

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Billybala Holdings Limited, you should at once hand this document and the accompanying form of acceptance and transfer in respect of the Share Offer (as defined herein) to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. This document should be read in conjunction with the accompanying form of acceptance and transfer in respect of the Share Offer (as defined herein) and form of acceptance and cancellation in respect of the Option Offer (as defined herein), the contents of which form part of the terms of the Offers (as defined herein) contained herein.

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Billybala Holdings Limited **霹靂啪喇控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO MANDATORY UNCONDITIONAL CASH OFFERS

by

 **SOMERLEY LIMITED**

on behalf of

FUTURE ADVANCE HOLDINGS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**TO ACQUIRE ALL THE ISSUED SHARES OF BILLYBALA HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY
FUTURE ADVANCE HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)
AND**

ALL OUTSTANDING OPTIONS OF BILLYBALA HOLDINGS LIMITED

Financial adviser to Future Advance Holdings Limited

 **SOMERLEY LIMITED**

**Joint independent financial advisers to the independent board committee of
Billybala Holdings Limited**

 **Hantec Capital Limited**

 **Baron Capital Limited**

A letter from the Board (as defined herein) is set out on pages 6 to 13 of this document. A letter from Sommerley Limited containing, among other things, details of the terms of the Offers (as defined herein) is set out on pages 14 to 22 of this document.

A letter from Hantec Capital Limited and Baron Capital Limited to the independent board committee of Billybala Holdings Limited is set out on pages 26 to 41 of this document. A letter from the independent board committee of Billybala Holdings Limited to the Independent Shareholders (as defined herein) is set out on pages 23 to 25 of this document.

The procedure for acceptance and settlement of the Offers is set out on pages 20 to 22, of this document, in Appendix I to this document and in the accompanying form of acceptance and transfer in respect of the Share Offer (as defined herein) and form of acceptance and cancellation in respect of the Option Offer (as defined herein). Acceptance of the Offers (as defined herein) must be received by Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 17th March, 2004 or such later date as the Offeror may determine and announce.

This document will remain on the GEM (as defined herein) website at www.hkgem.com for at least 7 days after the date of despatch of this document.

25th February, 2004

CHARACTERISTICS OF GEM

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

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

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

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EXPECTED TIMETABLE

2004

Commencement of the Offers	Wednesday, 25th February
Latest time and date for acceptance of the Offers	4:00 p.m. on Wednesday, 17th March
Closing Date (<i>Note 1</i>)	Wednesday, 17th March
Announcement of the results of the Offers	Thursday, 18th March
Latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptance received on the latest time for acceptance (<i>Note 2</i>)	Saturday, 27th March

Notes:

1. The Offers, which are unconditional, will be closed on Wednesday, 17th March, 2004 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror reserves the right to extend the Offers until such date as it may determine. The Offeror will issue an announcement on the GEM website at www.hkgem.com by 7:00 p.m. on the Closing Date as to whether the Offers have expired, or in relation to any extension of the Offers, to state either the next closing date or the Offers will remain open until further notice. If the Offeror decides to extend the Offers, at least 14 days' notice in writing will be given, before the Offers are closed, to those Shareholders and Optionholders who have not accepted the Offers.
2. Acceptance of the Offers shall be irrevocable and not capable of being withdrawn subject to compliance by the Offeror with Rule 19 of the Takeovers Code.
3. Remittances in respect of the cash consideration payable for the Shares and Options tendered under the Offers will be posted to the relevant Shareholder or Optionholder by ordinary post at his/her/its own risk within 10 days of the date of receipt by the Registrar from the Shareholders or by the Company from the Optionholders of all the relevant documents which render the relevant acceptance under the Offers complete and valid.
4. Although the Offeror does not intend to extend the Offers, it reserves the right to do so.

All time references contained in this document refer to Hong Kong time.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Announcement”	the announcement dated 30th January, 2004 jointly made by the Offeror and the Company in relation to, among other things, the Offers
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Baron”	Baron Capital Limited, a corporation licensed to undertake dealing in securities and advising on corporate finance regulated activities under the SFO which has been appointed by the Company as one of the joint independent financial advisers to the Independent Board of Committee to advise the Independent Shareholders and the Optionholders in respect of the Offers
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCIF”	Charles Chan, Ip & Fung CPA Limited, Certified Public Accountants
“Closing Date”	17th March, 2004 or if the Offers are extended, the date of closing of the Offers as extended by the Offeror in accordance with the Takeovers Code
“Company”	Billybala Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“Completion”	completion of the Share and Shareholders’ Loan Sale Agreement in accordance with its terms
“Director(s)”	the director(s) of the Company
“Executive”	the executive director of the corporate finance division of the SFC or any delegate of the executive director
“Form(s) of Acceptance”	the accompanying WHITE form of acceptance and transfer in respect of the Share Offer and/or the YELLOW form of acceptance and cancellation in respect of the Option Offer
“GEM”	the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantors”	together Mr. Cheng, Mr. Fung and Mr. Leung
“Hantec”	Hantec Capital Limited, a corporation deemed licensed under the transitional arrangements to undertake dealing in securities and advising on corporate finance regulated activities under the SFO which has been appointed by the Company as one of the joint independent financial advisers to the Independent Board of Committee to advise the Independent Shareholders and the Optionholders in respect of the Offers
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$” and “cent(s)”	Hong Kong dollar(s) and cent(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	the independent board committee of the Company, comprising Messrs. Cheung Hon Kit and Ma Ching Nam, which has been established to advise the Independent Shareholders in respect of the Offers
“Independent Shareholders”	Shareholders other than the Vendors, the Offeror, the Guarantors and their respective associates and parties acting in concert with any of them
“Internet”	a global network of inter-connected and separately administered public and private company networks
“Kateman”	Kateman International Limited, a company incorporated in Hong Kong with limited liability and is beneficially owned as to 33.33% by Mr. Fung, as to 33.33% by Mr. Fung Ho Sum and as to the balance of 33.33% by Mr. Yeung Ming Kwong, Tony
“Last Trading Day”	16th January, 2004, being the last trading day immediately preceding the date of the Announcement
“Latest Practicable Date”	23rd February, 2004, being the latest practicable date for ascertaining certain information for inclusion in this document

DEFINITIONS

“Long Stop Date”	18th February, 2004 or such later date as the Vendors and the Offeror may agree in writing in accordance with the Share and Shareholders’ Loan Sale Agreement
“Mr. Cheng”	Mr. Cheng Kar Shing, the chairman, an executive Director and one of the Guarantors
“Mr. Fung”	Mr. Fung Hoo Wing, Thomas, a non-executive Director and one of the Guarantors
“Mr. Leung”	Mr. Leung Wai Keung, an executive Director and one of the Guarantors
“Offer Share(s)”	issued Share(s) other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“Offers”	together, the Share Offer and Option Offer
“Offeror”	Future Advance Holdings Limited, a company incorporated in the British Virgin Islands with limited liability on 8th October, 2003 and is beneficially owned as to 50% by Mr. Lang Fulai, as to 12.5% by Ms. Ma Zheng and as to the balance of 37.5% by China Zong Heng Holdings Limited (中國縱橫控股有限公司), the entire issued share capital of which is beneficially owned by Mr. Yu Hongwen
“Option(s)”	options(s) granted to the Directors (excluding independent non-executive Directors) under the Pre-IPO Share Option Scheme which remain outstanding as at the Latest Practicable Date, entitling the holders thereof to subscribe for an aggregate of 33,440,000 new Shares
“Optionholder(s)”	holder(s) of the Option(s)
“Option Offer”	the mandatory unconditional cash offer for all outstanding Options made by Somerley on behalf of the Offeror at HK\$0.10 per 10,000 Options
“Perfect Sun”	Perfect Sun Development Limited, a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by Mr. Leung
“Potassium”	Potassium Corp., a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Cheng

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this document, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 28th November, 2001
“Prospectus”	the prospectus of the Company dated 6th December, 2001
“Registrar”	Tengis Limited, the branch share registrar of the Company in Hong Kong, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
“Relevant Period”	the period from the date commencing six months prior to 30th January, 2004, being the date of the Announcement, up to and including the Latest Practicable Date
“Romson”	Romson Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 46.24% by Potassium, as to 20.81% by Kateman, as to 17.26% by Perfect Sun, as to 5.78% by Mr. Tung Wai Wa, Wallace, as to 3.47% by Mr. Li Ka Kui, as to 2.64% by Mr. Lee Sai Wing, Simon, as to 2.64% by Peristera Holdings Limited and as to 1.16% by Mr. Tam B Ray Billy
“Sale Shares”	an aggregate of 313,597,030 Shares acquired by the Offeror from the Vendors pursuant to the Share and Shareholders’ Loan Sale Agreement
“Sale Shareholders’ Loan”	the shareholder’s loan owed by the Company to Romson which as at the date of the Share and Shareholders’ Loan Sale Agreement amounted to HK\$3,162,128.33 and amounted to HK\$3,162,701.16 as at Completion
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.005 each in the issued share capital of the Company
“Share and Shareholders’ Loan Sale Agreement”	the sale and purchase agreement dated 19th January, 2004 entered into among the Offeror, the Guarantors and the Vendors in relation to the sale and purchase of the Sale Shares and the Sale Shareholders’ Loan

DEFINITIONS

“Share Offer”	the mandatory unconditional cash offer for all the issued Shares not already owned or agreed to be acquired by Offeror or parties acting in concert with it made by Somerley on behalf of the Offeror at HK\$0.0257 per Offer Share
“Shareholder(s)”	holder(s) of the Share(s)
“Somerley”	Somerley Limited, the licensed securities dealer making the Offers on behalf of the Offeror and a corporation deemed licensed under the transitional arrangements to undertake dealing in securities, advising on securities, advising on corporate finance and asset management regulated activities under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Vendors”	together, Kateman, Perfect Sun, Potassium and Romson
“%”	per cent.

LETTER FROM THE BOARD



Billybala Holdings Limited **霹靂咁喇控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. Cheng Kar Shing (*Chairman*)
Mr. Leung Wai Keung
Mr. Ng, Kenny Chi Kin
Mr. Li Ka Kui
Mr. Wong Hon Kit

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:

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

*Head office and principal
place of business*

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

25th February, 2004

To the Shareholders and the Optionholders

Dear Sir/Madam,

MANDATORY UNCONDITIONAL CASH OFFERS

INTRODUCTION

On 30th January, 2004, the Company and the Offeror jointly announced that on 19th January, 2004, the Share and Shareholders' Loan Sale Agreement was entered into among the Vendors, the Offeror and the Guarantors, pursuant to which the Vendors have conditionally agreed to sell, and the Offeror has conditionally agreed to purchase, the Sale Shares at a total consideration of HK\$4,889,028.55. The Sale Shares represent approximately 71.27% of the entire issued share capital of the Company as at the date of the Share and Shareholders' Loan Sale Agreement. Pursuant to the Share and Shareholders' Loan Sale Agreement, Romson has further agreed to sell and the Offeror has agreed to acquire from Romson the Sale Shareholders' Loan at a consideration equivalent to the face value of the Sale Shareholders' Loan as at Completion. As at the date of the Share and Shareholders' Loan Sale Agreement, the Sale Shareholders' Loan amounted to HK\$3,162,128.33 and as at Completion, the Sale Shareholders' Loan amounted to HK\$3,162,701.16.

Completion of the Share and Shareholders' Loan Sale Agreement took place on 20th February, 2004 pursuant to the Share and Shareholders' Loan Sale Agreement.

LETTER FROM THE BOARD

Immediately following Completion, the Offeror was interested in approximately 71.27% of the entire issued share capital of the Company and is 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 by the Offeror and parties acting in concert with it and under Rule 13 of the Takeovers Code to make a comparable offer for all outstanding Options. Somerley is making the Offers on behalf of the Offeror.

