



# Billybala Holdings Limited

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



**Annual Report 2003**

# Massive Online Horse Racing Game



<http://www.ihorsegame.com>



<http://www.hk-game.com>



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

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

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

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

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Cheng Kar Shing  
Mr. Leung Wai Keung  
Mr. Ng, Kenny Chi Kin  
Mr. Li Ka Kui  
Mr. Wong Hon Kit  
Ms. Ma Zhang  
Mr. Yuen Hongwen

#### 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*

20/F., 10 Knutsford Terrace,  
Tsim Sha Tsui,  
Kowloon, Hong Kong.

#### Website address

[www.billybala.com](http://www.billybala.com)

#### Company secretary

Mr. Wong Hon Kit, AHKSA

#### Compliance officer

Mr. Wong Hon Kit, AHKSA



## CORPORATE INFORMATION

<b>Qualified accountant</b>	Mr. Wong Hon Kit, AHKSA
<b>Audit committee</b>	Mr. Cheung Hon Kit Mr. Ma Ching Nam
<b>Authorised representatives</b>	Mr. Leung Wai Keung Mr. Wong Hon Kit, AHKSA
<b>Principal bankers</b>	Bank of China (Hong Kong) Limited The Hong Kong and Shanghai Banking Corporation Limited Wing Hang Bank Limited
<b>Share registrar and transfer office</b>	<i>Bank of Butterfield International (Cayman) Ltd.</i> Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
<b>Stock Code</b>	8117
<b>Cayman Islands Assistant Secretary</b>	Codan Trust Company (Cayman) Limited
<b>Sponsor</b>	Tai Fook Capital Limited
<b>Auditors</b>	Charles Chan, Ip & Fung CPA Ltd. <i>Certified Public Accountants</i>
<b>Hong Kong Share Registrar</b>	Tengis Limited Ground Floor, BEA 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 (the "Company"), together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2003. During the year under review, ever under the adverse effect of SARS, the Group has achieved an improved result in terms of revenue.

### FINANCIAL HIGHLIGHTS

The Group recorded a total revenue of approximately HK\$3,769,000 for the year ended 31 December 2003. The income was mainly derived from "iHorse Arcade", online Arcade Game machines developed by the Group and distributed in Hong Kong and Macau. 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 approximately HK\$9,714,000 was recorded.

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2003.

### BUSINESS REVIEW

During the year under review, the Group has successfully expanded its products and services into Hong Kong and PRC in delivering its "Game-on-Demand" ("GOD") platform and developed an Online Arcade games 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 ("NOW"), a subsidiary of Pacific Century CyberWorks Limited ("PCCW"), to launch the co-branded website, <http://www.billybala.now.com.hk>.

Moreover, in July 2003, the Group entered into an agreement with a connected party and appointed it as an agent for the promotion and distribution of "iHorse Arcade", in Hong Kong and Macau.

### PROSPECTS

Leveraging on this favorable environment, Billybala will continue to enhance the content and feature of its GOD platform to service the rising number of Internet users in the People's Republic of China (the "PRC") through our allied Internet portals and Internet service providers.

In January 2004, the Company announced that the Share and Shareholders' Loan Sale Agreement was entered into with an independent third party. The Sale Shares represent approximately 71.27% of the entire issued share capital of the Company. It is believed that new shareholders can help the Group to explore business opportunities in the PRC with their business experience and network.

## CHAIRMAN'S STATEMENT

### 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.

### CHENG KAR SHING

*Chairman*

Hong Kong, 18 March 2004



## 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 (the “Prospectus”) of the Billybala Holdings Limited (the “Company”) dated 6 December 2001 from 1 July to 31 December 2003. 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.

<b>BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS DURING THE PERIOD FROM 1 JULY TO 31 DECEMBER 2003</b>
<b>1. PRODUCT DEVELOPMENT AND SERVICE ENHANCEMENT</b>	
<ul style="list-style-type: none"> <li>– Operate arcade and PC GAME-ON-DEMAND service at more than 30 arcade game centers in Hong Kong</li>   <li>– Implement steering wheel control feature to the game-on-demand platform</li>   <li>– Explore other modes of cooperation with other game portal site in the PRC</li>   <li>– Maintain up to 130 arcade games in the platform’s library</li>   <li>– Maintain up to 60 PC games form game suppliers</li> </ul>	<ul style="list-style-type: none"> <li>– Successfully placed ten arcade GAME-ON-DEMAND machines at nine arcade game centers in Hong Kong.</li>   <li>– Due to the market situation, the Directors consider it appropriate to adjust the pace of launching these machines to the arcade games centers.</li>   <li>– 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.</li>   <li>– Entered into an agreement with 1 game portal site in the PRC</li>   <li>– Currently maintain over 150 arcade games in the arcade GAME-ON-DEMAND platform’s library</li>   <li>– Currently maintain more than 150 PC games in the PC arcade GAME-ON-DEMAND platform’s library</li> </ul>

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

### ACTUAL BUSINESS PROGRESS DURING THE PERIOD FROM 1 JULY TO 31 DECEMBER 2003

#### 2. RESEARCH AND DEVELOPMENT

- |  |  |
|--|--|
| – Continue research and upgrade on the arcade and PC GAME-ON-DEMAND platform                                 | – 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.              |
| – Continue research and development on the applications streaming technology for the GAME-ON-DEMAND platform | – The above-mentioned US company provided such streaming technology for the Group's PC GAME-ON-DEMAND platform   |
| – Continue research and development on payment gateway via new media   | – SMS payment gateway has successfully been launched   |
| – Perform research on game popularity through attending international game show                              | – A booth was placed in "Hong Kong Pavilion" at the "China Digital Entertainment Expo & Conference (ChinaJoy)", held in Beijing in January 2004                  |
| – Upgrade the use of controlling device on the platform  | – 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 |
| – Perform further research on MMOG   | – Research on MMOG has been performed and under evaluation of the Directors  |

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

### ACTUAL BUSINESS PROGRESS DURING THE PERIOD FROM 1 JULY TO 31 DECEMBER 2003

#### 3. BRAND BUILDING AND MARKETING

– Continue new marketing strategies

– The new marketing strategies are formulated to face the trend of the market.

