



EVI Education Asia Limited

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2001

Annual Report

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

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

This annual 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

PONG Wai San, Wilson (*Chairman*)

CHEUNG Shi Kwan, Wings

PONG Lo Shuk Yin, Dorothy

Independent Non-executive Directors

KO Chun Hay, Kelvin

HUNG Fan Wai, Wilfred

HUNG Tak Chow, Charles

COMPANY SECRETARY

CHEUNG Hon Fai, Maurice *AHKSA, ACCA*

COMPLIANCE OFFICER

CHEUNG Shi Kwan, Wings

AUTHORISED REPRESENTATIVES

PONG Wai San, Wilson

CHEUNG Shi Kwan, Wings

QUALIFIED ACCOUNTANT

CHEUNG Hon Fai, Maurice *AHKSA, ACCA*

AUDIT COMMITTEE

HUNG Tak Chow, Charles

KO Chun Hay, Kelvin

HUNG Fan Wai, Wilfred

CHEUNG Hon Fai, Maurice

LEGAL ADVISERS

As to Hong Kong law:

Fairbairn Catley Low & Kong

As to Cayman Islands law:

Conyers Dill & Pearman, Cayman

AUDITORS

Arthur Andersen & Co

Certified Public Accountants

21st Floor

Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

PRINCIPAL BANKER

Hang Seng Bank

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Bank of Bermuda (Cayman) Limited
36C Bermuda House
British American Centre
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

**HONG KONG BRANCH SHARE REGISTRAR
AND TRANSFER OFFICE**

Tengis Limited
4th Floor
Hutchison House
10 Harcourt Road
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Hong Kong

REGISTERED OFFICE

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

**HEAD OFFICE AND PRINCIPAL PLACE
OF BUSINESS**

14th Floor
Lippo House
Causeway Bay Plaza II
463-483 Lockhart Road
Hong Kong

WEBSITE ADDRESS

www.evi.com.hk

STOCK CODE

8090

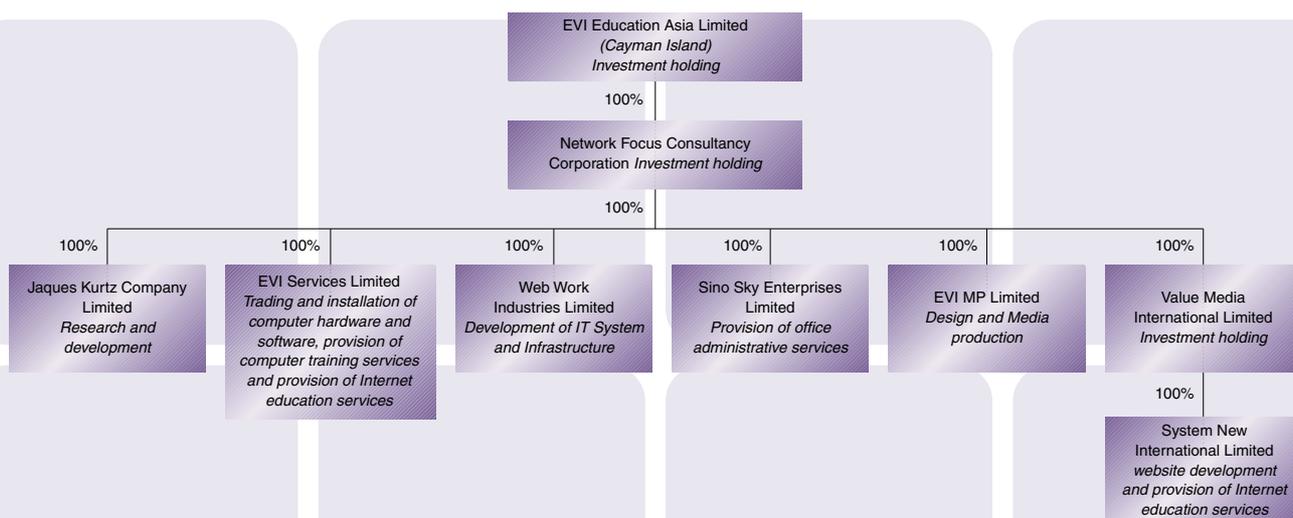
Corporate Profile

ABOUT EVI EDUCATION ASIA LIMITED

EVI Education Asia Limited (“the Company”) aims to become an Internet education provider, offering Chinese and English language-based pre-school education services targeting kindergartens, teachers, parents and pre-school children. The Company and its subsidiaries’ (the “Group”) objective is to establish an education community consisting of kindergartens, teachers, parents and pre-school children through the use of both on-line and off-line services. Children can learn with their parents on the Company’s education platform tailor-made for each kindergarten featuring on-line teaching, learning and education-related management tools together with our off-line services including extracurricular training courses, products promotion, seminars, e-media productions and information technologies (“IT”) related services. The platform is innovative and combines IT, traditional teaching curricula and professional on-line and off-line pre-school education materials.

The Company’s shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) on 15th March, 2001.

CORPORATE STRUCTURE

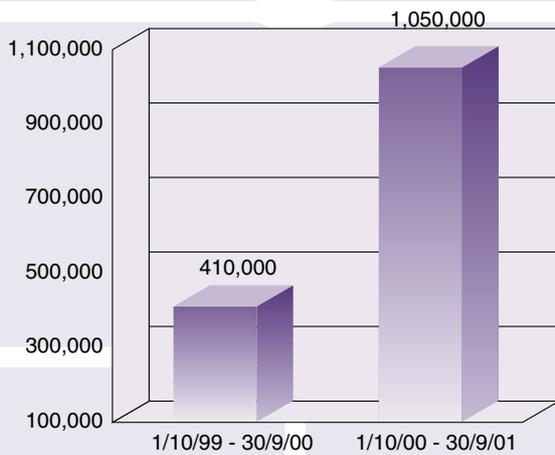


For the year ended 30th September, 2001

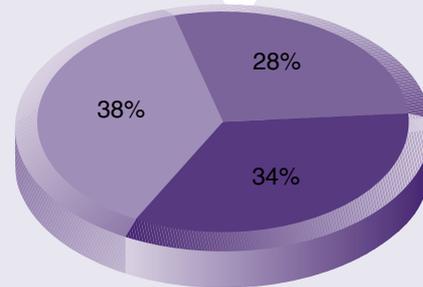
Financial Highlights

- Successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 15th March, 2001
- Turnover for the year was approximately HK\$1,050,000
- Loss for the year was approximately HK\$17,895,000
- As at 30th September, the Group had approximately HK\$39.5 million cash on hand with no outstanding debt
- EVI Online System launched in January 2001
- Around 50 Kindergartens had joined for a term of 3 years starting from September 2001, half year earlier than expected, and started to generate revenue for the Group

Turnover HK\$



Turnover by Products



| | | |
|---|---|-----|
|  | Provision of computer and IT training courses | 38% |
|  | Sales and installation of computer hardware and software to kindergartens | 28% |
|  | Subscription fees from kindergartens | 34% |

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report of EVI Education Asia Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30th September, 2001.

The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 15th March, 2001. The listing not only provides a stronger financial position to the Group, but also increases our corporate profile and in turn boosts additional business opportunities for the Group.

FINANCIAL HIGHLIGHTS

For the year under review, turnover was approximately HK\$1,050,000, which increased 2.6 times when compared with a turnover of approximately HK\$410,000 in the previous year. Approximately 38% of the turnover was attributable to the provision of computer and IT training courses and approximately 28% was attributable to the sales and installation of computer hardware and software to kindergartens in Hong Kong. Approximately 34% of the turnover was attributable to subscription fees generated from subscribing to the EVI On-line System, which commences in September 2001. Net loss for the year ended 30th September, 2001 amounted to approximately HK\$17,895,000 (2000: HK\$8,940,000), which doubled year-over-year. The increase of the net loss of the Group was primarily due to the initial investment made for the development period. These include expenses on marketing activities and on enriching the contents and features of the EVI On-line System. The Group's cost of merchandise primarily represented the cost of computer hardware and software sourced from its suppliers. Recurrent subscription fees from the EVI On-line System were generated since September 2001. It is expected that the financial position will be strengthened significantly in the coming year.

As at 30th September, 2001, the Group maintained a strong financial position with approximately HK\$39.5 million cash on hand with no outstanding debt. The Directors considered that the Group's financial position would continue to strengthen after the Group generates recurrent subscription income from kindergartens.

BUSINESS AND GENERAL PERFORMANCE

The use of IT to enhance teaching and learning is gaining importance in Hong Kong's education community. The Group aims to become a leading Internet education provider, offering Chinese and English language-based pre-school education services targeting kindergartens, teachers and parents. Tailor-made education platforms are established for kindergarten featuring on-line teaching, learning and education-related management tools.

