



Billybala Holdings Limited

(incorporated in the Cayman Islands with limited liability)



Annual Report 2002



<http://www.pilitiandi.com.cn>

An online game portal jointly promoted with Unionnet, offering over 300 online games to internet users in mainland China.



<http://actionbase.pilitiandi.com.cn>

A PC Game platform promoted by Billybala, using broadband streaming and cache technology and offers 250 personal computer games to internet and internet café users.



<http://billybala.eastday.com>

An online game platform jointly promoted with Eastday in Shanghai, offering online game service to internet and internet café users in Shanghai.



<http://www.billybala.edu.cn>

An online game platform jointly promoted with Cernet Educational Network, offering online game service to university and secondary students all over mainland China



<http://billybala.chinacfc.com>

An online game platform jointly promoted with Nanjing Sainty, offering online game service to internet and internet café users in Nanjing, Chengdu, Chongqing and Sichuan provinces.



<http://billybala.ehomenet.com>

An online game platform jointly promoted with Guangdong e-Home, offering online game service to broadband enabled estates in Guangdong province.



<http://billybala.now.com.hk>

An online game platform jointly promoted with www.now.com.hk, a value-added service of PCCW, offering online game service to NETVIGATOR access subscribers in Hong Kong.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cheng Kar Shing
Mr. Leung Wai Keung
Mr. Ng, Kenny Chi Kin
Mr. Li Ka Kui

Non-executive Directors

Mr. Fung Hoo Wing, Thomas
Mr. Tung Wai Wa, Wallace

Independent non-executive Directors

Mr. Cheung Hon Kit
Mr. Ma Ching Nam

REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Registered office

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

Head office and principal place of business

20th Floor, 10 Knutsford Terrace,
Tsim Sha Tsui,
Kowloon, Hong Kong

WEBSITE ADDRESS

www.billybala.com

COMPANY SECRETARY

Mr. Wong Hon Kit, AHKSA

COMPLIANCE OFFICER

Mr. Ng, Kenny Chi Kin

QUALIFIED ACCOUNTANT

Mr. Wong Hon Kit, AHKSA

AUDIT COMMITTEE

Mr. Cheung Hon Kit
Mr. Ma Ching Nam

AUTHORISED REPRESENTATIVES

Mr. Leung Wai Keung
Mr. Ng, Kenny Chi Kin

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Wing Hang Bank Limited
Citic Ka Wah Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

STOCK CODE

8117

CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

SPONSOR

Tai Fook Capital Limited

AUDITORS

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Tengis Limited
Ground Floor, Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

CHAIRMAN'S STATEMENT

It is my pleasure to present the annual results of Billybala Holdings Limited ("Billybala" or the "Company"), together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2002. 2002 was a year of aggressive foundation building to pave the way for a sturdy business network and a smooth future development for Billybala. During the year under review, not only did the Group commenced operation of its Massive Multi-player Online Game ("MMOG") in Hong Kong, but more importantly, it also further expanded upon its already extensive product range and successfully penetrated into the burgeoning PRC market.

FINANCIAL HIGHLIGHTS

The Group recorded a total revenue of HK\$210,597 for the year ended 31 December 2002. The income was derived from licensing game platform in Hong Kong and from shared revenue of providing Game-On-Demand ("GOD") and the service charge of iHorse series, the first MMOG acquired by Billybala. The Group adopted a stringent cost control policy to manage its overheads including operation, administration, human resources and marketing expenses. Given that the Group was still in its infant stage and incurred significant operating expenses and administration cost to establish new markets, a net loss of HK\$12,785,152 was recorded. To further minimize operating costs, directors' remuneration will be waived in the coming year. The Group maintained its liquidity level at approximately HK\$6,359,453 in cash and bank balance and had no outstanding bank borrowings as at 31 December 2002.

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2002.

BUSINESS REVIEW

The combination of robust economic development and a population of 1.3 billion people have made the PRC into one of the most pivotal markets in the world for growth and business success. During the year under review, the Group committed much effort into developing its business in the PRC market as well as to enhance its presence and brand recognition. As at 31 December 2002, the Group has successfully expanded its products and services into Hong Kong and the PRC in delivering its GOD platform, consists of MMOG, PC games, arcade games as well as entertainment and information content to satisfy the gaming demand of the enormous market.

Leveraging on its first mover advantage to offer GOD platform in Hong Kong, the Group joint hands with PCCW IMS Limited a subsidiary of Pacific Century CyberWorks Limited to launch the co-branded website, www.billybala.now.com.hk. At the same time, Billybala also launched various GOD platforms with reputable Internet portals and internet service providers in the PRC to provide game services to their existing subscribers and the extensive Internet Cafes network. Our new GOD platforms, "Dong Fang Pi Li" (東方霹靂), "Pi Li Tian Di" (霹靂天地), "Xiao Yuan Pi Li" (校園霹靂), "E-home Pi Li" (e家霹靂) and "Pi Li Shi Kong" (霹靂時空) were launched in 2002 to satiate the demands and fervors of the gamers, regardless of age and demographics, location and time.

This is only the beginning of concerted efforts to realize our full-fledged expansion into the PRC. During the year under review, we signed cooperation agreements with a number of Internet portals and Internet service provider in major PRC cities, Xiao Yuan Pi Li (校園霹靂) including CERNET in Beijing to deliver our games through www.cer.net (中國教育在綫) for internet gamers in school campus, Union Net in Shanghai, another game portal (霹靂天地) targeting gamer community throughout China; 深大長通 in Guangdong and Jiangsu Sianty (南京舜連) in Nanjing, etc. These contracts are effectively extending our platforms to over 23 million users nationwide and generating a steady revenue stream and business opportunities for the Group.

CHAIRMAN'S STATEMENT

In addition to enhancing our GOD platform with more than 150 arcade games and more than 150 PC games, we also launched "iHorse2" during the year under review as our very first in house developed MMOG game. Eyeing its vast potentiality and steady customer base of over 4,000 in Hong Kong, "iHorse2" to become another major income contributor for the Group.

During the year under review, Mr. Alan Leung was appointed as the new Chief Executive Officer of the Group. Leveraging on his expertise on IT management and business network in the PRC, Billybala's market plan for expansion was further enhanced and accelerated.

PROSPECTS

The online game market stands out as one of the most prosperous and promising markets among all Internet related business. Together with the surging number of Internet users and online game players in Asia, especially in the PRC, the market potential is definitely enormous.

Leveraging on this favorable environment, Billybala will continue to enhance the content and features of its GOD platform to service the rising number of Internet users in the PRC through our allied internet portals and internet service providers.

As MMOG is gaining popularity and wide market acceptance in Greater China Region, the Group will allocate aggressive efforts to source and develop MMOG in the coming future. Our aim is to expand new game inventory to satisfy the market demand, expand upon the existing client base as well as to stay abreast of customers' needs and wants.

The Group will continue to strengthen the alliance relationship with strategic partners in the region and continue to expand its extensive distribution network virtually over the internet and physically with Internet cyber cafes.

With a clear positioning and our first mover advantage, coupling with a team of talented professionals, Billybala is confident that it will become the major player and winner in this blooming online game market.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude to our shareholders for their tremendous support and to our management and staff for their dedication and contribution in the past year. After a year of concerted efforts to pave the way for a smooth development, the coming years will be harvest time for both the Group and its shareholders.

Cheng Kar Shing

Chairman

Hong Kong, 21 March 2003

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress as measured against the statement of business objectives set out in the prospectus of the Billybala Holdings Limited (the "Company") dated 6 December 2001 from 1 July to 31 December 2002. Management of the Company and its subsidiaries (collectively referred to as the "Group") reviews business objectives and strategies on an ongoing basis and makes adjustments as necessary.

