



# Billybala Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*



**Third Quarterly Report 2003**

## **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 report 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.

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

## UNAUDITED THIRD QUARTERLY RESULTS

The board of directors (the "Board") of Billybala Holdings Limited (the "Company") announces the unaudited condensed consolidated profit and loss account of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2003 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
<b>TURNOVER</b>	2	<b>2,746,469</b>	54,753	<b>4,737,473</b>	90,322
<b>OTHER REVENUE</b>		<b>1,681</b>	44,771	<b>9,723</b>	181,319
<b>OTHER EXPENSES</b>					
Staff costs, including directors' remuneration		<b>(916,402)</b>	(1,338,603)	<b>(2,886,304)</b>	(3,598,203)
Depreciation		<b>(170,160)</b>	(80,444)	<b>(496,919)</b>	(234,340)
Royalties for game contents		<b>(289,623)</b>	(50,047)	<b>(770,755)</b>	(196,062)
Research and development costs		<b>(364,307)</b>	(657,438)	<b>(953,119)</b>	(767,473)
Marketing and promotion expenses		<b>(675,449)</b>	(149,518)	<b>(1,710,755)</b>	(285,399)
Other operating expenses		<b>(1,265,078)</b>	(1,054,313)	<b>(2,893,253)</b>	(2,727,791)
<b>LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION</b>		<b>(932,869)</b>	(3,230,839)	<b>(4,963,909)</b>	(7,537,627)
<b>FINANCE COST</b>	3	<b>(39,053)</b>	–	<b>(81,466)</b>	–
<b>LOSS BEFORE TAXATION</b>		<b>(971,922)</b>	(3,230,839)	<b>(5,045,375)</b>	(7,537,627)
<b>TAXATION</b>	4	–	–	–	–
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(971,922)</b>	(3,230,839)	<b>(5,045,375)</b>	(7,537,627)
<b>DIVIDENDS</b>	5	–	–	–	–
<b>LOSS PER SHARE</b>					
Basic	6	<b>HK0.22 cents</b>	HK0.73 cents	<b>HK1.15 cents</b>	HK1.71 cents

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Group reorganisation and basis of presentation and consolidation

#### *Group reorganisation*

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of shares of the Company's share on the GEM of the Stock Exchange on 13 December 2001, the Company became the holding company of the companies now comprising the Group on 24 September 2001. Further details of the Group Reorganisation are set out in the Company's prospectus dated 6 December 2001 (the "Prospectus").

#### *Basis of presentation and consolidation*

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with the Statement of Standard Accounting Practice No. 2.127 "Accounting for Group Reconstructions".

All significant transactions and balances among the companies comprising the Group are eliminated on consolidation.

### 2. Turnover

The Group's turnover for the periods represents the net invoiced value of services rendered.

An analysis of the Group's turnover is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2003 HK\$ (Unaudited)	2002 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2002 HK\$ (Unaudited)
Turnover (income from external customers):				
– Game-on-demand services income	1 10,635	54,753	287,142	90,322
– MMOG services income	141,959	–	356,456	–
– Licensed fee income	–	–	1,600,000	–
– Online Arcade Game machine income	2,493,875	–	2,493,875	–
	<u>2,746,469</u>	<u>54,753</u>	<u>4,737,473</u>	<u>90,322</u>

### 3. Finance Cost

	Three months ended 30 September		Nine months ended 30 September	
	2003 HK\$ (Unaudited)	2002 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2002 HK\$ (Unaudited)
Interest paid to ultimate parent enterprise	<u>39,053</u>	<u>–</u>	<u>81,466</u>	<u>–</u>

#### 4. Taxation

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the three months and nine month ended 30 September 2003 (three months and nine months ended 30 September 2002: Nil).

No PRC profits tax has been provided as the Group did not generate any assessable profits in PRC during the three months and nine month ended 30 September 2003 (three months and nine months ended 30 September 2002: Nil).

There was no material unprovided deferred taxation for the three months and nine months ended 30 September 2003 (three months and nine months ended 30 September 2002: Nil).