#### 4. HUMAN RESOURCES

Management	6	Management	3
Finance and administration	10	Finance and administration	5
Business development and marketing	20	Business development and marketing	7
Technical and research and development	18	Technical and research and development	10
	54		25
	54		25

## 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:

	Stated in Prospectus HK\$	Actual Spending during Year 2001 HK\$	Actual Spending during Year 2002 HK\$	Actual Spending during Year 2003 HK\$	Total HK\$
<i>Use of Proceeds</i>					
Product development and service enhancement	4,500,000	–	1,496,000	397,000	<b>1,893,000</b>
Brand building and marketing	1,500,000	41,000	1,409,000	1,332,000	<b>2,782,000</b>
Research and development	4,100,000	46,000	1,129,000	1,048,000	<b>2,223,000</b>
Acquisition of computer equipment and Servers	3,800,000	–	728,000	75,000	<b>803,000</b>
Working Capital	2,400,000	–	1,200,000	1,200,000	<b>2,400,000</b>
<b>Total</b>	<b>16,300,000</b>	<b>87,000</b>	<b>5,962,000</b>	<b>4,052,000</b>	<b>10,101,000</b>

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 approximately 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

During the year under review, the Group continued to engage in the provision of arcade game-on-demand service via the Internet services through turning existing arcade games into online version together with game-on-demand multiplayer features in Hong Kong and the PRC.

In addition, the Group developed and distributed "iHorse Arcade" online Arcade Game machines in Hong Kong and Macau.

### FINANCIAL REVIEW

The Group reported an audited turnover of approximately HK\$3,769,000 for the year ended 31 December 2003, representing an increase of approximately 17 folds of growth as the income was derived from "iHorse Arcade" online Arcade Game machines developed and distributed by the Group during the year under review as compared to previous year. 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 decreased from HK\$12,758,000 to approximately HK\$9,714,000 over the previous year, as the mitigation of the Group's net loss was attributable to the Group's effective control on the operation costs during the year and the increase in turnover during the year under review. Furthermore, the decrease in loss was mainly due to the decrease in staff costs, including directors' remuneration, in accordance with the decrease in staff count from 33 to 25. 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. 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.

## 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 and the announcement dated 4 March 2003 respectively. For the year under review, Poly Planning Limited, the ultimate parent enterprise of the Company made a loan of approximately HK\$3,030,000 to the Company. This loan is unsecured, interest bearing at rates ranging from prime rate plus 1% to 5% per annum and not repayable within one year from the date of drawing. In addition, the immediate holding company, Romson Limited, has agreed to provide not less than HK\$2,500,000 or other funds to the Company and its subsidiaries immediately upon their written request. The Share and Shareholders' Loan Sale Agreement was duly completed in accordance with its terms, disclosed in the announcement dated 20 February 2004. Immediately following the completion, Future Advance Holdings Limited, regarded by the Directors as ultimate parent enterprise has undertaken to the Company that for the period of 18 months, it shall provide or procure the provision to the Group, advances or facilities in the amount of not exceeding HK\$4,500,000 to meet the Group's operation cashflow requirements and to repay the debts of the Group. Endorsed with external facilities and the internal generated working capital, the Directors anticipate that the Group should have adequate financial resources to meet its ongoing operations and development requirements. As at 31 December 2003, the Group had cash and cash equivalents of approximately HK\$582,000.

### **Gearing Ratio**

As at 31 December 2003, the Group had cash and cash equivalents of approximately HK\$582,000 in its current assets while its current liabilities stood at approximately HK\$5,936,000. The Group had long-term debt of approximately HK\$3,030,000 as of 31 December 2003 and its shareholders' funds amounted to approximately HK\$2,424,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 56% (long-term debt to total equity plus long-term debt) as of 31 December 2003.

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

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

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

As at 31 December 2003, the Group has not pledged any bank deposits (31 December 2002: approximately HK\$5,213,000 to secure a bank overdraft facility and the corporate credit card). No bank overdraft was drawn down by the Group as at 31 December 2003 or during the year then ended.

Saved as above, the Group did not have any significant contingent liabilities as at 31 December 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Capital Structure

The shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. There has been no change in the capital structure of the Company for the year under review.

### Significant Investment

On 28 February 2003, the Group signed a joint venture agreement with an independent third party to set up a joint venture in Nanjing, the PRC. Due to the adverse effect to SARS, the capital injection of the joint venture amounted approximately HK\$1,321,000 has not been invested. Saved as disclosed above, the Group had no significant investments for the year then ended 31 December 2003.

### Material Acquisitions or Disposal of subsidiaries and affiliated companies

There were no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2003.

### Future plan on investment

The Company has no plan for material investments or capital assets other than those set out in the Prospectus dated 6 December 2001.

### Employees

As at 31 December 2003, the Group has 15 full-time and 4 contracted employees working in Hong Kong and 6 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\$3,623,000. The Group remunerates its employees based on their performance, experiences and the prevailing industry practice.