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS DURING THE PERIOD FROM 1 JULY TO 31 DECEMBER 2002
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I. Product Development and Service Enhancement

- | | |
|---|---|
| <ul style="list-style-type: none"> - Commence operation of arcade and PC GAME-ON-DEMAND platform in Hong Kong and the PRC | <ul style="list-style-type: none"> - Successfully launched operation of arcade and PC GAME-ON-DEMAND platform in Hong Kong and the PRC respectively. |
| <ul style="list-style-type: none"> - Operate arcade and PC GAME-ON-DEMAND service at more than 10 arcade game centers in Hong Kong | <ul style="list-style-type: none"> - Successfully placed eight arcade GAME-ON-DEMAND machines at six arcade game centers in Hong Kong. - Additional 3 arcade GAME-ON-DEMAND machines at 3 arcade game centers will be placed in 2nd Quarter 2003 in Hong Kong. Due to the market situation, the Directors consider it appropriate to adjust the pace of launching these machines to the arcade games centers. |
| <ul style="list-style-type: none"> - Implement video conferencing feature to the game-on-demand platform | <ul style="list-style-type: none"> - After careful evaluation, the Directors consider such feature will be too costly to implement at this stage of the Group's game-on-demand platform development. The Directors may re-evaluate the situation at a due course. |
| <ul style="list-style-type: none"> - Perform alpha test on the PC GAME-ON-DEMAND platform | <ul style="list-style-type: none"> - Successfully, completed alpha test on the PC GAME-ON-DEMAND platform |
| <ul style="list-style-type: none"> - Perform beta test on the PC GAME-ON-DEMAND platform | <ul style="list-style-type: none"> - Successfully, completed beta test on the PC GAME-ON-DEMAND platform |
| <ul style="list-style-type: none"> - Secure contract with a game portal site in the PRC in relation to content cooperation | <ul style="list-style-type: none"> - Successfully signed contracts with 6 portal sites in the PRC in relation to content cooperation. |
| <ul style="list-style-type: none"> - Establish prepaid card and credit card payment gateway in PRC | <ul style="list-style-type: none"> - Successfully established prepaid card payment gateway in the PRC. Since credit card is still not very popular in the PRC, the Directors will reconsider the feasibility in credit card payment gateway in the PRC. |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS (continued)

ACTUAL BUSINESS PROGRESS DURING THE PERIOD FROM 1 JULY TO 31 DECEMBER 2002 (continued)

1. Product Development and Service Enhancement (continued)

- | | |
|---|--|
| <ul style="list-style-type: none"> – Establish other direct payment gateways in the PRC – Maintain up to 110 arcade games in the platform's library – Source up to 40 PC games form game suppliers | <ul style="list-style-type: none"> – Successfully established SMS payment gateway in the PRC. – Currently maintain over 150 arcade games in the arcade GAME-ON-DEMAND platform's library – Currently maintain more than 150 PC games in the PC arcade GAME-ON-DEMAND platform's library |
|---|--|

2. Research and Development

- | | |
|---|--|
| <ul style="list-style-type: none"> – Complete development and testing of the PC GAME-ON-DEMAND platform – Continue research and development on the applications streaming technology for the GAME-ON-DEMAND platform – Look for new payment gateway via new media – Perform research on game popularity through attending international game show – Perform research and development on controlling device for arcade and PC GAME-ON-DEMAND platform | <ul style="list-style-type: none"> – The Group has leased a PC GAME-ON-DEMAND platform from a US company instead of developing the entire platform by itself under cost consideration. – The above-mentioned US company provided such streaming technology for the Group's PC GAME-ON-DEMAND platform – SMS payment gateway has successfully been launched – As the game market is pushing towards a new era of games, the Group launched its MMOG to cope with the demand of the market. A team of senior management members, Chief Technical Officer and Chief Executive Officer, attended a MMOG Game Show in South Korea in December 2002 – Research on controlling device for arcade and PC GAME-ON-DEMAND platform with joystick and steering wheel have been performed and the results are satisfactory. |
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COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS (continued)

ACTUAL BUSINESS PROGRESS DURING THE PERIOD FROM 1 JULY TO 31 DECEMBER 2002 (continued)

3. Brand Building and Marketing

- | | |
|---|--|
| <ul style="list-style-type: none"> – Launch marketing campaign of the arcade and PC GAME-ON-DEMAND service in major cities of the PRC including Guangzhou, Shanghai and Beijing (distribution of poster, flyers, coupons, pamphlets and brochures) – Perform road show of the arcade and PC GAME-ON-DEMAND service in major cities of the PRC including Guangzhou, Shanghai and Beijing – Place advertisement in game magazines in the PRC – Continue television commercial in Hong Kong – Launch television commercial in the PRC | <ul style="list-style-type: none"> – Launched marketing campaign of the arcade and PC GAME-ON-DEMAND service in major cities of the PRC including Shanghai, Guangzhou and Shenzhen (distribution of poster, flyers, coupons, pamphlets and brochures) – Performed road show of the arcade and PC GAME-ON-DEMAND service in major cities of the PRC including Shanghai, Guangzhou and Shenzhen – Placed advertisement in game magazines such as 電腦商情報, 電腦樂園遊戲攻略, 大眾軟件 in the PRC – Under the current cost control campaign, the Directors consider placing television commercials in Hong Kong too costly at this stage of the Group's business development. – Under the current cost control campaign, the Directors consider placing television commercials in the PRC too costly at this stage of the Group's business development. |
|---|--|

4. Human Resources

Management	5	Management	5
Finance and administration	5	Finance and administration	4
Business development and marketing	12	Business development and marketing	12
Technical and research and development	14	Technical and research and development	12
	36		33

USE OF PROCEEDS

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:

	Jan to June 2002 stated in Prospectus	Actual Spending during the period	July to December 2002 stated in Prospectus	Actual Spending during the period
<i>Use of Proceeds</i>				
Product development and service enhancement	4,500,000.00	741,000.00	–	755,000.00
Brand Building and marketing	1,400,000.00	177,000.00	–	1,232,000.00
Research and development	3,000,000.00	156,000.00	–	973,000.00
Acquisition of computer equipment and servers	3,800,000.00	36,000.00	–	692,000.00
Working Capital	1,200,000.00	1,200,000.00	–	1,200,000.00
Total	<u>13,900,000.00</u>	<u>2,310,000.00</u>	<u>–</u>	<u>4,852,000.00</u>

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 by adopting revenue sharing model with the game content providers resulting in more number of games are granted.

Furthermore, there is a change of use of proceeds that HK\$1,321,000 will be reallocated to capital injection in the formation of a sino-foreign equity joint venture in Nanjing, the PRC.

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

The reason for the shortfall of actual funding spent on acquisition of computer equipment and servers is that the Group considers that the existing capacity of computer equipment and servers are adequate to serve the existing usage.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Group is committed to becoming a leading online arcade game, PC game and MMOG content provider in the Greater China Region. During the year under review, the Group focused on paving the way for a sturdy business network and for a full-fledged penetration into the PRC market by establishing synergistic cooperation with quality Internet portals and Internet service providers in the PRC, while also further cementing its business development in the Hong Kong market.

After a year of aggressive product development, Billybala has now accumulated an extensive product portfolio to satisfy the various demands and preferences of its gaming customers. At present, the Group has over 150 arcade games from Japan for its arcade game-on-demand ("GOD") platform, over 100 PC games for its PC platform, Necropolis and iHorse2 for its MMOG and also a children education portal, iFunCity.

During the year, Billybala has appointed Mr. Alan Leung as Chief Executive Officer responsible for the overall strategic planning and business development of the Group. With his expertise and professional experience, the Board believes that Mr. Leung will help to capture more opportunities in the Greater China Region.

HONG KONG

Renowned for its first mover advantage to offer arcade and PC GOD service in Hong Kong, the Group has cooperated with PCCW IMS Limited, a subsidiary of Pacific Century CyberWorks Limited to launch the co-branded website, billybala.now.com.hk and has accumulated a customer base of 600,000 subscribers. Subscribers can choose from the existing over 100 different arcade games payable on the GOD platform. These games offer a variety of themes, including maze, fighting, sports, racing, action, shooting or puzzle games.

During the year under review, Billybala acquired "iHorse2", the first horse racing on-line game series in Hong Kong, which has been improved and made more user friendly than its earlier version. "iHorse2", licensed for the Group's MMOG platform, requires only simple registration and download process. With an attractive service charge of HK\$100 for 3 months, iHorse2 has attracted over 4,000 payable subscribers as at 31 December 2002.