#### 5. Dividends

The Directors do not recommend the payment of any interim dividend in respect of the three months and nine months ended 30 September 2003 (three months and nine months ended 30 September 2002: Nil).

#### 6. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 September 2003 is based on the net loss attributable to shareholders of HK\$971,922 and HK\$5,045,375 respectively (three months ended and nine months ended 30 September 2002: HK\$3,230,839 and HK\$7,537,627 respectively) and the weighted average number of 440,000,000 ordinary shares in issue during the three months and nine months ended 30 September 2003 (three months and nine months ended 30 September 2002: 440,000,000 ordinary shares).

No diluted loss per share for the three months and nine months ended 30 September 2003 (three months ended and nine months ended 30 September 2002: Nil) have been presented because the share options outstanding had an anti-dilutive effect on the basic loss per share for these periods.

#### 7. Capital and reserves

	Share capital HK\$	Share premium account# HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2002	2,200,000	33,527,560	(15,580,349)	20,147,211
Loss for the nine months ended 30 September 2002	—	—	(7,537,627)	(7,537,627)
At 30 September 2002	<u>2,200,000</u>	<u>33,527,560</u>	<u>(23,117,976)</u>	<u>12,609,584</u>
At 1 January 2003	2,200,000	33,527,560	(28,338,501)	7,389,059
Loss for the nine months ended 30 September 2003	—	—	(5,045,375)	(5,045,375)
<b>At 30 September 2003</b>	<b><u>2,200,000</u></b>	<b><u>33,527,560</u></b>	<b><u>(33,383,876)</u></b>	<b><u>2,343,684</u></b>

# The share premium account of the Group includes the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group Reorganization as set out in note 1 over the nominal value of the share capital of the Company issued in exchange therefor.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

During the period under review, the Group has continued the establishment of a comprehensive game distribution network, both in Hong Kong and the People's Republic of China ("PRC"). The Group's Game-On-Demand (GOD) platform provides all-round game and entertainment contents including Online Arcade Game, Online PC Game, Massive Multi-player Online Game ("MMOG") and its newly introduced mobile entertainment. For the first nine months ended 30 September 2003, the Group has achieved an encouraging result in terms of its expansion of subscriber base and development of business network in both Hong Kong and the PRC.

The Group has recorded a turnover of approximately HK\$4,737,000 for the nine months ended 30 September 2003, representing an increase of approximately 52 folds from the corresponding period. Such growth was mainly attributable to the increase in the revenue derived from, namely (i) the income of Online Arcade Game machines developed by the Group and distributed in Hong Kong and Macau; (ii) the licensed fee income of the Group's MMOG in the PRC. The unaudited loss from operating activities before taxation for the period under review has decreased from approximately HK\$7,538,000 to approximately HK\$5,045,000, representing a decrease of approximately 33% over the corresponding period in the previous year. In addition, as compared with the unaudited second quarter 2003 results, net loss attributable to shareholders for the three months ended has decreased from approximately HK\$1,939,000 to approximately HK\$972,000.

### PRC

During the period under review, the Group has continued to strengthen the distribution network with the strategic alliances and distribution partners to reach over 23 million Internet users and over 1,400 Internet cafes in the PRC. A workshop in Nanjing was held in August 2003 to commence the operation to establish an information content delivering to the Internet Café network. In addition, [www.pilitiandi.com.cn](http://www.pilitiandi.com.cn), the game portal website jointly launched by the Group and Unionnet at the end of 2002, recorded increasing market acceptance and subscriber base within a few months of its operation. As at the end of September 2003, [www.pilitiandi.com.cn](http://www.pilitiandi.com.cn) has already attracted approximately over 70,000 subscribers. Moreover, the GOD platform, which shall be embedded in [www.chinagames.net](http://www.chinagames.net), a subsidiary of China Telecom, renowned as one of the biggest game portals in the PRC with 14 million subscribers, has undergone internal testing and service shall commence once the testing has been approved.

For enriching the contents on the GOD platform, the Group has started to aggregate the ringtone, logo, MMS logo, Java mobile games and SMS message download service to the GOD platform. The new website, WAP/GPRS server and infrastructure have currently undergone final testing by the technical department of the Company and strategic channel partners. The Group recognizes the popularity of mobile communication and delivering attractive mobile contents shall improve the competitive advantage and enhance the overall subscriber base of the information portal.