### Outlook

As a result of gradual recovery of economy during the year under review, the Group will continue to expand and further develop its business in providing Online Arcade games in Hong Kong and the PRC. The Group will continue to strengthen the cooperation with our business partners. The Group will accelerate its business expansion into the market of PRC, by introducing new shareholders who can help the Group to explore business opportunities in the PRC with their business experience and network. The Group aims at the leading GOD service provider in Greater China Region in the near future.

## **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 2003.

### **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 13 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 2003 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 2003.

### **FIXED ASSETS**

Movements in fixed assets of the Group during the year are set out in note 14 to the financial statements.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in note 15 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. Ng, Kenny Chi Kin

Mr. Li Ka Kui

Mr. Wong Hon Kit (appointed on 19 December 2003)

Ms. Ma Zhang (appointed on 25 February 2004)

Mr. Yu Hongwen (appointed on 25 February 2004)

#### 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 2003, the Company does not have any reserves available for distribution (as at 31 December 2002, reserves available for distribution amounted to HK\$8,205,619), calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands.

### 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.



## **REPORT OF THE DIRECTORS**

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 15% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 6%.

Purchases from the Group's largest supplier accounted for approximately 98% of the total purchases for the year and five largest suppliers accounted for approximately 36% 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**

One of the executive directors has entered into service contract with the Company for an initial term of two years commencing on 1 December 2003 and is 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 22 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 22 to 25 of the annual report.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2003, the interests or short positions of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of Part VX of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Director is taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (c) were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

*Notes:*

- (a) By virtue of Mr. Cheng Kar Shing's interest in Potassium Corp., a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheng Kar Shing, Mr. Cheng Kar Shing is deemed to be interested in the 39,268,118 shares, representing 8.92% in the Company, held by Potassium Corp. and the 242,000,000 shares held by Romson Limited, a wholly-owned subsidiary of Poly Planning Limited, which is owned as to 46.24% by Potassium Corp..
- (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.

Save as disclosed above, as at 31 December 2003, none of Director and chief executive, or their respective associates had any interest or short position in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of listed issuers as referred to Rules 5.40 to 5.58 of the GEM Listing Rules.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTEREST OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2003, shareholders who had interests or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting or substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

*Notes:*

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

Save as disclosed above, the Directors and chief executives of the Company were not aware of any person as at the 31 December 2003 had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO or, who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## 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 had granted pre-IPO share options on the Company's ordinary shares in favour of certain of its Directors, details of which are as follows:

Name of director	Number of share options granted on 28 November 2001	Number of share options outstanding at 31 December 2003	Exercise period of share options	Exercise price per share <i>HK\$</i>
Mr. Cheng Kar Shing	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Leung Wai Keung	7,920,000	7,920,000	14 December 2002 to 27 November 2011	0.24
	7,920,000	7,920,000	14 December 2003 to 27 November 2011	0.24
Mr. Li Ka Kui	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Ng, Kenny Chi Kin	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Fung Hoo Wing, Thomas	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24

## REPORT OF THE DIRECTORS

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES** *(Continued)*

The purpose of the Pre-Scheme was to recognise the contribution of the directors to the growth of the Group and/or the listing of the Company's shares on the GEM. The granting of the pre-IPO share options is limited to the Directors (excluding independent non-executive directors). None of these share options were exercised during the year ended 31 December 2003.

As at 31 December 2003, the Company had 33,440,000 share options outstanding under the Pre-Scheme. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 33,440,000 additional shares of the Company of HK\$0.005 each.

A total of 33,440,000 share options were cancelled and extinguished upon the completion of mandatory unconditional cash offer on 17 March 2004.

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

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

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

### **COMPETITION AND CONFLICT OF INTERESTS**

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

## REPORT OF THE DIRECTORS

### **COMPETITION AND CONFLICT OF INTERESTS** *(Continued)*

Saved as disclosed above, as at 31 December 2003, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

### **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises two members, Mr. Cheung Hon Kit and Mr. Ma Ching Nam, who are the independent non-executive Directors of the Company. The Group's audited results for the year ended 31 December 2003 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complies with applicable accounting standards and requirements, and adequate disclosures have been made.

### **SPONSOR'S INTEREST**

As at 31 December 2003, neither Tai Fook Capital Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company of any members of the Group.

Pursuant to a Sponsor Agreement dated 5 December 2001 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 13 December 2001 to 31 December 2003. As at 31 December 2003, Tai Fook Capital Limited ceased to be the sponsor of the Company upon expiration of the terms of the sponsor agreement.

### **PURCHASE, REDEMPTION OR SALE OF LISTING SECURITIES**

The Company's shares were listed on the GEM on 13 December 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 31 December 2003.

### **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

During the year ended 31 December 2003, 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.

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

Hong Kong, 18 March 2003

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

**Mr. Cheng Kar Shing, Peter** aged 51

*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. 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 50

*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 44

*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. Mr. Ng has 18 years of experience in management and overall planning of companies. He is responsible for the business advisory and strategic planning of the Group.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### **DIRECTORS** *(Continued)*

**Mr. Li Ka Kui**, aged 32

*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. Mr. Li is primarily responsible for the Group's business development and marketing.

**Mr. Wong Hon Kit**, aged 37

*Executive Director*

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 13 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.

**Ms. Ma Zheng**, aged 37

*Executive Director*

Ms Ma joined the Group in February 2004. She is currently a general manager of Shenzhen Zhi Hui Yuan Development Limited (深圳市智滙源實業發展有限公司) which is a private investment and development company. Ms. Ma has over 15 years of extensive experience in international trading, electronic industry and corporation management. She graduated from Wuhan University (武漢大學) majoring in construction structure engineering.