PRC

The Group committed unrelenting efforts to establishing strategic alliances with numerous Internet portal and Internet service provider in the PRC for its arcade and PC games, including Chinagames.net, Eastday, Unionnet, Cernet, Jiangsu Sainty as well as e-Home with altogether over 23 million users and over 1,400 Internet cafés throughout the PRC.

Billybala Software (Shenzhen) Limited, a wholly indirect foreign-owned enterprise established in the PRC to be operated for 10 years up to December 2012, responsible for the sales and development of software in the PRC.

During the year under review, the Group has also cooperated with Unionnet and jointly developed a game portal website, www.pilitiandi.com.cn(霹靂天地), which was launched in November 2002. "Dong Fong Pi Li"(東方霹靂), another game portal website, was jointly developed and launched with Eastday, a first tier Internet portal in the PRC based in Shanghai in October 2002. Furthermore, the Group Delivered Internet games through "中國教育在綫" www.cer.net in school campus and "e-Home Pi Li" (e家霹靂) to estates in Guangdong province. In addition, the Group shall launch the services with chinagame.net in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

By establishing synergistic collaboration with strategic PRC partners to distribute its diversified product range, the Group can have access to an Internet gamer population of 23 million in the PRC and expand the coverage to a total Internet gamer population of 59 million in the near future.

LAUNCH OF PC GOD PLATFORM (動感機地)

During the year of review, the Group had identified the necessary technology in offering PC game on-line streaming technology to its existing PC GOD platform. Thus, the Group has completed the development of its PC GOD platform (動感機地) and is ready to launch at its own Internet game portal 霹靂天地. The Group envisages that the GOD platform can be licensed to other strategic partners in the PRC for further enhancement and development.

OUTLOOK

Continue enriching the game content, to be the leading online game content provider in the region

Billybala has strived to consolidate its leading position in online game industry in the Greater China Region and become one of the largest online game content providers in the PRC. To achieve this mission, the Group will continue to strengthen the relationship with game developers, distributors, content providers and other business partners. The Group also aims to improve its business model by acquiring more arcade games, PC games and MMOG from famous game developers in the region to enhance quality of contents provided to customers.

New GOD platform

The Group has been developing a new GOD platform for both Hong Kong, Japan and the PRC market, with expected launch dates from April to May 2003. The new GOD platform can further enhance the scalability and competitive advantages of the existing GOD platform. New features will include the formation of personalized character for subscribers, enhanced chat room and community functions as well as improved customer service and reward system in the game portal.

While developing new platforms and new games for its GOD platform, the Group aims to enhance its game content library to possess up a total of 600 Arcade and PC games for the GOD platform.

MMOGs

Following the launch of the iHorse2 in Hong Kong and the launch of iHorse2 in Japan in March 2003, in addition, with the support from Japan's advanced graphic technology, the Group plans to launch iHorse3 in June 2003 in Hong Kong.

The Group started the trial-run of Necropolis in the PRC, a MMOG developed by Arkisoft Limited, a Korea-based game development company, in January 2003. Necropolis enjoys a competitive edge over its peers as the world's first Massive Multimedia Online Role Play Game with First Person Shooting component, allowing hundreds and hundreds of game playing against one another in the same location and attracting a growing number of subscribers. The Group, with its 5-year exclusive license to distribute Necropolis in the PRC, estimates that concurrent online users will reach over 5,000 at the beginning of launch, and will surge to as high as over 15,000 by the end of 2003 at a service charge of RMB0.40 per hour. With the popularity of Necropolis, coupled with a non-refundable distribution licenses fee of RMB100,000 to RMB150,000 from each distributor, the Group is expected to witness a steady and encouraging revenue stream.

MANAGEMENT DISCUSSION AND ANALYSIS

Expand for games extensive distribution network for game – Internet café network, a physical distribution network in the PRC

In February 2003, the Group entered into an agreement for the establishment of a 70-30 joint venture in Nanjing with its strategic partner, Jiangsu Sainty, which possesses a widespread of Internet café network in the PRC. The purpose of the joint venture is to partner with a local specialist to provide information portal and content value-added services, bundled with a server, to Internet café network in Nanjing, Chongqing and Changdu.

Due to the fact that 55.7% of online game players play games in Internet café, and that are currently over 110,000 Internet cafés in China and expected increase to over 150,000 by the end of 2003, the Group aims to sign up with 200 Internet cafés in Nanjing and eventually expand to another 1,500 Internet cafés in Nanjing and other cities and provinces in the PRC. Leveraging on its strategic alliance with hundreds, or even thousands, Internet cafés throughout the PRC, Billybala will benefit immensely from the establishment of such a vast physical distribution network for distributing and promoting games in the PRC.

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

FINANCIAL REVIEW

The Group reported an audited turnover of approximately HK\$210,597 for the year ended 31 December 2002, representing a decrease of approximately 7.7% as no game platform licensing income was generated during the year under review as compared to previous year. The entire revenue of the Group during the year was generated from Hong Kong. On the other hand, the Game-on-Demand services income increased from HK\$28,189 to HK\$210,597 with 7 folds of growth. The reason of such growth is contributed by MMOG iHorse2 licensed by the Group. As the Group's business continues to be developed and consolidated, the revenue and geographical mixes may not be indicative of the trends going forward.

The audited loss from operating activities before taxation for the year under review increased from HK\$9,689,587 to HK\$12,758,152 over the previous year, as the Group allocated much time and resources into the establishment of new markets and new products during the year under review. Furthermore, the increase in loss was mainly due to the increase in staff costs, including directors' remuneration, in accordance with the increase in staff count from 19 to 33. The Company will continue to manage its expense base while prudently investing in the necessary corporate resources to continue penetrating new market and adding value to new services. For instance, research and development has changed from HK\$2,195,657 to HK\$1,083,373, a significant decreasing, as the Directors consider that a lease of PC platform from external party is a more cost effective and efficient way as compared to the self-development of such platform. Notwithstanding the above results, it was a year of hard work for building a strong business foundation and weaving a widespread distribution network. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated rapid growth of customers in the coming year.

Moreover, since January 2003, all executive directors have agreed to waive their remuneration as a commitment on stringent cost control.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial position

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 year under review, the Group financed its operation with its own listing proceeds and working capital and did not have any bank borrowings. Endorse 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 31 December 2002, the Group had cash and cash equivalents of HK\$6,359,453.

Gearing Ratio

As at 31 December 2002, the Group had cash and cash equivalents of around HK\$6,359,453 in its current assets while its current liabilities stood at around HK\$1,907,182. The Group did not have any long-term debts as of 31 December 2002 and its shareholders' funds amounted to about HK\$7,389,059. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as of 31 December 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. Due to the currency board system in Hong Kong, the Directors consider that the Group is not significantly exposed to foreign currency exchange risk.

No hedging or other alternatives have been implemented.

Charge on group assets and contingent liabilities

As at 31 December 2002, the Group has pledged its bank deposits of HK\$5,213,373 (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 31 December 2002 or during the year then ended.

Saved as above, the Group did not have any significant contingent liabilities as at 31 December 2002.

Capital Structure

There has been no change in the capital structure of the Company for the year under review.

Significant Investment

For the year ended 31 December 2002, the Group had no significant investments.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Acquisitions or Disposal of subsidiaries and affiliated companies

There were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of this year.

Future plan on investment

On 28 February 2003, the Group has signed a joint venture agreement with a independent third party to set up a joint venture in Nanjing.

Save as disclosed above, the Group has no plans for material investments or capital assets other than those set out in the Prospectus dated 6 December 2001.

Employees

Currently, the Group has 23 full-time and 8 contracted employees working in Hong Kong and 2 full-time employees working in the PRC respectively. The total of employee remuneration, including that of directors and provident contributions, for the year under review amounted to approximately HK\$5,214,814. The Group remunerates its employees based on their performance, experiences and the prevailing industry practice.

Resignation of Executive Director

During the year under review, Mr. Derek Shuen Lee resigned as executive director on 25 June 2002.

Share Option Scheme

Pursuant to a pre-IPO share options scheme ("Pre-Scheme") adopted by the Company on 28 November 2001, the Company had granted Pre-Scheme 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-Scheme after the listing of the shares.