Currently, the EVI On-line System comprises Kindergartens Zone, Parents Zone and Kids Zone to cater for different user groups including teachers, parents, kids and education community workers. The Group's major objective is to build a large loyal users group. The EVI On-line System was officially launched in January 2001. After the initial free-trial period, around 50 kindergartens, including several well-known kindergarten groups, were selected to subscribe the EVI On-line System for a term of three years. Commencing in September 2001, the Group began to charge the participating kindergartens monthly subscription fee for the EVI On-line System, this is six months ahead of schedule.

The favourable response gained from the kindergartens enhanced the reputation of the EVI On-line System. The Group believes that as the EVI On-line System has gained recognition from various kindergartens and parents, more users from Hong Kong's education sector will subscribe to the EVI On-line System in the future.

Leveraging on its core on-line education system, the Group also provides other value-added services. For the year under review, the Group offered training on the EVI On-line System as well as general IT knowledge to teachers and other members of the education industry. The Group had also co-organised extra-curriculum IT classes for kindergarten students. Meanwhile, the Group continued to offer off-line services like system integration services and comprehensive Internet education services to the targeted users.

In order to cope with the continual expansion of the Group, a new office with approximately 8,000 square feet of office space together with a new training centre was established during the year under review. Training and IT courses were conducted in the new training centre which received favourable response from its users.

Marketing Development

In order to achieve maximum market shares amongst the kindergartens in Hong Kong, the Group has adopted strategy to offer favourable subscription fee for kindergartens as a foundation to attract more parents and children to subscribe the EVI On-line System.

An enthusiastic sales and marketing team is extremely important in introducing the EVI On-line System to the market. A series of aggressive marketing campaigns was launched during the year under review. These included on-site kindergarten demonstrations of the EVI On-line System, various exhibition workshops held in the City Hall, events sponsorship to Hong Kong International Kite Festival and Youth Foundation and education seminars. On 26th May, 2001, the Group successfully co-organised an education seminar named "Impact of Information Technology on Children" with the Hong Kong Council of Early Childhood Education and Services ("CECES") which attracted over 300 teachers and headmasters to attend. All of the above marketing activities succeeded in enhancing the Group's image and to retain a loyal user base.

The Group has devoted significant corporate resources to strengthen the marketing and support team to carry out effective marketing campaign. In return, the reputation and corporate image would be enhanced and the services provided would become more comprehensive. The Group strives to enlarge the market share in the education sector.

Content Development

The Group continue to enrich the contents and features of the Kindergartens Zone, Parents Zone and Kids Zone of the EVI On-line System so as to keep pace with the ever-changing society. The EVI On-line System currently provide additional services like resources library, games zone and English teaching programs to meet the current needs of the users. Meanwhile, the Group received feedbacks from parents and had incorporated their opinions into the contents and services of the EVI On-line System.

Chairman's Statement

EVI MP Limited was established in May 2001 and is responsible for creative design and web site design. The setting up of EVI MP Limited was to explore additional e-commerce opportunities and to strengthen and enrich the quality of the contents and features of the EVI On-line System like English contents and resources library.

Technology Development

Regarding the development in technology, a new Chief Technical Officer (CTO) was appointed during the year to oversee the Group's system development, strategic architectural and infrastructure issues. Other responsibilities include managing the Group's technology outsourcing vendors and updating the technology backbone of the EVI On-line System. The Group's technology department focuses on improving the security of the EVI On-line System and the access control of the EVI On-line System. Through the above effective technical controls, the provision of the Group's service to its subscribers would be more reliable. Improved technical skills could enhance the contents and features of the System to make it more user-friendly.

Joint venture and Overseas Development

The Group has been exploring overseas market opportunities to extend its education services to other Asian countries such as the PRC, Taiwan and Singapore. The Group established a subsidiary, System New International Limited, in July 2001 and subsequently introduced a business partner in Singapore as a 25% Shareholder in this subsidiary in October 2001. This represents a good foundation for the Group to capture additional overseas market share in the future.

OUTLOOK

Looking forward, the Group will continue its successful pricing policy to achieve maximum market share. The Directors believe that once a member of a kindergarten group subscribed to the EVI On-line System, the other members in the group will follow. In addition, the Directors believe that the Group's first mover position will also strengthen its competitiveness. This would expand the client base of the Group. The initial target is to double the existing number of clients in the near future. Meanwhile, the Group aims to explore future business appointment in the PRC market in the long run.

Business Development

The Group will continue to focus the business in Hong Kong and to further develop the operations. While the Hong Kong market has been established, the Group will actively explore other Asian markets. Among which, the PRC market will be the main focus of the group's business development. The PRC Government has encouraged the use of IT to assist teaching since 1996. With an annual compound Internet penetration growth rate of 63.4% between 1997-2003, the group believes this is a high degree of expandability for the Group to introduce the EVI On-line System to the PRC education sector.

Apart from expanding the overseas market after building up a large loyal user group, the Group will also put more emphasis on the provision of off-line education services. The Group will look for additional opportunities in Hong Kong to expand the existing educational market.

Marketing Strategies

In view of the needs to further increase the Group's exposure and to enhance the Group's reputation and corporate image, the Group will continue to deploy its resources in marketing. A series of marketing campaigns will be launched. At present, the Group intends to organise a "Family Unit Green Walk" in the Shatin Race Course with CECES in November 2001, and to co-organise an exhibition on "Internet education ceremony" in January 2002 with a well-known kindergarten groups targeting for parents, kids teachers and education community. The Group will continue to provide training courses for teachers from kindergartens subscribing the EVI On-line System. The Group will continue to look for potential co-operations with different organisations in the future to elevate the Group's exposure.

Besides, the Group cautiously seeks and analyses market information such as the feedbacks from the current users in order to improve the contents and features of various Zone. The penetration into kindergarten community and the favorable response provided the Group with a solid foundation to further develop the parents and kids users groups. Favorable pricing policy will continue to be adopted in the Parents Zone and Kids Zone following the free trial period in order to increase the number of users. In view of the fact that more business opportunities will be available after a loyal group of users is developed, promotion of Kindergartens Zone will continue to further enlarge the Group's EVI On-line System's market share in Hong Kong.

The Group also intends to develop its EVI On-line System in order to realise the full income-generation potential of the system. In addition, the Group will develop e-commerce opportunities with its focus on group of users with interest on child care and education.

Joint venture and Overseas Development

The Group had formed a partnership with a Singapore listed group, a pioneer in Internet education with over 10 years experience. To expand the Group's Internet education business into Asian countries, the Group had acquired an 'I-Express CD on demand Technology' from the company, which could enhance the effectiveness and the ease of using the EVI On-line System. The Group established a subsidiary, System New International Limited, in July 2001 and subsequently introduced this Singapore company as a 25% shareholder in this subsidiary in October 2001. Through such joint venture, the Group is able to explore additional potential in the provision of Internet Education services. In the long run, the Group aims to look for further achievement for Asia Pacific market through this joint venture.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my appreciation to all the staff for their dedication and contribution during the year. I would also like to offer my sincerest gratitude to all the customers, business associates and shareholders for their support and advice. With their continuous co-operation and support, the Group will make every endeavor to strive for the best in the coming year.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 31st October, 2001

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

PONG Wai San, Wilson, aged 32, is the founder, Chairman and Chief Executive Officer. He is responsible for the overall management, strategy planning and corporate development of the Group. Mr. Pong graduated from the University of British Columbia, Canada with a bachelor degree in applied science. Prior to founding the Group, he had held various senior management positions with various local international securities houses and a multinational company before founding the Group. He is the son of Madam Pong Lo Shuk Yin, Dorothy.

CHEUNG Shi Kwan, Wings, aged 40, is the Vice-Chairman. He is responsible for the Group's overall management, operations and web content development. Mr. Cheung holds a master degree in applied finance from the University of Western Sydney, Nepean. He is a senior associate member of the Australian Institute of Banking & Finance and has over 15 years of experience in banking, administration and general management. Prior to joining the Group in December 1999, he worked for a listed company in Hong Kong.

PONG Lo Shuk Yin, Dorothy, aged 54, is an executive Director. She is responsible for the strategic planning and business development of the Group. She joined the Group in August 1999. Madam Pong has over 20 years of experience in administration and management of kindergartens.

Independent Non-executive Directors

KO Chun Hay, Kelvin, aged 38, is an independent non-executive Director. Mr. Ko graduated with a master of science degree in finance from the City University of Hong Kong. He is a fellow member of the Hong Kong Society of Accountants and an associate member of the Chartered Institute of Management Accountants. He has over 10 years of working experience in the field of commercial, audit and taxation. Mr. Ko is currently a company secretary of a listed company in Hong Kong.

HUNG Fan Wai, Wilfred, aged 31, is an independent non-executive Director. Mr. Hung is an associate member of both the Hong Kong Society of Accountants and the Australian Society of Certified Practising Accountants. He holds a bachelor of arts degree in economics from Monash University of Australia and a master degree in business administration from the University of South Australia. He is a deputy chairman of a listed company in Hong Kong.