Mr. Cheng, Mr. Leung, Mr. Fung, Mr. Li Ka Kui and Mr. Tung Wai Wa, Wallace are all interested in the Share and Shareholders' Loan Sale Agreement by virtue of their respective relevant interests in Kateman, Perfect Sun, Potassium and Romson. Mr. Ng, Kenny Chi Kin was a salaried Director during the period from 12th September, 2001 to 31st December, 2002. He has ceased to receive any remuneration from the Company since 1st January, 2003 after having agreement with the Company as part of the cost cutting measures adopted by the Company. As such, he was deemed to be a salaried Director in principle. Mr. Wong Hon Kit is a salaried Director. Accordingly, all the aforesaid Directors are not considered to be sufficiency independent for the purpose of advising the Independent Shareholders and Optionholders on the Offers. The Independent Board Committee, comprising Messrs. Cheung Hon Kit and Ma Ching Nam, who are the independent non-executive Directors, has been formed to consider the terms of the Offers and to advise the Independent Shareholders and the Optionholders thereon. Hantec and Baron have been appointed as joint independent financial advisers to advise the Independent Board Committee on the Offers.

The purpose of this document is to provide you with, among other things, information relating to the Offers including (i) the letter from the Independent Board Committee containing its advice to the Independent Shareholders and the Optionholders as regards the Offers; (ii) the letter from Hantec and Baron containing their advice to the Independent Board Committee as regards the Offers; (iii) the letter from Somerley containing principal terms of the Offers; and (iv) further details on the procedures for acceptance and transfer regarding the Offers contained in Appendix I to this documents.

SHARE AND SHAREHOLDERS' LOAN SALE AGREEMENT

On 19th January, 2004, the Offeror, the Guarantors and the Vendors entered into the Share and Shareholders' Loan Sale Agreement with details as follow:

(i) **Parties**

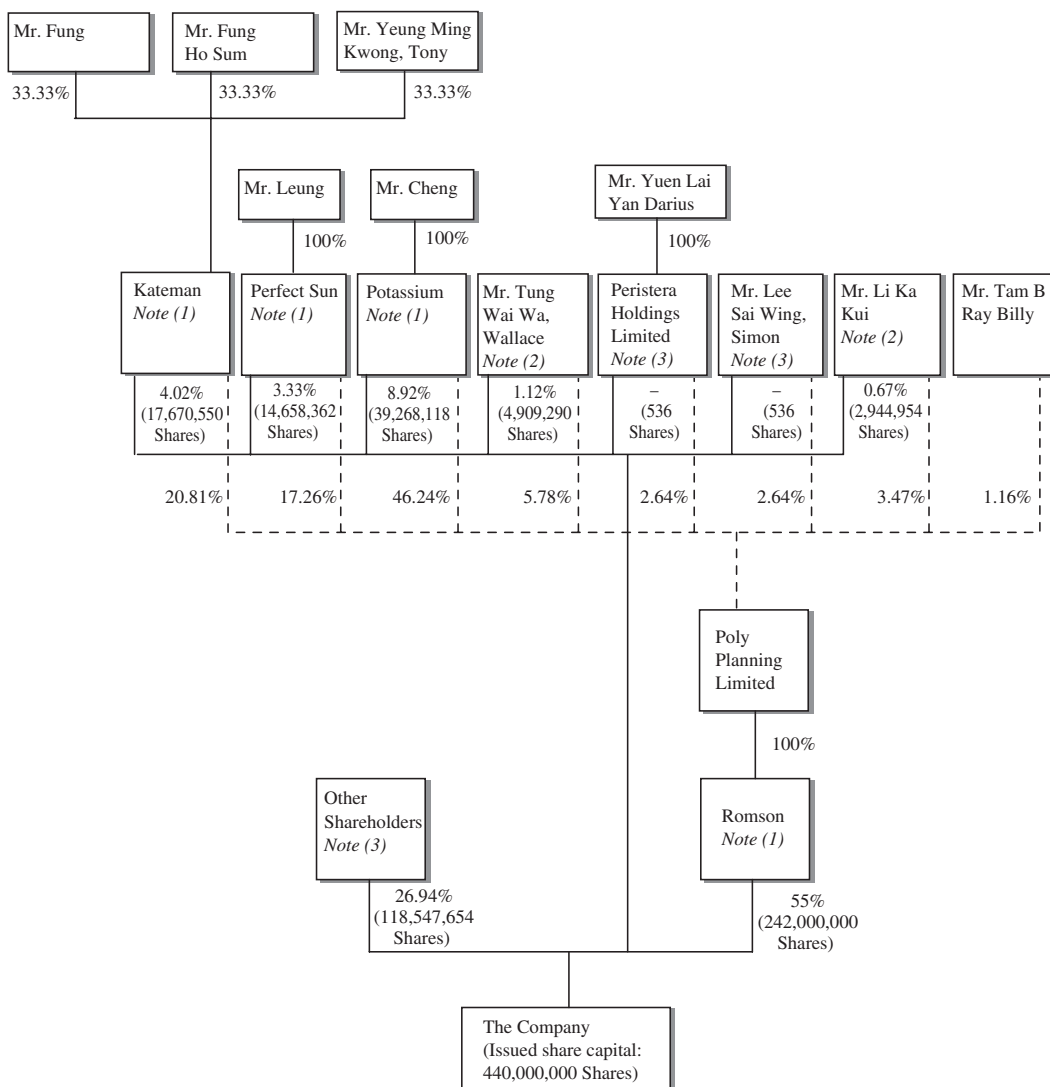
Vendors

Details of the shareholdings of the Vendors in the Company are as follows:-

Vendors	Number of Sale Shares	Approximate percentage of issued share capital %
Romson	242,000,000	55.00
Potassium	39,268,118	8.92
Kateman	17,670,550	4.02
Perfect Sun	14,658,362	3.33
Total	<u>313,597,030</u>	<u>71.27</u>

LETTER FROM THE BOARD

Pursuant to the Share and Shareholders' Loan Sale Agreement, the Vendors have undertaken to procure their associates not to accept the Offers. Set out below was the shareholding structure of the Company prior to the Completion:



Notes:

- (1) A total of 313,597,030 Sale Shares were sold by the Vendors to the Offeror pursuant to the Share and Shareholders' Loan Sale Agreement. Save as disclosed in the above shareholding chart, the Vendors and parties acting in concert with them do not have any other shareholding interest in the Company.
- (2) Mr. Tung Wai Wa, Wallace and Mr. Li Ka Kui are both Directors and their interests in the Company are not counted towards the public float.
- (3) Such interests are counted as public float which amount to 118,548,726 Shares, representing approximately 26.94% of the Company's entire issued share capital as at the Latest Practicable Date.
- (4) Save for the 33,440,000 outstanding Options, the Company did not have any other outstanding options, warrants or securities convertible into Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

Purchaser

The Offeror, together with its beneficial shareholders, is independent of and not connected or acting in concert with the directors, chief executive, substantial shareholders or management shareholders of the Company, the Vendors, the Guarantors or any of their respective subsidiaries or an associate of any of them.

Guarantors

Mr. Cheng, Mr. Fung and Mr. Leung have agreed to guarantee the performance by Potassium, Kateman and Perfect Sun respectively of their respective obligations under the Share and Shareholders' Loan Sale Agreement including, but not limited to, the sale of the Sale Shares and the representations, undertakings and warranties made thereunder and each of Mr. Cheng, Mr. Fung and Mr. Leung has agreed to jointly and severally guarantee the performance by Romson of its obligations under the Share and Shareholders' Loan Sale Agreement including, but not limited to, the sale of the Sale Shares and the Sale Shareholders' Loan and the representations, undertakings and warranties made thereunder. Mr. Cheng, Mr. Fung and Mr. Leung are all Directors.

(ii) Assets sold/purchased

Sale Shares

The Vendors agreed to sell and the Offeror agreed to acquire from the Vendors 313,597,030 Sale Shares, representing approximately 71.27% of the entire issued share capital of the Company, free from all liens, charges or encumbrances together with all rights at the date of Completion and thereafter attaching thereto all dividends and distribution paid, declared or made in respect thereof at any time on or after the date of the Completion.

The Sale Shares represent the entire equity interests beneficially owned by the Vendors in the Company prior to Completion.

Sale Shareholders' Loan

Romson agreed to sell and the Offeror agreed to acquire from Romson the Sale Shareholders' Loan at a consideration equivalent to the face value of the Sale Shareholders' Loan as at Completion. As at the date of the Share and Shareholders' Loan Sale Agreement, the Sale Shareholders' Loan amounted to HK\$3,162,128.33 and the Sale Shareholders' Loan amounted to HK\$3,162,701.16 as at Completion. The Sale Shareholders' Loan is unsecured, interest bearing at rates ranging from prime rate plus 1% to 5% per annum and not repayable within one year.

(iii) Consideration for the Sale Shares and the Sale Shareholders' Loan

The aggregate cash consideration of HK\$4,889,028.55 for the Sale Shares (equivalent to approximately HK\$0.0156 per Sale Share) was payable in the following manner:

- (a) HK\$1,214,405 was paid by the Offeror in cash as refundable deposit to the Vendors upon signing of the Share and Shareholders' Loan Sale Agreement; and

LETTER FROM THE BOARD

- (b) the remaining balance of HK\$3,674,623.55 was settled in cash at Completion.

The aggregate cash consideration of HK\$3,162,701.16 for the Sale Shareholders' Loan was payable in the following manner:

- (a) HK\$785,595 was paid by the Offeror in cash as refundable deposit to Romson upon signing of the Share and Shareholders' Loan Sale Agreement; and
- (b) the remaining balance of HK\$2,377,106.16 was settled in cash at Completion.

The consideration has been arrived at after arm's length negotiation between the parties to the Share and Shareholders' Loan Sale Agreement taking into consideration, amongst other things, the unaudited net tangible asset value of the Group as at 30th June, 2003 of approximately HK\$3.3 million and the unaudited loss of the Group of approximately HK\$5.0 million for the nine months ended 30th September, 2003.

(iv) Conditions of the Share and Shareholders' Loan Sale Agreement

Completion is conditional upon satisfaction of the following conditions:

- (a) trading in Shares on GEM not being suspended for a period of more than ten consecutive trading days other than any suspension for the purposes of clearing any announcement and circular in relation to the sale and purchase of the Sale Shares and the Sale Shareholders' Loan by the regulatory authorities;
- (b) trading in the Shares on GEM not being revoked or withdrawn at any time prior to Completion;
- (c) before the Long Stop Date, there being no indication from the Stock Exchange or the SFC that listing of the Shares will be suspended, revoked or withdrawn at any time after Completion, whether in connection with any of the transactions contemplated by the Share and Shareholders' Loan Sale Agreement or otherwise;
- (d) all necessary consents and approvals for or in connection with the sale and purchase of the Sale Shares and the Sale Shareholders' Loan and the transactions contemplated under the Share and Shareholders' Loan Sale Agreement having been obtained by the Vendors and the Guarantors; and
- (e) the representations and warranties set out in the Share and Shareholders' Loan Sale Agreement remaining true and accurate in all respects.

All the aforesaid conditions were fulfilled on 18th February, 2004 save and except that the Offeror waived condition (b) in writing on 18th February, 2004.

LETTER FROM THE BOARD

(v) Completion

In accordance with the terms of the Share and Shareholders' Loan Sale Agreement, Completion took place on the second business day after fulfillment/waiver of all the conditions precedent of the Share and Shareholders' Loan Sale Agreement, which is 20th February, 2004.

THE OFFERS

Immediately following Completion, the Offeror was interested in approximately 71.27% of the entire issued share capital of the Company and is obliged to make the Offers pursuant to the Takeovers Code.

Somerley is making the Offers on behalf of the Offeror for all the issued Shares other than those already owned, or agreed to be acquired, by the Offeror and parties acting in concert with it and all outstanding Options on the following basis and subject to the terms set out in the letter from Somerley on pages 14 to 22 of this document, in Appendix I to this document and in the Forms of Acceptance.

The Share Offer

The Share Offer, which is unconditional, is made on the following basis:

For each Offer Share HK\$0.0257 in cash

The Offer Shares to be acquired under the Share Offer shall be free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of the Announcement, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Announcement.

On the basis of the offer price of HK\$0.0257 per Offer Share, the entire issued share capital of the Company of 440,000,000 Shares as at the Latest Practicable Date was valued at approximately HK\$11.31 million (assuming the Options have not been exercised prior to the close of the Offers) or approximately HK\$12.17 million (assuming the Options have been fully exercised).

Based on 126,402,970 Shares subject to the Share Offer, the Share Offer is valued at approximately HK\$3.25 million (assuming the Options have not been exercised prior to the close of the Offers) or approximately HK\$4.11 million (assuming the Options have been fully exercised).

