2005 with specific written Terms of Reference setting out its role and responsibilities. The Nomination Committee, among others, is responsible for formulating nomination policy and making recommendations to the Board on nomination and appointment of directors and board succession, and assessing the independence of independent non-executive directors. The Terms of Reference of the Nomination Committee is available on the Company's website.

During the Year, the Nomination Committee held two meetings. The members of the Committee and attendance records are set out below:

	<b>Attendance</b>	<b>Percentage</b>
Mr. CHU Tak Long	0/0	0%
Mr. LAU Wai Shu	0/0	0%
Ms. IP Kit Yee, Kitty	2/2	100%
Mr. CHEUNG Shi Kwan, Wings	2/2	100%
Mr. KOO Fook Sun, Louis	2/2	100%
Mr. SHA Pau, Eric	0/0	0%
Mr. YING Wing Cheung	2/2	100%
Mr. HUNG Tak Chow, Charles	1/2	50%

The work of the Nomination Committee during 2006 included reviewing the board composition and reviewing and making recommendation to the Board on appointment of new Directors.

**Auditors' remuneration**

The remuneration in respect of the audit and other services provided to the Company and its subsidiaries by external auditors of the Group for the year ended 31st December 2006 amounted approximately to HK\$350,000 and HK\$250,000 respectively. The non-audit services mainly comprised tax advisory services.

**Audit Committee**

The Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The Audit Committee comprises three members and is chaired by Mr. KOO Fook Sun, Louis, other members include Mr. SHA Pau, Eric and Mr. YING Wing Cheung, all of them are Independent non-executive Directors. Mr. KOO is a qualified accountant and has many years of experience in professional accounting and investment banking.

The Audit Committee's primary duties include ensuring the Group's financial statements including annual, interim and quarterly reports present a true and balanced assessment of the Group's financial position, reviewing the Group's financial control and internal control system, and reviewing the Group's financial and accounting policies and practices. The Committee makes recommendation to the Board on the selection, oversight and remuneration of external auditors. The Committee reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. Other duties of the Audit Committee are set out in its Terms of Reference of the Audit Committee which is available on the Company's website.

**NOMINATION OF DIRECTORS** *(Continued)*

**Audit Committee** *(Continued)*

The Audit Committee meets the external auditors at least four times a year to discuss any area of concern during the audits or review. The Company Secretary keeps minutes of all Audit Committee meetings. In line with practices consistent with Board meetings and other committee meetings, draft and final versions of meeting minutes are circulated to all members as soon as practicable after each meeting.

During the Year, the Audit Committee held four meetings. The individual attendance record of each member is as follows:

	<b>Attendance</b>	<b>Percentage</b>
Mr. KOO Fook Sun, Louis	4/4	100%
Mr. SHA Pau, Eric	3/3	100%
Mr. YING Wing Cheung	4/4	100%
Mr. HUNG Tak Chow, Charles	1/1	100%
Mr. LAI Hin Wing, Henry	0/1	0%

The major work of the Audit Committee during 2006 in discharging its responsibilities included reviewing and providing advice and recommendation to the Board for approval of the Group's unaudited quarterly and interim results and audited annual results announcements, reviewing an update on the preparation of 2006 financial statements and compliance with new accounting standards and financial disclosure requirements, and reviewing the Group's internal control work, findings and recommendations.

**Internal Controls**

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The management conducts quarterly review on the effectiveness of the Group's system of internal control and reports the key findings to the Audit Committee and the Board. The review covers all material controls, including financial, operational and compliance controls and risk management functions.

Management currently takes the view that there is no immediate need to set up an internal audit function in light of the size, nature and complexity of the Group's business. The need for an internal audit function will be reviewed from time to time.

## INDEPENDENT AUDITORS' REPORT

---

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

To the members of **EVI Education Asia Limited**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of EVI Education Asia Limited (the "Company") set out on pages 22 to 63, which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**  
*Certified Public Accountants*  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

7th March 2007

## CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

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

## CONSOLIDATED BALANCE SHEET

As at 31st December 2006

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

Pong Wai San, Wilson  
Director

Lau Wai Shu  
Director

## BALANCE SHEET

As at 31st December 2006

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

Pong Wai San, Wilson  
Director

Lau Wai Shu  
Director

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

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

**CONSOLIDATED CASH FLOW STATEMENT** *(Continued)**For the year ended 31st December 2006*

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2006

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2006

### 1. GENERAL INFORMATION

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

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

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

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

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

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

### 2. ADOPTION OF NEW AND AMENDED HKFRSs

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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1st November 2006

<sup>6</sup> Effective for annual periods beginning on or after 1st March 2007

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of preparation

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

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

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

#### 3.2 Basis of consolidation

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

#### 3.3 Subsidiaries

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.3 Subsidiaries *(Continued)*

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

#### 3.4 Foreign currency translation

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.5 Revenue recognition

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

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

Service fees are recognised when the related services are rendered.