HUNG Tak Chow, Charles, aged 36, is an independent non-executive Director. Mr. Hung has a wealth of expertise and experience across a number of IT disciplines gained from over 12 years in both Asia and the United States of America where he held top IT positions with major US investment banks. He obtained a Masters Degree in Electrical Engineering from Cornell University as well as a Bachelors Degree in Electrical Engineering from the University of Arizona. He is currently the regional information technology director for a major multinational financial services company based in Hong Kong.

ADVISORY BOARD

CHING Teh Chi, Sansan, aged 54, is the Senior Project Consultant and Honorable Adviser and advises the Group in respect of relationships with kindergartens, on-line education content development and sales and promotions. Madam Ching has over 30 years of education experience and is currently a part-time lecturer of various universities. Since 1998, Ms. Ching has acted as the First Director of the CECES. She holds a bachelor of arts degree in humanities from the University of California, Berkeley, USA. Ms. Ching held senior positions in various Government Boards and Advisory Committees, Universities and Social Services Organisations. She joined the Group's advisory board in August 2000.

LEUNG Wai Hong, aged 49, is the Senior Project Consultant and advises the Group in respect of strategic planning, relationship with the education community and on-line education content development. Mr. Leung holds a master degree in social sciences from the University of Hong Kong and is a teaching consultant of the School of Professional & Continuing Education of the University of Hong Kong. He also works in several kindergartens as their senior management. Mr. Leung joined the Group's advisory board in November 2000.

SO Cheung Ping, Andrew, aged 46, is the Senior Project Consultant and advises the Group in respect of application of information technologies and Internet developments. Mr. So is currently the chief technology officer of Computer and Technology Holdings Limited and the chief executive officer of Ge-BE. Mr. So has over 19 years of IT experience gained from multinational companies including IBM and SPL WorldGroup and he is specialising in applying IT for business solutions.

KAN Siu Lun, Philip, aged 46, is the Senior Adviser and advises the Group in respect of business development and future expansion. At present, Mr. Kan is a member of the Board of Review of Inland Revenue, Hong Kong Government. For the three years commencing from 1995, Mr. Kan served as Member of Court of Hong Kong Baptist University. Mr. Kan is a creative strategist and an entrepreneurial executive with solid experience in leading enterprise and application of IT for business excellence. Mr. Kan obtained his master degree in business administration from the Henley Management College, Brunel University, the United Kingdom. Mr. Kan is currently a director and the chief executive officer of a listed company. Mr. Kan also held senior management position with First Pacific Bank, HSBC and Compaq Computer Limited where he served various clients of the Greater China region.

The Advisory Board is to advise the Board on major trends, developments and issues in the education industry in Hong Kong and other areas around the world, including the latest developments in IT and Internet development plans and strategy. The Advisory Board further assists provides advice and assistance in contents development of the Group's Internet site and products. Members of the Advisory Board are nominated by the Board on the basis of their relevant background, training and experience in the education industry and are not engaged as full-time employees of the Group.

SENIOR MANAGEMENT

LAU Wai Shu, Terence, aged 41, is the Chief Operating Officer. He is responsible for the Group's marketing and business development. 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 10 years of experience in management and marketing. Mr. Lau is appointed as the Group's executive director from 1 November 2001.

CHEUNG Hon Fai, Maurice, aged 27, is the Financial Controller and Company Secretary. He is responsible for the Group's financial management and company secretarial matters. Mr. Cheung holds a bachelor degree in accountancy from the Hong Kong polytechnic University. He is both associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group in November 2000, he worked in a listed company in Hong Kong and an international accounting firm.

CHAN Kin Kee, aged 31, is the Chief Technical Officer. He is responsible to oversee the Group's system development, strategic architectural issues as well as manage the Group's technology outsourcing vendors. Besides, he also leads all areas of project implementation and future development of the Group. Mr. Chan holds a Bachelor of Arts degree in Computing from Macquarie University, Australia. Prior to joining the Group in June 2001, he worked as the Head of IT development in a listed financial institution and has over 10 years experience on system integration, database management and consulting role in system analyzing and programming.

POON Ka Hon, Steven, aged 28, is the Deputy Chief Development Officer. He is in charge of all areas of IT project design, future development implementation and maintenance of the Group's website. Prior to joining the Group in July 1999, he worked as a System Consultant in an US based international firm.

LAU Suk Ying, Jenny, aged 35, is the Editorial Manager. She is responsible for the Group's contents development. She holds a Bachelor of Arts degree in English Language and Literature from Hong Kong Baptist University and a master degree in Translation and Interpretation from the Hong Kong City University. Prior joining the Group in April 2001, Ms. Lau worked for various Hong Kong Education Research Society and education publication companies. She has over 12 years experience in publishing curriculum kit and children's books on Pre-school and primary school.

Comparison of Business Objectives with Actual Business Progress

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 6th March, 2001 to 30th September, 2001.

**Business objectives as stated in
the prospectus dated 6th March, 2001 Actual Business progress**

Customer base

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| <p>1. EVI On-line System: Achieve a user base of around 55 kindergartens in Hong Kong and 4,000 parents in Hong Kong.</p> | <p>After careful marketing consideration, the Group has selected around 50 kindergartens interested in participate in the EVI On-line System kindergartens to subscribe for a term of 3 years. The corresponding user base, including students, parents and teachers, is estimated to be around 10,000. The Group has received continues favourable feedback about the EVI On-line System.</p> |
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| <p>2. Computer training and system integration services: Maintain a user base of eight kindergartens in Hong Kong.</p> | <p>The Group continues to provide computer-training courses and increase the user base to ten kindergartens in September 2001. The Group provides system integration services to all kindergartens subscribing the EVI On-line System.</p> |
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Revenue

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| <p>1. EVI On-line System: In order to attract kindergartens and parents to use the EVI On-line System, subscription revenue will not be generated during this period.</p> | <p>The Group selected around 50 kindergartens to subscribe for a term of 3 years for the provision of the EVI On-line System. The monthly subscription scheme started on September, 2001, 6 months earlier than expected, showing a noteworthy milestone that generates recurrent monthly subscription income for the Group.</p> |
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| <p>2. Computer training and system installation and integration services: Continue to generate steady revenue from off-line computer training and system installation and integration services to kindergartens.</p> | <p>Off-line services including extracurricular training courses, system integration, seminars, e-media productions and IT related services continued to generate steady revenue to the Group. Revenues generated from these off-line services increased compared with last year.</p> |
|--|--|

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 6th March, 2001 Actual Business progress
Development and launch of new products, contents and features

- | | |
|---|---|
| <p>1. Complete the administration and finance management features under the Kindergartens Zone.</p> | <p>The Group continues to update the administration features under the Kindergartens Zone to meet the kindergartens' need. The development of the finance management features under the Kindergartens Zone were delayed, however it will not cause any significant changes to the Group's overall business plan.</p> |
| <p>2. Fine-tune and enrich the interactive coursework under the Kindergartens Zone.</p> | <p>Since the launch of the EVI On-line System in January 2001, the Group has allocated resources to enrich the contents and functions under the Kindergartens Zone, undertake several phases of improvement in the look and feel of the portal and added various interactive coursework and games. With more dynamic and interactive functions added, the platform becomes more user-friendly.</p> |
| <p>3. Continue to enrich contents under the Parents Zone.</p> | <p>The Group continues to fine-tune the contents of the Parents Zone. More articles related to parent interested topics have been added to this zone.</p> |
| <p>4. Fine-tune the contents and features under the Kids Zone.</p> | <p>The Group continues to fine-tune the contents of the Kids Zone. More interactive games have been added to this zone for the interest of kids.</p> |
| <p>5. Engage external professionals as consultants (such as medical doctors, psychiatrists or education experts), or form alliance with professional bodies, to provide specialty articles or contents on child-care and child-education.</p> | <p>Potential partners, including pre-school magazines, medical doctors groups and education experts, have been identified and professional bodies had been consulted for contents development.</p> |
| <p>6. Develop new contents and features under the Kindergartens Zone, the Parents Zone and the Kids Zone based on the feedback from existing users.</p> | <p>After receiving feedback from kindergartens, more dynamic and interactive functions such as resources library and English contents have been added to Kindergartens Zone. The flexibility of the Kindergarten Zone has improved and it becomes more user-friendly, convenient and attractive for users. More articles were added to the Parent Zone and more games were added to the Kids Zone. More features will be added to the three zones after the kindergartens becomes familiar with the EVI On-line System.</p> |

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 6th March, 2001
Sales and marketing

