



# Billybala Holdings Limited

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

**Interim Report 2002**



**BILLYBALA HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

**INTERIM RESULTS ANNOUNCEMENT**

**For the six months ended 30 June 2002**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the 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.

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*This announcement, for which the directors of BILLYBALA HOLDINGS LIMITED 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 announcement 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 document misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the date of its printing.*



**HIGHLIGHTS** Turnover for the six months ended 30 June 2002 was HK\$[35,569] Net loss attributable to shareholders amounted to HK\$[4,306,788] The board of directors of Billybala Holdings Limited does not recommend the payment of an interim dividend for the six months ended 30 June 2002

**UNAUDITED RESULTS**

The board of directors (the "Board") of Billybala Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 together with the comparative figures as follows. The condensed consolidated interim financial statements have not been audited but have been reviewed by the Company's auditors, Ernst and Young, in accordance with the Hong Kong Statement of Auditing Standards 700 "Engagements to Review Interim Reports" and the Audit Committee of the Company.

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

	Notes	Three months ended 30 June		Six months ended 30 June	
		2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
TURNOVER	4	27,686	-	35,569	-
Other revenue	4	74,197	45,016	136,548	45,016
Staff costs, including directors' remuneration		(1,237,153)	(408,908)	(2,259,600)	(822,115)
Depreciation		(69,830)	(42,527)	(153,896)	(77,862)
Royalties for game contents		(145,227)	-	(146,015)	-
Research and development costs		(51,035)	(1,367,460)	(110,035)	(1,564,813)
Marketing and promotion expenses		(127,533)	(33,800)	(135,881)	(33,800)
Other operating expenses		(987,694)	(597,269)	(1,673,478)	(1,453,286)
LOSS FROM OPERATING ACTIVITIES BEFORE TAX	5	(2,516,589)	(2,404,948)	(4,306,788)	(3,906,860)
Tax	6	-	-	-	-
LOSS BEFORE MINORITY INTERESTS		(2,516,589)	(2,404,948)	(4,306,788)	(3,906,860)
Minority interests		-	-	-	-
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(2,516,589)	(2,404,948)	(4,306,788)	(3,906,860)
DIVIDENDS	7	-	-	-	-
LOSS PER SHARE Basic (Hong Kong Cent)	8	0.57	0.66	0.98	1.07

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>30 June 2002 HK\$ (Unaudited)</b>	31 December 2001 HK\$ (Audited)
	Notes		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	9	796,602	903,464
<b>CURRENT ASSETS</b>			
Accounts receivable	10	18,608	100,966
Prepayments, deposits and other receivables		1,946,298	2,372,293
Pledged deposits	11	5,170,034	-
Cash and cash equivalents	11	9,028,226	20,202,468
		<u>16,163,166</u>	<u>22,675,727</u>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		1,119,197	3,431,832
		<u>15,043,969</u>	<u>19,243,895</u>
<b>NET CURRENT ASSETS</b>			
		<u>15,840,571</u>	20,147,359
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
MINORITY INTERESTS		148	148
		<u>15,840,423</u>	<u>20,147,211</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	12	2,200,000	2,200,000
Reserves		13,640,423	17,947,211
		<u>15,840,423</u>	<u>20,147,211</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(UNAUDITED)**

	Share capital HK\$ (note 12)	Share premium account# HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2001	1,817,900	8,182,100	(5,890,762)	4,109,238
Issue of shares of a subsidiary	-	5,000,000	-	5,000,000
Loss for the six months ended 30 June 2001	-	-	(3,906,860)	(3,906,860)
	<u>1,817,900</u>	<u>13,182,100</u>	<u>(9,797,622)</u>	<u>5,202,378</u>
At 30 June 2001	1,817,900	13,182,100	(9,797,622)	5,202,378
	<u>2,200,000</u>	<u>33,527,560</u>	<u>(15,580,349)</u>	<u>20,147,211</u>
At 1 January 2002	2,200,000	33,527,560	(15,580,349)	20,147,211
Loss for the six months ended 30 June 2002	-	-	(4,306,788)	(4,306,788)
	<u>2,200,000</u>	<u>33,527,560</u>	<u>(19,887,137)</u>	<u>15,840,423</u>
At 30 June 2002	2,200,000	33,527,560	(19,887,137)	15,840,423