None of these share options were exercised during the year ended 31 December 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 31 December 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 28 November 2001, the Company had also adopted a further share option scheme ("Post-Scheme") under which full time employees, of the Company and its subsidiaries, might be granted options to subscribe for the Company's ordinary shares. At the date of this report, no share options were granted under the Post-Scheme.

REPORT OF THE DIRECTORS

The Directors herewith present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the group on 24 September 2001. Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 1 and 16 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are the provision of GAME-ON-DEMAND services in Hong Kong and the PRC.

SEGMENT INFORMATION

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 14 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 28.

The state of the Company’s and the Group’s affairs as at 31 December 2002 are set out in the balance sheet on pages 29 and 30.

The Directors do not recommend the payment of a dividend as at 31 December 2002.

FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 15 to the financial statements.

SUBSIDIARIES

Particulars of the Company’s subsidiaries are set out in note 16 to the financial statements.

SHARE CAPITAL

Movements in share capital and share options of the Company during the year are set out in note 18 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Cheng Kar Shing
Mr. Leung Wai Keung
Mr. Derek Shuen Lee (resigned on 25/6/2002)
Mr. Ng, Kenny Chi Kin
Mr. Li Ka Kui

Non-executive directors

Mr. Fung Hoo Wing, Thomas
Mr. Tung Wai Wa, Wallace

Independent non-executive directors

Mr. Cheung Hon Kit
Mr. Ma Ching Nam

In accordance with article 14(4) of the Company's articles of association, all present Directors retire from office and, being eligible, offer themselves for re-election.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Revision) or the Cayman Islands, amounted to HK\$8,205,619. This includes the Company's share premium account in the amount of HK\$20,640,063 as at 31 December 2002, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 70% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 34%.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS (continued)

Purchases from the Group's largest supplier accounted for approximately 24% of the total purchases for the year and five largest suppliers accounted for approximately 99% of the Group's total purchases for game content and software.

None of the directors or any of their associates or any of the substantial or management shareholders (which, to the best knowledge of the directors, own more than 5% of the company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS' SERVICE CONTRACTS

Two of the executive directors have entered into service contracts with the Company for an initial term of two years commencing on 13 December 2001 and are entitled to terminate the contract at any time by giving not less than 3 months' prior written notice to the Company.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The non-executive Directors (including the independent non-executive directors) have no fixed terms of office, but are subject to the provisions governing the retirement and rotation of Directors in the articles of association of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 24 to the financial statements, no Director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its holding companies or subsidiaries was a party during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 23 to 25 of the annual report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

At 31 December 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 maintained by the company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as 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. Li Ka Kui		–	2,944,954
Mr. Tung Wai Wa, Wallace		–	4,909,290
Mr. Fung Hoo Wing, Thomas	(c)	<u>17,670,550</u>	<u>–</u>

Notes:

- (a) By virtue of Mr. Cheng Kar Shing's ("Mr. Cheng") interest in Potassium Corp., a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheng, Mr. Cheng 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 to 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 or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS

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 granted pre-IPO share options on the Company's ordinary shares in favour of certain 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 2002 and 31 December 2002	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. 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
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

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"). The granting of the pre-IPO share options is limited to the directors (excluding independent non-executive directors).

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

None of these share options were exercised during the year ended 31 December 2002. Following the resignation of Mr. Derek Shuen Lee on 25 June 2002, 10,560,000 share options with the exercise price HK\$0.24 per share held by him had been cancelled in accordance with the terms of the Pre-Scheme.

No further options will be granted under the Pre-Scheme following the listing of the Company's shares on the GEM. Upon the exercise of all outstanding pre-IPO share options in full, a total of 33,440,000 shares, representing in aggregate approximately 7.6% of the issued share capital of the company immediately following the completion of the placing and the listing of the company's shares on the GEM, would be issued.

As at 31 December 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 may, at their discretion, grant options to any full-time employee, Director of the company or its subsidiaries, including any executive, non-executive or independent non-executive Directors, or any other individuals who has/shall contribute to the success to the Group's operation. 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, at no time during the year 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.

AUDIT COMMITTEE

The Company established an audit committee on 28 November 2001 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. Four audit committee meetings were held during the Financial Year 2002. The Group's audited results for the year ended 31 December 2002 have been reviewed by the committee, which was of the opinion that the preparation of such results complies with the applicable accounting standards and requirements, and that adequate disclosures have been made.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At the date of this report, 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 in the British Virgin Islands and is wholly owned by Mr. Cheng Kar Shing. Potassium Corp. is directly interested 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 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.

SPONSOR'S INTERESTS

As at 31 December 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 or 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.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 24 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected or related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 31 December 2002.

COMPETITION AND CONFLICT OF INTERESTS

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.

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.

AUDITORS

The financial statements of the company and the Group for the year ended 31 December 2001 were audited by Messrs. Ernst & Young.

Charles Chan, Ip & Fung CPA Ltd. were appointed on 13 February 2003 as the auditors of the company and the Group.

A resolution for re-appointment of Charles Chan, Ip & Fung CPA Ltd. as the auditors of the company for the following year is to be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheng Kan Shing

Chairman

Hong Kong, 21 March 2003

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Cheng Kar Shing, aged 50

Chairman and Executive Director

Mr. Cheng joined the Group in May 2000. He holds a Master's degree in Engineering from the University of California in Los Angeles, the United States of America. Mr. Cheng is an executive director of New World Development Co. Ltd., New World Services Ltd., NWD (Hotels Investments) Ltd., Macao Water Supply Co. Ltd. and Polytown Co. Ltd. He is also an executive director of New World China Land Ltd. and New World Infrastructure Ltd. and non-executive director of iAsia Technology Limited, a company listed on the GEM. Mr. Cheng is responsible for the business advisory and strategic planning of the Group. He also has over 20 years of experience in property development and investment business.

Mr. Leung Wai Keung, aged 49

Managing Director

Mr. Leung joined the Group in May 2000. Mr. Leung, an executive director of Wai Lee Holdings Limited ("Wai Lee"), together with his brother joined Wai Lee in 1980 which manufactures arcade game machines, distributes arcade game boards, operates arcade game centres in Hong Kong and a major arcade game distribution company in the Greater China Region. Mr. Leung has over 20 years of experience in the arcade game industry having established good relationship with numerous arcade game distributors and developers. Mr. Leung is responsible for the business development, game sourcing, overall management and strategic planning of the Group.

Mr. Ng Kenny Chi Kin, aged 43

Executive Director

Mr. Ng joined the Group in September 2001. Mr. Ng received his Bachelor's degree in Engineering from the National Taiwan College of Marine Science & Technology and a Master of Business Administration degree from the American University in London, the United Kingdom. From 1997 to 1999, Mr. Ng joined Ming Pao Newspapers (Canada) Limited and was responsible for the computerisation of the production department. Prior to working for Ming Pao Newspaper (Canada) Limited, Mr. Ng was the plant manager of Kosonic Industry Company Limited. Mr. Ng has 17 years of experience in management and overall planning of companies. He is responsible for the business advisory and strategic planning of the Group.

Mr. Li Ka Kui, aged 31

Executive Director

Mr. Li joined the Group in May 2000. Mr. Li is also a director of Prince Win Limited, a company engaging in the business of real estate development. Mr. Li has over 10 years of experience in business development, marketing and real estate investment. Throughout these 10 years, Mr. Li has developed an extensive business network.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (continued)

Mr. Fung Hoo Wing, Thomas, aged 47

Non-executive Director

Mr. Fung joined the Group in May 2000. He holds directorships in various private companies engaging in different industries including gem, interior decoration, real estate, and other finance related businesses. He is also a non-executive director of iAsia Technology Limited. With the knowledge of precious stones gained during his five years' apprenticeship. Mr. Fung started to operate his own gem business in his early twenties and became a very successful expert in the gem industry. Subsequently, Mr. Fung diversified his business into real estate, interior decoration, as well as finance and commodity related businesses.

Mr. Tung Wai Wa, Wallace, aged 36

Non-executive Director

Mr. Tung joined the Group in May 2000. Mr. Tung holds directorships in various private companies engaging in general trading and property investment, including Horwin Industries Limited and LK Property Agency Limited. Mr. Tung has over 14 years of experience in property investment, catering and finance related businesses. Mr. Tung is an active entrepreneur in Hong Kong and the People's Republic of China (the "PRC").