The Option Offer

The Option Offer, which is unconditional, is made on the following basis:

For every 10,000 Options HK\$0.10 in cash

As at the Latest Practicable Date, there are 33,440,000 outstanding Options granted to the Directors, entitling them to subscribe for an aggregate of 33,440,000 Shares at an exercise price of HK\$0.24 per Share under the Pre-IPO Share Option Scheme.

The Company also has a post-IPO share option scheme in place. No share option has been granted by the Company under the said scheme and the Board has not made any decision on the granting of such share options up to the Latest Practicable Date.

LETTER FROM THE BOARD

Save for the Options as mentioned above, there is no outstanding options, warrants or securities convertible into Shares as at the Latest Practicable Date.

Further terms and conditions of the Offers, including the procedure for acceptance, are contained in the letter from Somerley set out on pages 14 to 22 of this document, in Appendix I to this document and in the the Forms of Acceptance.

INFORMATION ON THE GROUP

Business

The Company was listed on the GEM on 13th December, 2001. The Group is principally engaged in the provision of arcade game-on-demand service via Internet services through turning existing arcade games into online version together with game-demand multi-player feature in Hong Kong and the PRC. The Internet arcade games provided by the Group include but not limited to “Final Fight” and “Street Fighter Zero 3”.

Financial Information

The following is a summary of the Group’s audited financials for each of the two years ended 31st December, 2001 and 2002:

	Year ended 31st December,	
	2001	2002
	HK\$	HK\$
Turnover	228,189	210,597
Loss from operating activities before taxation	(9,689,587)	(12,758,152)
Net loss attributable to Shareholders	(9,689,587)	(12,758,152)
Net tangible asset value	20,147,211	7,389,059

Your attention is drawn to Appendix II to this document which contains, among other things, the audited financial statements of the Group for the two years ended 31st December, 2002, the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2003 and the unaudited condensed consolidated financial statements of the Group for the nine months ended 30th September, 2003.

With the unsatisfactory financial performance, the Group is now operating under a very tight financial condition. As shown in Appendix II to this document, the unaudited adjusted consolidated deficiency in net tangible assets of the Group amounted to approximately HK\$2.4 million. Subject to the Offeror remains as the controlling Shareholder and the exhaustion and unavailability of (i) advances and credit from financial institutions or other third party sources on terms that are reasonably acceptable to the Company and (ii) funds to be raised through equity financing by allotting and issuing new shares or other equity securities in the Company, the Offeror has undertaken to the Company that for the period of 18 months commencing from the date of Completion, being 20th February, 2004, 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 when they fall due.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company as at the Latest Practicable Date, without taking into account results of the Offers:

	As at the Latest Practicable Date	
	<i>Shares</i>	<i>Approximate percentage of entire issued share capital (%)</i>
Offeror and concert parties	313,597,030	71.27
Tung Wai Wa, Wallace*	4,909,290	1.12
Li Ka Kui*	2,944,954	0.67
Public Shareholders	118,548,726	26.94
Total	<u>440,000,000</u>	<u>100.00</u>

* *They are Directors and their interests in the Company are not regarded as public float.*

INFORMATION ON THE OFFEROR AND INTENTION OF THE OFFEROR ON THE GROUP

Your attention is drawn to the sections headed “Information on the Offeror”, “Intentions of the Offeror regarding the Group”, “Proposed change of board composition of the Company” and “Maintaining the listing status of the Company” in the letter from Somerley set out on pages 14 to 22 of this document.

FURTHER INFORMATION

You are advised to read carefully the letter from the Independent Board Committee on pages 23 to 25 of this document and the letter from Hantec and Baron to the Independent Board Committee on pages 26 to 41 of this document.

In considering what action to take in connection with the Offers, Shareholders and Optionholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers.

You are recommended to read this document together with the Forms of Acceptance for details of the Offers. Your attention is also drawn to the additional information set out in the appendices to this document.

Yours faithfully,
for and on behalf of the board of
Billybala Holdings Limited
Cheng Kar Shing
Chairman

LETTER FROM SOMERLEY



Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

25th February, 2004

To the Shareholders and the Optionholders

INTRODUCTION

On 30th January, 2004, the respective board of directors of the Offeror and the Company jointly announced that the Offeror entered into the Share and Shareholders' Loan Sale Agreement with the Vendors. Pursuant to the Share and Shareholders' Loan Sale Agreement, the Offeror agreed to acquire 313,597,030 Sale Shares, being the Vendors' entire equity interests in the Company, for an aggregate consideration of HK\$4,889,028.55. The Sale Shares represent approximately 71.27% of the entire issued share capital of the Company as at the date of the Share and Shareholders' Loan Sale Agreement. Furthermore, Romson has agreed to sell and the Offeror has agreed to acquire from Romson the Sale Shareholders' Loan at a consideration equivalent to the face value of the Sale Shareholders' Loan as at Completion. As at the date of the Share and Shareholders' Loan Sale Agreement, the Sale Shareholders' Loan amounted to HK\$3,162,128.33 and as at Completion, the Sale Shareholders' Loan amounted to HK\$3,162,701.16.

The Share and Shareholders' Loan Sale Agreement was duly completed on 20th February, 2004. Upon Completion, the Offeror and parties acting in concert with it became interested in approximately 71.27% of the entire issued share capital of the Company. The Offeror is therefore obliged under Rule 26 of the Takeovers Code to make an unconditional cash offer for all the issued Shares held by the Independent Shareholders and under Rule 13 of the Takeovers Code to make a comparable offer for all the outstanding Options held by the Optionholders. Somerley is making the Offers on behalf of the Offeror.

This letter sets out the details of the terms of the Offers, together with information relating to the Offeror and its intention regarding the Group. Further details of terms of the Offers and the procedures for acceptance and transfer of the Offer Shares and the acceptance of the Options are set out in Appendix I to this document and in the Forms of Acceptance. Your attention is also drawn to the letter from the Board, the letter from the Independent Board Committee and the letter from Hantec and Baron contained in this document.

LETTER FROM SOMERLEY

THE OFFERS

Somerley, on behalf of the Offeror, is making unconditional cash offers to acquire all the Offer Shares and all outstanding Options on the terms and subject to the conditions set out in this letter, Appendix I to this document and in the Forms of Acceptance on the following basis:–

The Share Offer

The Share Offer is made on the following basis:

For each Offer Share HK\$0.0257 in cash

The offer price for each Offer Share is approximately 64.7% higher than the purchase price of HK\$0.0156 for each Sale Share paid by the Offeror to the Vendors under the Share and Shareholders' Loan Sale Agreement (without taking into account the Shareholders' Loan) and represents:

- a discount of approximately 95.2% to the closing price of the Share of HK\$0.53 as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 94.9% to the average closing price of the Share of approximately HK\$0.503 for the last 10 trading days up to and including the Last Trading Day;
- a discount of approximately 76.6% to the closing price of the Share of HK\$0.11 as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 77.8% to the average closing price of the Share of approximately HK\$0.116 for the last 10 trading days up to and including the Latest Practicable Date;
- a premium of approximately 53.0% over the audited consolidated net asset value of approximately HK\$0.0168 per Share as at 31st December, 2002; and
- a premium of approximately 243.0% over the unaudited consolidated net asset value of approximately HK\$0.0075 per Share as at 30th June, 2003.

On the basis of the offer price of HK\$0.0257 per Offer Share, the entire issued share capital of the Company of 440,000,000 Shares is valued at approximately HK\$11.31 million (assuming the Options have not been exercised prior to the close of the Offers) or approximately HK\$12.17 million (assuming the Options have been fully exercised).

Based on 126,402,970 Shares subject to the Share Offer, the Share Offer is valued at approximately HK\$3.25 million (assuming the Options have not been exercised prior to the close of the Offers) or approximately HK\$4.11 million (assuming the Options have been fully exercised).

LETTER FROM SOMERLEY

The Option Offer

The Option Offer is made on the following basis:

For every 10,000 Options HK\$0.10 in cash

In accordance with the terms of the Company's Pre-IPO Share Option Scheme, as the Offers are unconditional, the Company will within 7 days of the Offers becoming unconditional, i.e. on or before 27th February, 2004, give notice to the Optionholders that they are entitled to exercise the Options in whole or in part at any time within 14 days from the date of the notice. Options not exercised within the said 14 days period will automatically lapse. The Optionholders have not indicated to the Board whether they will exercise their Options or accept the Option Offer.

As at the Latest Practicable Date, there were 33,440,000 Options granted to the Directors, entitling them to subscribe for an aggregate of 33,440,000 Shares at an exercise price of HK\$0.24 per Share. Save for the aforesaid, no other Options have been granted under the Pre-IPO Share Option Scheme and which remain outstanding. Based on the offer price of HK\$0.10 for every 10,000 Options, the Option Offer is valued at approximately HK\$334.

The Company also has a post-IPO share option scheme in place. No share option has been granted by the Company under the said scheme and the Board has not made any decision on the granting of such share options up to the Latest Practicable Date.

Save for the Options as mentioned above, there is no outstanding options, warrants or securities convertible into Shares as at the Latest Practicable Date.

Unconditional Offers

The Offers are unconditional and are not conditional on the attaining of any particular level of acceptance in respect of the Offers. Unless the Offers are extended, the latest time for acceptance is 4:00 p.m. on Wednesday, 17th March, 2004. The procedure for acceptance and further terms of the Offers are set out in Appendix I to this document.

Sufficiency of financial resources

The Offeror will finance the Offers from its own resources. Somerley is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offers.

Compulsory acquisition

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares after the close of the Offers.

LETTER FROM SOMERLEY

Effects of accepting the Offers

Acceptance of the Share Offer by any Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Share Offer are free from all liens, right of set-off, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and distributions declared, made or paid, if any, on or after the date of the Announcement.

By accepting the Option Offer, the Optionholders will surrender the subscription rights attaching to the Options granted to them, which will be cancelled by the Company.

Right of withdrawal

Acceptance of the Offers tendered by the Shareholders and Optionholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code. Further details are set out under the paragraph headed "Right of withdrawal" in Appendix I to this document.

Settlement

Remittances in respect of the consideration payable for the Shares tendered and Options cancelled under the Offers, less seller's ad valorem stamp duty payable by them, will be posted at your own risk within 10 days of the date of receipt by the Registrar of all the relevant documents to render the relevant acceptances under the Offers complete and valid.

Dealings and holdings of Shares

Except for the Sale Shares acquired under the Share and Shareholders' Loan Sale Agreement, none of the Offeror or its ultimate beneficial owners or parties acting in concert with any of them was interested in any Shares as at the Latest Practicable Date, and there have been no dealings in the Shares, options, warrants, derivatives or conversion rights affecting the Shares of the Company by the Offeror or parties acting in concert with it during the Relevant Period.

Stamp duty

The Offeror will pay seller's ad valorem stamp duty arising in connection with acceptance of the Share Offer at a rate of HK\$1 for every HK\$1,000 (or part thereof) of the value of the consideration payable in respect of the relevant acceptance by the Shareholders, or the market value of the Shares, which amount will be deducted from the amount payable to the relevant Shareholders who accept the Share Offer.

INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability on 8th October, 2003. Save for entering into the Share and Shareholders' Loan Sale Agreement, the Offeror has not engaged in any other business since incorporation. The entire issued share capital of the Offeror is owned as to 50% by Mr. Lang Fulai, as to 12.5% by Ms. Ma Zheng and as to the balance of 37.5% by China Zong Heng Holdings Limited (中國縱橫控股有限公司), the entire issued share capital of which is beneficially owned by Mr. Yu Hongwen. The board of directors of the Offeror comprises Ms. Ma Zheng, Mr. Yu Hongwen and Mr. Lang Fulai.

INTENTIONS OF THE OFFEROR REGARDING THE GROUP

The Offeror intends that the Group will continue with all its existing businesses and will maintain the listing status of the Company on GEM after closing of the Offers. Save for the proposed changes to the members of the Board as disclosed under the section headed “Proposed change of board composition of the Company” below, the Offeror has no intention to make any material change to the employees of the Group or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. After Completion, the Offeror will conduct a detailed review on the business operation and financial position of the Group in order to formulate business plans and strategies for the Group’s future business development with a view to strengthening the Group’s overall business performance, and broadening and expanding the income source of the Group.