#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 Reorganisation as set out in note 2 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	<b>Six Months ended 30 June 2002 HK\$</b>	Six Months ended 30 June 2001 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from operating activities before tax	<b>(4,306,788)</b>	(3,906,860)
Adjustments for:		
Interest income	<b>(136,548)</b>	(45,016)
Depreciation	<b>153,896</b>	77,862
Loss from operating activities before working capital changes	<b>(4,289,440)</b>	(3,874,014)
Decrease in accounts receivable	<b>82,358</b>	-
Decrease/(increase) in prepayments, deposits and other receivables	<b>425,995</b>	(304,141)
Increase in accrued liabilities and other payables	<b>(2,312,635)</b>	(62,827)
	<hr/>	<hr/>
Cash used in operations	<b>(6,093,722)</b>	(4,240,982)
Interest received	<b>136,548</b>	45,016
Tax paid	-	-
Net cash outflow from operating activities	<b>(5,957,174)</b>	(4,195,966)
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<b>(47,034)</b>	(46,501)
Advance to a related company	-	(2,550)
Net cash outflow from investing activities	<b>(47,034)</b>	(49,051)
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of shares by a subsidiary	-	5,000,000
Net cash inflow from financing activities	-	5,000,000
	<hr/>	<hr/>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of period	<b>(6,004,208)</b>	754,983
Cash and cash equivalents at end of period	<b>20,202,468</b>	2,649,781
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>14,198,260</b>	3,404,764
	<hr/> <hr/>	<hr/> <hr/>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>9,028,226</b>	3,404,764
Time deposit with original maturity of less than three months when acquired, pledged as security for a bank overdraft facility granted to the Group	<b>5,170,034</b>	-
	<hr/>	<hr/>
	<b>14,198,260</b>	3,404,764
	<hr/> <hr/>	<hr/> <hr/>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1 Corporate Information

The Company was a subsidiary of Romson Limited, a company incorporated in the British Virgin Islands, as at the balance sheet date. At 30 June 2002, the directors considered Poly Planning Limited, a company incorporated in Hong Kong, to be the Company's ultimate holding company.

During the six months ended 30 June 2002, the Group was engaged in the provision of Internet game platform licensing and game-on-demand services in Hong Kong.

### 2 Group reorganisation and basis of presentation

#### 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 Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (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 has been accounted for by the Company using the merger basis of accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

On this basis, the unaudited comparative figures for the six months ended 30 June 2001 included the results of all of the companies now comprising the Group as if the current Group structure had been in existence throughout the periods or since their respective dates of incorporation, where this was a shorter period.

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





## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 3 Principal accounting policies

#### *Adoption of revised SSAPs*

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2001, except that the Group has adopted certain revised SSAPs which are effective for accounting periods commencing on or after 1 January 2002. Comparative amounts for the prior period have been restated to conform with the current period's presentation.

The major impact on the financial statements after the adoption of the revised SSAPs is summarised as follows:

SSAP 1 (revised) "Presentation of financial statements" prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. As a result of the revision to SSAP 1, a statement of changes in equity is included on page 4, instead of a statement of recognised gains and losses, which was previously presented.

SSAP 15 (revised) "Cash flow statements" prescribes the provision of information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period into those from operating, investing and financing activities. The format of the cash flow statement as set out on page 5 has been revised in accordance with the revised SSAP 15.

#### *Basis of preparation*

The condensed consolidated interim financial statements have been prepared in accordance with SSAP 25 "Interim financial reporting" and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of Hong Kong Exchanges and Clearing Limited.



#### 4 Turnover and revenue

The Group's turnover for the periods represents the net invoiced value of services rendered, after allowances and discounts.

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

	Three months ended 30 June		Six months ended 30 June	
	2002 HK\$ (Unaudited)	2001 HK\$ (Unaudited)	2002 HK\$ (Unaudited)	2001 HK\$ (Unaudited)
Turnover (income from external customers):				
- Game-on-demand services income	27,686	-	35,569	-
Interest income	74,197	45,016	136,548	45,016
Total revenue	<u>101,883</u>	<u>45,016</u>	<u>172,117</u>	<u>45,016</u>

No further analyses of contributions to the operating results for the three months and six months ended 30 June 2002 and the assets and liabilities as at 30 June 2002 by business segment and by geographical market have been presented as the Group's principal activity solely related to the provision of game-on-demand services in Hong Kong during these periods.

No further analyses of contributions to the operating results for the three months and six months ended 30 June 2001 and the assets and liabilities as at 31 December 2001 by business segment and by geographical market have been presented as most of the Group's costs and expenses and assets and liabilities were unallocated.



## 5 Loss from operating activities before tax

Loss from operating activities before tax is arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2002 HK\$ (Unaudited)	2001 HK\$ (Unaudited)	2002 HK\$ (Unaudited)	2001 HK\$ (Unaudited)
Cost of services provided	531,271	189,466	871,277	455,080
Interest income	(74,197)	(45,016)	(136,548)	(45,016)

## 6 Tax

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 six month ended 30 June 2002 (three months and six months ended 30 June 2001: Nil).

## 7 Dividends

The directors do not recommend the payment of an interim dividend in respect of the three months and six months ended 30 June 2002 (three months and six months ended 30 June 2001: Nil).