**Mr. Yu Hongwen**, aged 42

*Executive Director*

Mr. Yu joined the Group in February 2004. He is currently the chief director of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳市智信達投資發展有限公司). Mr. Yu graduated from Wuhan University (武漢大學) majoring in construction structure engineering in 1984. Prior to joining Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳市智信達投資發展有限公司), Mr. Yu has over 16 years since 1988 and worked for several power companies in the People's Republic of China (the "PRC"). Since 1996, Mr. Yu has engaged in the business of investment banking and has over seven years of experience in investment and management.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### **DIRECTORS** *(Continued)*

**Mr. Fung Hoo Wing, Thomas**, aged 48

*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 37

*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 15 years of experience in property investment, catering and finance related businesses. Mr. Tung is an active entrepreneur in Hong Kong and the PRC.

**Mr. Cheung Hon Kit**, aged 50

*Independent Non-executive Director*

Mr. Cheung joined the Group in September 2001. Mr. Cheung has over 26 years of experience in real estate development, property business and corporate finance. Mr. Cheung graduated from the University of London, the United Kingdom, with a Bachelor of Arts degree. He has worked in top executive posts for various leading property companies in Hong Kong. Currently, he is a director of Hanny Holdings Ltd., Asean Resources Holdings Limited, Panva Gas Holdings Limited and hkcyber.com (Holdings) Ltd.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### **DIRECTORS** *(Continued)*

**Mr. Ma Ching Nam**, aged 51

*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.

### **SENIOR MANAGEMENT**

**Ms. Sha Ka Man, Rennie**, aged 31

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 8 years of experience in marketing. Prior to joining the Group, she was the Business Development Manager at e-Solutions Limited.

## REPORT OF THE AUDITORS



**Charles Chan, Ip & Fung CPA Ltd.**

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To the Shareholders of  
**Billybala Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 28 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

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

### **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.

## REPORT OF THE AUDITORS

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.

### 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 1(b) and note 24 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. 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 2003 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, 18 March 2004

**Chan Wai Dune, Charles**

*Practising Certificate Number P00712*



## Consolidated Income Statement

For the year ended 31 December 2003

		2003	2002
	Note	HK\$	HK\$
TURNOVER	4	3,768,960	210,597
OTHER REVENUES	5	223,868	244,586
OTHER EXPENSES			
Staff costs, including directors' remuneration		(3,622,561)	(5,214,814)
Depreciation		(671,408)	(396,978)
Royalties for game contents		(1,223,022)	(415,044)
Research and development costs		(1,575,368)	(1,083,373)
Marketing and promotion expenses		(1,931,147)	(1,520,761)
Other operating expenses		(4,668,453)	(4,582,365)
LOSS FROM OPERATIONS		(9,699,131)	(12,758,152)
FINANCE COSTS		(121,731)	–
LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION	6	(9,820,862)	(12,758,152)
TAXATION	9	106,562	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(9,714,300)</u>	<u>(12,758,152)</u>
DIVIDENDS	11	<u>–</u>	<u>–</u>
LOSS PER SHARE			
Basic	12	<u>HK2.2 cents</u>	<u>HK2.9 cents</u>
Diluted	12	<u>N/A</u>	<u>N/A</u>

The notes on pages 33 to 55 form an integral part of these financial statements.

## Consolidated Balance Sheet

At 31 December 2003

	Note	2003 HK\$	2002 HK\$
<b>ASSETS</b>			
Non-current asset			
Fixed assets	14	1,055,327	1,690,440
Current assets			
Prepayments, deposits and other receivables		565,399	1,208,046
Deferred tax assets		7,701	–
Accounts receivable	16	1,301,654	38,302
Fixed deposits		–	6,027,084
Cash and bank balances		582,016	332,369
		<b>2,456,770</b>	<b>7,605,801</b>
<b>LIABILITIES</b>			
Current liabilities			
Accruals and other payables		(2,906,686)	(1,907,182)
Deferred tax liabilities		–	(98,861)
Loans from ultimate parent enterprise	17	(3,029,513)	–
		<b>(5,936,199)</b>	<b>(2,006,043)</b>
Net current (liabilities)/assets		<b>(3,479,429)</b>	<b>5,599,758</b>
<b>NET (LIABILITIES)/ASSETS</b>		<b><u>(2,424,102)</u></b>	<b><u>7,290,198</u></b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	18	2,200,000	2,200,000
Reserves	19	(4,624,102)	5,090,198
		<b><u>(2,424,102)</u></b>	<b><u>7,290,198</u></b>

Approved and authorised for issue by the board of directors on 18 March 2004

On behalf of the board

**Leung Wai Keung**  
Director

**Wong Hon Kit**  
Director

The notes on pages 33 to 55 form an integral part of these financial statements.

## Balance Sheet

At 31 December 2003

	Note	2003 HK\$	2002 HK\$
<b>ASSETS</b>			
Non-current asset			
Investments in subsidiaries	15	–	6,781,403
Current assets			
Prepayments, deposits and other receivables		86,700	78,395
Amounts due from subsidiaries	15	6,805,126	5,553,882
Cash and bank balances		–	338,253
		<b>6,891,826</b>	5,970,530
<b>LIABILITIES</b>			
Current liabilities			
Accruals and other payables		(989,661)	(579,749)
Amounts due to subsidiaries	15	(1,766,565)	(1,766,565)
Loans from ultimate parent enterprise	17	(3,029,513)	–
		<b>(5,785,739)</b>	(2,346,314)
Net current assets		<b>1,106,087</b>	3,624,216
<b>NET ASSETS</b>		<b>1,106,087</b>	10,405,619
<b>CAPITAL AND RESERVES</b>			
Issued capital	18	2,200,000	2,200,000
Reserves	19	(1,093,913)	8,205,619
		<b>1,106,087</b>	10,405,619

Approved and authorised for issue by the board of directors on 18 March 2004

On behalf of the board

**Leung Wai Keung**

Director

**Wong Hon Kit**

Director

The notes on pages 33 to 55 form an integral part of these financial statements.