During the first nine months of 2003, the Group has focused its technical development work at two areas. The first one was to enhance the features and functions of its existing GOD platform. The enhanced GOD platform was delivered to the strategic partners in the PRC. The second one was to redevelop its existing iHorse 2 to be an online Arcade Game, namely "iHorse Arcade". The "iHorse Arcade" has distributed to Arcade Game centers in July 2003 and generated encouraging revenue to the Group.

### *Hong Kong*

The subscriber base recorded at [www.billybala.now.com.hk](http://www.billybala.now.com.hk) reached over 600,000 people, thanks to the vast diversity in the Group's product portfolio, which includes over 150 arcade games from Japan for its arcade game platform and 300 PC games for the respective GOD platform. At the same time, the Group's first horse racing on-line game series in Hong Kong, iHorse2 attracted over 6,000 subscribers due to its attractive pricing. In July 2003, the Group has rolled out the existing GOD platform to the general public of Hong Kong ("GOD open platform"). With strong marketing efforts in creating the brand awareness, the GOD open platform has reached a subscriber base of over 23,000 by the end of September 2003.

In July 2003, the Group entered into an agreement with a connected party and appointed it as an agent for the promotion and distribution of "iHorse Arcade", in Hong Kong and Macau. This agreement was approved by independent shareholders in the extraordinary general meeting of the Company held on 15 September 2003. Please refer to the Company's circular dated 29 August 2003 in respect of the continuing connected transactions for further details.

During the period under review, the Group has also introduced a comprehensive billing gateway to the GOD platform. Such billing gateway is designed and developed by a leading billing solution provider in Taiwan. The Group will continue to co-operate with this leading billing solution provider to establish a "state-of-the-art" payment solution to support the continuous expansion of contents by different providers in the GOD platform.

### *Japan*

The Group also launched iHorse 2 for its MMOG in Japan in May 2003 to attract a significant subscriber base from the vast gaming market in Japan. The subscriber base of iHorse 2 in Japan has reached over 1,000 in four months' time after it was launched. More than 10 ISPs in Japan have signed agreements to carry iHorse for their broadband subscribers.

### **Future outlook**

The Group aims to be one of the leading game platforms in the Greater China Region. The Directors consider that there are three key success factors for achieving such a goal. Firstly, the Group needs to offer a comprehensive platform with superb functions and features to its subscribers. Secondly, the GOD platform needs to provide a wide variety of games covering game players of different favors. Thirdly, the Group has to build up a strong distribution channel, in both physical and virtual presence, to target the game players in the PRC.

For the first point, the Group will continue to enhance the functions and features of the GOD platform. The latest GOD platform with MMOG components has delivered to PCCWIMS Limited in this quarter and is expected to be delivered to other strategic partners in the PRC in the later part of the year.

For the second point, the Group will continue to source quality games including Arcade Games, PC Games and MMOGs from its existing and new suppliers. Other than game contents, the Group has been successfully identified and licensed value added contents to its Internet café platform such as mobile entertainment. The licence of new contents shall continue and it is anticipated that more and more vendors or content providers will be willing to offer their contents on the platform. Subsequent to the success of the first online arcade game- iHorse Arcade, the Group has decided to develop the second online Arcade Game namely iQuiz. Currently iQuiz is undergoing

development and testing phase. It is expected that it shall be introduced to all Hong Kong Arcade Game centers in early December this year.

For the third point, the Group will commence the operation of the Internet Café project by delivering platform and services to the signed up Internet Café. By opening up the physical distribution channel of games in the PRC, together with the strong partnership relationship with existing ICP and ISP partners in the PRC, the Group shall enjoy the fruit of its hard work in the near future.

In addition, the Group shall remain focus on adopting a stable and effective overhead structure so as to maximize the profit margin. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated rapid growth of customers, maturity of the GOD platform and establishment of physical and virtual distribution network in the coming of the year.