## **8 Loss per share**

The calculation of basic loss per share is based on the net loss attributable to shareholders for the three months and six months ended 30 June 2002 of HK\$2,516,589 and HK\$4,306,788, respectively (three months ended and six months ended 30 June 2001: HK\$2,404,948 and HK\$3,906,860, respectively) and the weighted average number of 440,000,000 ordinary shares in issue during the three months and six months ended 30 June 2002 (three months and six months ended 30 June 2001: 366,666,000 ordinary shares). The weighted average number of shares used to calculate the prior period's loss per share includes the pro forma issued share capital of the Company of 366,666,000 deemed to have been in issue prior to the new issue of shares by way of placing as further described in the Prospectus. The weighted average number of shares used in the loss per share calculation for the three months and six months ended 30 June 2002 also includes the 73,334,000 shares issued by way of placing in connection with the public listing of the Company's shares on 13 December 2001.

No diluted loss per share amounts for the three months and six months ended 30 June 2002 have been presented because the share options outstanding had an anti-dilutive effect on the basic loss per share for these periods.

The diluted loss per share amounts for the three months and six months ended 30 June 2001 have not been presented since there were no potential ordinary shares in existence during the periods.



## 9 Fixed Assets

	Leasehold improvements HK\$	Furniture, fixtures and office equipment HK\$	Computer equipment HK\$	Total HK\$
Cost:				
At 1 January 2002	152,030	280,903	699,467	1,132,400
Additions	-	11,134	35,900	47,034
<b>At 30 June 2002 (Unaudited)</b>	<b>152,030</b>	<b>292,037</b>	<b>735,367</b>	<b>1,179,434</b>
Accumulated depreciation:				
At 1 January 2002	15,836	75,661	137,439	228,936
Provided during the period	53,844	28,716	71,336	153,896
<b>At 30 June 2002 (Unaudited)</b>	<b>69,680</b>	<b>104,377</b>	<b>208,775</b>	<b>382,832</b>
Net book value:				
<b>At 30 June 2002 (Unaudited)</b>	<b>82,350</b>	<b>187,660</b>	<b>526,592</b>	<b>796,602</b>
At 31 December 2001 (Audited)	136,194	205,242	562,028	903,464

## 10 Accounts Receivable

Other than the game platform licensing income, for which the payment terms are specified in the relevant agreements, game-on-demand services income is payable within 30 to 60 days.

An aged analysis of the accounts receivable is as follows:

	30 June 2002 HK\$ (Unaudited)	31 December 2001 HK\$ (Audited)
30 to 60 days	18,608	966
Over 60 days	-	100,000
	<b>18,608</b>	<b>100,966</b>

**11 Cash and Cash Equivalents and Pledged Deposits**

	<b>30 June 2002 HK\$ (Unaudited)</b>	31 December 2001 HK\$ (Audited)
Cash and bank balances	25,885	20,202,468
Time deposits	14,172,375	-
	<u>14,198,260</u>	<u>20,202,468</u>
Less: Pledged time deposits for a bank overdraft facility granted to the Group	(5,170,034)	-
	<u>9,028,226</u>	<u>20,202,468</u>

As at 30 June 2002, the Group has pledged its bank deposits of HK\$5,170,034 (31 December 2001: Nil) to secure a bank over draft facility granted to the Group. No bank overdraft was drawn down by the Group as at 30 June 2002 or during the six months then ended.

## 12 Share Capital

### Shares

	Notes	Number of shares		Nominal value of ordinary shares HK\$
		Ordinary shares of HK\$0.01 each	Ordinary shares of HK\$0.005 each	
<b>Authorised:</b>				
On incorporation	(i)	39,000,000	-	390,000
Increase in authorised share capital	(ii)	461,000,000	-	4,610,000
Change of nominal value of shares from HK\$0.01 each to HK\$0.005 each	(v)	(500,000,000)	1,000,000,000	-
<b>At 31 December 2001 and at 30 June 2002</b>		<b>-</b>	<b>1,000,000,000</b>	<b>5,000,000</b>
<b>Issued and fully paid:</b>				
On incorporation	(i)	1	-	-
On acquisition of e-gameasia.com Limited:				
- consideration shares	(iii)	181,789,999	-	1,817,900
- nil paid share credited as fully paid	(iii)	-	-	-
Pro forma issued share capital as at 31 December 2000		181,790,000	-	1,817,900
Issued and fully paid	(iv)	1,543,000	-	15,430
Change of nominal value of shares from HK\$0.01 each to HK\$0.005 each	(v)	(183,333,000)	366,666,000	-
New issue of shares by way of the placing	(vi)	-	73,334,000	366,670
<b>At 31 December 2001 and at 30 June 2002</b>		<b>-</b>	<b>440,000,000</b>	<b>2,200,000</b>