Mr. Cheung Hon Kit, aged 49

Independent Non-executive Director

Mr. Cheung joined the Group in September 2001. Mr. Cheung has over 25 years of experience in real estate development, property investment and corporate finance. Mr. Cheung graduated from the University of London, with a Bachelor of Arts degree. He has worked in key executive positions in various leading property companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and Paul Y.-ITC Construction Holdings Limited and executive vice-chairman of Rosedale Hotel Group Limited. He is a director of Hanny Holdings Ltd., Asean Resources Holdings Limited, Panva Gas Holdings Limited, Cyber On-Air Group Company Limited and Skynet (International Group) Holdings Limited.

Mr. Ma Ching Nam, aged 50

Independent Non-executive Director

Mr. Ma joined the Group in September 2001. Mr. Ma has been a practising solicitor in Hong Kong and the United Kingdom for over 20 years, and is also qualified to practise law in Singapore and Australia. He is currently a partner of Messrs. King & Company, Solicitors and Notaries. Mr. Ma is also a director of Tai Sang Bank Limited and a number of property investment companies. He has been a legal advisor to numerous organisations, companies and charitable entities. Mr. Ma is a committee member for the Disciplinary Panel of the Hong Kong Society of Accountants. He previously served as a member of some of the committees of the Law Reform Committee and the Consumer Council in Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Leung Wing Lun, Alan, aged 34

Mr. Leung Wing Lun, Alan was appointed as the Chief Executive Officer of the Group in August 2002. Mr. Leung is an expert on Information Technology, Accounting and Finance. Prior joining the Group, 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) King's College with a 1st Class Honor Degree in Computer Science. Afterwards, he completed a Master of Business Administration at City University, London (UK) and a Master of Science in e-commerce at University of Hong Kong.

Mr. Wong Hon Kit, Tiger, aged 36

Mr. Wong joined the Group in August 2001. Mr. Wong is the Chief Financial Officer, Qualified Accountant and Company Secretary of the Group. Mr. Wong is responsible for the financial reporting, internal control and overall administration of the Group. He is an associate member of Hong Kong Society of Accountants and has 12 years of experience in the accounting field and also possesses accounting experience in the PRC. Prior to joining the Group, he held various finance and administration positions in several listed companies in Hong Kong.

Mr. Wong Man Fai, Simon, aged 31

Mr. Wong is the Chief Technical Officer of the Group. Mr. Wong joined the Group in July 2002 and is responsible for the overall technical operation support and development of the Group. Mr. Wong also has over 10 years of experience in Information Technology. He holds a Bachelor's Degree in Computer Science from the Open University of Hong Kong. Prior to joining the Group, he was the Project Manager at Solution Expert System Limited.

Ms. Sha Ka Man, Rennie, aged 30

Ms. Sha is the Chief Marketing Officer of the Group. Ms. Sha joined the Group in July 2002 and is responsible for the overall marketing operation of the Group. She holds a Bachelor's Degree in Business Administration from the University of Newport, United States and has over 7 years of experience in marketing. Prior to joining the Group, she was the Business Development Manager at e-Solutions Limited.

REPORT OF THE AUDITORS



CCIF

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To the members

Billybala Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare 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 company's and the group's circumstances, 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.

REPORT OF THE AUDITORS

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the significant accumulated losses of the group at the balance sheet date. As described in note 2(b) to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which depends upon funding being available from the ultimate parent enterprise of the company and the immediate holding company, Romson Limited. The financial statements do not include any adjustments that would result from a failure to obtain such funding. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

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 31 December 2002 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong, 21 March 2003

Chan Wai Dune, Charles

Practising Certificate Number P00712

CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2002

	Notes	2002 HK\$	2001 HK\$
TURNOVER	5	210,597	228,189
OTHER REVENUE	6	244,586	65,813
OTHER EXPENSES			
Staff costs, including directors' remuneration		(5,214,814)	(2,690,507)
Depreciation		(396,978)	(175,510)
Royalties for game content		(415,044)	(18,136)
Research and development costs		(1,083,373)	(2,195,657)
Marketing and promotion expenses		(1,520,761)	(1,105,639)
Other operating expenses		(4,582,365)	(3,798,140)
LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION	7	(12,758,152)	(9,689,587)
TAXATION	10	—	—
LOSS BEFORE MINORITY INTERESTS		(12,758,152)	(9,689,587)
MINORITY INTERESTS		—	—
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	11	<u>(12,758,152)</u>	<u>(9,689,587)</u>
DIVIDENDS	12	—	—
LOSS PER SHARE			
Basic	13	<u>HK2.9 cents</u>	<u>HK2.6 cents</u>
Diluted	13	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET At 31 December 2002

	Notes	2002 HK\$	2001 HK\$
ASSETS			
Non-current assets			
Fixed assets	15	1,690,440	903,464
Current assets			
Accounts receivable	17	38,302	100,966
Prepayments, deposits and other receivables		1,208,046	2,372,293
Fixed deposits	25	6,027,084	–
Cash and bank balances		332,369	20,202,468
		7,605,801	22,675,727
LIABILITIES			
Current liabilities			
Accruals and other payables		(1,907,182)	(3,431,832)
Net current assets		5,698,619	19,243,895
Total assets less current liabilities		7,389,059	20,147,359
MINORITY INTERESTS		–	(148)
NET ASSETS		7,389,059	20,147,211
CAPITAL AND RESERVES			
Issued capital	18	2,200,000	2,200,000
Reserves	19	5,189,059	17,947,211
		7,389,059	20,147,211

Leung Wai Keung
Executive Director

Ng, Kenny Chi Kin
Executive Director

BALANCE SHEET At 31 December 2002

	Notes	2002 HK\$	2001 HK\$
ASSETS			
Non-current assets			
Investment in subsidiaries	16	6,781,403	6,771,403
Current assets			
Prepayments, deposits and other receivables		78,395	1,757,350
Due from subsidiaries	16	5,553,882	15,596,859
Cash and bank balances		338,253	–
		5,970,530	17,354,209
LIABILITIES			
Current liabilities			
Accruals and other payables		579,749	1,668,349
Due to subsidiaries	16	1,766,565	3,500
		(2,346,314)	(1,671,849)
Net current assets		3,624,216	15,682,360
NET ASSETS		10,405,619	22,453,763
CAPITAL AND RESERVES			
Issued capital	18	2,200,000	2,200,000
Reserves	19	8,205,619	20,253,763
		10,405,619	22,453,763

Leung Wai Keung
Executive Director

Ng, Kenny Chi Kin
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2002

	Share capital HK\$	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	15,430	21,649,100	–	21,664,530
Issue of shares of a subsidiary	–	9,658,900	–	9,658,900
New issue of shares by way of the placing	366,670	–	–	366,670
Share issue expenses	–	(5,962,540)	–	(5,962,540)
Net loss for the year	–	–	(9,689,587)	(9,689,587)
At 31 December 2001	2,200,000	33,527,560	(15,580,349)	20,147,211
Net loss for the year	–	–	(12,758,152)	(12,758,152)
At 31 December 2002	<u>2,200,000</u>	<u>33,527,560</u>	<u>(28,338,501)</u>	<u>7,389,059</u>

CONSOLIDATED CASH FLOW STATEMENT For the year ended 31 December 2002

Notes	2002 HK\$	2001 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(12,758,152)	(9,689,587)
Adjustments for:		
Depreciation	396,978	175,510
Loss on disposal of fixed assets	95,764	–
Loss on disposal of a subsidiary	632	–
Interest income	(198,560)	(65,813)
Written back of other payable	(632)	–
	<u>(12,463,970)</u>	<u>(9,579,890)</u>
Operating loss before working capital changes	(12,463,970)	(9,579,890)
Decrease/(increase) in accounts receivable	62,664	(100,966)
Decrease/(increase) in prepayments, deposits and other receivables	1,164,247	(2,195,559)
(Decrease)/increase in accruals and other payables	(1,524,650)	2,182,819
	<u>(12,761,709)</u>	<u>(9,693,596)</u>
NET CASH USED IN OPERATING ACTIVITIES	(12,761,709)	(9,693,596)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(1,282,718)	(453,338)
Proceeds from disposal of an unlisted short term investment	–	1,505,000
Interest income	198,560	65,813
Repayment from a related company	–	401,100
Proceeds from disposal of fixed assets	3,000	–
	<u>(1,081,158)</u>	<u>1,518,575</u>
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(1,081,158)	1,518,575
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares of a subsidiary	–	9,658,900
Proceeds from issue of shares	–	22,031,200
Share issue expenses	–	(5,962,540)
Cash (used)/contributed by a minority shareholder	(148)	148
	<u>(148)</u>	<u>25,727,708</u>
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(148)	25,727,708
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(13,843,015)	17,552,687
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,202,468	2,649,781
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>6,359,453</u>	<u>20,202,468</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	6,027,084	–
Cash and balance balances	332,369	20,202,468
	<u>6,359,453</u>	<u>20,202,468</u>

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

I. GROUP REORGANISATION AND BASIS OF PRESENTATION

The company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001.