## Consolidated Statement of Changes in Equity

*For the year ended 31 December 2003*

	Share capital <i>HK\$</i>	Share premium account <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2002 as previously reported	2,200,000	33,527,560	(15,580,349)	20,147,211
Adoption of SSAP 12 (revised)	—	—	(98,861)	(98,861)
At 1 January 2002 as restated	2,200,000	33,537,560	(15,679,210)	20,048,350
Net loss for the year	—	—	(12,758,152)	(12,758,152)
At 31 December 2002 and 1 January 2003	2,200,000	33,527,560	(28,437,362)	7,290,198
Net loss for the year	—	—	(9,714,300)	(9,714,300)
<b>At 31 December 2003</b>	<b><u>2,200,000</u></b>	<b><u>33,527,560</u></b>	<b><u>(38,151,662)</u></b>	<b><u>(2,424,102)</u></b>

The notes on pages 33 to 55 form an integral part of these financial statements.



## Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$	2002 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from operations	(9,699,131)	(12,758,152)
Adjustments for :		
Depreciation	671,408	396,978
Loss on disposal of fixed assets	183,445	95,764
Loss on disposal of a subsidiary	–	632
Interest income	(9,613)	(198,560)
Written back of other payable	–	(632)
Operating loss before working capital changes	(8,853,891)	(12,463,970)
(Increase)/decrease in accounts receivable	(1,263,352)	62,664
Decrease in prepayments, deposits and other receivables	642,647	1,164,247
Increase/(decrease) in accruals and other payables	999,504	(1,524,650)
Cash used in operations	(8,475,092)	(12,761,709)
Interest received	9,613	198,560
Finance costs paid	(121,731)	–
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(8,587,210)</b>	<b>(12,563,149)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(219,740)	(1,282,718)
Proceeds from disposal of fixed assets	–	3,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(219,740)</b>	<b>(1,279,718)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans from ultimate parent enterprise	3,029,513	–
Cash paid to a minority shareholder	–	(148)
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>3,029,513</b>	<b>(148)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(5,777,437)</b>	<b>(13,843,015)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>6,359,453</b>	<b>20,202,468</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>582,016</b>	<b>6,359,453</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Fixed deposits	–	6,027,084
Cash and balance balances	582,016	332,369
	<b>582,016</b>	<b>6,359,453</b>

The notes on pages 33 to 55 form an integral part of these financial statements.

## Notes to the Financial Statements

31 December 2003

### 1. BASIS OF PREPARATION

#### a) PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding.

The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

#### 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 of the company and the immediate holding company. Should the creditors request for immediate payment and the ultimate parent enterprise of the company 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.

Referring to Note 24 of this financial statements, the successful completion of takeover of the company by Future Advance Holding Limited indicated that sufficient financial support has been obtained by the company to meet the group's operations and the liabilities as they fall due within twelve months from the balance sheet date.

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

### 2. ADOPTION OF 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 ("SSAPs") 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.

## Notes to the Financial Statements

31 December 2003

### 2. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

In the current year, the company has adopted SSAP 12 (Revised) Income Taxes issued by HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous period, partial provision was made for deferred tax using the income statement liability method, whereby a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively with the opening balances of accumulated losses and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) CONSOLIDATION

The consolidated financial statements include the financial statements of the company and all of its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired during the year are included in the consolidated income statement from or to the date of their acquisition as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

In the company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

#### b) SUBSIDIARIES

A subsidiary, is an enterprise in which the 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.

Investment in subsidiaries are included in the company’s balance sheet less any identified impairment loss.

## Notes to the Financial Statements

31 December 2003

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

#### c) GOODWILL

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and
- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisitions of controlled subsidiaries represents the excess of the group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

On disposal of a controlled subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

## Notes to the Financial Statements

31 December 2003

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

#### d) FIXED ASSETS AND DEPRECIATION

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

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

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

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

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

#### e) IMPAIRMENT

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an assets exceeds its recoverable amount.

## Notes to the Financial Statements

31 December 2003

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

#### e) IMPAIRMENT (*Continued*)

##### (i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### (ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

#### f) PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

#### g) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

## Notes to the Financial Statements

31 December 2003

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

#### g) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (*Continued*)

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### h) 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 and Massive Multiplayer Online Game (“MMOG”) services are recognised at the time when the services are provided;
- income from sales of Online Arcade Game machines is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed; and
- interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

#### i) RESEARCH COSTS

Research costs are charged to the consolidated income statements in the year in which they are incurred.

#### j) 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.



## Notes to the Financial Statements

31 December 2003

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

#### j) TRANSLATION OF FOREIGN CURRENCIES (*Continued*)

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.

#### k) 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.

#### l) 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.

#### m) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into 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 cash flow statement.

## Notes to the Financial Statements

31 December 2003

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

#### n) TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

#### o) 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.

#### p) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## Notes to the Financial Statements

31 December 2003

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

#### q) 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 can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

### 4. TURNOVER

Turnover represents the net invoiced value of services provided.