## 12 Share Capital (continued)

### Shares (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 5 September 2001 (date of incorporation of the Company) to 30 June 2002:

- (i) On 5 September 2001, the authorised share capital of the Company was HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, one share of which was allotted and issued nil paid on 12 September 2001.
- (ii) Pursuant to a written resolution of the sole shareholder of the Company passed on 19 September 2001, the authorised share capital of the Company was increased from HK\$390,000 to HK\$5,000,000 by the creation of an additional 461,000,000 shares of HK\$0.01 each.
- (iii) Pursuant to resolutions of the board of directors of the Company passed on 24 September 2001, the Company issued an aggregate of 181,789,999 shares of HK\$0.01 each credited as fully paid, and credited the one share issued nil paid on 12 September 2001 as fully paid as the consideration for the acquisition of the entire issued share capital of e-gameasia.com Limited ("e-gameasia"). The excess of the fair value of the shares of e-gameasia, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$4,953,503, was credited to the Company's share premium account.
- (iv) On 24 September 2001, the Company allotted 1,100,000 and 443,000 ordinary shares to an independent third party and a director of the Company at subscription prices of HK\$11,000 and HK\$20,000, respectively.
- (v) Pursuant to written resolutions of all the shareholders of the Company passed on 28 November 2001, each ordinary share of HK\$0.01 each in the authorised and issued share capital of the Company was subdivided into two shares of HK\$0.005 each.
- (vi) Pursuant to the listing of the Company's shares on the GEM on 13 December 2001, the Company issued 73,334,000 shares of HK\$0.005 each at HK\$0.30 per share to the public by way of placing for a total consideration of HK\$22,000,200 before issue expenses of HK\$5,962,540.





## 12 Share Capital (continued)

### Share options

- (i) On 28 November 2001, a share option scheme (the "Pre-Scheme") was approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme was to recognise the contribution of certain directors and employees of the Group to its growth.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period are subject to shareholders' approval in advance in a general meeting.

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to five executive directors and two non-executive directors to subscribe for a total of 44,000,000 shares, representing in aggregate approximately 10% of the then issued share capital of the Company immediately following the completion of the placing of shares, at a subscription price of HK\$0.24 each. No further share options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the share options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the share options granted may be exercised after the expiry of 24 months from 13 December 2001, and in each case, not later than 10 years from the date of grant of the share options. Each grantee has paid HK\$1 in total Company as consideration for such grant.

The Pre-Scheme remains in force for a period of 10 years with effect from 28 November 2001.

None of these share options were exercised during the six months ended 30 June 2002. Following the resignation of Mr. Derek Shuen Lee on 25 June 2002, 10,560,000 share options held by him were cancelled in accordance with the terms of the Pre-Scheme.

As at 30 June 2002, 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 for total proceeds before issue expense of HK\$8,025,600.

## 12 Share Capital (continued)

### Share options (continued)

- (ii) On 28 November 2001, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to grant share options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant share options to any full-time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-Scheme and other schemes by the Company must not exceed 30% of the shares in issue from time to time. A non-refundable nominal consideration of HK\$1 is payable by the grantee upon acceptance of a share option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The share options granted may be exercised at any time or times during a period of not less than three years to be notified by the board of directors and in any event not later than 10 years from the date of the grant of the share options. The Post-Scheme remains in force for a period of 10 years with effect from 28 November 2001.

No share options had been granted by the Company under the Post-Scheme up to the date of approval of this interim financial report.



### 13 Related Party Transactions

The Group entered into the following transactions with related parties during the period:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2002 HK\$ (Unaudited)	2001 HK\$ (Unaudited)	2002 HK\$ (Unaudited)	2001 HK\$ (Unaudited)
Consultancy fees paid	(i)	-	-	-	50,000
Development fees paid	(ii)	51,035	1,367,460	110,035	1,564,813
Consideration received for disposal of an unlisted short term investment	(iii)	-	-	-	1,505,000
Game-on-demand services income	(iv)	-	-	9,738	-

Notes:

- (i) Consultancy fees were paid to a law firm, of which Mr. Tam B Ray Billy, a beneficial shareholder of the Company, is a partner. The directors consider that the consultancy fees were charged on a basis similar to those charged by unrelated consultants of the Group.
- (ii) Development fees were paid to DeliriumCyberTouch (H.K.) Limited, a fellow subsidiary of Delirious Ventures Inc., a minority shareholder of the Group, for the design and development of a website and Internet game platform for the Group. The directors consider that the development fees were charged on a basis similar to those charged by unrelated website and platform developers of the Group.
- (iii) On 30 June 2001, the Group disposed of its entire interest in Faxon Limited and its arcade game centre business, to two related companies, of which a director of the Company is also a director, for a total consideration of HK\$1,505,000.