### **Financial review**

The Group reported an unaudited turnover of approximately HK\$4,737,000 for the nine months ended 30 September 2003 (2002: approximately HK\$90,000), representing an increase of approximately 52 folds. Such growth was mainly attributable to the increase in the revenue derived from, namely (i) the distribution income of Online Arcade Game machines developed by the Group and distributed in Hong Kong and Macau; (ii) the licensed fee income of the Group's MMOG in the PRC.

The unaudited loss from operating activities before taxation for the nine months under review decreased from approximately HK\$7,538,000 to approximately HK\$5,045,000 over the corresponding period in the previous year, as the Group has allocated much time and resources into the establishment of new markets and new products compared with the same period in the previous year. Loss attributable to shareholders continued to narrow significantly compared with over the corresponding period in the previous year and with the unaudited second quarter 2003 results.

### **Liquidity and financial resources**

The Company was listed on GEM of the Stock Exchange through a placement of 110,000,000 shares. The net proceeds from the placement, after deductions for relevant expenses, were approximately HK\$16,300,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus dated 6 December 2001 and the announcement dated 4 March 2003 respectively. For the period under review, Poly Planning Limited, the ultimate parent enterprise of the Company made a loan of approximately HK\$2,500,000 to the Company. This loan is unsecured, interest bearing at prevailing market rate plus 1% per annum and not repayable within one year from the date of drawing. In addition, the immediate holding company, Romson Limited, has agreed to provide not less than HK\$2,500,000 or other funds to the Company and its subsidiaries immediately upon their written request. As at the date of this report, there is no drawing from the immediate holding company. Endorsed with external facilities and the internal generated working capital, the Directors anticipate that the Group should have adequate financial resources to meet its ongoing operations and development requirements. As at 30 September 2003, the Group had cash and cash equivalents of approximately HK\$1,460,000.



## Directors' interests in securities

As at 30 September 2003, the interests or short positions of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of Part VX of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Director is taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (c) were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Notes	Capacity/Nature of interests	Number of Shares Held		Approximately percentage of interests
			Long Position	Short Position	
Mr. Cheng Kar Shing	(a)	Corporate Interest	281,268,118	–	63.92%
Mr. Leung Wai Keung	(b)	Corporate Interest	14,658,362	–	3.33%
Mr. Fung Hoo Wing, Thomas	(c)	Corporate Interest	17,670,550	–	4.02%
Mr. Tung Wai Wa, Wallace		Personal Interest	4,909,290	–	1.12%
Mr. Li Ka Kui		Personal Interest	2,944,954	–	0.67%

### Notes:

- By virtue of Mr. Cheng Kar Shing's interest in Potassium Corp., a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheng Kar Shing, Mr. Cheng Kar Shing is deemed to be interested in the 39,268,118 shares, representing 8.92% in the Company, held by Potassium Corp. and the 242,000,000 shares held by Romson Limited, a wholly-owned subsidiary of Poly Planning Limited, which is owned as to 46.24% by Potassium Corp..
- These shares are held by Perfect Sun Development Limited, a company whose entire issued share capital is beneficially owned by Mr. Leung Wai Keung.
- These shares are held by Kateman International Limited, a company in which Mr. Fung Hoo Wing, Thomas owns a 33% equity holding.

Save as disclosed above, as at 30 September 2003, none of Director and chief executive, or their respective associates had any interest or short position in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of listed issuers as referred to Rules 5.40 to 5.58 of the GEM Listing Rules.

## Substantial shareholders' interest or short positions in shares and underlying shares of the Company

As at 30 September 2003, shareholders who had interests or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting or substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Notes	Number of Shares	Approximate percentage of interests
Potassium Corp.	(a)	281,268,118	63.92%
Mr. Cheng Kar Shing	(b)	281,268,118	63.92%
Poly Planning Limited	(c)	242,000,000	55.00%
Romson Limited	(d)	242,000,000	55.00%