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

	2003 HK\$	2002 HK\$
Game-On-Demand services income	342,062	210,597
MMOG service income	476,728	–
Online Arcade Game machine income	2,950,170	–
	<u>3,768,960</u>	<u>210,597</u>

### 5. OTHER REVENUE

	2003 HK\$	2002 HK\$
Bank interest income	9,613	198,560
Sundry income	214,255	46,026
	<u>223,868</u>	<u>244,586</u>

## Notes to the Financial Statements

31 December 2003

### 6. LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION

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

	2003	2002
	HK\$	HK\$
<b>Crediting</b>		
Interest income	<u>9,613</u>	<u>198,560</u>
<b>Charging</b>		
Cost of services provided	3,167,480	2,105,367
Operating leases charges		
– Property rental	450,791	470,977
Auditors' remuneration	261,905	300,000
Depreciation	671,408	396,978
Staff costs, including directors' emoluments (note 7)	3,445,136	5,041,040
Retirement costs	177,424	173,774
Loss on disposal of fixed assets	183,445	95,764
Net exchange (gain)/loss	<u>(13,420)</u>	<u>1,052</u>

### 7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on GEM is as follows:

	2003	2002
	HK\$	HK\$
<b>Fees</b>		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	–	–
<b>Other emoluments, executive directors</b>		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	11,613	1,552,306
Retirement costs	<u>387</u>	<u>68,532</u>
	<u>12,000</u>	<u>1,620,838</u>

## Notes to the Financial Statements

31 December 2003

### 7. DIRECTORS' REMUNERATION (Continued)

One executive director (year ended 31 December 2002: four) of the company received emoluments of HK\$12,000 (2002: HK\$Nil), HK\$Nil (2002: HK\$612,000), HK\$Nil (2002: HK\$469,306), HK\$Nil (2002: HK\$215,532) and HK\$Nil (2002: HK\$324,000) for the year.

No emoluments were paid to the non-executive directors or the independent non-executive directors of the company 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 2002: Nil).

At 31 December 2003, no share options has been granted to director of the company to subscribe (year ended 31 December 2002: 33,440,000) ordinary shares of the company. Further details of the share options granted to the directors are set out in note 18.

### 8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year do not include any director (year ended 31 December 2002: Three executive directors and two employees).

The details of the emoluments of five highest paid individuals are as follows:

	2003 HK\$	2002 HK\$
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	2,521,416	2,405,801
Retirement costs	<u>56,828</u>	<u>80,433</u>

The emoluments paid to the five highest paid individuals are within the following bands:

	2003 Number of individuals	2002 Number of individuals
HK\$ Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>—</u>
	<u>5</u>	<u>5</u>

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.

## Notes to the Financial Statements

31 December 2003

### 9. TAXATION

The amount of taxation charged to the income statement represents:

	<b>2003</b>	2002
	<b>HK\$</b>	<b>HK\$</b>
Hong Kong profits tax	–	–
The People's Republic of China ("PRC") profits tax	–	–
Deferred taxation		
Origination and reversal of temporary differences	<b>(115,036)</b>	–
Deferred taxation resulting from an increase in tax rate	<b>8,474</b>	–
	<u><b>(106,562)</b></u>	<u>–</u>

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 2002: Nil).

No PRC profits tax has been provided as the subsidiary of the Group in the PRC did not generate any assessable profits in the PRC for the year ended 31 December 2003 (year ended 31 December 2002: Nil)

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The unrecognised deferred tax assets in respect of tax losses amounted to HK\$5,334,292 (2002: HK\$4,258,594).

### 10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of HK\$9,299,532 (year ended 31 December 2002: HK\$12,048,144) which has been dealt with in the financial statements of the company for the year ended 31 December 2003.

### 11. 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 2002: Nil).

### 12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2003 is based on the net loss attributable to shareholders of HK\$9,714,300 (year ended 31 December 2002: HK\$12,758,152) and the number of 440,000,000 (year ended 31 December 2002: 440,000,000) ordinary shares in issue during the year.

No diluted loss per share is presented for the year ended 31 December 2003 and 2002 because the share options outstanding had an anti-dilutive effect on the basic loss per share for both years.

## Notes to the Financial Statements

31 December 2003

### 13. SEGMENT REPORTING

An analysis of the group's performance by business segments, namely "Game-On-Demand services", "MMOG service income" and "Online Arcade Game machine income".

	Game-On-Demand		MMOG		Online Arcade		Total	
	services		service income		Game machine income			
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	342,062	210,597	476,728	-	2,950,170	-	3,768,960	210,597
Cost of services provided	(287,473)	(2,105,367)	(400,647)	-	(2,479,360)	-	(3,167,480)	(2,105,367)
Other operating expenses	(955,177)	(11,107,968)	(1,331,220)	-	(8,238,082)	-	(10,524,479)	(11,107,968)
Loss from operating	(900,588)	(13,002,738)	(1,255,139)	-	(7,767,272)	-	(9,922,999)	(13,002,738)
Other revenue							223,868	244,586
Finance cost							(121,731)	-
Loss from ordinary activities before taxation							(9,820,862)	(12,758,152)
Taxation							106,562	-
Loss attributable to shareholders							(9,714,300)	(12,758,152)
Depreciation for the year							671,408	396,978
Unallocated assets							3,512,097	9,296,241
Unallocated liabilities							(5,936,199)	(2,006,043)
Capital expenditure incurred during the year							219,740	1,282,718

## Notes to the Financial Statements

31 December 2003

### 13. SEGMENT REPORTING (Continued)

The Group's operations are primarily in Hong Kong and the Group's revenue and total assets attributable to other geographical areas are less than 10% of the Group's corresponding consolidated totals for the year ended 31 December 2003 and 2002. Consequently, no segment information by geographical area is presented.