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

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

#### 3.6 Goodwill

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

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

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

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

#### 3.7 Other intangible assets and research and development activities

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

(i) Research and website development costs

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.7 Other intangible assets and research and development activities *(Continued)*

(ii) Licensing rights

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

#### 3.8 Property, plant and equipment

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

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

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

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

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

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

#### 3.9 Impairment of assets

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.9 Impairment of assets *(Continued)*

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

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

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

#### 3.10 Operating leases

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

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

#### 3.11 Financial assets

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

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

##### *(i) Loans and receivables*

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.11 Financial assets *(Continued)*

*(ii) Held-to-maturity investments*

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

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

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

*(iv) Available-for-sale financial assets*

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.11 Financial assets *(Continued)*

##### *(iv) Available-for-sale financial assets (Continued)*

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

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

#### 3.12 Inventories

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

#### 3.13 Installation work in progress

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **3.14 Accounting for income taxes**

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

#### **3.15 Cash and cash equivalents**

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

#### **3.16 Share capital**

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **3.17 Pension obligations and short term employee benefits**

Pensions to employees are provided through several defined contribution plans.

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

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

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

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

#### **3.18 Share-based employee compensation**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **3.19 Financial liabilities**

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

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

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

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

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

#### **3.20 Provisions, contingent liabilities and contingent assets**

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.21 Related parties

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

- (a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;
- (b) the party is a member of the key management personnel of the Company or its parent;
- (c) the party is a close member of the family of any individual referred to in (a) or (b); or
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

#### 3.22 Segment reporting

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

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

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

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

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### Provision for impairment of receivables

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### Estimated fair value of financial assets

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

#### Estimated fair value of share options expenses

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

#### Depreciation and amortisation

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

### 5. REVENUE/TURNOVER

The Group is principally engaged in (i) provision of internet education services, (ii) sales and installation of computer hardware and software, (iii) website development and commercial projects, (iv) provision of computer training services and (v) sales of health and personal care products. The Group's turnover recognised during the year represents revenue from:

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 6. SEGMENT INFORMATION

#### (a) Primary reporting format – business segments

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

	Year ended 31st December 2006						Group HK\$'000
	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 <sup>(1)</sup> HK\$'000	
Revenue							
– External sales	7,775	11,149	3,141	3,274	1,669	116	27,124
Segment results	(1,480)	(654)	(576)	1,475	(2,667)	63	(3,839)
Unallocated expenses							(2,474)
Unallocated income							429
Interest income							4,653
Loss before income tax							(1,231)
Income tax credit							-
Loss for the year							(1,231)
Segment assets	1,378	4,464	414	795	985	2	8,038
Unallocated assets							123,455
Total assets							131,493
Segment liabilities	1,032	1,474	182	306	766	-	3,760
Unallocated liabilities							1,869
Total liabilities							5,629
Capital expenditure	160	122	62	44	373	1	762
Depreciation	450	43	158	117	190	1	959
Amortisation charge	8	-	-	-	-	-	8

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 6. SEGMENT INFORMATION (Continued)

#### (a) Primary reporting format – business segments (Continued)

	1st October 2004 to 31st December 2005							Group HK\$'000
	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 <sup>(1)</sup> HK\$'000		
Revenue								
– External sales	10,164	13,954	3,556	3,035	441	108		31,258
Segment results	(2,837)	(1,814)	(686)	1,450	(149)	78		(3,958)
Unallocated expenses								(995)
Unallocated income								85
Interest income								2,977
Loss before income tax								(1,891)
Income tax credit								2
Loss for the period								(1,889)
Segment assets	2,427	4,679	269	624	954	353		9,306
Unallocated assets								120,865
Total assets								130,171
Segment liabilities	2,330	1,296	406	386	30	3		4,451
Unallocated liabilities								650
Total liabilities								5,101
Capital expenditure	1,326	64	–	538	381	–		2,309
Depreciation	846	62	97	16	–	–		1,021
Amortisation charge	58	–	–	–	–	–		58
Impairment loss on goodwill	1,542	144	–	145	–	–		1,831

Note:

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

#### (b) Secondary reporting format – geographical segments

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

**NOTES TO THE FINANCIAL STATEMENTS** (Continued)

For the year ended 31st December 2006

**7. OTHER INCOME**

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

**8. LOSS BEFORE INCOME TAX**

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

**9. INCOME TAX CREDIT**

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 9. INCOME TAX CREDIT *(Continued)*

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

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

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

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

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

### 10. LOSS FOR THE YEAR/PERIOD

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

### 11. LOSS PER SHARE

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

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

### 12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)**For the year ended 31st December 2006***13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS****13.1 Directors' emoluments**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### 13.1 Directors' emoluments (Continued)

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

*Note:*

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

### 13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

#### 13.2 Five highest paid individuals

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)*
*For the year ended 31st December 2006*
**14. PROPERTY, PLANT AND EQUIPMENT – GROUP**

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 15. INTERESTS IN SUBSIDIARIES – COMPANY

	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Investments at cost – Unlisted shares	<b>2,608</b>	2,608
	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Due from subsidiaries	<b>169,505</b>	169,505
Less: Provision for impairment	<b>(46,974)</b>	(46,818)
	<b>122,531</b>	122,687