The Offeror has no intention to inject any assets or businesses into the Group in the twelve-month period immediately after Completion. However, should suitable opportunities arise and subject to the results of the financial and operational review, the Offeror may consider diversifying the business of the Group with a view to broaden its income stream and capture business opportunities present in the PRC market in view of its accession into the World Trade Organisation. Although the Offeror does not have any concrete plan on the future development of the business of the Group at present, the Offeror believes that the management experience and business network of its shareholders in the PRC can help the Group to explore business opportunities in the PRC.

Since the Offeror, being the controlling Shareholder, is a connected person of the Company, any proposed acquisition/disposal of assets from/to the Offeror will constitute connected transactions of the Company under the GEM Listing Rules and will be subject to the relevant disclosure and approval requirements in respect connected transaction.

If the Company remains as a listed company, any future injections into or disposals of the Group will be subject to the provisions of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the Stock Exchange has discretion to require the Company to issue a circular to the Shareholders where any acquisition or disposal by the Group is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of the Group. The Stock Exchange also has the power pursuant to the GEM Listing Rules, to aggregate a series of acquisitions or disposals by the Group and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the GEM Listing Rules.

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

Currently, the Board comprises five executive Directors, namely Messrs. Cheng Kar Shing, Leung Wai Keung, Ng, Kenny Chi Kin, Li Ka Kui and Wong Hon Kit, of whom Mr. Leung is principally responsible for the Group’s business development, game sourcing, overall management and strategic planning, two non-executive Directors namely Messrs. Fung Hoo Wing, Thomas and Tung Wai Wa, Wallace and two independent non-executive Directors namely Messrs. Cheung Hon Kit and Ma Ching Nam. All Directors, except Mr. Wong Hon Kit, will resign from the Board and such resignation will take effect on the earliest date permitted under the GEM Listing Rules, the Takeovers Code or other applicable

LETTER FROM SOMERLEY

laws which is currently expected to be after the close of the Offers on 17th March, 2004. The Offeror intends to nominate the following persons as executive Directors and independent non-executive Directors and such appointment will be subject to the approval of the Stock Exchange and will not take effect earlier than the date of posting of this document subject to full compliance with the Takeovers Code.

Set out below are the brief details of the proposed executive Directors and independent non-executive Directors to be nominated by the Offeror:

Executive Directors

Ms. Ma Zheng, is currently a general manager of Shenzhen Zhi Hui Yuan Development Limited (深圳市智匯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, 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 had been a construction structure engineer for 16 years since 1988 and worked for several power companies in 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.

Mr. Lang Fulai, is currently a president of Da Qing Yifeng Hainan Environmental Protection and Technology Company Limited (大慶市怡方海嵐環保科技有限責任公司). Mr. Lang holds a master of social science degree in economic management from Heilongjiang Academy of Social Science (黑龍江社會科學院). Mr. Lang has over 15 years experience in corporation management and development.

Independent non-executive Directors

Mr. Wan Tze Fan, Terence, holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has over 14 years of experience in accounting and financial management. He has worked for international accounting firms and listed companies in Hong Kong. He is an associate member of the Hong Kong Society of Accountants and a Certified Practicing Accountant of CPA Australia. Currently he is the financial controller and company secretary of a company listed on The Stock Exchange of Hong Kong Limited.

Mr. Zhou Guang Qi, graduated from Hunan College of Finance and Economics (湖南財經學院) and holds a master degree in business administration from Renmin University of China (中國人民大學). Mr. Zhou has over 23 years of experience in the field of finance and cost accounting. Mr. Zhou is currently the general manager of Yichang Pipe Technology Company Limited (宜昌管業科技有限公司).

LETTER FROM SOMERLEY

Although the above persons have no direct experience in operating and managing the gaming business engaged by the Group, they have extensive experience in corporate management, business development and strategic planning. With their business experience and network in the PRC, the Offeror believes that it can help the Group to explore business opportunities in the PRC.

Save as disclosed above, it is the intention of the Offeror that there will be no change in the existing management and employees of the Group.

MAINTAINING THE LISTING STATUS OF THE COMPANY

It is the intention of the Offeror to maintain the listing status of the Company on GEM after the close of the Offers. The Company and Offeror will undertake, and the Offeror will undertake to procure that the new Directors to be appointed to the Board will undertake, to the Stock Exchange that following the close of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the Shares will be held by the public.

The Stock Exchange has indicated that it will closely monitor trading in the Shares if, at the close of the Offers, less than 25% of the Shares are held by the public.

If the Stock Exchange believes that:

- **a false market exists or may exist in the Shares; or**
- **there are too few Shares in public hands to maintain an orderly market;**

then it will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained. In this connection, it should be noted that upon the close of the Offers, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

TAXATION

Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offers. It is emphasised that none of the Company, the Offeror or Somerley or any of their respective directors or any person involved in the Offers accepts responsibility for any tax effects or liabilities of any person or persons as a result of their acceptance of the Offers.

ACCEPTANCE AND SETTLEMENT

(a) Procedures for acceptance of the Offers

(i) The Share Offer

To accept the Share Offer, you should complete the accompanying **WHITE** form of acceptance and transfer of the Shares in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.

LETTER FROM SOMERLEY

The completed **WHITE** form of acceptance and transfer of the Shares should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Share Offer by post or by hand to the Registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong marked "*Billybala Share Offer*" on the envelope, as soon as practicable after receipt of this document and in any event **no later than 4:00 p.m. on Wednesday, 17th March, 2004** or such later time and/or date as the Offeror may determine and announce.

(ii) *The Option Offer*

To accept the Option Offer, you should complete the **YELLOW** form of acceptance and cancellation of the outstanding Options obtainable from the head office and principal place of business of the Company at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.

The completed **YELLOW** form of acceptance and cancellation of the outstanding Options should then be forwarded, together with the relevant Option certificate(s) (if any) stating the number of Options for not less than the number of Options in respect of which you intend to accept the Option Offer, by post or by hand to the company secretary of the Company at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong, marked "*Billybala Option Offer*" on the envelope, as soon as practicable after receipt of this document and in any event **no later than 4:00 p.m. on Wednesday, 17th March, 2004** or such later time and/or date as the Offeror may determine and announce.

(b) **Settlement of the Offers**

(i) *Share Offer*

Provided that the relevant **WHITE** form(s) of acceptance and transfer of the Shares, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and received by the Registrar by no later than 4:00 p.m. on Wednesday, 17th March, 2004, a cheque for the amount representing the cash consideration (after deducting the relevant seller's ad valorem stamp duty payable by you) due to you in respect of the Shares tendered by you under the Share Offer will be despatched to you by ordinary post at your own risk within 10 days of the date on which all the relevant documents which render such acceptance complete and valid are received by the Registrar.

(ii) *Option Offer*

Provided that the relevant **YELLOW** form(s) of acceptance and cancellation of the outstanding Options (and/or any satisfactory indemnity or indemnities required in respect thereof) and Option certificate(s) (if any) are in complete and good order in all respects and received by the Company by no later than 4:00 p.m. on Wednesday, 17th March, 2004, a cheque for the amount representing the cash consideration due to you in respect of the Options tendered by you for cancellation under the Option Offer will be despatched to you by ordinary post at your own risk within 10 days of the date on which all the relevant documents which render such acceptance complete and valid are received by the company secretary of the Company.

LETTER FROM SOMERLEY

Settlement of the consideration to which any Shareholder and Optionholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers (save with respect of the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder and Optionholder.

GENERAL

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in nominee names, to accept the Share Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Share Offer.

The attention of Shareholders not resident in Hong Kong is drawn to paragraph 5 of the section headed "General" in Appendix I to this document.

All documents and remittances sent to Shareholders and Optionholders by post will be sent to them at their own risk. Such documents and remittances will be sent to the Shareholders and the Optionholders at their addresses as they appear in the register of members of the Company or the register of Optionholders (as the case may be) or, in the case of joint Shareholders, to the Shareholder whose name stands first in the register of members of the Company, as applicable. None of the Offeror, the Company, Somerley or any of their respective directors or any other persons involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Your attention is also drawn to the Forms of Acceptance and the additional information set out in the appendices which form part of this document.

Yours faithfully,
For and on behalf of
Somerley Limited
Mei H. Leung
Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders and the Optionholders in relation to the Offers:

Billybala Holdings Limited
霹靂咁喇控股有限公司

(Incorporated in the Cyaman Islands with limited liability)

25th February, 2004

To the Shareholders and the Optionholders

Dear Sir or Madam,

We refer to the document dated 25th February, 2004 jointly issued by the Company and the Offeror (the “Document”) of which this letter forms part. Terms defined in the Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Shareholders and the Optionholders are concerned. Hantec and Baron have been appointed as the joint independent financial advisers to advise the Independent Board Committee in respect of the Offers. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from Hantec and Baron on pages 26 to 41 of the Document.

Your attention is drawn to: (i) the letter from the Board; (ii) the letter from Somerley; (iii) the letter from Hantec and Baron; and (iv) the additional information set out in the appendices to the Document.

We consider that the Offers will not have material impact on the Group’s employees as it is the Offeror’s intention not to have any material change in the existing management and employees of the Group, other than the Board. We also consider that the Offeror’s intention to continue the Company’s existing businesses and to assist the Group to capture business opportunities in the PRC would be in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Share Offer

Taking into account the principal factors considered by Hantec and Baron, and in particular that:

- (i) the Offer Price represents a premium of approximately 53.0% over the audited consolidated net asset value of approximately HK\$0.0168 per Share as at 31st December, 2002 and a premium of approximately 243.0% over the unaudited consolidated net asset value of approximately HK\$0.0075 per Share as at 30th June, 2003;
- (ii) the Company has been making losses for each of the two financial years ended 31st December, 2002 and for the six month period ended 30th June, 2003;
- (iii) no dividend has been paid or declared to its Shareholders since incorporation of the Company;
- (iv) the Company is in a net liabilities position and there is no assurance as to whether the financial position of the Company will be improved;
- (v) the lack of any concrete business plan that may be carried out by the Offeror after the close of the Offer;
- (vi) the thin trading volume of the Shares (as shown in the period from 2nd January, 2003 and up to Latest Practicable Date) is expected to make it difficult for the Independent Shareholders to dispose of their Shares in the market after the close of the Share Offer and the negative impact on the price of the Shares is also expected to be significant. The Share Offer, therefore, will provide an opportunity for the Independent Shareholders who intend to sell their Shares in the stock market but have been unable to do so in the past to realise their investments; and
- (vii) whilst the prevailing Share prices are higher than the Offer Price, we are of the view that given the consistently low liquidity of the Shares during the Relevant Trading Period and the poor financial performances of the Company, the Share price may not reflect the true value of the Company and accordingly, when assessing the Offer Price, it is important to carefully consider other appropriate bases as aforementioned,

and their advice, we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to accept the Share Offer.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Option Offer

The exercise price of the Options of HK\$0.24 per Share represents a premium of approximately 834% and approximately 118% over the Offer Price and the closing price of HK\$0.11 per Share as at the Latest Practicable Date respectively. The Options are out-of-the-money and it appears to be not attractive to the Optionholders to exercise the Options at the moment.

As the offer price for the Options is HK\$0.10 for every 10,000 Options, the aggregate amount receivable by the Optionholders will only be approximately HK\$334. Nevertheless, as the Options are currently out-of-the-money, the Option Offer represents an opportunity for the Optionholders to realise the Options.

Taking into account the advice of Hantec and Baron, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned and recommend the Optionholders to accept the Option Offer.

The Optionholders should note that in accordance with the terms of the Pre-IPO Share Option Scheme, as the Offers are unconditional, the Company is required, within 7 days of the Offers becoming unconditional, i.e. on or before 27th February, 2004, to give notice to the Optionholders that they are entitled to exercise the Options in whole or in part at any time within 14 days from the date of the notice. Options not exercised within the said 14 days period will automatically lapse.

Notwithstanding our recommendations, Independent Shareholders and Optionholders should consider carefully the terms and conditions of the Offers.

Yours faithfully,
For and on behalf of
Independent Board Committee
Cheung Hon Kit Ma Ching Nam
Independent non-executive Directors

LETTER FROM HANTEC AND BARON

The following is the text of a letter of advice from Hantec and Baron, the joint independent financial advisers to the Independent Board Committee, which has been prepared for the purpose of incorporation into this document, setting out its advice to the Independent Board Committee in connection with the Offers.



Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong



Baron Capital Limited

4th Floor, Aon China Building
29 Queen's Road Central
Hong Kong

25th February, 2004

*To the Independent Board Committee
of Billybala Holdings Limited*

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFERS

INTRODUCTION

We refer to our engagement as the joint independent financial advisers to the Independent Board Committee in respect of the Offers and to give an opinion as to whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. Details of the Offers are contained in the Letter from the Board as set out on pages 6 to 13 of the circular dated 25th February, 2004 to the Shareholders and the Optionholders (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Independent Board Committee, comprising Messrs. Cheung Hon Kit and Ma Ching Nam, both being the independent non-executive Directors without any conflict of interest in the Offers, has been formed to consider and advise the Independent Shareholders and the Optionholders on the terms of the Offers. Other Directors are not regarded as independent to make any advice or recommendation to the Independent Shareholders in relation to the Offers for the following reasons: (1) Mr. Cheung, Mr. Leung, Mr. Fung, Mr. Li Ka Kui and Mr. Tung Wai Wa, Wallace are all interested in the Share and Shareholders' Loan Sale Agreement by virtue of their respective relevant interests in Kateman, Perfect Sun, Potassium and Romson; (2) although Mr. Ng, Kenny Chi Kin has ceased to receive any remuneration from the Company since 1st January, 2003 after having agreement with the Company as part of the cost cutting measures, he was a salaried Director during the period from 12th September, 2001 to 31st December, 2002, as such he was deemed to be a salaried Director in principle; and (3) Mr. Wong Hon Kit is a salaried Director.

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Circular, which have been provided by the Directors and by the Offeror, as the case may be, and we have assumed all information and representations made or referred to in the

LETTER FROM HANTEC AND BARON

Circular were true at the time they were made and continue to be true at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided by them and referred to in the Circular. We consider that we have received sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Company.

We have not considered the tax consequences on the Independent Shareholders and the Optionholders in respect of their acceptance or non-acceptance of the Offers since they vary depending on respective individual circumstances. The Independent Shareholders and the Optionholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

SHARE OFFER

Principal factors considered

In formulating our recommendations, we have taken into consideration the following principal factors and reasons:

1. Background of the Offers

On 19th January, 2004, the Vendors entered into the Share and Shareholders' Loan Sale Agreement with the Offeror pursuant to which the Vendors have conditionally agreed to sell, and the Offeror has conditionally agreed to purchase, the Sale Shares at a total consideration of HK\$4,889,028.55. The Sale Shares represent approximately 71.27% of the entire issued share capital of the Company as at the date of the Share and Shareholders' Loan Sale Agreement. Romson has further agreed to sell and the Offeror has agreed to acquire from Romson the Sale Shareholders' Loan at a consideration equivalent to the face value of the Sale Shareholders' Loan as at Completion pursuant to the Share and Shareholders' Loan Sale Agreement. As at the date of the Share and Shareholders' Loan Sale Agreement, the Sale Shareholders' Loan amounted to approximately HK\$3,162,128.33 and as at Completion, the Sale Shareholders' Loan amounted to HK\$3,162,701.16.

Based on the issued share capital of the Company of 440,000,000 Shares immediately following Completion, the Offeror and its concert parties beneficially held in aggregate approximately 71.27% of the entire issued share capital of the Company. As required under Rule 26.1 of the Takeover Code, Somerley, on behalf of the Offeror, is making an mandatory unconditional cash offer to: (i) acquire all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it; and (ii) all outstanding Options on the following basis:

for each Offer Share HK\$0.0257 in cash
for every 10,000 Options HK\$0.10 in cash

Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the Circular.

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2. Financial performance of the Group

The Company was incorporated in the Cayman Islands with limited liability and the Shares have been listed on GEM since 13th December, 2001. The Group is principally engaged in the provision of arcade game-on-demand service via Internet services through turning existing arcade games into online version together with game-on-demand multiplayer features in Hong Kong and the PRC. The Internet arcade games provided by the Group include but not limited to “Final Fight” and “Street Fighter Zero 3”.

A summary of the audited consolidated results of the Group for the period from 18th May, 2000 to 31st December, 2000, for each of the two financial years ended 31st December, 2002 and the unaudited consolidated results for the six months ended 30th June, 2003 (the “Relevant Financial Period”) are set out in Appendix II to the Circular. A summary is as follows:

	For the period from 18th May, 2000 (pro forma formation date of the Group) to 31st December, 2000 HK\$	Year ended 31st December, 2001 2002 HK\$ HK\$		Six months ended 30th June, 2003 HK\$
Turnover	–	228,189	210,597	1,991,003
Net loss attributable to Shareholders	(5,890,762)	(9,689,587)	(12,758,152)	(4,073,453)

The Group did not have any turnover for the period from 18th May, 2000 to 31st December, 2000 as the business of Group at that time was still at a developing stage. As a result, an audited net loss attributable to Shareholders of approximately HK\$5.89 million was incurred in the period under review.

For the financial year ended 31st December, 2001, the Group recorded a turnover of approximately HK\$0.23 million as the provision of arcade Game-On-Demand (“GOD”) services via the Internet through turning traditional arcade games into online version together with GOD and multiplayer features was launched in September 2001 according to the annual report 2001 of the Group. Of the total turnover, approximately HK\$0.2 million was generated from game platform licensing with the balance of approximately HK\$0.03 million was generated from GOD services. However, since the Group was still at the development stage and incurred significant start-up cost and research and development expenses, an audited net loss attributable to shareholders of approximately HK\$9.69 million was recorded.

For the financial year ended 31st December, 2002, the Group recorded a turnover of approximately HK\$0.21 million, which represented a decrease of approximately 7.7% as no game platform licensing income was generated despite the fact that the revenue generated from GOD was increased by seven times during the year under review. As disclosed in the annual report for the financial year ended 31st December, 2002, despite the fact that certain measures had been taken to reduce various operating costs such as research and development expenses, an audited net loss attributable to Shareholders of approximately HK\$12.8 million was incurred, which represented an increase in loss of approximately 31.7% as compared with that of the prior financial year. The increase in loss was mainly attributed to the increase in staff costs, including directors’ remuneration, due to the increase in head count from 19 to 33 as more time and resources were allocated for the establishment of new markets and new products.

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For the six months ended 30th June, 2003, the Group recorded a turnover of approximately HK\$1.99 million, which represented an increase of approximately 5,498% from the six months ended 30th June, 2002. As disclosed in the interim report of the Group for the six months ended 30th June, 2003, the sales growth was mainly contributed by the income derived from distribution of Necropolis, a massive multimedia online role play game and person shooting game licensed by the Group in the PRC, assignment of technical development project by strategic partners in the PRC, recurring income received by subscription income from its GOD platform offering to the general public in Hong Kong and also the income generated from the Group's first horse racing online game series "iHorse2" in Hong Kong. The unaudited net losses attributed to Shareholders for the six months under review decreased to approximately HK\$4.07 million from approximately HK\$4.31 million incurred in the corresponding period in the previous year, which represented a decrease of approximately 5.6%. The mitigation of the Group's net loss was attributable to the Group's effective controls on the operation costs during the year and the increase in sales during the six months period under review.

The above information shows that the Group was able to generate more turnover in 2003 and mitigate the unaudited net loss attributable to Shareholders for the six months ended 30th June, 2003. Nevertheless, given the continuing losses position of the Group, it is difficult to estimate the time required for the Group to reach a breakeven position and to cover the accumulated losses throughout the years before starting to generate profit. We therefore consider the prospects of the Group are of great uncertainties and risky.

Since the date of the initial public offering in 2001, the Company has recorded losses, and has not paid or declared any dividend to its shareholders. Given the financial difficulties of the Company, we consider it is unlikely for the Company to distribute dividend in the near future.

As disclosed in the annual report 2002 of the Company, the accounts had been prepared on a going concern basis, the validity of which depended upon funding being available from the ultimate parent enterprise of the Company and the immediate holding company, Romson. Accordingly, the auditors of the Company have given an unqualified opinion in this respect.

As disclosed in the Letter from Somerley contained in the Circular (the "Somerley Letter"), the Offeror does not have any concrete plan on the future development of the business. With the unsatisfactory financial performance, the Group is operating under a very tight financial condition. The Offeror has undertaken to the Company that for the period of 18 months commencing from the date of Completion, being 20th February, 2004, it shall provide or procure the provision to the Group, advances or facilities in the amount of not exceeding HK\$4.5 million to meet the Group's operation cashflow requirements and to repay the debts of the Group when they fall due subject to certain conditions as stated in the Letter from the Board. In view of the fact that the Company has enlarged its accumulated losses since 31st December, 2002 and was in a net liabilities position of approximately HK\$2.4 million according to the statement of unaudited adjusted consolidated net tangible asset value of the Group as at 31st December, 2003 as set out in Appendix II to the Circular, Independent Shareholders should note that the Company is facing the going-concern problem and it is uncertain that the Company could solve such problem in the near future.

As confirmed by the Directors, the Company is unable to publish its financial results for the financial year ended 31st December, 2003 as more time is required for the completion of the audit work.

3. Price/earnings multiples and dividend yields

One of the most commonly used references for valuing a company is the price/earnings multiple and we have considered such an approach in assessing the value of the Shares by applying the price/earnings multiple.

However, since the Company has recorded losses since its incorporation, a meaningful price/earnings multiple cannot be derived for assessing the value of the Group.

We have also reviewed the dividend payment history of the Company and noted that during the Relevant Financial Period, the Company has not paid or declared any dividend to the Shareholders. Accordingly, no basis can be formed to appraise the fairness and reasonableness of the Offer Price based on the historical dividend yield of the Company.

4. Historical Share price performance and trading liquidity of the Shares

(a) The Offer Price

The Offer Price of HK\$0.0257 per Share represents:

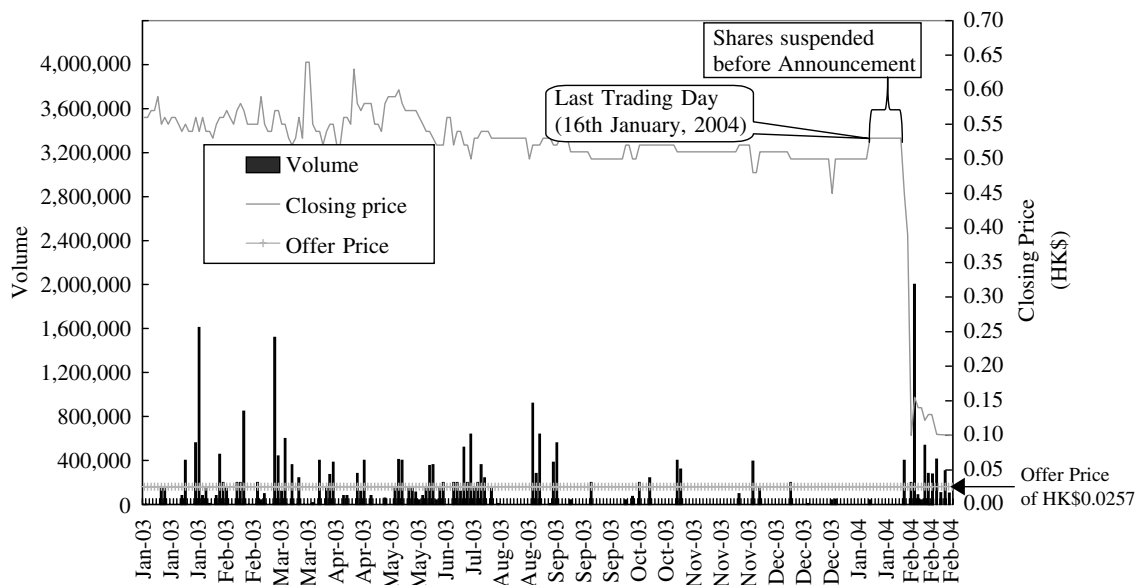
- (i) a discount of approximately 95.2% to the closing price of HK\$0.53 per Share as quoted on the Stock Exchange as at 16th January, 2004, being the last trading day prior to the date of the Announcement (the “Last Trading Day”);
- (ii) a discount of approximately 94.9% to the average closing price of HK\$0.503 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 76.6% to the closing price of HK\$0.11 per Share as quoted on the Stock Exchange as at 23rd February, 2004, being the Latest Practicable Date;
- (iv) a discount of approximately 77.8% to the average closing price of HK\$0.116 per Share for the last ten trading days up to and including the Latest Practicable Date;
- (v) a premium of approximately 53.0% over the audited consolidated net asset value of approximately HK\$0.0168 per Share as at 31st December, 2002; and

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- (vi) a premium of approximately 243.0% over the unaudited consolidated net asset value of approximately HK\$0.0075 per Share as at 30th June, 2003.