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 on the Growth Enterprise Market ("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. This was accomplished by acquiring the entire issued share capital of e-gameasia.com Limited ("e-gameasia"), the then holding company of the group which consequently became the intermediate holding company of the other subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of a total of 181,789,999 shares of HK\$0.01 each in the share capital of the company, credited as fully paid, to the then shareholders of e-gameasia. 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 Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the period from 18 May 2000 (date of establishment of the companies comprising the acquired e-gameasia Group) to 31 December 2000, rather than from the date of their acquisitions on 24 September 2001. In the opinion of the Directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole, as the principal activities of the Group were carried out by those subsidiaries summarised in note 16 to the financial statements prior to and after the Group Reorganisation.

The consolidated financial statements include the accounts of the Company and its subsidiaries made up to 31 December 2002. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any unamortised goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

2. BASIS OF PREPARATION

(a) Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group are provision of GAME-ON-DEMAND services in Hong Kong and the PRC.

(b) Going Concern Concept

The financial statements have been prepared under the going concern basis which assumes the continued financial support from the ultimate parent enterprise and the immediate holding company, Romson Limited. They have indicated their intentions to provide adequate funds to support the Group to continue its operations and to meet the liabilities as they fall due within twelve months from the balance sheet date.

Should the creditors request for immediate payment and the ultimate parent enterprise and the immediate holding company be unable to support the group, adjustments would have to be made to reduce the value of assets to their recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets as current assets.

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention.

In the current year, the group has adopted, for the first time, the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

- SSAP 1 (Revised) : Presentation of financial statements
- SSAP 11 (Revised) : Foreign currency translation
- SSAP 15 (Revised) : Cash flow statements
- SSAP 34 (Revised) : Employee benefits

The adoption of these Standards has resulted in a change in the format of the presentation of the consolidated cash flow statement and the consolidated statement of changes in equity, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- income from the provision of GAME-ON-DEMAND services is recognised at the time when the services are provided;
- game platform licensing income is recognised on a straight-line basis over the contracted licence period or in full upon delivery of the software enabling access to the platform concerned in accordance with the terms of the licence agreements; and
- interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(b) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset before its originally assessed standard of performance, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of the assets over the following estimated useful lives:

Leasehold improvements	4 years or over the lease terms, whichever is shorter
Computer equipment	5 years
Furniture, fixtures and office equipment	5 years

The gain or loss on disposal or retirement of an asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors, unless it is held under temporary control in which case it is classified as a short-term investment.

Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

(d) Short Term Investments

Short term investments are stated at their fair values as at the balance sheet date. The unrealised gains or losses arising from changes in the fair values of short term investments are credited or charged to the income statement.

(e) Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(f) Deferred Tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rental payables under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(h) Research and Development Costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on project to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

(i) Retirement Costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the group in an independently administered fund. The group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(j) Segment Reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results assets and liabilities include items directly attributable to a segment as well as those that will not be allocated to that segment as most of the group's costs and expenses and assets and liabilities were unallocated.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Translation of Foreign Currencies

Transactions denominated in foreign currencies are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the balance sheet of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. The resulting translation differences are included in the exchange translation reserve.

(l) Related Parties

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. Related parties may be individuals or corporate entities.

(m) Cash Equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee Benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.
- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

5. TURNOVER

Turnover represents the net invoiced value of services provided.

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

	2002 HK\$	2001 HK\$
Turnover (income from external customers):		
Game platform licensing income	–	200,000
Game-on-demand services income	<u>210,597</u>	<u>28,189</u>
	<u><u>210,597</u></u>	<u><u>228,189</u></u>

6. OTHER REVENUE

	2002 HK\$	2001 HK\$
Bank interest income	198,560	65,813
Sundry income	<u>46,026</u>	<u>–</u>
	<u><u>244,586</u></u>	<u><u>65,813</u></u>

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

7. LOSS FROM OPERATION ACTIVITIES BEFORE TAXATION

Loss from operating activities before taxation is arrived at after crediting and charging:

	2002	2001
	HK\$	HK\$
Crediting		
Interest income	<u>198,560</u>	<u>65,813</u>
Charging		
Cost of services provided	2,105,367	1,091,871
Operating leases charges		
– Property rental	470,977	451,112
Auditors' remuneration	300,000	358,000
Depreciation	396,978	175,510
Staff costs, including directors' emoluments (note 8)	5,041,040	2,606,292
Retirement costs	173,774	84,215
Loss on disposal of fixed assets	95,764	–
Net exchange loss	<u>1,052</u>	<u>–</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	HK\$	HK\$
Fees		
executive Directors	–	–
non-executive Directors	–	–
independent non-executive Directors	–	–
Other emoluments, executive Directors		
Basic salaries, bonuses, housing benefits, other allowances		
and benefits in kind	1,552,306	632,287
Retirement costs	<u>68,532</u>	<u>14,249</u>
	<u>1,620,838</u>	<u>646,536</u>

Four executive directors (year ended 31 December 2001: four) of the Company received emoluments of HK\$612,000 (2001: HK\$337,536), HK\$469,306 (2001: HK\$204,000), HK\$324,000 (2001: HK\$75,000) and HK\$215,532 (2001: HK\$30,000) for the year.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

8. DIRECTORS' REMUNERATION (continued)

No emoluments were paid to the non-executive Directors or the independent non-executive Directors during the current year or the prior year.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (year ended 31 December 2001: Nil).

At 31 December 2002, the share options granted to certain Directors to subscribe for 33,440,000 (year ended 31 December 2001: 44,000,000) ordinary shares of the Company have been outstanding. Further details of the share options granted to the directors are set out in the section "Directors' rights to acquire shares" in the Report of Directors.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three executive Directors and two employees (year ended 31 December 2001: Two Directors and three employees).

The details of the emoluments of three Directors and the two highest paid employees are as follows:

	2002 HK\$	2001 HK\$
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	2,405,801	1,020,616
Retirement costs	<u>80,433</u>	<u>98,668</u>

The remuneration of all of three Directors and two highest paid employees during the year fell within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

10. TAXATION

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the year (year ended 31 December 2001: Nil).

The potential deferred tax liability/(asset) not provided for in the accounts amounted to:

	2002 HK\$	2001 HK\$
Tax losses	(4,189,251)	(2,164,051)
Accelerated depreciation allowances	<u>98,862</u>	<u>109,293</u>
	<u>(4,090,389)</u>	<u>(2,054,758)</u>

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of HK\$12,048,144 (year ended 31 December 2001: HK\$386,300) which has been dealt with in the financial statements of the company for the year ended 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

12. DIVIDENDS

No dividends have been paid or declared by the Company or any of the companies comprising the Group during the year presented (year ended 31 December 2001: Nil).

13. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2002 is based on the net loss attributable to shareholders of HK\$12,758,152 (year ended 31 December 2001: HK\$9,689,587) and the weighted average number of 440,000,000 (year ended 31 December 2001: 370,885,216) ordinary shares have been issued during the year.

No diluted loss per share is presented for the year ended 31 December 2002 and 31 December 2001 because the share options outstanding had an anti-dilutive effect on the basic loss per share for the years.

14. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

An analysis of the group's performance by business segments, namely "Game-On-Demand services" and "Game platform licensing".