Actual Business progress

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|---|---|
| <p>1. Line up renowned computer vendors to procure and supply computer hardware for kindergartens to use the EVI On-line System.</p> | <p>The Group has lined-up renowned computer vendors in Hong Kong to supply computers to kindergartens participating in the EVI On-line System.</p> |
| <p>2. Purchase and install up to 150 sets of computers with related hardware in targeted kindergartens to promote and attract uses of the EVI On-line System.</p> | <p>Since the huge demand for the EVI On-line System by the targeted kindergartens, the Group purchased and installed around 250 sets of computers with related hardware in targeted kindergartens to promote and attract uses of the EVI On-line System.</p> |
| <p>3. Continue to organise seminars and workshop for kindergartens in promoting and using the EVI On-line System.</p> | <p>The Group possesses a dedicated sales and marketing team responsible for:</p> <ul style="list-style-type: none"> • a series of aggressive marketing campaigns; • co-organising an education seminar with CECES named “Impact of Information Technology on Children”; • holding many exhibition workshops for existing and potential kindergartens. |
| <p>4. Organise training courses for parents and pre-school children in collaboration with existing kindergarten users of the EVI On-line System.</p> | <p>The Group planned to co-organise a seminar with a well known kindergartens group in January 2002 named “On-line Education System Opening Ceremony” for parents and pre-school children in collaboration with existing kindergarten users of the EVI On-line System. The function could also involves the Parents Zone and Kids Zone users and increased their familiarisation of the System.</p> |

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 6th March, 2001 Actual Business progress
Overseas developments, strategic acquisitions and alliances

- | | |
|--|---|
| 1. Identify suitable PRC partners for converting and developing pre-school education contents for the PRC pre-school sector. | The Group's talented management teams have targeted potential partners and planned to cooperate with them on expanding into the PRC market. |
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| 2. Complete feasibility studies on expanding into Macau. | The Group had formed a joint venture with a listed group in Singapore, who is also a pioneer in Internet education. Such partners could help the Group to expand education service business into the Asia Pacific and the PRC markets in the future. |
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- | | |
|--|---|
| 2. Complete feasibility studies on expanding into Macau. | The feasibility studies and investigation on expanding into Macau was postponed. However, it is believed that such delay will not cause any significant changes to the Group's overall business plan. |
|--|---|

System infrastructure and technology deployment

- | | |
|--|--|
| 1. Upgrade existing IT infrastructure to cater for the anticipated increase in user traffic of the EVI On-line System. | The Group has upgraded existing IT infrastructure to meet future developments. Security of the infrastructure backbone has been upgraded through adding a firewall system and a feasibility study on the access control for the System has been completed. |
|--|--|

- | | |
|--|--|
| 2. Apply video and audio streaming technologies into the EVI On-line System through efforts by the internal technical team and external e-business developers/contractors. | In addition, the Group had acquired the "I-Express CD on demand Technology" from the Singapore company that could enhance the ease of use and the effectiveness of the EVI On-line System in the future. |
|--|--|

- | | |
|--|---|
| 2. Apply video and audio streaming technologies into the EVI On-line System through efforts by the internal technical team and external e-business developers/contractors. | The Group's internal technical team continues to study the technology on applying the video and audio streaming technologies into the EVI On-line System. |
|--|---|

Human resources, operations and administration

- | | |
|---|--|
| 1. Increase overall headcount to around 30 full-time employees. | The Group had strengthened the sales and marketing department, content department and the technical department through staff recruitment and overall headcount increased to around 50. |
|---|--|

*(Amounts expressed in Hong Kong dollars)***Report of the Directors**

The Directors have the pleasure of presenting the first annual report together with the audited financial statements of EVI Education Asia Limited (“the Company”) and its subsidiaries (together “the Group”) for the year ended 30th September, 2001.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 15th January, 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. On 28th February, 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation scheme which included exchanges of shares in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“the GEM”) of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”). The shares of the Company were listed on the GEM of the Stock Exchange on 15th March, 2001.

Details of the group reorganisation scheme and the basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

ULTIMATE HOLDING COMPANY

The Company’s Directors consider Summerview Enterprises Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in selling and installation of computer hardware and software, provision of computer training services and provision of internet education services.

An analysis of the Group’s turnover by line of business together with their respective contributions to loss from operations for the year ended 30th September, 2001 is as follows:

| | Turnover | Loss from operations |
|--|-----------------|-----------------------------|
| | <i>\$’000</i> | <i>\$’000</i> |
| Selling and installation of computer hardware and software | 295 | (6,091) |
| Computer training fee | 397 | (3,055) |
| Internet education fee | 358 | (9,976) |
| | 1,050 | (19,122) |

No geographical analysis of the Group’s turnover and their respective contributions to loss from operations is presented as all of the Group’s turnover is attributable to business conducted in Hong Kong.

CUSTOMERS AND SUPPLIERS

For the year ended 30th September, 2001, the five largest customers accounted for approximately 39.4% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 81.2% of the Group's total purchases. The largest customer of the Group accounted for approximately 10.2% of the Group's total turnover while the largest supplier accounted for approximately 30.8% of the Group's total purchases.

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

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 30th September, 2001 are set out in the consolidated income statement on page 26 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately \$26,943,000 as at 30th September, 2001 be carried forward.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in Notes 14 and 15, respectively, to the accompanying financial statements.

RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group and the Company during the year are set out in Note 16 to the accompanying financial statements. Movements in accumulated deficit of the Group during the year are set out in the consolidated income statement on page 26 of this annual report.

As at 30th September, 2001, the Company's reserves of approximately \$9,192,000 were available for distribution to the Company's shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares up to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the Companies Law (Revised) of the Cayman Islands.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 12 to the accompanying financial statements.

MACHINERY AND EQUIPMENT

Details of movements in machinery and equipment during the year are set out in Note 10 to the accompanying financial statements.

COMMITMENTS

Particulars of commitments as at 30th September, 2001 are set out in Note 18 to the accompanying financial statements.

RETIREMENT PLANS

Details of the retirement plans are set out in Note 19 to the accompanying financial statements.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to approximately \$2,175,000 (2000 – \$400,000).

CONNECTED TRANSACTIONS

During the year ended 30th September, 2001, the Group had no connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“the GEM Listing Rules”).

DIRECTORS AND DIRECTORS’ SERVICE CONTRACTS

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

Executive directors

| | |
|---------------------------------|---|
| Mr. Pong Wai San, Wilson | <i>(Appointed on 12th February, 2001)</i> |
| Mr. Cheung Shi Kwan, Wings | <i>(Appointed on 12th February, 2001)</i> |
| Madam Pong Lo Shuk Yin, Dorothy | <i>(Appointed on 12th February, 2001)</i> |

Independent non-executive directors

| | |
|----------------------------|---|
| Mr. Ko Chun Hay, Kelvin | <i>(Appointed on 12th February, 2001)</i> |
| Mr. Hung Fan Wai, Wilfred | <i>(Appointed on 12th February, 2001)</i> |
| Mr. Hung Tak Chow, Charles | <i>(Appointed on 14th March, 2001)</i> |

In accordance with the Articles of Association of the Company, Mr. Cheung Shi Kwan, Wings will retire from office and, will be eligible to offer himself for re-election at the forthcoming annual general meeting of the Company.

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from 1st March, 2001. The service contracts shall continue thereafter until terminated by either party giving the other not less than three months’ notice after the expiration of the said initial fixed term.

The independent non-executive directors of the Company are not appointed for specific contracted terms but are subject to retirement by rotation in accordance with the Company’s Articles of Association.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

None of the director 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 terminable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 30th September, 2001, the interests of the directors and their respective associates in the shares of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of directors | Number of Shares of the Company | | | Total | Percentage of shares outstanding |
|---|---------------------------------|------------------|--------------------|-------------|----------------------------------|
| | Personal interests | Family interests | Corporate interest | | |
| Mr. Pong Wai San, Wilson (<i>Note 1</i>) | – | – | 521,840,000 | 521,840,000 | 65.23% |
| Mr. Cheung Shi Kwan, Wings | 800,000 | – | – | 800,000 | 0.10% |
| Madam Pong Lo Shuk Yin, Dorothy (<i>Note 2</i>) | – | 521,840,000 | – | 521,840,000 | 65.23% |

Notes –

- As at 30th September, 2001, Summerview Enterprises Limited held 521,840,000 shares of the Company. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong Wai San, Wilson. The interest of Mr. Pong Wai San, Wilson in the issued shares of the Company was, accordingly, corporate interest in the Company as described in Rule 18.16(1) of the GEM Listing Rules.
- Mr. Pong Wai San, Wilson is the son of Madam Pong Lo Shuk Yin, Dorothy, who is deemed to be interested in 521,840,000 shares beneficially held by Summerview Enterprises Limited.