(b) Price performance of the Shares

The following chart sets out the daily turnover and the closing price of the Shares on the Stock Exchange for the period from 2nd January, 2003 (being the first trading day of the twelve-month period immediately preceding the month in which the Announcement was made) to the Latest Practicable Date (the “Relevant Trading Period”):



Source: website of the Stock Exchange

During the Relevant Trading Period, the highest closing price per Share was HK\$0.64 which was recorded on 19th March, 2003 and 20th March, 2003. The lowest closing price was HK\$0.10 which was recorded on 5th February, 2004. The Offer Price of HK\$0.0257 therefore represents a discount of approximately 96.0% and 74.3% to the highest closing price and lowest closing price during the Relevant Trading Period. In other words, the closing prices of Shares had been above the Offer Price throughout the Relevant Trading Period.

Prior to the release of the Announcement, the closing prices of the Shares were ranged from HK\$0.45 to HK\$0.64 during the Relevant Trading Period. Following the release of the Announcement, the Share price had dropped from HK\$0.53 as at the Last Trading Day to HK\$0.11 as at the Latest Practicable Date. The Directors have stated that apart from the Offers, they were not aware of any other reasons for such price decreases. We concur with the Directors' view on the fall of the Share prices as we consider that the fall in the market prices of the Shares after the Announcement would have probably been stimulated by market responses to the substantial discount represented by the Offer Price to the prevailing market prices.

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Despite the fact that the Offer Price represents a substantial discount to the closing price during the Relevant Trading Period, we consider that such substantial discount may not be relevant in forming an opinion as to whether or not the Offer Price is fair and reasonable because of the thin trading volume during the Relevant Trading Period as discussed in the below section. In view of such thin trading volume, we consider that the prevailing closing prices may not reflect the fair value of the Shares. We are also of the opinion that such prevailing closing prices could not be sustained, given the fact that the market prices of the Shares dropped significantly following the Announcement.

(c) Liquidity

The following table sets out the trading volume and the relative value as a percentage of the public float of the Shares of 118,548,726 (equivalents to approximately 26.94% of the number of the entire issued share capital of the Company of 440,000,000 Shares) (the “Public Float”) as stated in the Letter from the Board contained in the Circular during the Relevant Trading Period:

Month	Average daily trading volume <i>(Shares)</i>	Approximate percentage of average trading volume to the public float of the Company <i>(%)</i>
2003		
January	169,333	0.14
February	147,111	0.12
March	225,600	0.19
April	86,667	0.07
May	130,500	0.11
June	152,000	0.13
July	236,667	(Highest) 0.20
August	125,500	0.11
September	56,762	0.05
October	57,818	0.05
November	32,400	0.03
December	11,810	0.01
2004		
January	8,000	(Lowest) 0.01
2nd February to and including the Latest Practicable Date	293,000	0.25

Source of data: website of the Stock Exchange

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The trading volume of the Shares on the Stock Exchange during the Relevant Trading Period was thin. Regardless of the slightly increase in average daily trading volume for the period from 2nd February, 2004 to the Latest Practicable Date which may result from the Offers, the highest average monthly trading volume recorded in July 2003 represents approximately 0.20% of the Public Float and merely about 0.05% of the entire issued Shares.

Having reviewed the overall price trend of the Shares and the trading volume of the Shares throughout the Relevant Trading Period, we would like to highlight to the Independent board Committee that due to the relatively low trading volume, it may be difficult for the Independent Shareholders to dispose of Shares in the open market, even though the price of Shares have traded significantly above the Offer Price.

The Independent Board Committee should also note that low liquidity of the Shares will make it increasingly difficult for the Independent Shareholders who have not accepted the Share Offer to sell a significant amount of Shares in the market within a short period of time without imposing a negative effect on the price of the Shares. Therefore, the Independent Shareholders with relatively large shareholdings who wish to liquidate their investments may be unable to sell the Shares in the open market at a price higher than the Offer Price (after deducting the related expenses), and they should consider the Share Offer as an alternative exit for their investments.

5. Recent cash offer precedents

In order to assess the reasonableness of the Offer Price, we have analysed the comparisons of the Offer Price to the cash offers in companies listed on GEM. Other than the Share Offer made to the Independent Shareholders, we have identified eight other cash offers made to the shareholders of

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companies listed on GEM during the year 2003 (“Comparable Offers”). Our analysis is set out below:

Name of company	Date of announcement on the general offer	Shareholding of the offeror and parties acting in concert with it immediately prior to the making of the general offer to the independent shareholders of the company (%)	Offer price per share (in HK\$)	Closing price on the last trading day before announcement (in HK\$)	Discount of the offer price to the closing price on the last trading day before announcement (%)
System Information Technology (Holdings) Limited (8103)	11th April, 2003	51.08	0.0138	0.052	(73.5)
China Data Broadcasting Holdings Limited (8016)	20th May, 2003	79.21	1.770	3.950	(55.2)
MRC Holdings Limited (8070)	30th May, 2003	78.93	0.0328	0.050	(34.4)
GP NanoTechnology Group Limited (8152)	20th August, 2003	0	0.01	0.036	(72.2)
Milkway Image Holdings Limited (8130)	10th September, 2003	44.35	0.025	0.042	(40.5)
M Channel Corporation Limited (8036)	6th November, 2003	45.14	0.015	0.024	(37.5)
Computech Holdings Limited (8081)	13th November, 2003	71.56	0.0666	0.22	(69.7)
AGL MediaTech Holdings Limited (8192)	17th December, 2003	55.00	0.04	0.40	(90.0)
Highest					(90.0)
Lowest					(34.4)
Mean					(59.1)
Median					(62.5)
The Company	30th January, 2004	71.27	0.0257	0.53	(95.2)

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While each cash offer has its own particular characteristics, the above table provides an overview of the prevailing market practice in respect of the level of the offer prices. As shown in the above table, the discount of approximately 95.2% of the Offer Price is the highest among all the Comparable Offers and is substantially higher than the mean and median of the Comparable Offers. Based on the Comparable Offers, the Offer Price to the closing price of the Shares on the Last Trading Day is less favourable than the average level represented by the Comparable Offers. Nevertheless, given the thin trading volume of the Shares during the Relevant Trading Period and poor financial performance of the Group for each of the two financial years ended 31st December, 2002 and for the six months period ended 30th June, 2003 as discussed above, the prevailing Share prices during the Relevant Trading Period and the closing price as at the date of Announcement may not reflect the fair value of the Company. Following the release of the Announcement, the Share price had dropped from HK\$0.53 as at the Last Trading Day to HK\$0.11 on the Latest Practicable Date. Based on the closing price of the Shares on the Latest Practicable Date, the discount of approximately 76.6% was within the range of the Comparable Offers.

6. Net tangible assets value

As at 31st December, 2002, the Group's audited consolidated net tangible asset value was approximately HK\$7.4 million, equivalent to approximately HK\$0.0168 per Share based on 440,000,000 Shares in issue. In accordance to the interim report of the Company 2003, the Group's unaudited consolidated net tangible asset value was approximately HK\$3.3 million, equivalent to approximately HK\$0.0075 per Share based on 440,000,000 Shares in issue as at 30th June, 2003. The Offer Price represents a premium of approximately 53.0% over the audited consolidated net asset value as at 31st December, 2002 and a premium of approximately 243% over the unaudited consolidated net asset value as at 30th June, 2003. In assessing the fairness and reasonableness of the Offer Price, we have attempted to compare it with the value of those companies listed on the Stock Exchange which operations are similar to the Group. However, given the fact that the Group is engaged in the provision of arcade game-on-demand service via Internet services through turning existing arcade games into online version together with game-demand multi-player feature, we have not been able to identify any companies listed on the Stock Exchange with similar operations. We are also unable to find any industry statistics in relation to the game-on-demand service via Internet which is relevant to our analysis. We note that the principal activities of the Group are in relation to the Internet services; however, we consider it inappropriate to refer to the general market data in respect of the whole Internet sector since the Internet sector comprises various industries which may vary substantially from one another.

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As an alternative, we use the Comparable Offers for the purposes of comparison in terms of offer price to net tangible asset value per share and the details of which are set out below:

Name of company	Offer price per share (in HK\$)	Latest published net tangible asset value per share prior to the publication of the offer document (in HK\$)	Premium/(Discount) of the offer price over/ (to) the latest published net tangible asset value per share stated in annual/ interim report prior to the publication of the offer document (%)
System Information Technology (Holdings) Limited (8103)	0.0138	0.0179	(22.90)
China Data Broadcasting Holdings Limited (8016)	1.770	0.052	3,303.8
MRC Holdings Limited (8070)	0.0328	0.0111	195.5
GP NanoTechnology Group Limited (8152)	0.01	0.1146	(91.3)
Milkway Image Holdings Limited (8130)	0.025	0.0333	(24.9)
M Channel Corporation Limited (8036)	0.015	0.032	(53.13)
Computech Holdings Limited (8081)	0.0666	0.06678	(0.3)
AGL MediaTech Holdings Limited (8192)	0.04	0.017	135.3
Mean			430.26
Mean (excluding China Data Broadcasting Holdings Limited)			19.75
The Company	0.0257	0.0075	242.67

As illustrated in the table as stated above, the offer prices under the Comparable Offers represented a range from a discount of approximately 91.3% to a premium of approximately 3,303.8% to their respective net tangible assets value per share with an average of a premium of approximately 430.26%. The premium of the Offer Price to the unaudited net tangible assets value per Share as at 30th June, 2003 of approximately 242.67% is higher than all of the Comparable Offers except China Data Broadcasting Holdings Limited.

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In view of the fact that (i) the Offer Price of HK\$0.0257 per Share represents a premium of 53.0% over the audited consolidated net assets value of approximately HK\$0.0168 per Share as at 31st December, 2002 and a premium of approximately 243.0% over the unaudited consolidated net asset value of approximately HK\$0.0075 per Share as at 30th June, 2003; and (ii) the premium of the Offer Price to the unaudited net tangible assets value per Share is higher than most of the Comparable Offers, we consider that the Offer Price is fair and reasonable in terms of net tangible asset value.

In addition, as stated in the section headed “Statement of unaudited adjusted consolidated net tangible asset value” in Appendix II in the Circular, the Group recorded unaudited adjusted consolidated net tangible liabilities of approximately HK\$0.0055 per Share. In view of that the Group is in a net liabilities position and the new management does not have a concrete business plan, we are of the view that the Share Offer provides an opportunity to the Independent Shareholders to realise their investment in the Company.

7. Intention of the Offeror regarding the prospects of the Group

Prospects

As set out in the Somerley Letter, it is the intention of the Offeror to maintain the existing businesses of the Group and the Offeror also has no intention to make any material change to the employees of the Group, to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business or inject any assets or businesses into the Group in the twelve-month period immediately after Completion.

After Completion, the Offeror will conduct a detailed review on the business operation and financial position of the Group in order to formulate business plans and strategies for the Group’s future business development with a view to strengthening the Group’s overall business performance, and broadening and expanding the income source of the Group. Should suitable opportunities arise and subject to the results of the financial and operational review, the Offeror may consider diversifying the business of the Group with a view to broadening its income stream and capturing the business opportunities present in the PRC market in view of its accession into the World Trade Organisation.

Although the Offeror does not have any concrete plan on the future development of the business of the Group at present, the Offeror believes that its experience and network in the PRC can help the Group’s future expansion and development in the PRC. However, the Offeror has not indicated any concrete plan as to what kind of investments or business sectors the Group would be involved in or the timing thereof. Independent Shareholders should note that there is no assurance that the exploration of investment opportunities will crystallise into any concrete business plan and promising results. Accordingly, in the absence of information on the detailed business plans, we are unable to comment on the impact, if any, that such intentions of the Offeror under the new management may have on the Group. Independent Shareholders should form their own judgement as to the commercial attractiveness of the effect of the new management on the Group.