The directors consider that the consideration received represented the fair value of the investment as at the date of the disposal.



### 13 Related Party Transactions (continued)

(iv) On 6 September 2001, the Group entered into two agreements with two other related companies (the "Site Providers"), of which a director of the Company is also a director, whereby the Group agreed to provide each of the Site Providers two PC Module arcade game-on-demand machines and related technical support and maintenance services (the "Services"), for a term of 12 months in their arcade game centres. In consideration of the Services, each of the Site Providers agreed to share with the Group 50% of the gross revenue generated by the PC module arcade game-on-demand machines provided by the Group. The directors consider that such sharing of revenue was charged on a basis similar to those charged to unrelated arcade game centres.

### 14 Commitments

The Group leases its office properties under an operating lease arrangement for a term of two years.

The Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings as at the balance sheet date falling due as follows:

	<b>30 June 2002 HK\$ (Unaudited)</b>	31 December 2001 HK\$ (Audited)
Within one year	<u><b>74,808</b></u>	<u>299,232</u>

### 15 Post Balance Sheet Events

Subsequent to the balance sheet date, the Group entered into various agreements, contracts and memoranda of understanding with independent third parties to further pursue the Group's business of the game-on-demand services (the "Potential Deals"). As of the date of approval of this interim financial report, certain of the Potential Deals have not been concluded and/or, inter alia, the Group is still in negotiation with the relevant parties over the details of the implementation of the services. The Group therefore may or may not proceed with all of the Potential Deals. Should the Group proceed with all of the Potential Deals, based on the latest available information, the directors estimate that the Group's total investments therefrom will amount to approximately HK\$500,000.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

During the period under review, the Group continued in the development of the provision of Internet game platform licensing and game-on-demand ("GOD") services. Specifically, we focused on three areas, namely sourcing of new games, lease of a Personal Computer (PC) GOD platform and geographical expansion. The Group is pleased to report progresses in these areas.

The unaudited loss from operating activities before tax for the period under review increased from approximately HK\$3,906,860 to HK\$4,306,788 over the corresponding period in the previous year. The increase in loss was mainly due to the increase in royalties for game contents and staff costs, including directors' remuneration, in accordance with the increase in staff count from 10 to 19. Notwithstanding the above results, it has been our objective to adopt stringent cost control and maintain a thin but effective overhead structure.

The management continued to extend the game library's varieties in order to keep it updated and in line with our end users' preferences. Other than sourcing arcade games from our existing long term partner, Capcom Asia Co., Ltd, for our arcade GOD platform, we also explored business opportunities in the PC GOD and Massive Multiplayer Online Game ("MMOG") arenas. First of all, we are glad to announce that we have signed a cooperation agreement with a renowned American game developer. Under the agreement, we will be able to lease a PC GOD platform. We expect the first PC GOD platform to be launched in the second half of 2002 in Hong Kong. Second, we will commence operating our MMOG in the third quarter of 2002 in Hong Kong after getting the exclusive right of a popular game - Ihorse2.

In terms of geographical expansion, our target is to transplant our platform to other major cities in the People's Republic of China (the "PRC"). Towards this end, the Group signed three cooperation agreements with Internet content and service providers based in Shenzhen, Guangzhou and Shanghai, respectively. Arcade GOD services in Shenzhen will be launched in the nearest future. Currently, the Group has signed an agreement with 上海東方網股份有限公司. Under this agreement, the Group will provide the arcade GOD platform to over 100 Internet cafes in Shanghai. Arcade GOD services in Shanghai will be launched in the fourth quarter of 2002 and the directors expect to see revenue generation after its official launch.

During the period under review, the Group reported an unaudited turnover of HK\$35,569, after deducting all related fees, for the six months ended 30 June 2002 (2001: nil as our service was only launched in September 2001). The result was behind our expectations as stated in the Prospectus and we have reviewed our operations and technical support accordingly. The bottle-neck was due to compatibility and stability of our platform with other operating systems. With our dedicated technical staff, those problems have been overcome and solved in the second quarter in 2002. The directors expect our operating situation will turn around quickly after these technical adjustments.



## MANAGEMENT DISCUSSION AND ANALYSIS

In addition, Mr. Leung Wing Lun, Alan was appointed as the Chief Executive Officer of the Company in August 2002. Mr. Leung is an expert on Information Technology, Accounting and Finance. Prior joining the Company, Mr. Leung worked for several Big 4 consultancy firms specialized in the e-Business, Technology Integration and Customer Relationship Management. Mr. Leung graduated from University of London (UK) with a 1st Class Honor Degree in Computer Science. Afterwards, he completed a Master of Business Administration at City University, London (UK). The Board would like to take this opportunity to extend our warm welcome to Mr. Leung and we strongly believe that he will bring the Group to a new arena.