Other than disclosed above, as at 30th September, 2001, neither the directors nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

The Company has adopted a share option scheme on 28th February, 2001 ("Pre-IPO Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Pursuant to the Pre-IPO Share Option Scheme, options were granted on 28th February, 2001 to the executive directors and other employees of the Group to subscribe for an aggregate of 51,000,000 shares in the Company at the issue price of \$0.38 per share, during the option period from 15th March, 2002 to 14th March, 2005. During the year, as a result of the cessation of employment of 3 grantees, 900,000 share options granted to them on 28th February, 2001 has lapsed. Details of the Pre-IPO Share Option Scheme are set out in Note 15 to the accompanying financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE (Continued)

As at 30th September, 2001, the share options granted to and held by the directors of the Company are as follows:

| Name | Subscription price per share | Number of share options |
|---------------------------|-------------------------------------|--------------------------------|
| Pong Wai San, Wilson | \$0.38 | 20,000,000 |
| Pong Lo Shuk Yin, Dorothy | \$0.38 | 16,200,000 |
| Cheung Shi Kwan, Wings | \$0.38 | 5,000,000 |
| | | <u>41,200,000</u> |

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2001, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company has been notified of the following interests, being 10% or more of the issued share capital of the Company:

| Name | Number of issued shares | Percentage holding |
|----------------------------------|--------------------------------|---------------------------|
| Summerview Enterprises Limited | 521,840,000 | 65.23% |
| Mr. Pong Wai San, Wilson | 521,840,000 (Note 1) | 65.23% |
| Madam Pong Lo Shuk Yin, Dorothy | 521,840,000 (Note 1) | 65.23% |
| Cyber Generation Limited | 91,520,000 | 11.44% |
| Hanny Magnetics (B.V.I.) Limited | 91,520,000 (Note 2) | 11.44% |
| Hanny Holdings Limited | 91,520,000 (Note 2) | 11.44% |

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes –

1. These shares are registered in the name of and beneficially owned by Summerview Enterprises Limited. The entire issued share capital of Summerview Enterprises Limited is registered in the name of and beneficially owned by Mr. Pong Wai San, Wilson. Mr. Pong Wai San, Wilson is the son of Madam Pong Lo Shuk Yin, Dorothy and accordingly, Madam Pong Lo Shuk Yin, Dorothy is deemed to be interested in the 521,840,000 shares beneficially owned by Summerview Enterprises Limited.
2. These shares are registered in the name of and beneficially owned by Cyber Generation Limited. The entire issued share capital of Cyber Generation Limited is beneficially owned by Hanny Magnetics (B.V.I.) Limited. Hanny Magnetics (B.V.I.) Limited is in turn, wholly and beneficially owned by Hanny Holdings Limited.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 30th September, 2001.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 30th September, 2001 neither of the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

Pursuant to the agreement dated 6th March, 2001 entered into between the Company and the Sponsor, the sponsor will receive a fee for acting as the Company's retained sponsor for the period 16th March, 2001 to 30th September, 2003.

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

The Company has established an audit committee on 28th February, 2001 and has formulated its written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors.

The members of the audit committee appointed during the financial year and up to the date of this report are as follows:

| | |
|-----------------------------|---|
| Mr. Ko Chun Hay, Kelvin* | (Appointed as a member of the audit committee on 28th February, 2001) |
| Mr. Hung Fan Wai, Wilfred* | (Appointed as a member of the audit committee on 28th February, 2001) |
| Mr. Cheung Hon Fai, Maurice | (Appointed as a member of the audit committee on 28th February, 2001) |
| Mr. Hung Tak Chow, Charles* | (Appointed as a member of the audit committee on 5th April, 2001) |

* Independent non-executive directors

USE OF PROCEEDS

The Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$52 million from the new issue of shares by way of placing. Up to 30th September, 2001, the Group has applied the net proceeds as follows:

| | Amount extracted from the Prospectus dated 6th March, 2001 | | Actual amount used up to 30th September, 2001 |
|---|--|----------------------------------|--|
| | Total | Up to 30th September, 2001 | |
| Development and launch of new contents and features under the EVI On-line System | 7.0M | 2.0M | 3.2M |
| Upgrade and improvement in system infrastructure and technology deployment | 11.5M | 1.0M | 2.5M |
| Purchase and provision of hardware to kindergartens for promotion the use of the EVI on-line System | 8.5M | 1.0M | 1.9M |
| Development of on-line advertising, e-commerce and related features under the EVI On-line System | 7.0M | – | 0.9M |
| Marketing and promotional activities | 6.0M | 2.0M | 2.8M |
| Working capital | 12.0M | 2.4M | 6.0M |
| | 52.0M | 8.4M | 17.3M |

The remaining net proceeds as at 30th September, 2001 was approximately HK\$34.7M, which have been placed on short-term interest bearing deposit with banks in Hong Kong.

Since the market response were better than expected, the actual business progress of the Group developed faster than expected and as a result the usage of IPO proceed were faster than expected. In return, the Group have generated recurrent monthly subscription income in September 2001, 6 months earlier than expected, showing a noteworthy milestone for the Group.

The Directors believe that the proceeds are sufficient for covering all stated objectives in the relevant periods stated in the prospectus of the Company dated 6th March, 2001.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

PONG WAI SAN, WILSON
Chairman

Hong Kong, 31st October, 2001

Auditors' Report



ANDERSEN

Auditors' Report to the Shareholders of
EVI EDUCATION ASIA LIMITED

(Incorporated in the Cayman Islands with limited liability)

Arthur Andersen & Co

21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

We have audited the financial statements on pages 26 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30th September, 2001 and of the loss and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong, 31st October, 2001

Consolidated Income Statement

| | <i>Note</i> | 2001 \$'000 | 2000 \$'000 |
|---|-------------|------------------------|----------------|
| Turnover | 4 | 1,050 | 410 |
| Costs of merchandise | | (260) | (278) |
| Staff costs | | (8,200) | (1,969) |
| Depreciation of machinery and equipment | | (1,390) | (111) |
| Amortisation of website development costs | | (1,527) | – |
| Research and development expenses | | (111) | (5,288) |
| General and administrative expenses | | (8,684) | (1,752) |
| Loss from operations | | (19,122) | (8,988) |
| Interest income | 4 | 1,227 | 48 |
| Loss before taxation | 5 | (17,895) | (8,940) |
| Taxation | 7 | – | – |
| Loss attributable to shareholders | 8 | (17,895) | (8,940) |
| Accumulated deficit, beginning of year | | (9,048) | (108) |
| Accumulated deficit, end of year | | (26,943) | (9,048) |
| Loss per share – Basic | 9 | HK(2.47) cents | HK(1.81) cents |

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the loss attributable to shareholders.

Balance Sheets

| | <i>Note</i> | Consolidated | Company |
|--|-------------|---------------------|-----------------|
| | | 2001 | 2001 |
| | | \$'000 | \$'000 |
| NON-CURRENT ASSETS | | | |
| Machinery and equipment | 10 | 7,678 | 484 |
| Website development costs | 11 | 4,786 | 1,430 |
| Investment in subsidiaries | 12 | – | – |
| | | | 32,852 |
| Total non-current assets | | 12,464 | 1,914 |
| CURRENT ASSETS | | | |
| Trade receivables | | 431 | 172 |
| Prepayments, deposits and other current assets | | 502 | 555 |
| Investments | 13 | 1,985 | – |
| Cash and bank deposits | | 39,468 | 9,076 |
| | | | 16,344 |
| Total current assets | | 42,386 | 9,803 |
| CURRENT LIABILITIES | | | |
| Trade payables | | (964) | – |
| Accruals and other payables | | (2,440) | (153) |
| Deposits from customers | | (1,099) | (76) |
| Due to a director | 3 | – | (5,348) |
| Due to a shareholder | 3 | – | (5,188) |
| | | | (18) |
| Total current liabilities | | (4,503) | (10,765) |
| Net current assets (liabilities) | | 37,883 | (962) |
| Net assets | | 50,347 | 952 |
| Represented by: | | | |
| SHARE CAPITAL | 14 | 40,000 | 2 |
| RESERVES | 16 | 37,290 | 9,998 |
| ACCUMULATED DEFICIT | | (26,943) | (9,048) |
| Shareholders' equity | | 50,347 | 952 |

Approved by the Board of Directors on 31st October, 2001:

PONG WAI SAN, WILSON
Chairman

CHEUNG SHI KWAN, WINGS
Director

Consolidated Cash Flow Statement

| | <i>Note</i> | 2001 \$'000 | 2000 \$'000 |
|--|-------------|------------------------------|----------------|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | <i>17.a</i> | (12,060) | (4,187) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 1,227 | 48 |
| INVESTING ACTIVITIES | | | |
| Purchase of machinery and equipment | | (8,673) | (595) |
| Proceeds from disposal of machinery and equipment | | 12 | – |
| Additions of website development costs | | (4,883) | (1,430) |
| | | (13,544) | (2,025) |
| Net cash outflow before financing | | (24,377) | (6,164) |
| FINANCING | <i>17.b</i> | | |
| Issuance of shares | | 60,840 | – |
| Issuance of shares by a subsidiary | | 5,000 | 10,000 |
| Share issuance expenses | | (8,738) | – |
| (Decrease) Increase in due to a director | | (348) | 5,240 |
| | | 56,754 | 15,240 |
| Increase in cash and cash equivalents | | 32,377 | 9,076 |
| CASH AND CASH EQUIVALENTS | <i>17.d</i> | | |
| Beginning of year | | 9,076 | – |
| End of year | | 41,453 | 9,076 |

Notes to the Financial Statements**1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

EVI Education Asia Limited (“the Company”) was incorporated in the Cayman Islands on 15th January, 2001 as an exempted company under the Companies Law (Revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (“the GEM”) of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) since 15th March, 2001. The Company’s Directors consider Summerview Enterprises Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

On 28th February, 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (“the Reorganisation”) which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 30th September, 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 30th September, 2000 have been presented on the same basis.