### Notes:

- (a) Potassium Corp. is a limited liability company incorporated in the British Virgin Islands and is wholly owned by Mr. Cheng Kar Shing. Potassium Corp. is interested directly in 39,268,118 shares, representing 8.92% in the Company. By virtue of its 46.24% interests in Poly Planning Limited, Potassium Corp. is deemed to be interested in the 242,000,000 shares held by Romson Limited.
- (b) By virtue of his interest in Potassium Corp., Mr. Cheng Kar Shing is deemed to be interested in the 39,268,118 shares, representing 8.92% in the Company, held by Potassium Corp. and the 242,000,000 shares held by Romson Limited.
- (c) By virtue of its interest in Romson Limited, Poly Planning Limited is deemed to be interested in the 242,000,000 shares.
- (d) Romson Limited is an investment holding company incorporated in the British Virgin Islands all of whose issued shares are held by Poly Planning Limited, a company incorporated in the Hong Kong with limited liability.

Save as disclosed above, the Directors and chief executives of the Company were not aware of any person as at the 30 September 2003 had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO or, who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## Directors' rights to acquire shares

Pursuant to a pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, the Company had granted pre-IPO share options on the Company's ordinary shares in favour of certain of its Directors, details of which are as follows:

Name of director	Number of share options granted on 28 November 2001	Number of share options outstanding at 1 January and 30 June 2003	Exercise period of share options	Exercise price per share HK\$
Mr. Cheng Kar Shing	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Leung Wai Keung	7,920,000	7,920,000	14 December 2002 to 27 November 2011	0.24
	7,920,000	7,920,000	14 December 2003 to 27 November 2011	0.24
Mr. Li Ka Kui	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Ng, Kenny Chi Kin	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Fung Hoo Wing, Thomas	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24

The purpose of the Pre-Scheme was to recognise the contribution of the directors to the growth of the Group and/or the listing of the Company's shares on the GEM. The granting of the pre-IPO share options is limited to the Directors (excluding independent non-executive directors).

As the Company's shares have only been listed on the GEM since 13 December 2001, the Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the period because there would not be sufficient historical price performance data to produce reasonable valuations using commonly used methodologies.

None of these share options were exercised during the nine months ended 30 September 2003. As at 30 September 2003, the Company had 33,440,000 share options outstanding under the Pre-Scheme. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 33,440,000 additional shares of the Company of HK\$0.005 each.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the "Post-Scheme") was also approved by the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the terms of the Post-Scheme, the Board may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. No share options were granted by the Company under the Post-Scheme up to the date of approval of this report.

The Post-Scheme was amended and adopted by the shareholders in the annual general meeting of the Company held on 16 April 2003. The definition of eligible person in the Post-Scheme was extended to any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group.

Save as disclosed above, and other than in connection with the Group Reorganisation in preparation for the Company's placing, at no time since its incorporation was the Company, any of its holding companies or subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### **Competition and conflict of interests**

On 22 July, 2003, a wholly-owned subsidiary of the Company entered into a distribution agency agreement with a connected party which was appointed as a non-exclusive agent for the promotion and distribution of its Online Arcade Game machines in Hong Kong and Macau respectively. Such agreement was approved by independent shareholders in the extraordinary general meeting of the Company held on 15 September 2003. Please refer to the Company's circular dated 29 August 2003 in respect of the continuing connected transactions for further details.

Saved as disclosed above, as at 30 September 2003, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

### **Audit committee**

The Company established an audit committee with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises two members, Mr. Cheung Hon Kit and Mr. Ma Ching Nam, who are the independent non-executive Directors of the Company. The Group's unaudited results for the three months and nine months ended 30 September 2003 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complies with applicable accounting standards and requirements, and adequate disclosures have been made.

### **Sponsor's interest**

As at 30 September 2003, neither Tai Fook Capital Limited (the "Sponsor"), nor any of its 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 securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company of any members of the Group.

Pursuant to a Sponsor Agreement dated 5 December 2001 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 13 December 2001 to 31 December 2003.

### **Purchase, redemption or sale of listing securities**

The Company's shares were listed on the GEM on 13 December 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 30 September 2003.

### **Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 13 December 2001.

By Order of the Board  
**Cheng Kar Shing**  
*Chairman*

Hong Kong, 12 November 2003