### Outlook

GOD is an innovative concept in Greater China and the Company will fully utilize its first mover advantage. According to the latest statistics, one in four Internet users in the PRC is a game player. We will leverage on the exponential growth of Internet users in Greater China and the popularity of online games among Internet users in the PRC to explore our business opportunities. The most recent detailed progress in our business development is as follows:-

#### a) PC GOD Platform and Game Sourcing

The Group leased a PC GOD platform from an United States ("US") company for the development of a PC GOD platform and streaming technologies. The platform has been moved to the trial stage from the testing stage. On the other hand, the Group leased from the US company more than 30 full version PC games. Firedog Computer Entertainment Ltd., a local self-developed game company, offered the Group three simplified Chinese games which can be deployed on the PC GOD platform in the PRC. The Group expects that PC GOD service will be launched in the second half of 2002.

#### b) Arcade Game Sourcing

In order to further strengthen our game capacity and diversify our sourcing channels, the Group signed several licence agreements with a game distributor in Japan during the period under review. This successfully increased our number of games in library from 62 to more than 100.



## MANAGEMENT DISCUSSION AND ANALYSIS

### c) MMOG

MMOG is one of the most popular online game categories in Greater China with significant growth potential. As our target market is the PRC as well as Greater China Region, the Company would like to explore this sector and further diversify our game types in order to fulfill Internet users' preference. Therefore, we commenced the feasibility study of operating MMOG in the first half of 2002. Simultaneously, the Group signed a cooperation agreement and jointly developed the MMOG platform with a partner. This undoubtedly speeded up the operations of MMOG.. Furthermore, the Group was also granted exclusive rights of a new MMOG known as "Ihorse2", which is a more advanced, sophisticated and entertaining version of Ihorse1. The previous version has over 1,000 existing members and the game content provider undertakes to transfer the members of Ihorse1 to Ihorse2. The Group also planned to expand the game into other versions in languages like English, Japanese and Korean, so as to further expand our platform to more Internet surfers. The MMOG platform is in the testing progress and such service is scheduled to be launched in third quarter of 2002. We expect that MMOG will be another star for the Group.

### d) Geographical Expansion

On the distribution side, besides allying with PCCW IMS Limited, a subsidiary of PCCW Limited in Hong Kong, the Group has also devised concrete plans to develop markets outside Hong Kong and to explore other revenue channels. For Greater China region, we signed an agreement in July 2002 to provide GOD arcade game and platform service in 星晨花園, a real estate developer in the PRC which has over 2,000 households. Agreements were also signed with ISPs and ICPs in China. The Group also signed agreements with two ICPs (深圳市深大長通通信服務有限公司, subsidiary of China Telecom, and 廣東盈信信息投資有限公司) during the period to provide our services in two major cities in the PRC, namely Shenzhen and Guangzhou. Negotiations in other major cities in China are underway and the Group will keep a close eye on Greater China, especially in major cities in the PRC such as Chengdu and Beijing.

Moreover, the Group is contemplating market development in Japan through licensing our GOD platform to one of our business partners, a Japanese game distributor which signed a cooperative agreement with more than 10 Japanese ISPs. Under this agreement, the Company would share the revenue with this partner while the game sourcing and daily operation will be handled by this partner.

We remain confident that through our dedication and efforts, we will become the leading arcade GOD service provider in Greater China region.



#### **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 intended to apply these proceeds in the manner disclosed in the Prospectus dated 6 December 2001. For the period under review, the Group financed its operation with its own listing proceeds and working capital and did not have any bank borrowings. Taking into consideration the existing financial resources available to the Group including the net proceeds from listing, it is anticipated that the Group should have adequate financial resources to meet its ongoing operations and development requirements.

#### **Employee information**

Currently, the Group has 17 full-time and 2 contracted employees working in Hong Kong. The total of employee remuneration, including that of directors and provident contributions, for the six months under review amounted to approximately HK\$2,259,600. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Pursuant to a pre-IPO share option scheme adopted by the Company on 28 November 2001, the Company had granted pre-IPO share options on the Company's ordinary shares in favor of five executive directors and two non-executive directors to subscribe for a total of 44,000,000 shares at an exercise price of HK\$0.24 each, representing, in aggregate, 10% of the then issued share capital of the Company immediately following the completion of the placing of shares on the GEM of the Stock Exchange. 50% of the share options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the share granted may be exercised after the expiry of 24 months from 13 December 2001 and in each case, not later than 10 years from the date of grant of the share options. No further options will be granted under the pre-IPO share option scheme after the listing of the shares.

None of these share options were exercised during the six months ended 30 June 2002. Following the resignation of Mr. Derek Shuen Lee on 25 June 2002, 10,560,000 share options held by him had been cancelled in accordance with the terms of the Pre-Scheme.