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)**For the year ended 31st December 2006***15. INTERESTS IN SUBSIDIARIES – COMPANY** *(Continued)*

<b>Name</b>	<b>Place of incorporation and kind of legal entity</b>	<b>Particulars of issued share capital</b>	<b>Percentage of interest held by the Company</b>	<b>Principal activities and place of operations</b>
System New International Limited	British Virgin Islands, limited liability company	100 ordinary shares of US\$1 each	75%	Inactive
Silicon Workshop Limited	Hong Kong, limited liability company	100 ordinary shares of HK\$1 each	80%	Sales and installation of computer hardware and software and provision of computer training services in Hong Kong
廣州搖籃軟件開發有限公司	PRC, foreign wholly-owned limited liability company	Registered capital of HK\$150,000	100%	Development and sales of computer software and hardware and provision of advisory services in the PRC
EVI-MDV Technical Development Limited	PRC, co-operative joint venture with limited liability	Registered capital of HK\$5,000,000	70%	Development and sales of computer software and provision of technical support and after-sales services in the PRC
Sinodelta Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	Provision of SMS messaging services and trading of music boards and attendance systems in Hong Kong
Star and Rose (Hong Kong) Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100%	Investment holding in Hong Kong
Truegoal Group Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100%	Licence holding
Eternal Beauty Group Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100%	Licence holding
Eternal Nice International Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	100%	Sales of health and personal care products in Hong Kong

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)**For the year ended 31st December 2006***15. INTERESTS IN SUBSIDIARIES – COMPANY** *(Continued)*

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

\* *Shares held directly by the Company.*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

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

	2006 HK\$'000	2005 HK\$'000
<u>Non-current</u>		
Derivative financial instrument designated as financial asset at fair value through profit or loss on initial recognition	5,054	5,040
<u>Current</u>		
Equity securities listed in Hong Kong (held for trading)	130	–
Market value of listed equity securities	130	–

### 17. INTANGIBLE ASSETS – GROUP

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

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)**For the year ended 31st December 2006***18. INVENTORIES – GROUP**

	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Finished goods	<b>580</b>	204

**19. TRADE RECEIVABLES – GROUP**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 20. DUE FROM CUSTOMERS ON INSTALLATION CONTRACTS – GROUP

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

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

### 21. PLEDGED DEPOSITS

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

### 22. CASH AND BANK DEPOSITS – GROUP

Cash and bank deposits include the following components:

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 23. TRADE PAYABLES – GROUP

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

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

### 24. DEPOSITS FROM CUSTOMERS – GROUP

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

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

### 25. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES – GROUP

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

### 26. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
<i>Authorised:</i> 50,000,000,000 ordinary shares of HK\$0.01 each	<b>500,000</b>	500,000

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 27. SHARE-BASED EMPLOYEE COMPENSATION

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 27. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 28. RESERVES

#### Group

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

#### Company

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 28. RESERVES *(Continued)*

Notes:

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

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

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

### 29. MINORITY INTEREST

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

### 30. OPERATING LEASE COMMITMENTS

#### Group

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st December 2006

### 30. OPERATING LEASE COMMITMENTS (Continued)

#### Company

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

### 31. RETIREMENT PLANS

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

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

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

There are no forfeited contributions available under the schemes.

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

### 32. RELATED PARTY TRANSACTIONS

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

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

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

**32.2** Key management compensation

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st December 2006

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Disposal of a subsidiary

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*For the year ended 31st December 2006*

---

### **34. RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

#### **34.1 Foreign currency risk**

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

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

#### **34.2 Credit risk**

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

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

#### **34.3 Cash flow and fair value interest rate risks**

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

## FINANCIAL SUMMARY

	Year Ended 30th September		Fifteen Month Period Ended 31st December		Year Ended 31st December 2006
	2002	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	10,469	19,959	20,206	31,258	<b>27,124</b>
Other income	525	247	235	3,062	<b>5,082</b>
Operating loss	(17,784)	(9,359)	(4,505)	(1,891)	<b>(1,231)</b>
Loss attributable to equity holders of the Company	(17,877)	(9,476)	(4,205)	(1,007)	<b>(920)</b>
Loss per share	HK(0.447) cent	HK(0.237) cent	HK(0.105) cent	HK(0.015) cent	<b>HK(0.011) cent</b>
	As at 30th September		As at 31st December		2006
	2002	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and Liabilities					
Total assets	38,983	30,299	26,961	130,171	<b>131,493</b>
Total liabilities	(6,463)	(7,214)	(5,875)	(5,101)	<b>(5,629)</b>
	32,520	23,085	21,086	125,070	<b>125,864</b>
Minority interest	(50)	(91)	(2,225)	(709)	<b>(718)</b>
Equity attributable to the Company's equity holders	32,470	22,994	18,861	124,361	<b>125,146</b>

Note: The Company has changed its financial year end from 30th September to 31st December according to an announcement dated 19th May 2005.

[www.evi.com.hk](http://www.evi.com.hk)