### 14. FIXED ASSETS

#### Group

	Leasehold improvements <i>HK\$</i>	Computer equipment <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Total <i>HK\$</i>
<b>Cost</b>				
At 1/1/2003	662,244	1,157,537	423,407	2,243,188
Additions	–	216,860	2,880	219,740
Disposal	(64,355)	(307,720)	–	(372,075)
<b>At 31/12/2003</b>	<b>597,889</b>	<b>1,066,677</b>	<b>426,287</b>	<b>2,090,853</b>
<b>Accumulated depreciation</b>				
At 1/1/2003	110,374	305,630	136,744	552,748
Charges for the year	331,122	255,173	85,113	671,408
Written back on disposal	(36,825)	(151,805)	–	(188,630)
<b>At 31/12/2003</b>	<b>404,671</b>	<b>408,998</b>	<b>221,857</b>	<b>1,035,526</b>
<b>Net book value</b>				
<b>At 31/12/2003</b>	<b>193,218</b>	<b>657,679</b>	<b>204,430</b>	<b>1,055,327</b>
At 31/12/2002	551,870	851,907	286,663	1,690,440



## Notes to the Financial Statements

31 December 2003

### 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$	2002 HK\$
Unlisted investments, at cost	6,781,403	6,781,403
Less: Impairment loss	6,781,403	–
	<u>–</u>	<u>6,781,403</u>
Amount due from subsidiaries ( <i>Note a</i> )	20,957,318	17,553,882
Less: Provision for amounts due from subsidiaries	(14,152,192)	(12,000,000)
	<u>6,805,126</u>	<u>5,553,882</u>
Amount due to subsidiaries ( <i>Note a</i> )	<u>1,766,565</u>	<u>1,766,565</u>

Particulars of the principal subsidiaries as at 31 December 2003 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
Billybala Software (BVI) Limited	BVI	US\$0.01	100%	–	Investment holding

## Notes to the Financial Statements

31 December 2003

### 15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operation	Issued and paid-up share capital	Percentage of equity attributable to the company		Principal activities
			Directly	Indirectly	
Jantek Limited	Hong Kong	HK\$10,000	100%	–	Dormant
BBW Limited	Hong Kong	HK\$2	100%	–	Sales and development of online arcade games machines
霹靂啪喇軟件 (深圳) 有限公司 (Note b)	PRC	HK\$1,000,000	–	100%	Sales and development of computer software

*Notes:*

- a) The balances with subsidiaries are interest-free, unsecured and there are no fixed terms of repayment.
- b) 霹靂啪喇軟件 (深圳) 有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 10 years up to December 2012.

#### Disposal of subsidiary

The company had disposed of a subsidiary:

	2003 HK\$	2002 HK\$
Cost of investment	–	632
Proceed	–	–
Loss on disposal	<u>–</u>	<u>632</u>

## Notes to the Financial Statements

31 December 2003

### 16. ACCOUNTS RECEIVABLE

The aging of Group's trade receivables is analysed as follows:

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Within 30 days	291,778	28,614
31 – 60 days	225,519	4,133
61 – 90 days	784,357	5,555
	<u>1,301,654</u>	<u>38,302</u>

### 17. LOANS FROM ULTIMATE PARENT ENTERPRISE

Loans from ultimate parent enterprise amounted to HK\$2,529,513 and HK\$500,000, were drawn on 21 March 2003 and 30 December 2003 respectively. The loans were unsecured, interest bearing at rates ranging from prime rate plus 1% to 5% per annum and not repayable within one year from the date of drawing.

### 18. SHARE CAPITAL

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
<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>

#### Share options

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

Any share options granted to a substantial shareholder or an independent non-executive director of the company, or any of their associates, in excess of 0.1% of the shares of the company 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.

## Notes to the Financial Statements

31 December 2003

### 18. SHARE CAPITAL (*Continued*)

#### Share options (*Continued*)

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.

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 2003.

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

As disclosed in note 24 to the financial statements, a total of 33,440,000 share options were cancelled and extinguished upon the completion of mandatory unconditional cash offer on 17 March 2004.

## Notes to the Financial Statements

31 December 2003

### 18. SHARE CAPITAL (*Continued*)

#### Share options (*Continued*)

- ii) On 28 November 2001, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the company. The purpose of the Post-Scheme is to enable the group to grant 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, 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 of the company, or any of their associates, in excess of 0.1% of the shares of the company in issue at any time or with an aggregate value in excess of HK\$5,000,000, 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 2003

### 19. RESERVES

Group	Share premium account# HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2002 as previously reported	33,527,560	(15,580,349)	17,947,211
Adoption of SSAP 12 (revised)	—	(98,861)	(98,861)
At 1 January 2002 as restated	33,527,560	(15,679,210)	17,848,350
Net loss for the year	—	(12,758,152)	(12,758,152)
At 31 December 2002 and 1 January 2003	33,527,560	(28,437,362)	5,090,198
Net loss for the year	—	(9,714,300)	(9,714,300)
<b>At 31 December 2003</b>	<b><u>33,527,560</u></b>	<b><u>(38,151,662)</u></b>	<b><u>(4,624,102)</u></b>

Company	Share premium account* HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2002	20,640,063	(386,300)	20,253,763
Net loss for the year	—	(12,048,144)	(12,048,144)
At 31 December 2002 and 1 January 2003	20,640,063	(12,434,444)	8,205,619
Net loss for the year	—	(9,299,532)	(9,299,532)
<b>At 31 December 2003</b>	<b><u>20,640,063</u></b>	<b><u>(21,733,976)</u></b>	<b><u>(1,093,913)</u></b>

# The share premium account of the group includes the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the share capital of the company issued in exchange therefor.