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Proposed change of board composition of the Company

Currently, the Board comprises five executive Directors, two non-executive Directors and two independent non-executive Directors. According to the Share and Shareholders' Loan Sale Agreement, all Directors will resign from the Board and such resignation will take effect on the earliest date permitted under the GEM Listing Rules, the Takeovers Code or other applicable laws. The Offeror intends to nominate Ms. Ma Zheng, Mr. Yu Hongwen and Mr. Lang Fulai, the brief details of whom can be referred to the Somerley Letter, as executive Directors to the Board and such appointment will be subject to the approval of the Stock Exchange and will not take effect earlier than the date of posting of the offer document subject to full compliance with the Takeovers Code.

As mentioned in the Somerley Letter, despite the fact that Ms. Ma Zheng, Mr. Yu Hongwen and Mr. Lang Fulai have no direct experience in operating and managing the gaming business engaged by the Group, they have extensive experience in corporate management, business development, strategic planning and business experience and network in the PRC of which the Offeror believes that it can help the Group to explore business opportunities in the PRC.

Mr. Leung Wai Keung, one of the Directors, is currently responsible for the development of on-line game business of the Group. All Directors (except Mr. Wong Hon Kit) will resign from the Board as soon as permissible under the GEM Listing Rules, the Takeovers Code or other applicable laws. Nevertheless, as confirmed by the Directors, immediately after the resignation of the existing Directors (except Mr. Wong Hon Kit), the Group still has a qualified computer system analyst and an experienced business development staff in the PRC responsible for the on-going development and maintenance of the Group's on-line gaming business. As the new management does not have the direct experience in the Group's business, we are not in a position to conclude on whether and to what extent there will be any effect of the new management on the Group's ability in developing the on-line game business of the Group and other operations in the future. However, Independent Shareholders should note that there is no assurance that the business operations of the Group would not be interrupted due to the resignation of all of the existing Directors following the close of the Offers.

8. Maintaining the listing status of the Company

It is the intention of the Offeror to maintain the listing of the Shares on GEM following the close of the Offers. The Company and Offeror will undertake, and the Offeror will undertake to procure that the new Directors to be appointed to the Board will undertake, to the Stock Exchange that following the close of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the Shares will be held by the public as required by the GEM Listing Rules.

The Stock Exchange has indicated that it will closely monitor trading in the Shares if, at the close of the Offers, less than 25% of the Shares are held by the public. If the Stock Exchange believes that: (i) a false market exists or may exist in the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market; then it will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained. In this connection, it should be noted that upon the close of the Offers, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

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Although it is the intention of the Offeror to maintain the listing status of the Shares on the Stock Exchange after the close of the Offers, Independent Shareholders should note that there are certain requirements on the minimum public float of the Shares under the GEM Listing Rules. Failure to maintain a sufficient level of public float upon completion of the Offers may result in suspension in dealings in the Shares. In addition, it should be noted that any intended acquisition and disposal of assets by the Company may result in the Company being treated as if it were a listing applicant under the GEM Listing Rules. Details of the requirements of the GEM Listing Rules and the possible impact of the non-compliance are set out in the Somerley Letter.

Recommendation

Having considered the above factors and reasons, and in particular that:

- (i) the Offer Price represents a premium of approximately 53.0% over the audited consolidated net asset value of approximately HK\$0.0168 per Share as at 31st December, 2002 and a premium of approximately 243.0% over the unaudited consolidated net asset value of approximately HK\$0.0075 per Share as at 30th June, 2003;
- (ii) the Company has been making losses for each of the two financial years ended 31st December, 2002 and for the six month period ended 30th June, 2003;
- (iii) no dividend has been paid or declared to its Shareholders since incorporation of the Company;
- (iv) the Company is in a net liabilities position and there is no assurance as to whether the financial position of the Company will be improved;
- (v) the lack of any concrete business plan that may be carried out by the Offeror after the close of the Offer;
- (vi) the thin trading volume of the Shares (as shown in the period from 2nd January, 2003 and up to Latest Practicable Date) is expected to make it difficult for the Independent Shareholders to dispose of their Shares in the market after the close of the Share Offer and the negative impact on the price of the Shares is also expected to be significant. The Share Offer, therefore, will provide an opportunity for the Independent Shareholders who intend to sell their Shares in the stock market but have been unable to do so in the past to realise their investments;
- (vii) whilst the prevailing Share prices are higher than the Offer Price, we are of the view that given the consistently low liquidity of the Shares during the Relevant Trading Period and the poor financial performances of the Company, the Share price may not reflect the true value of the Company and accordingly, when assessing the Offer Price, it is important to carefully consider other appropriate bases as aforementioned; and

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we are of the opinion that the terms of the Share Offer is fair and reasonable so far as the Independent Shareholders are concerned, and advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer. In view of the fact that the Group is in a net liabilities position and the new management does not have a concrete business plan, the Share Offer provides an opportunity to the Independent Shareholders to realise their investment in the Company since there is no assurance as to whether the financial position of the Company can be improved.

As at the Latest Practicable Date, the closing price of HK\$0.11 per Share as quoted on the Stock Exchange represents a premium of 328.0% over the Offer Price. **Those Independent Shareholders who wish to take this opportunity to realise part of all of their Shares should have regard to the market prices of the Shares before the close of the Offers and should sell their Shares in the open market rather than accepting the Share Offer if the net proceeds from the sale of Shares in the open market after deducting all transaction costs are more than the net amount to be received under the Share Offer.** However, Independent Shareholders, especially those with a significant shareholding, should be aware that there may or may not be sufficient trading volume of the Shares in the open market for them to dispose their Shares. It may be easier for Shareholders with small shareholding to dispose Shares in the market. The Share Offer provides an opportunity for the Independent Shareholders to dispose of their investment in the Company. On the other hand, the Independent Shareholders who are attracted by the new management team of the Company should consider retaining some or all of their shareholding in the Company. In addition, the Independent Shareholders should note that upon the closing of the Offers, if less than 25% of the securities of the Company are held by the general public, steps will have to be taken to restore sufficient number of securities of the Company to public hands. Independent Shareholders should note that any consequential placing down or issue of securities of the Company for the fulfilment of the public float requirement could have dampening effect on the market price of the Shares.

OPTION OFFER

As at the Latest Practicable Date, there are 33,440,000 outstanding Options granted to the Directors (excluding independent non-executive Directors), entitling them to subscribe for an aggregate of 33,440,000 Shares at an exercise price of HK\$0.24 per Share under the Pre-IPO Share Option Scheme.

Somerley, on behalf of the Offeror, is making the Option Offer to the Optionholders in respect of all the outstanding Options as part of the Offers. The Optionholders will receive HK\$0.10 in cash for every 10,000 Options. Based on the offer price of HK\$0.10 for every 10,000 Options, the Option Offer is valued at approximately HK\$334. By accepting the Option Offer, the Optionholders will surrender the subscription rights attaching to the Options granted to them, which will be cancelled by the Company.

The exercise price of the Options of HK\$0.24 per Share represents a premium of approximately 834% and approximately 118% over the Offer Price and the closing price of HK\$0.11 per Share as at the Latest Practicable Date respectively. We consider that the Options are out-of-the-money and it appears to be not attractive to the Optionholders to exercise the Options at the moment.

LETTER FROM HANTEC AND BARON

As the offer price for the Options is HK\$0.10 for every 10,000 Options, the aggregate amount to be received by the Optionholders will only be approximately HK\$334. Nevertheless, as the Options are currently out-of-the-money, the Option Offer is thus an opportunity for the Optionholders to realise the Options and we therefore recommend the Independent Board Committee to advise the Optionholders to accept the Option Offer.

The Optionholders should note that in accordance with the terms of the Company's Pre-IPO Share Option Scheme, as the Offers are unconditional, the Company is required within 7 days of the Offers becoming unconditional, i.e. on or before 27th February, 2004, to give notice to the Optionholders that they are entitled to exercise the Options in whole or in part at any time within 14 days from the date of the notice. Options not exercised within the said 14 days period will automatically lapse.

Your faithfully,

For and on behalf of

Hantec Capital Limited

Andrew Tang

Director

Thomas Lai

Director

Your faithfully,

For and on behalf of

Baron Capital Limited

Thomas Chiu

Managing Director

Monica Lin

Director

1. FURTHER PROCEDURES FOR ACCEPTANCE OF THE OFFERS**A. The Share Offer**

- (a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in the name of a nominee company or some name(s) other than your own, and you wish to accept the Share Offer (either in full or in respect of part of your holding(s)), you must either:
- (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee(s) with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the duly completed **WHITE** form of acceptance and transfer of the Shares together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Share certificate(s) to be registered in your name(s) by the Company through the Registrar, and send the duly completed **WHITE** form of acceptance and transfer of the Shares together with the relevant Share certificates and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Share certificate(s) has/have been lodged with your licensed securities dealer or custodian bank through CCASS, instruct your licensed securities dealer or custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on Tuesday, 16th March, 2004 which is one business day before the latest date on which acceptance of the Share Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer or custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer or custodian bank as required by it; or
 - (iv) if your Share certificate(s) has/have been lodged with your Investor Participant Account with CCASS, authorise your instruction via CCASS Phone System or CCASS Internet System not later than one business day before the latest date on which acceptance of the Share Offer must be received by the Registrar.

- (b) If the certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Shares, the relevant **WHITE** form of acceptance and transfer of the Shares should nevertheless be completed and delivered to the Registrar accompanied by a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/ they is/are not readily available. If you find such document(s) and/or any other document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (c) If you have lodged (a) transfer(s) of any of your Share(s) for registration in your name(s) and have not yet received your Share certificate(s) and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete the relevant **WHITE** form of acceptance and transfer of the Shares and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself (yourselves). Such action will be deemed to be an irrevocable authority to the Offeror and/or Somerley and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such certificate(s), subject to the terms of the Share Offer as if it was/they were delivered to the Registrar with the relevant **WHITE** form of acceptance and transfer of the Shares.
- (d) Acceptances of the Share Offer will only be treated as valid and the cheque(s) for the consideration due will only be despatched if the completed **WHITE** form of acceptance and transfer of the Shares accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) marked “Billybala Share Offer” on the envelope are received by the Registrar by **no later than 4:00 p.m. on Wednesday, 17th March, 2004** or such later time and/or date as the Offeror may determine and announce.
- (e) No acknowledgment of receipt for any **WHITE** forms of acceptance and transfer of the Shares, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

- (f) The address of the Registrar, Tengis Limited, is at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

B. The Option Offer

- (a) If you accept the Option Offer, you should complete the **YELLOW** form of acceptance and cancellation of the outstanding Options obtainable from the head office and principal place of business of the Company at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.
- (b) The completed **YELLOW** form of acceptance and cancellation of the outstanding Options should be forwarded, together with the relevant Option certificate(s) (if any) stating the number of the outstanding Options for not less than the number of outstanding Options in respect of which you intend to accept the Option Offer, by post or by hand to the company secretary of the Company at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong marked "*Billybala Option Offer*" on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address by **no later than 4:00 p.m. on Wednesday, 17th March, 2004** or such later time and/or date as the Offeror may determine and announce.

2. ACCEPTANCE PERIOD AND REVISIONS

The Offeror reserves the right, subject to the Takeovers Code, to extend the Offers after the despatch of this document or to revise it, either in its terms and conditions or in the value or nature of the consideration offered or otherwise.

Unless the Offers have previously been extended or revised, the latest time for acceptance is **4:00 p.m. on Wednesday, 17th March, 2004 and the Offers shall close on Wednesday, 17th March, 2004.**

If the Offers are extended or revised, an announcement of such extension or revision will be published by the Offeror on the GEM website at www.hkgem.com by 7:00 p.m. on the Closing Date which either states the next closing date or the Offers will remain open until further notice. If the Offers are extended or revised, it will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to those Shareholders and/or Optionholders who have not accepted the Offers and, unless previously extended or revised, shall be closed at 4:00 p.m. on the subsequent closing date. The benefit of any revision of the Offers will be available to any Shareholders and/or Optionholders who have previously accepted the Offers. The execution of any Form(s) of Acceptance by or on behalf of any Shareholders and/or Optionholders who have previously accepted the Offers shall be deemed to constitute acceptance of the revised Offers.

In order to be valid, acceptance must be received by the Registrar (in case of the Share Offer) or the company secretary of the Company (in case of the Option Offer) in accordance with the instructions printed on the relevant Form(s) of Acceptance by 4:00 p.m. on Wednesday, 17th March, 2004, unless the Offers are extended or revised on or before the Closing Date.