	Game-on- demand services		Game platform licensing		Total	
	2002	2001	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	210,597	28,189	-	200,000	210,597	228,189
Cost of services provided	(2,105,367)	(134,882)	-	(956,989)	(2,105,367)	(1,091,871)
Other operating expenses	(11,107,968)	(1,098,425)	-	(7,793,293)	(11,107,968)	(8,891,718)
Loss from operating	(13,002,738)	(1,205,118)	-	(8,550,282)	(13,002,738)	(9,755,400)
Other revenue					244,586	65,813
Minority interests					-	-
Loss attributable to shareholders					(12,758,152)	(9,689,587)
Depreciation for the year	396,978	21,681	-	153,829	396,978	175,510
Unallocated assets					9,296,241	23,579,191
Unallocated liabilities					(1,907,182)	(3,431,832)
Capital expenditure incurred during the year					1,282,718	453,338

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

14. SEGMENT REPORTING (continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		South Korea		PRC		Total	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Revenue from external customers	210,597	178,189	-	50,000	-	-	210,597	228,189
Segment assets	8,995,400	23,579,191	-	-	300,841	-	9,296,241	23,579,191
Capital expenditure incurred during the year	986,348	453,338	-	-	296,370	-	1,282,718	453,338

There is no major disparity in the ratios between turnover and loss in relation to the above geographical locations, hence no analysis is given of the loss arisen from the above geographical locations.

15. FIXED ASSETS

Group

	Leasehold improvements HK\$	Computer equipment HK\$	Furniture, fixtures and office equipment HK\$	Total HK\$
Cost				
At 1/1/2002	152,030	699,467	280,903	1,132,400
Additions	662,244	465,820	154,654	1,282,718
Disposal	(152,030)	(7,750)	(12,150)	(171,930)
At 31/12/2002	662,244	1,157,537	423,407	2,243,188
Accumulated depreciation				
At 1/1/2002	15,836	137,439	75,661	228,936
Charges for the year	161,050	171,808	64,120	396,978
Written back on disposal	(66,512)	(3,617)	(3,037)	(73,166)
At 31/12/2002	110,374	305,630	136,744	552,748
Net book value				
At 31/12/2002	551,870	851,907	286,663	1,690,440
At 31/12/2001	136,194	562,028	205,242	903,464

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

16. INTERESTS IN SUBSIDIARIES

Company

	2002 HK\$	2001 HK\$
Unlisted investments, at cost	<u>6,781,403</u>	<u>6,771,403</u>
Amount due from subsidiaries (Note a)	<u>17,553,882</u>	15,596,859
Less: Impairment loss	<u>(12,000,000)</u>	–
	<u>5,553,882</u>	<u>15,596,859</u>
Amount due to subsidiaries (Note a)	<u>1,766,565</u>	<u>3,500</u>

Particulars of the subsidiaries as at 31 December 2002 are as follows:

Name	Place of incorporation and operation	Issued and paid-up share capital	Percentage of equity attributable to the company		Principal activities
			Directly	Indirectly	
e-gameasia.com Limited	British Virgin Islands ("BVI")	HK\$10,279,450	100%	–	Investment holding
Billybala iGame Limited	Hong Kong	HK\$7	–	100%	Provision of internet game platform licensing and game-on-demand services
Talent Work Limited	Hong Kong	HK\$2	–	100%	Office sub-leasing
Billybala Software (BVI) Limited	BVI	US\$0.01	100%	–	Investment holding
Jantek Limited	Hong Kong	HK\$10,000	100%	–	Dormant
霹靂咁喇軟件(深圳)有限公司(Note b)	People's Republic of China	HK\$1,000,000*	–	100%	Sales and development of computer software

* The amount of share capital will be paid within six months from 16 December 2002 and has not been verified as at balance sheet date.

Notes:

- (a) The balances with subsidiaries are interest-free, unsecured and have no fixed terms of repayment.
- (b) 霹靂咁喇軟件(深圳)有限公司 is a wholly foreign-owned enterprise established in the People's Republic of China to be operated for 10 years up to December 2012.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

16. INTERESTS IN SUBSIDIARIES (continued)

Disposal of subsidiary

During the year, the Company had disposed of a subsidiary:

	2002 HK\$	2001 HK\$
Cost of investment	632	–
Proceed	–	–
	<u>632</u>	<u>–</u>
Loss on disposal	<u>632</u>	<u>–</u>

17. ACCOUNTS RECEIVABLE

Other than the game platform licensing income, for which the payment terms are specific in the relevant agreements, game-on-demand services income is receivable within 30 - 90 days.

	2002 HK\$	2001 HK\$
Within 30 days	28,614	–
31 – 60 days	4,133	966
61 – 90 days	5,555	100,000
	<u>38,302</u>	<u>100,966</u>

18. SHARE CAPITAL

	2002 HK\$	2001 HK\$
<i>Authorized:</i>		
1,000,000,000 ordinary shares of HK\$0.005 each	<u>5,000,000</u>	<u>5,000,000</u>
<i>Issued and fully paid:</i>		
440,000,000 ordinary shares of HK\$0.005 each	<u>2,200,000</u>	<u>2,200,000</u>

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

18. SHARE CAPITAL (continued)

	Notes	Number of shares	
		Ordinary share of HK\$0.01 each	Ordinary share of HK\$0.005 each
At 1 January 2001		181,790,000	–
Issue of shares	(i)	1,543,000	–
Change of nominal value of share from HK\$0.01 each to HK\$0.005 each	(ii)	(183,333,000)	366,666,000
New issue of shares by way of the placing	(iii)	–	73,334,000
At 31 December 2001 and 31 December 2002		–	440,000,000

Note:

- (i) 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.
- (ii) Pursuant to written resolutions of all the shareholders of the company passed on 28 November 2001, every ordinary share of HK\$0.01 each in the authorised and issued share capital of the company was subdivided into 2 shares of HK\$0.005 each.
- (iii) 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 the placing (the "Placing") for a total consideration of HK\$22,000,200 before issue expenses of HK\$5,962,540.

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 or any of their associates, in excess of 0.1% of the shares of the Company is issue at any time or with an aggregate value in excess of HK\$5,000,000, with 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 with 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 5 executive Directors and 2 non-executive Directors to subscribe for a total of 33,440,000 shares, representing in aggregate approximately 7.6% of the then issued share capital of the Company. No further options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the 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 the grant of the options. Each grantee has paid HK\$1 to the Company as consideration for such grant.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

18. SHARE CAPITAL (continued)

Share options (continued)

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.

None of these share options were exercised during the year ended 31 December 2002. Following the resignation of Mr. Derek Shuen Lee on 25 June 2002, 10,560,000 share options with the exercise price HK\$0.24 per share held by him had been cancelled in accordance with the terms of the Pre-Scheme.

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

- (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 options to selected persons as incentives or rewards for their contribution to the group. 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 executive, non-executive and independent non-executive Directors or any individuals who has/shall contribute to the success to the Groups operation, to subscribe for shares of the company. 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 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 an 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 option.

Any share options granted to a substantial shareholder or an independent non-executive Director 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\$5,000,000, with 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 with any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The options granted may be exercised at any time or times during a period of not less than 3 years to be notified by the Board in any event no later than 10 years from the date of the grant of the options.

No share options were granted by the Company under the Post-Scheme up to the date of approval of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

19. RESERVES

Group

	Share premium account# HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2001	8,182,100	(5,890,762)	2,291,338
Issue of shares of a subsidiary	9,658,900	–	9,658,900
Issue of shares	21,649,100	–	21,649,100
Share issue expenses	(5,962,540)	–	(5,962,540)
Net loss for the year	–	(9,689,587)	(9,689,587)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	33,527,560	(15,580,349)	17,947,211
Net loss for the year	–	(12,758,152)	(12,758,152)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>33,527,560</u>	<u>(28,338,501)</u>	<u>5,189,059</u>

Company

	Share premium account* HK\$	Accumulated losses HK\$	Total HK\$
Arising on acquisition of e-gameasia*	4,953,503	–	4,953,503
Applied in payment of 1 share allotted nil paid on incorporation*	–	–	–
Issue of shares	21,649,100	–	21,649,100
Share issue expenses	(5,962,540)	–	(5,962,540)
Net loss for the year	–	(386,300)	(386,300)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	20,640,063	(386,300)	20,253,763
Net loss for the year	–	(12,048,144)	(12,048,144)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>20,640,063</u>	<u>(12,434,444)</u>	<u>8,205,619</u>

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 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

19. RESERVES (continued)

Company (continued)

- * The share premium account of the Company includes: (i) the shares of the Company issued at a premium; and (ii) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Pursuant to resolutions of the Board of Directors 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. 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.