No balance sheet of the Company as at 30th September, 2000 is presented as the Company was incorporated subsequent to that date.

The Company is an investment holding company. Its subsidiaries are principally engaged in selling and installation of computer hardware and software, provision of computer training services and provision of internet education services.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“the GEM Listing Rules”). Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost convention.

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together “the Group”). Except for the Reorganisation as described in Note 1, the results of subsidiaries acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

d. Turnover and revenue recognition

Turnover represents (i) the net invoiced value for selling and installation of the computer hardware and software, after allowances for returns and discounts; (ii) service fee from provision of computer training courses; and (iii) service fee from provision of internet education services.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from selling and installation of computer hardware and software is recognised when the merchandise is delivered and the related installation is completed. Service fees are recognised when the services are rendered. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rate applicable.

Advance payments received from customers prior to the provision of services are recorded as deposits from customers.

e. Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

f. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**g. Machinery and equipment and depreciation**

Machinery and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of machinery and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset after considering its residual value over its estimated useful life. The annual rates of depreciation are as follows:

| | |
|--------------------------------|-------------------------------------|
| Leasehold improvements | 50% (over the unexpired lease term) |
| Furniture and office equipment | 33% |
| Computer equipment | 20% to 33% |

Gains and losses on disposal of machinery and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

h. Impairment of assets

Machinery and equipment and website development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

i. 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 represents the expected useful life of the website.

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

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

j. Investments

Short-term investments are carried at fair value in the balance sheet. Any unrealised holding gain or loss is recognised in the income statement in the period when it arises. Upon disposal of investments, any profit and loss thereon is accounted for in the income statement.

k. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

l. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

m. Foreign currency translation

Companies within the Group maintain their books and records in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements.

n. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**o. Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

3. RELATED PARTY TRANSACTIONS

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

The outstanding balances with a director and a shareholder during the year were unsecured, non-interest bearing and without pre-determined repayment terms.

During the year ended 30th September, 2001, 79,976,000 shares of the Company were allotted to a director of the Company to settle the outstanding balance due to the director of approximately \$5,000,000, and 42,424,000 shares of the Company were allotted to a shareholder of the Company to settle the outstanding balance due to the shareholder of approximately \$5,188,000 (see Note 14.d).

4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Selling and installation of computer hardware and software | 295 | 311 |
| Computer training fee | 397 | 99 |
| Internet education fee | 358 | – |
| Total turnover | 1,050 | 410 |
| Interest income | 1,227 | 48 |
| Total revenue | 2,277 | 458 |

4. TURNOVER AND REVENUE (Continued)

The Group's turnover by line of business together with their respective contributions to loss from operations is analysed as follows:

| | 2001 | | 2000 | |
|---|--------------|--|----------|--|
| | Turnover | Contribution to loss from operations | Turnover | Contribution to loss from operations |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Selling and installation of computer hardware and software | 295 | (6,091) | 311 | (7,174) |
| Computer training fee | 397 | (3,055) | 99 | (1,814) |
| Internet education fee | 358 | (9,976) | – | – |
| | 1,050 | (19,122) | 410 | (8,988) |
| <i>Add:</i> Interest Income | | 1,227 | | 48 |
| Loss before taxation | | (17,895) | | (8,940) |

No geographical analysis of the Group's turnover and their respective contributions to loss from operations is presented as all of the Group's turnover is attributable to business conducted in Hong Kong.

5. LOSS BEFORE TAXATION

Loss before taxation was determined after charging and crediting the following items:

| | 2001 | 2000 |
|---|---------------|-----------|
| | \$'000 | \$'000 |
| <i>After charging –</i> | | |
| Costs of merchandise | 260 | 278 |
| Staff costs (including directors' emoluments) | 8,200 | 1,969 |
| Operating lease rentals in respect of | | |
| – premises | 1,217 | 144 |
| – computer servers | 305 | – |
| Depreciation of machinery and equipment | 1,390 | 111 |
| Amortisation of website development costs | 1,527 | – |
| Research and development costs written off | 111 | 5,288 |
| Net loss on disposal of machinery and equipment | 77 | – |
| <u>Auditors' remuneration</u> | <u>475</u> | <u>80</u> |
| <i>After crediting –</i> | | |
| <u>Interest income from bank deposits</u> | <u>1,227</u> | <u>48</u> |

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- a. Details of emoluments paid/payable to directors of the Company are:

| | 2001 | 2000 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Fees for executive directors | – | – |
| Fees for non-executive directors | – | – |
| Other emoluments for executive directors | | |
| – Salaries and allowances | 1,664 | 765 |
| | 1,664 | 765 |

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

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

| | 2001 | 2000 |
|-------------------------|-------------|------|
| Executive directors | | |
| – Nil to \$1,000,000 | 3 | 3 |
| Non-executive directors | | |
| – Nil to \$1,000,000 | 3 | – |
| | 6 | 3 |

- b. Details of emoluments of the five highest paid individuals (including directors and other employees) are:

| | 2001 | 2000 |
|-------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Salaries and allowances | 2,601 | 1,191 |
| | 2,601 | 1,191 |

Three (2000 – three) of the highest paid individuals were directors of the Company, whose emoluments have been included in Note 6.a above.

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

- b. Details of emoluments of the five highest paid individuals (including directors and other employees) are: *(Continued)*

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of all of the five highest paid individuals (including directors and other employees) fall within the range of Nil to \$1,000,000.

7. TAXATION

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

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

Deferred tax assets have not been provided in respect of the following items:

| | 2001 \$'000 | 2000 \$'000 |
|------------------------------------|----------------|----------------|
| Accelerated depreciation allowance | 1,689 | 283 |
| Tax loss* | (5,711) | (1,674) |
| | (4,022) | (1,391) |

* Tax loss of the Group is subject to the agreement of the Hong Kong Inland Revenue Department.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 30th September, 2001, the consolidated loss attributable to shareholders included a loss of approximately \$15,689,000 dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately \$17,895,000 (2000 – \$8,940,000) and on the weighted average number of approximately 723,987,000 shares (2000 – 493,135,000 shares) deemed to be in issue throughout the year, on the assumption that the Reorganisation (see Note 1) had been completed on 1st October, 1999.

Diluted loss per share is not presented for the year ended 30th September, 2001 because the effect is anti-dilutive. Dilutive loss per share is not presented for the year ended 30th September, 2000 as there were no dilutive potential ordinary shares in existence during the year.

10. MACHINERY AND EQUIPMENT

Movements in machinery and equipment (consolidated) were:

| | 2001 | | | 2000 | |
|---------------------------------|----------------------------------|--|------------------------------|-----------------|-----------------|
| | Leasehold improvements \$'000 | Furniture and office equipment \$'000 | Computer equipment \$'000 | Total \$'000 | Total \$'000 |
| Cost | | | | | |
| Beginning of year | 137 | 51 | 407 | 595 | – |
| Additions | 1,839 | 289 | 6,545 | 8,673 | 595 |
| Disposals | (137) | (25) | (13) | (175) | – |
| End of year | 1,839 | 315 | 6,939 | 9,093 | 595 |
| Accumulated depreciation | | | | | |
| Beginning of year | 34 | 10 | 67 | 111 | – |
| Provision for the year | 576 | 63 | 751 | 1,390 | 111 |
| Disposals | (72) | (12) | (2) | (86) | – |
| End of year | 538 | 61 | 816 | 1,415 | 111 |
| Net book value | | | | | |
| End of year | 1,301 | 254 | 6,123 | 7,678 | 484 |
| Beginning of year | 103 | 41 | 340 | 484 | – |

11. WEBSITE DEVELOPMENT COSTS

Movements in website development costs (consolidated) were:

| | 2001 \$'000 | 2000 \$'000 |
|---------------------------------|----------------|----------------|
| Cost | | |
| Beginning of year | 1,430 | – |
| Additions | 4,883 | 1,430 |
| End of year | 6,313 | 1,430 |
| Accumulated amortisation | | |
| Beginning of year | – | – |
| Amortisation for the year | (1,527) | – |
| End of year | (1,527) | – |
| Net book value | | |
| End of year | 4,786 | 1,430 |
| Beginning of year | 1,430 | – |

12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

| | |
|---|-----------------|
| | 2001 |
| | \$'000 |
| Unlisted shares, at cost | 2,608 |
| Due from subsidiaries | 46,244 |
| | 48,852 |
| Less: Provision for impairment in value | (16,000) |
| | 32,852 |

The outstanding balances with the subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than its carrying value as at 30th September, 2001.