\* 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.

## Notes to the Financial Statements

31 December 2003

### 20. COMMITMENTS

#### (a) Capital commitments

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for		
– Contribution of capital to a subsidiary	<u>1,320,755</u>	<u>1,000,000</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	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Not later than one year	238,656	562,550
Later than one year and not later than five years	–	321,041
	<u>238,656</u>	<u>883,591</u>

## Notes to the Financial Statements

31 December 2003

### 21. 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.

### 22. RELATED PARTY TRANSACTIONS

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

	Notes	2003 HK\$	2002 HK\$
Service income from			
Game-On-Demand	(i)	<u>121,660</u>	<u>46,299</u>
Commission paid in respect of			
Online Arcade Game machines	(ii)	<u>581,602</u>	<u>—</u>

#### Notes:

- (i) The company and nine 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.
- (ii) One of the wholly-owned subsidiaries of the Company has appointed Golden Globe Industries Limited as its non-exclusive agent for the promotion and distribution of its Online Arcade Game machines in Hong Kong and Macau. The amount represented commission paid to Golden Globe Industries Limited based on the sale and installation of Online Arcade Game machines to Arcade game centers in Hong Kong and Macau.
- (iii) Mr. Leung Wai Keung is the common director of the above related parties.
- (iv) The directors are of the opinion that these transactions were conducted on normal commercial terms in the normal course of business at price and terms not less than those charged to or contracted with other third parties.



## Notes to the Financial Statements

31 December 2003

### 23. CHARGES ON ASSETS

Fixed deposits of the group with carrying amount of HK\$Nil (2002: HK\$5,213,373) have been pledged to a bank to secure banking facilities granted to the group.

### 24. POST BALANCE SHEET EVENT

On 19 January 2004, Future Advance Holdings Limited entered into the Share and Shareholders' Loan Sale Agreement with Romson Limited, immediate holding company of the Company, to acquire 313,597,030 ordinary shares of HK\$0.005 each in the issued share capital of the Company, being Romson Limited's entire equity interests in the Company. Upon completion, Future Advance Holdings Limited became interested in approximately 71.27% of the entire issued share capital of the Company and obliged under Rule 26 of the Takeovers Code to make a mandatory unconditional cash offer to acquire all the issued shares other than those already owned or agreed to be acquired ("Share Offer") and under Rule 13 of the Takeovers Code to make a comparable offer for all outstanding Options ("Option Offer"). Up to the closing of the mandatory unconditional cash offers on 17 March 2004, two valid acceptances in respect of 7,744,954 ordinary shares under the Share Offer representing approximately 1.76% of the issued share capital of the Company immediately after the close of the Share Offer and Option Offer and 6 valid acceptances in respect of 33,440,000 options ("Options") under the Option Offer, representing all the outstanding Options had been received. All the Options tendered under the Option Offer will be cancelled and extinguished. Taking into account the valid acceptances received, Future Advance Holdings Limited and parties acting in concert with it now interested in a total of 321,341,984 ordinary shares, representing approximately 73.03% of the issued share capital of the Company. The remaining approximately 25.85% of the Company's shares are held by independent shareholders and approximately 1.12% of the issued share capital of the Company is held by a non-executive director. Accordingly, the Company is able to satisfy the public float requirement under Rule 11.23 of the GEM Listing Rules.

In signing the Share and Shareholders' Loan Sale Agreement on 19 January 2004, Future Advance Holdings Limited also agreed to acquire from Romson Limited the Shareholders' Loan amounted to HK\$3,162,128 and as at 20 February 2004, date of completion of the Share and Shareholders' Loan Sale Agreement, amounted to HK\$3,162,701.

### 25. 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 2003, the directors regard Poly Planning Limited, a company incorporated in Hong Kong, to be the company's ultimate parent enterprise.

## 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 basis set out in note 1 below:

### RESULTS

	2003	2002	2001	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>TURNOVER</b>	<b>3,768,960</b>	210,597	228,189	–
Other revenue	<b>223,868</b>	244,586	65,813	58,634
Operating expenses	<b>(9,023,506)</b>	(8,630,970)	(6,185,449)	(2,901,114)
Other operating expenses	<b>(4,668,453)</b>	(4,582,365)	(3,798,140)	(3,048,282)
Loss from operating activities	<b>(9,699,131)</b>	(12,758,152)	(9,689,587)	(5,890,762)
Finance cost	<b>(121,731)</b>	–	–	–
Loss before taxation	<b>(9,820,862)</b>	(12,758,152)	(9,689,587)	(5,890,762)
Taxation	<b>106,562</b>	–	–	–
Net loss attributable to shareholders	<b><u>(9,714,300)</u></b>	<b><u>(12,758,152)</u></b>	<b><u>(9,689,587)</u></b>	<b><u>(5,890,762)</u></b>

*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.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Billybala Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on 23 April 2004 Friday 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 2003;
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

## NOTICE OF ANNUAL GENERAL MEETING

- (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

- (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;

## NOTICE OF ANNUAL GENERAL MEETING

“**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
  - (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.”

## NOTICE OF ANNUAL GENERAL MEETING

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.”

By order of the board of Directors

**Billybala Holdings Limited**

**Cheng Kar Shing**

*Chairman*

Hong Kong, 18 March 2004

*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, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, 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.