20. POST BALANCE SHEET EVENTS

- (i) With reference to the on line action shooting RPG game ("Necropolis"), the Group obtained the exclusive right of distributing of Necropolis in the PRC on 4 January 2003. The exclusive right will be expired on 31 October 2007.
- (ii) On 28 February 2003, the Group contracted a joint venture agreement with Jiangsu Sainty International Group Modern Information Industry Company Limited, a company established in the PRC. A sino-foreign equity joint venture company named Billybala Content Sanice (Nanjing) Limited will be established.

The registered capital and total investment of the joint venture company is RMB2,000,000 equivalent to about HK\$1,887,000, of which RMB1,400,000 equivalent to about HK\$1,321,000 will be contributed by Jantek Limited, a wholly-owned subsidiary of the Company. The Company will indirectly hold 70% equity interest in the joint venture company. The joint venture company will engage in the provision of an information portal and content value-added services and products to the Internet cafes operating in Jiangsu, Nanjing.

- (iii) On 20 March 2003, the ultimate parent enterprise of the Company agreed to make advance of approximately HK\$2,500,000 to the company. This advance is unsecured, interest bearing at prevailing market rate and not repayable within one year. In addition, the immediate holding company, Romson Limited, agreed to provide no less than HK\$2,500,000 or other funds to the company and its subsidiaries immediately upon their written request to meet their operational cash flow requirements and for the repayment of their debts when they fall due. This advance is unsecured, interest free and not repayable within twelve months from the date of actual advance.

21. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

22. COMMITMENTS

(a) Capital commitments

	2002 HK\$	2001 HK\$
Contracted but not provided for – Contribution of capital to a subsidiary	<u>1,000,000</u>	<u>–</u>

(b) Commitment under operating leases

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

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

	Group	
	2002 HK\$	2001 HK\$
Not later than one year	562,550	299,232
Later than one year and not later than five years	<u>321,041</u>	<u>–</u>
	<u>883,591</u>	<u>299,232</u>

Save as aforesaid, the Group did not have any other significant commitments at 31 December 2002.

At 31 December 2002, the Company had no significant commitments.

23 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the any other scheme. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2002

24. RELATED PARTY TRANSACTIONS

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

	Notes	2002 HK\$	2001 HK\$
Game-on-demand services income	(i)	46,299	–
Consultancy fees paid	(ii)	–	646,604
Development fees paid	(iii)	–	2,192,775
Consideration received for disposal of an unlisted short term investment	(iv)	–	1,505,000

Notes:

- (i) The Company and six related companies have jointly provided the Game-On-Demand services and the revenue derived from the provision of services have been shared with the related companies under the agreed sharing ratios ranging from 45% to 50%. The amount represented the shared revenue of the company. Mr. Leung Wai Keung is the common director. The directors consider that the revenue was shared on a fair basis similar to those shared by non-related parties.
- (ii) Consultancy fees were paid to a law firm, a partnership 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 non-related consultants to the group.
- (iii) Development fees were paid to DeliriumCyberTouch (H.K.) Limited, a fellow subsidiary of Delirious Ventures Incorporation, a minority shareholder of the group, for the design and development of a website and Internet games platform for the group. The directors consider that the development fees were charged on a basis similar to those charged by non-related website and platform developers to the group.
- (iv) The unlisted short term investment in an arcade game centre business in Hong Kong through a shell company, Faxon Limited was acquired from two related companies, of which a Director is also a director, at a total consideration of HK\$3,005,000. Subsequently, the investment was disposed of to two other related companies, of which the same director is also a director, for a total consideration of HK\$1,505,000. A holding loss of HK\$1,500,000 was recorded by the group for the period from 18 May 2000 (pro forma formation date of the group) to 31 December 2000. The Directors consider that the considerations paid and received represented the fair values of the investment at the dates of acquisition and disposal, respectively.

25. CHARGES ON ASSETS

At balance sheet date, fixed deposits of the Group with carrying amount of HK\$5,213,373 (year ended 31 December 2001: Nil) have been pledged to a bank to secure banking facilities granted to the group.

26. ULTIMATE PARENT ENTERPRISE

The Company was a subsidiary of Romson Limited, a company incorporated in the British Virgin Islands, as at the balance sheet date. At 31 December 2002, the directors regard Poly Planning Limited, a company incorporated in Hong Kong, to be the Company's ultimate parent enterprise.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2003.

FINANCIAL SUMMARY

The following is a summary of the consolidated results of Billybala Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), prepared on the bases set out in note 1 below:

RESULTS

	2002 HK\$	2001 HK\$	Period from 18 May 2000 (pr forma formation date of the Group) to 31 December 2000 HK\$
TURNOVER	210,597	228,189	–
Other revenue	244,586	65,813	58,634
Operating expenses	(8,630,970)	(6,185,449)	(2,901,114)
Other operating expenses	(4,582,365)	(3,798,140)	(3,048,282)
Loss from operating activities before tax	(12,758,152)	(9,689,587)	(5,890,762)
Tax	–	–	–
Loss before minority interests	(12,758,152)	(9,689,587)	(5,890,762)
Minority interests	–	–	–
Net loss attributable to shareholders	<u>(12,758,152)</u>	<u>(9,689,587)</u>	<u>(5,890,762)</u>

Note:

- The summary of the consolidated results of the Group for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 has been extracted from the Company’s prospectus date 6 December 2001. Such summary was prepared based on the financial statements of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial periods, or from their respective dates of incorporation, where this is a shorter period, and is presented on the basis set out in note 1 to the financial statements. The consolidated results of the Group for the year ended 31 December 2001 are also set out on page 28 of the audited financial statements.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Billybala Holdings Limited (the “**Company**”) will be held at 4:00 p.m. on 16 April 2003 at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the “**Directors**”) of the Company and auditors for the year ended 31 December 2002;
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 (the “**Resolution(s)**”) as ordinary Resolutions:
4. “**THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules (the “**GEM Listing Rules**”) Governing the Listing of Securities on the Growth Enterprise Market (“**GEM**”) operated by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the exercise by the Directors during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a “**Share**”) of HK\$0.005 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for 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 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 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 the 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 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 Shares, shall not exceed the aggregate of:
 - (aa) 20 per cent. 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 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 per cent. 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

NOTICE OF ANNUAL GENERAL MEETING

- (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, the Companies Law (Law 3 of 1961, as consolidated and revised) of Cayman Islands (the "**Companies Law**"), or any other applicable law of 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 by this Resolution;

"Rights Issue" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares 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)."

5. **"THAT:**

- (a) the exercise by the Directors during the Relevant Period (as herein defined) of all powers of the Company to purchase the Shares 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 Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. 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 of the Company, the Companies Law, or any other applicable law of Cayman Islands to be held; and

NOTICE OF ANNUAL GENERAL MEETING

(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 by this Resolution.”

6. “**THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.”

7. “**THAT** the Existing Share Option Scheme adopted by the Company on 28 November 2001 be and is hereby amended as follows:

(a) by deleting the expression “Eligible Person” in paragraph 1.1 and substituting therefor the following:

“Eligible Person”

means any executive director and/or non-executive director and/or independent non-executive director and/or employee of the Company or any of its Subsidiaries whether in the full time or part time employment of the Company and/or any Subsidiary and any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group

By order of the board of Directors

Billybala Holdings Limited

Cheng Kar Shing

Chairman

Hong Kong, 24 March 2003

NOTICE OF ANNUAL GENERAL MEETING

Registered office:

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

Head office and principal place

of business in Hong Kong:
20th Floor
10 Knutsford Terrace
Tsim Sha Tsui
Kowloon
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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, 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. 4 and 6 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 Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company. .
4. In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholder of the Company. 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.