Details of the subsidiaries as at 30th September, 2001 are:

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group | Principal activities |
|---------------------------------------|---------------------------------------|---|--|---|
| Network Focus Consultancy Corporation | British Virgin Islands | US\$2,000 | 100% | Investment holding |
| EVI Services Limited | Hong Kong | \$21,053 | 100% | Selling and installation of computer hardware and software, provision of computer training services and internet education services |
| Jaques Kurtz Company Limited | British Virgin Islands/ Hong Kong | US\$1 | 100% | Research and development |
| Sino Sky Enterprises Limited | Hong Kong | \$2 | 100% | Provision of office administrative services to the Group |

12. INVESTMENT IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group | Principal activities |
|-----------------------------------|---------------------------------------|--|--|---|
| Web Work Industries Limited | British Virgin Islands/ Hong Kong | US\$1 | 100% | Development of information technology system and infrastructure |
| EVI MP Limited | British Virgin Islands | US\$1 | 100% | Inactive during the year, plan for design and media production |
| Value Media International Limited | British Virgin Islands | US\$100 | 100% | Investment holding |
| System New International Limited | British Virgin Islands | US\$100 | 100% | Inactive during the year, plan for website development and provision of internet education services |

The shares of Network Focus Consultancy Corporation are held directly by the Company. The shares of other subsidiaries are held indirectly.

None of the subsidiaries had any loan capital in issue at any time during the year ended 30th September, 2001.

13. INVESTMENTS

Investments (consolidated) consisted of:

| | 2001 \$'000 | 2000 \$'000 |
|---|----------------|----------------|
| Unlisted investments – Hong Kong, at cost | 2,000 | – |
| Less: Unrealised holding loss | (15) | – |
| | 1,985 | – |

As at 30th September, 2001, investments represented units in an investment fund managed by an investment company in Hong Kong.

14. SHARE CAPITAL

| | 2001 | |
|---|-----------------------------|----------------------------|
| | Number of shares '000 | Nominal value \$'000 |
| Authorised (ordinary shares of \$0.05 each) | | |
| Upon incorporation of the Company (a) | 2,000 | 100 |
| Increase in authorised share capital (b) | 9,998,000 | 499,900 |
| | <hr/> | <hr/> |
| End of year | 10,000,000 | 500,000 |
| | <hr/> | <hr/> |
| Issued and fully paid (ordinary shares of \$0.05 each) | | |
| Issue of shares (a, c, d and e) | 125,200 | 6,260 |
| Issue of shares through a placing (f) | 160,000 | 8,000 |
| Capitalisation of share premium (g) | 514,800 | 25,740 |
| | <hr/> | <hr/> |
| End of year | 800,000 | 40,000 |
| | <hr/> | <hr/> |

Notes –

- a. Upon incorporation, the Company had authorised share capital of \$100,000, divided into 2,000,000 shares of \$0.05 each. On 12th February, 2001, one share was allotted and issued as fully paid and 999,999 shares were allotted and issued as nil paid.
- b. On 28th February, 2001, the Company's authorised share capital was increased from \$100,000 to \$500,000,000, by the creation of an additional 9,998,000,000 shares ranking pari passu with the then existing shares in all respects.
- c. On 28th February, 2001, as part of the Reorganisation (see Note 1), the Company acquired the entire issued share capital of Network Focus Consultancy Corporation ("NFCC"), by issuing 1,000,000 shares of the Company, credited as fully paid, and crediting as fully paid the 999,999 shares previously issued as nil paid (Note a).
- d. On 28th February, 2001, 79,976,000 shares and 42,424,000 shares, both credited as fully paid, were allotted to Mr. Pong Wai San, Wilson, a director of the Company and Cyber Generation Limited, a shareholder of the Company, respectively, for settlements of the then outstanding balances due to them of approximately \$5,000,000 and \$5,188,000, respectively.
- e. On 28th February, 2001, 800,000 shares were allotted and issued to a director of the Company at \$0.05 per share.
- f. On 15th March, 2001, 160,000,000 shares of \$0.05 each were issued at \$0.38 per share through a placing ("the New Issue"), resulting in cash proceeds of \$60,800,000.
- g. Immediately after the New Issue, share premium of \$25,740,000 was capitalised for the issuance of 514,800,000 shares of \$0.05 each on a pro-rata basis to certain of the Company's shareholders before the New Issue.

The comparative figures of the Company's share capital as at 30th September, 2000 shown on the consolidated balance sheet represented the aggregate amount of the nominal value of the share capital of the Company's subsidiaries as at that date.

15. SHARE OPTIONS

- a. The Company adopted a share option scheme (“Pre-IPO Share Option Scheme”) on 28th February, 2001. On the same date, options were granted to the executive directors and other employees of the Group to subscribe for an aggregate of 51,000,000 shares in the Company at a price of \$0.38 per share, exercisable during the three-year period from 15th March, 2002 to 14th March, 2005. Maximum number of shares in which employees are entitled to subscribe for by exercising the options shall not exceed (a) 30% of the total number of options during the first year of such three-year period; (b) 30% of the total number of the options during the second year of such three-year period; and (c) 40% of the total number of options during the third year of the three-year period. During the year, 900,000 of these options lapsed in connection with the cessation of employment of certain employees.

Movements of the share options under the Pre-IPO Share Option Scheme during the year ended 30th September, 2001 were:

| Date of grant | Exercise period | Subscription price per share | Number of shares | | | | End of year '000 |
|---------------------|---|---------------------------------|---------------------------------|---------------------------------------|--------------------------------------|---|------------------------|
| | | | Beginning of year '000 | Granted during the year '000 | Lapsed during the year '000 | Exercised during the year '000 | |
| 28th February, 2001 | 15th March, 2002 to 14th March, 2005 | \$0.38 | - | 51,000 | (900) | - | 50,100 |

- b. The Company adopted another share option scheme (“Share Option Scheme”) on 28th February, 2001, pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company’s Board of 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.

During the year ended 30th September, 2001, no option was granted by the Company under the Share Option Scheme.

Notes to the Financial Statements

16. RESERVES

Movements in reserves were:

| | 2001 | | | 2000 | |
|---|----------------------------|----------------------------------|--------------------------------------|-----------------|-----------------|
| | Share premium \$'000 | Capital reserve (a) \$'000 | Contributed surplus (b) \$'000 | Total \$'000 | Total \$'000 |
| Consolidated | | | | | |
| Beginning of year | 9,998 | – | – | 9,998 | – |
| Effect of the Reorganisation | (9,998) | – | – | (9,998) | – |
| | – | – | – | – | – |
| Capitalisation of amounts due to a director and a shareholder (Note 14.d) | 4,068 | – | – | 4,068 | – |
| Premium on issue of ordinary shares (Note 14.f) | 52,800 | – | – | 52,800 | 9,998 |
| Share issuance expenses | (8,738) | – | – | (8,738) | – |
| Capitalisation of share premium (Note 14.g) | (25,740) | – | – | (25,740) | – |
| Others | (18) | – | – | (18) | – |
| Effect of the Reorganisation | – | 14,918 | – | 14,918 | – |
| End of year | 22,372 | 14,918 | – | 37,290 | 9,998 |
| Company | | | | | |
| Beginning of year | – | – | – | – | – |
| Capitalisation of amounts due to a director and a shareholder (Note 14.d) | 4,068 | – | – | 4,068 | – |
| Premium on issue of ordinary shares (Note 14.f) | 52,800 | – | – | 52,800 | – |
| Share issuance expenses | (8,738) | – | – | (8,738) | – |
| Capitalisation of share premium (Note 14.g) | (25,740) | – | – | (25,740) | – |
| Others | (18) | – | – | (18) | – |
| Effect of the Reorganisation | – | – | 2,509 | 2,509 | – |
| End of year | 22,372 | – | 2,509 | 24,881 | – |

16. RESERVES (Continued)

Notes –

- a. Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation.
- b. Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

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 (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

The Company's reserves as at 30th September, 2001 available for distribution to shareholders are approximately \$9,192,000.

The comparative figures of the Group's reserves as at 30th September, 2000 shown on the consolidated balance sheet represented the aggregate amount of the reserves of the Company's subsidiaries as at that date.

17. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- a. Reconciliation of loss before taxation to net cash outflow from operating activities:

| | 2001 | 2000 |
|---|-----------------|---------|
| | \$'000 | \$'000 |
| Loss before taxation | (17,895) | (8,940) |
| Interest income | (1,227) | (48) |
| Depreciation of machinery and equipment | 1,390 | 111 |
| Amortisation of website development costs | 1,527 | – |
| Net loss on disposal of machinery and equipment | 77 | – |
| Increase in trade receivables | (259) | (172) |
| Decrease (Increase) in prepayments, deposits and other current assets | 53 | (555) |
| Increase in trade payables | 964 | – |
| Increase in accruals and other payables | 2,287 | 153 |
| Increase in deposits from customers | 1,023 | 76 |
| Increase in due to a shareholder | – | 5,188 |
| Net cash outflow from operating activities | (12,060) | (4,187) |

17. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

b. Analysis of changes in financing is as follows:

| | Share capital and share premium \$'000 | Due to a director \$'000 | Due to a shareholder \$'000 | Total \$'000 |
|--|---|--------------------------------|-----------------------------------|-----------------|
| As at 1st October, 1999 | – | 108 | – | 108 |
| Issue of shares by subsidiaries | 10,000 | – | – | 10,000 |
| Increase in due to a director | – | 5,240 | – | 5,240 |
| Increase in due to a shareholder | – | – | 5,188 | 5,188 |
| As at 30th September, 2000 | 10,000 | 5,348 | 5,188 | 20,536 |
| Issue of shares to a director (Note 14.e) | 40 | – | – | 40 |
| Issue of shares through a placing (Note 14.f) | 60,800 | – | – | 60,800 |
| Issue of shares by a subsidiary | 5,000 | – | – | 5,000 |
| Share issuance expenses | (8,738) | – | – | (8,738) |
| Effect of the Reorganisation (Note 14.c) | (14,918) | – | – | (14,918) |
| Repayment | – | (348) | – | (348) |
| Capitalisation of outstanding balances with a director and a shareholder (Note 14.d) | 10,188 | (5,000) | (5,188) | – |
| As at 30th September, 2001 | 62,372 | – | – | 62,372 |

c. Major non-cash transactions:

During the year, an aggregate of 1,999,999 ordinary shares of \$0.05 each were issued and credited as fully paid in exchange for the entire issued share capital of Network Focus Consultancy Corporation (see Note 14.c).

On 28th February, 2001, 79,976,000 shares and 42,424,000 shares, both credited as fully paid, were allotted to Mr. Pong Wai San, Wilson, a director of the Company and Cyber Generation Limited, a shareholder of the Company, respectively, for settlements of the then outstanding balances due to them of approximately \$5,000,000 and \$5,188,000, respectively (Note 14.d).

During the year, share premium of \$25,740,000 was capitalised for the issuance of 514,800,000 shares of \$0.05 each (see Note 14.g).

17. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

d. Analysis of cash and cash equivalents:

| | 2001 | 2000 |
|------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash and bank deposits | 39,468 | 9,076 |
| Investments | 1,985 | – |
| | 41,453 | 9,076 |

18. COMMITMENTS**a. Capital commitments**

Capital commitments not provided for in the financial statements are analysed as follows:

| | Consolidated | | Company |
|--|---------------------|---------------|----------------|
| | 2001 | 2000 | 2001 |
| | \$'000 | \$'000 | \$'000 |
| Authorised and contracted for | | | |
| – licensing rights | 6,318 | – | – |
| – website development costs | – | 2,010 | – |
| – acquisition of machinery and equipment | – | 442 | – |
| Authorised but not contracted for | | | |
| – website development costs | – | 2,500 | – |
| – acquisition of machinery and equipment | – | 1,667 | – |
| | 6,318 | 6,619 | – |

b. Operating lease commitments

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

| | Consolidated | | Company |
|------------------------------------|---------------------|---------------|----------------|
| | 2001 | 2000 | 2001 |
| | \$'000 | \$'000 | \$'000 |
| Amounts payable within a period of | | | |
| – one year | 1,854 | 330 | – |
| – one to two years | 432 | 211 | – |
| | 2,286 | 541 | – |

18. COMMITMENTS (Continued)**b. Operating lease commitments (Continued)**

The commitments payable within the next twelve months are analysed as follows:

| | Consolidated | | Company |
|------------------------------------|--------------|--------|---------|
| | 2001 | 2000 | 2001 |
| | \$'000 | \$'000 | \$'000 |
| Leases expiring within a period of | | | |
| – one year | 313 | 160 | – |
| – one to two years | 1,541 | 170 | – |
| | 1,854 | 330 | – |

19. RETIREMENT PLANS

The employees of the Group 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 scheme at 5% of the employees’ earnings with the maximum contribution by each of the Group and the employees limited to \$1,000 per month and thereafter contributions are voluntary.

During the year, the aggregate contributions made by the Group to the MPF Scheme amounted to approximately \$421,000 (2000 – Nil).

20. SUBSEQUENT EVENTS

- a. Subsequent to the year end, the Group completed the acquisition of licensing rights from an independent vendor (the “Vendor”) to resell software technology in Hong Kong for approximately \$6,318,000. At the same time, the Group completed the disposal to the Vendor a 25% equity interest in System New International Limited (“System New”), a subsidiary, and recognised a gain of approximately six million Hong Kong dollars.
- b. By a directors’ resolution passed on 31st October, 2001, the Company has proposed to subdivide each of its existing issued and unissued share of \$0.05 each into five shares of \$0.01 each, subject to approval by its shareholders.
- c. On 31st October, 2001, the Company granted 5,000,000 options to certain employees of the Group to subscribe for the Company’s shares in accordance with the Share Option Scheme of the Company. The share options are exercisable during the period from 1st November, 2002 to 30th October, 2005 at a subscription price of \$1.04 per existing issued shares.

Financial Summary

| | Period from 28th June, 1999 to 30th September, 1999 \$'000 | Year ended 30th September 2000 \$'000 | Year ended 2001 \$'000 |
|---|---|--|------------------------------|
| Turnover | – | 410 | 1,050 |
| Costs of merchandise | – | (278) | (260) |
| Staff costs | (20) | (1,969) | (8,200) |
| Depreciation of machinery and equipment | – | (111) | (1,390) |
| Amortisation of website development costs | – | – | (1,527) |
| Research and development expenses | – | (5,288) | (111) |
| General and administrative expenses | (88) | (1,752) | (8,684) |
| Loss from operations | (108) | (8,988) | (19,122) |
| Interest income | – | 48 | 1,227 |
| Loss before taxation | (108) | (8,940) | (17,895) |
| Taxation | – | – | – |
| Loss attributable to shareholders | (108) | (8,940) | (17,895) |
| | | As at 30th September | |
| | 1999 | 2000 | 2001 |
| ASSETS AND LIABILITIES | | | |
| TOTAL ASSETS | 7 | 11,717 | 54,850 |
| TOTAL LIABILITIES | 115 | 10,765 | 4,503 |
| | (108) | 952 | 50,347 |

Notes –

- The Company was incorporated in the Cayman Islands on 15th January, 2001 and became the holding company of the Group on 28th February, 2001 as a result of the Group Reorganisation.
- The results for the period from 28th June, 1999 to 30th September, 1999 and for each of the two years ended 30th September, 2000 and 2001 and the assets and liabilities as at 30th September, 1999, 2000 and 2001 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence since 28th June, 1999.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the first annual general meeting of EVI Education Asia Limited (the “**Company**”) will be held at 14th Floor, Lippo House, Causeway Bay Plaza II, 463-483 Lockhart Road, Hong Kong on 30th November, 2001 at 4:00 p.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 30th September, 2001;
2. to re-elect directors and to authorise the board of directors to fix the directors’ remuneration;
3. to re-appoint auditors and to authorise the board of directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following Resolutions as ordinary resolutions:

4. “THAT:
 - (a) each of the shares of HK\$0.05 each (the “**Existing Shares**”) in the issued and unissued share capital of the Company be and it is hereby subdivided into five shares of HK\$0.01 each (the “**Subdivided Shares**”) with immediate effect; and
 - (b) the directors of the Company (the “**Directors**”) be and they are hereby authorised to do all such acts and things as they consider necessary or expedient in connection with the Share Subdivision.”
5. “THAT:
 - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the GEM (the “**GEM Listing Rules**”), the exercise by the directors of the Company during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for the shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as herein defined); or (ii) the exercise of any options granted under any share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of shares in lieu of the whole or part of a dividend on

Notice of Annual General Meeting

shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Subdivided Shares, shall not exceed the aggregate of:

(aa) 20 percent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

(bb) (if the directors of the Company are so authorised by a separate ordinary Resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 percent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purposes of this Resolution:

“**Relevant Period**” means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any other applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution;

“**Rights Issue**” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

6. “THAT:

- (a) the exercise by the directors of the Company during the Relevant Period (as herein defined) of all powers of the Company to purchase the shares in the Company on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the GEM Listing Rules and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 percent of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, “**Relevant Period**” means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association the Company, or any other applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.”

7. “THAT the directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 5 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.”

By order of the board of directors
EVI Education Asia Limited
Cheung Hon Fai, Maurice
Company Secretary

Hong Kong, 1st November, 2001

Notice of Annual General Meeting

Registered office:

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

**Head office and Principal place
of business in Hong Kong:**

14th Floor, Lippo House
Causeway Bay Plaza II
463-483 Lockhart Road
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.
3. In relation to proposed Resolutions nos. 5 and 7 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of shares under the GEM Listing Rules. The directors have no immediate plans to issue any new shares other than shares which may fall to be issued under any share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders.
4. In relation to proposed Resolution no. 6 above, the directors wish to state that they will exercise the powers conferred thereby to purchase Subdivided Shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the GEM Listing Rules is set out in the accompanying document.