As at 30 June 2002, 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.

#### **Capital Structure**

The shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. There has been no change in the capital structure of the Company since the Company's listing on that date.





### **Significant investments**

For the six months ended 30 June 2002, the Group had no significant investments.

### **Material acquisition and disposals / future plans for material investments**

The Group had no material acquisitions or disposals during the six months ended 30 June 2002. It has no plans for material investments or capital assets other than those set out in the Prospectus dated 6 December 2001.

### **Segmental information**

Details have been set out in Note 4 under "Notes to the condensed financial statements" and further elaborated under "Business review" of this section.

### **Charge on group assets and contingent liabilities**

As at 30 June 2002, the Group has pledged its bank deposits of HK\$5,170,034 (31 December 2001: Nil) to secure a bank overdraft facility granted to the Group. No bank overdraft was drawn down by the Group as at 30 June 2002 or during the six months then ended.

Saved as above, the Group did not have any significant contingent liabilities as at 30 June 2002.

### **Gearing Ratio**

As at 30 June 2002, the Group had cash and cash equivalents of around HK\$9,028,226 in its current assets while its current liabilities stood at around HK\$1,119,197. The Group did not have any long-term debts as of 30 June 2002 and its shareholders' funds amounted to about HK\$15,840,423. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as of 30 June 2002.

### **Exposure to fluctuations in exchange rates**

Sales of the Group are denominated in Hong Kong dollars and payment of royalties for game contents of the Group denominated in United States dollars. No hedging or other alternatives have been implemented.

**COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2002**

<b>Milestones (as per Prospectus)</b>	<b>Actual Progress</b>
1. Offer arcade GOD platform to non-www.now.com.hk subscribers	A slow down in Hong Kong economy has affected the Group's offering of arcade GOD platform to non-www.com.hk subscribers
2. Operate arcade GOD service at more than seven arcade game centres in Hong Kong	Placed two arcade GOD machines at two arcade game centres in Hong Kong. The reason of such progress is that market response of our GOD platform indicating a need of enhancement. Therefore, we improve the compatibility and stability of our GOD in order to meet the requirement of the market and such problems are overcome and solved in second quarter of 2002
3. Implement other payment gateways in the GOD platform	Due to arcade GOD technology problem, other payment gateways in the GOD platform were suspended and recommenced in the second half of 2002
4. Continue coding and development, data compression and perform system test on the PC GOD platform	As PC GOD platform was leased, coding and development, data compression and system test were being processed
5. Continue negotiation with a major game portal site in the PRC in relation to content cooperation	Negotiated with other major game portal sites in over 10 cities in the PRC to enhance cooperation
6. Acquire additional computer equipment and servers for the PC GOD platform	Acquired two computer equipment and one server for the PC GOD platform
7. Establish credit card and mobile phone payment gateway in Hong Kong	Discussion in progress with PCCW IMS Limited for credit card and mobile phone payment gateway in Hong Kong  Discussion in progress with a online payment gateway company in Hong Kong
8. Maintain up to 100 arcade games in the platform's library	Had more than 100 arcade games in the platform's library  Continued to source upcoming arcade games from well-known arcade game developers
9. Source up to 30 PC games form game suppliers	Had more than 30 PC games in the reservation for putting into the platform  Continued to source upcoming PC games from well-known PC game developers



## RESEARCH AND DEVELOPMENT

Milestones (as per Prospectus)	Actual Progress
1. Continue research and development on the arcade and PC GOD platform	<p>As a more cost effective and efficient way, the Group has leased a PC GOD platform from a US company instead of developing the entire platform by ourselves. As PC GOD platform was leased, coding and development, data compression and system test were being processed</p> <p>An enhancement of compatibility and stability of the arcade GOD platform with other operating systems has been implemented</p>
2. Continue research and development on the applications streaming technology for the GOD platform	The US company provided such streaming technology for the PC GOD platform



## BRAND BUILDING AND MARKETING

<p>1. Continue marketing campaign of the arcade GOD service in Hong Kong (distribution of poster, flyers, coupons, pamphlets and brochures)</p>	<p>Continued joint marketing efforts including placing advertisement in game magazines to promote co-brand name "billybala.now.com.hk"</p> <p>Direct mailing booklets and leaflets to PCCW NOW subscribers</p> <p>On-line advertising and promotion on some game portals, ICPs, ISPs and newspaper websites</p> <p>Promotion on front page of business partner's website such as PCCW NOW</p> <p>Lucky Draw was held in June 2002 to promote arcade GOD service</p> <p>Sponsored game technology conference 2002 which is held in Hong Kong in January 2002</p>
<p>2. Perform road show on the arcade GOD service in Hong Kong</p>	<p>Road shows and joint marketing programs were held in major shopping malls in Causeway Bay in Hong Kong</p>
<p>3. Place advertisement in game magazines in Hong Kong</p>	<p>Booklets and leaflets are placed in more than 80 retail shops of a local leading mobile phone operator for joint promotion of arcade GOD services in Hong Kong</p> <p>Advertorial was published in one local game magazine in June 2002 together with business partners in Hong Kong</p>
<p>4. Continue television commercial in Hong Kong</p>	<p>Continued television commercials in Hong Kong television channel in January 2002</p>

**USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES FOR THE PERIOD FROM 13 DECEMBER 2001 TO 30 JUNE 2002**

The net proceeds raised from the initial listing of the shares of the Company on GEM on 13 December 2001 were approximately HK\$16,300,000. Details of the utilization of fundings from the actual net proceeds of issuance of new shares versus that envisaged in the Prospectus are as follows:

	<b>Proposed total funding required from net proceeds</b>	<b>Actual funding spent during the period</b>
	HK\$	HK\$
Use of Proceeds		
Product development and service enhancement	4,500,000	741,000
Brand building and marketing	1,500,000	177,000
Research and development	4,100,000	156,000
Acquisition of computer equipment and servers	3,800,000	36,000
Working Capital	2,400,000	2,400,000
	<hr/>	<hr/>
Total	16,300,000	3,510,000
	<hr/> <hr/>	<hr/> <hr/>

The reason for the shortfall of actual funding spent on product development and service enhancement is that the Group paid less license fee to game content providers and granted more number of games but adopted revenue sharing with the game content providers.

The reason for the shortfall of actual funding spent in brand building and marketing is due to the fact that the economy of Hong Kong has not been recovered. The Group considers that retention of resources in brand building and marketing for future use is a better endeavor.

The reason for the shortfall of actual funding spent in research and development is that the Group considers that the lease of a PC GOD platform from external party and the joint development of MMOG are a more cost effective and efficient way as compared to the self-development of those platforms.

The reason for the shortfall of actual funding spent in acquisition of computer equipment and servers is that the Group considers that the existing capacity of computer equipment and servers already served the existing usage.



### Directors' interests in shares

As at 30 June 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations as recorded in the register of the Company required to be kept under Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors of listed issuer as referred to in rule 5.40 of the GEM Listing Rules are set out below:

Name of director	Notes	Number of shares held	
		Corporate interest	Personal interest
Mr. Cheng Kar Shing	( a )	281,268,118	-
Mr. Leung Wai Keung	( b )	14,658,362	-
Mr. Fung Hoo Wing, Thomas	( c )	17,670,550	-
Mr. Tung Wai Wa, Wallace		-	4,909,290
Mr. Li Ka Kui		-	2,944,954

#### Notes:

- (a) 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 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..
- (b) These shares are held by Perfect Sun Development Limited, a company whose entire issued share capital is beneficially owned by Mr. Leung Wai Keung.
- (c) These shares are held by Kateman International Limited, a company in which Mr. Fung Hoo Wing, Thomas owns a 33% equity holding.

In addition the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.



### Substantial shareholders

As at 30 June 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Notes	Number of shares held	Percentage of holding
Potassium Corp.	( a )	281,268,118	63.9%
Mr. Cheng Kar Shing	( b )	281,268,118	63.9%
Poly Planning Limited	( c )	242,000,000	55.0%
Romson Limited	( d )	242,000,000	55.0%

### Notes:

- (a) Potassium Corp. is a limited liability company incorporated the British Virgin Islands and is wholly owned by Mr. Cheng Kar Shing. Potassium Corp. is interested directly in 39,268,118 shares following the completion of the placing. By virtue of its 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 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.

The substantial shareholdings are duplicated in the directors' interests in shares disclosed above.

Save as disclosed above, no person, other than the directors whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance as at 30 June 2002.

**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	Exercise period of share options	Exercise price per share HK\$
Mr. Cheng Kar Shing	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Leung Wai Keung	7,920,000	14 December 2002 to 27 November 2011	0.24
	7,920,000	14 December 2003 to 27 November 2011	0.24
Mr. Li Ka Kui	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Ng, Kenny Chi Kin	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Fung Hoo Wing, Thomas	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	14 December 2002 to 27 November 2011	0.24
	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 six months ended 30 June 2002. Following the resignation of Mr. Derek Shuen Lee on 25 June 2002, 10,560,000 share options held by him had been cancelled in accordance with the terms of the Pre-Scheme.

As at 30 June 2002, 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 of directors 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.

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 Company's 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**

As at 30 June 2002, 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 six months ended 30 June 2002 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 the adequate disclosures have been made.

#### **Sponsor's interest**

As at 30 June 2002, 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 June 2002.

#### **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, 14 August 2002**