If the Closing Date is not a Business Day, the closing date of the Offers shall be deemed to fall on the next day which is a Business Day and, any announcement required to be given on a closing date shall be properly given if made on the next following Business Day.

The Offeror may introduce new terms and conditions to be attached to any revision to the Offers, or any subsequent revision thereof but only to the extent necessary to implement the revised offers and subject to the consent of the Executive.

If the Closing Date of the Offers is extended, any reference in this document and in the Forms of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers as so extended.

3. ANNOUNCEMENTS

By 6:00 p.m. on the Closing Date, or such later time and/or date as the Executive agrees, the Offeror shall inform the Executive and the Stock Exchange of its intentions in relation to the extension, revision, or expiry of the Offers. The Offeror shall publish an announcement on the GEM website at www.hkgem.com by 7:00 p.m. on the Closing Date stating whether the Offers have been revised or extended. Such announcement shall state the total number of Shares and Options:

- (i) for which acceptance of the Offers have been received;
- (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the offer period;
- (iii) acquired or agreed to be acquired during the offer period by the Offeror or any persons acting in concert with it;
- (iv) details of any outstanding derivative in respect of securities in the Company entered into by the Offeror or any persons acting in concert with it; and
- (v) details of any arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror or the Company and which might be material to the Offers.

The announcement must also specify the percentages of the issued share capital of the Company and voting rights of the Company represented by these numbers of Shares.

In computing the number of Shares and Options represented by acceptances, there may be included or excluded, for announcement purposes, acceptances which are subject to verification or not in all respects in order, which numbers will be stated separately.

As required under the Takeovers Code and the GEM Listing Rules, all announcements in relation to the Offers in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments, must be published on the GEM website at www.hkgem.com.

4. RIGHT OF WITHDRAWAL

The Offers are unconditional and acceptance of the Offers tendered by the Shareholders and Optionholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements under Rule 19 of the Takeovers Code relating to the Offers, a summary of which has been set out in section 3 of this appendix above, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive until the aforesaid requirements can be met.

5. GENERAL

- (a) Acceptance of the Offers by any person will be deemed to constitute a warranty by such person to the Offeror and the Company that the Shares sold under the Share Offer or Options tendered for cancellation by the Company under the Option Offer are sold or tendered by such person free from all encumbrances and together with all rights and benefits, including all rights to any dividend or other distribution declared, made or paid, if any, on or after the date of the Announcement.
- (b) All communications, notices, **WHITE** forms of acceptance and transfer of the Shares, **YELLOW** forms of acceptance and cancellation of the outstanding Options, Share or Option certificates, transfer receipts (only in the case of the Share Offer), other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be delivered by or sent to or from the Shareholders and the Optionholders, or their designated agents, by post at their own risks, and neither the Offeror, the Company, Somerley, the Registrar nor any of their respective directors accepts any liability for any loss in postage or other liabilities that may arise as a result thereof.
- (c) The provisions set out in the accompanying **WHITE** form of acceptance and transfer of the Shares and the **YELLOW** form of acceptance and cancellation of the outstanding Options form part of the Offers.

- (d) The accidental omission to despatch this document, the **WHITE** form of acceptance and transfer of the Shares to any person to whom the Share Offer is made, and the failure to obtain the **YELLOW** form of acceptance and cancellation of the outstanding Options from the head office and principal place of business of the Company by any person to whom the Option Offer is made, will not invalidate the Offers in any way.
- (e) The Offers, all acceptance thereof and contracts resulting therefrom will be governed by and construed in accordance with the laws of Hong Kong.
- (f) References to the Offers in this document and in the accompanying **WHITE** form of acceptance and transfer of the Shares and the **YELLOW** form of acceptance and cancellation of the outstanding Options shall include any revision or extension thereof.
- (g) Due execution of the **WHITE** form of acceptance and transfer of the Shares or the **YELLOW** form of acceptance and cancellation of the outstanding Options will constitute an irrevocable authority to any director of the Offeror or Somerley or such person or persons as either the Offeror or Somerley may direct to complete and execute, on behalf of the person accepting the Offers, any document and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such other person(s) as the Offeror shall direct, the Shares, or for the purpose of cancellation of the Options which are the subject of such acceptance.
- (h) The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shareholders or Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself or herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group as extracted from the annual reports of the Company for the period from 18th May, 2000 (pro forma formation date of the Group) to 31st December, 2000 and for each of the year ended 31st December, 2001 and 31st December, 2002 respectively:

	For the year ended		Period from
	31st December,	31st December,	18th May, 2000
	2002	2001	(pro forma
	HK\$	HK\$	formation date
			of the Group)
			to 31st December,
			2000
			HK\$
TURNOVER	210,597	228,189	–
OTHER REVENUE	244,586	65,813	58,634
OTHER EXPENSES			
Staff costs, including directors' remuneration	(5,214,814)	(2,690,507)	(1,001,131)
Depreciation	(396,978)	(175,510)	(53,426)
Royalties for game content	(415,044)	(18,136)	–
Research and development costs	(1,083,373)	(2,195,657)	(1,843,557)
Marketing and promotion expenses	(1,520,761)	(1,105,639)	(3,000)
Other operating expenses	(4,582,365)	(3,798,140)	(3,048,282)
LOSS FROM OPERATING ACTIVITIES			
BEFORE TAXATION	(12,758,152)	(9,689,587)	(5,890,762)
TAXATION	–	–	–
LOSS BEFORE MINORITY INTERESTS	(12,758,152)	(9,689,587)	(5,890,762)
MINORITY INTERESTS	–	–	–
NET LOSS ATTRIBUTABLE TO			
SHAREHOLDERS	<u>(12,758,152)</u>	<u>(9,689,587)</u>	<u>(5,890,762)</u>
DIVIDENDS	<u>–</u>	<u>–</u>	<u>–</u>
DIVIDEND PER SHARE	<u>–</u>	<u>–</u>	<u>–</u>
LOSS PER SHARE			
Basic (Note 1)	<u>HK2.9 cents</u>	<u>HK2.6 cents</u>	<u>HK1.6 cents</u>

Notes:

1. The calculation of basic loss per Share for the period from 18th May, 2000 (pro forma formation date of the Group) to 31st December, 2000, for each of the year ended 31st December, 2001 and 31st December, 2002 are based on the net loss attributable to Shareholders of HK\$5,890,762, HK\$9,689,587 and HK\$12,758,152 respectively and the weighted average number of 366,666,000, 370,885,216 and 440,000,000 Shares being issued respectively during the respective year/period.

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

The diluted loss per Share for the period from 18th May, 2000 (pro forma formation date of the Group) to 31st December, 2000 is not presented since there were no potential ordinary shares in existence during the period.

2. There is no extraordinary items or exceptional items for the period from 18th May, 2000 (pro forma formation date of the Group) to 31st December, 2000 and the last two years ended 31st December, 2002.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2002

- (a) Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31st December, 2002. In this section, references to the page number are referred to the page number in the annual report of the Company for the year ended 31st December, 2002.



Charles Chan, Ip & Fung CPA Ltd.

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To the members

Billybala Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

Fundamental Uncertainty

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December, 2002 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong, 21st March, 2003

Chan Wai Dune, Charles

Practising Certificate Number P00712

- (b) Set out below is the audited consolidated profit and loss account, consolidated balance sheet, balance sheet, consolidated summary statement of changes in equity, consolidated cash flow statement, balance sheet and notes to the financial statements of the Group as extracted from pages 28 to 51 of the annual report of the Company for the year ended 31st December, 2002. Reference to page numbers are the page numbers of such annual report of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2002

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

CONSOLIDATED BALANCE SHEET*At 31st December, 2002*

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

BALANCE SHEET*At 31st December, 2002*

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2002

	Share capital <i>HK\$</i>	Share premium account <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1st January, 2001	1,817,900	8,182,100	(5,890,762)	4,109,238
Issue of shares	15,430	21,649,100	–	21,664,530
Issue of shares of a subsidiary	–	9,658,900	–	9,658,900
New issue of shares by way of the placing	366,670	–	–	366,670
Share issue expenses	–	(5,962,540)	–	(5,962,540)
Net loss for the year	–	–	(9,689,587)	(9,689,587)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2001	2,200,000	33,527,560	(15,580,349)	20,147,211
Net loss for the year	–	–	(12,758,152)	(12,758,152)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	<u>2,200,000</u>	<u>33,527,560</u>	<u>(28,338,501)</u>	<u>7,389,059</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31st December, 2002*

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

NOTES TO THE FINANCIAL STATEMENTS*31st December, 2002***1. GROUP REORGANISATION AND BASIS OF PRESENTATION****The company**

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

Group reorganisation

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of shares of the Company on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13th December, 2001, the company became the holding company of the companies now comprising the group on 24th September, 2001. This was accomplished by acquiring the entire issued share capital of e-gameasia.com Limited (“e-gameasia”), the then holding company of the group which consequently became the intermediate holding company of the other subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of a total of 181,789,999 shares of HK\$0.01 each in the share capital of the company, credited as fully paid, to the then shareholders of e-gameasia. Further details of the Group Reorganisation are set out in the Company’s prospectus dated 6th December, 2001 (the “Prospectus”).

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 2.127 “Accounting for Group Reconstructions”. On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the period from 18th May, 2000 (date of establishment of the companies comprising the acquired e-gameasia Group) to 31st December, 2000, rather than from the date of their acquisitions on 24th September, 2001. In the opinion of the Directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole, as the principal activities of the Group were carried out by those subsidiaries summarised in note 16 to the financial statements prior to and after the Group Reorganisation.

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

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

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

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

2. BASIS OF PREPARATION**(a) Principal Activities**

The principal activity of the Company is investment holding.

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

(b) Going Concern Concept

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

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

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

(b) Fixed Assets

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

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

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

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

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

(c) Subsidiaries

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

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

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

(d) Short Term Investments

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

(e) Impairment of Assets

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

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

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

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

(f) Deferred Tax

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

(g) Operating Leases

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

(h) Research and Development Costs

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

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

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

(i) Retirement Costs

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

(j) Segment Reporting

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

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

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

(k) Translation of Foreign Currencies

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

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

(l) Related Parties

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

(m) Cash Equivalents

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

(n) Provisions and Contingent Liabilities

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

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

(o) Employee Benefits

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

5. TURNOVER

Turnover represents the net invoiced value of services provided.

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

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

6. OTHER REVENUE

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

7. LOSS FROM OPERATION ACTIVITIES BEFORE TAXATION

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

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

8. DIRECTORS' REMUNERATION

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

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

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

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

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

10. TAXATION

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

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

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

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

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

12. DIVIDENDS

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

13. LOSS PER SHARE

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

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

14. SEGMENT REPORTING

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

Business segments

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

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

Geographical segments

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

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

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

15. FIXED ASSETS**Group**

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

16. INTERESTS IN SUBSIDIARIES

Company

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

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

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

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

Notes:

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

Disposal of subsidiary

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

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

17. ACCOUNTS RECEIVABLE

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

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

18. SHARE CAPITAL

	2002	2001
	<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>

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

Note:

- (i) On 24th September, 2001, the Company allotted 1,100,000 and 443,000 ordinary shares to an independent third party and a director of the company at subscription prices of HK\$11,000 and HK\$20,000, respectively.
- (ii) Pursuant to written resolutions of all the shareholders of the company passed on 28th November, 2001, every ordinary share of HK\$0.01 each in the authorised and issued share capital of the company was subdivided into 2 shares of HK\$0.005 each.
- (iii) Pursuant to the listing of the Company's shares on the GEM on 13th December, 2001, the Company issued 73,334,000 shares of HK\$0.005 each at HK\$0.30 per share to the public by way of the placing (the "Placing") for a total consideration of HK\$22,000,200 before issue expenses of HK\$5,962,540.

Share options

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

Any share options granted to a substantial shareholder or an independent non-executive Director or any of their associates, in excess of 0.1% of the shares of the Company is issue at any time or with an aggregate value in excess of HK\$5,000,000, with any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

On 28th 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 13th December, 2001, and the remaining 50% of the options granted may be exercised after the expiry of 24 months from 13th 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 31st December, 2002. Following the resignation of Mr. Derek Shuen Lee on 25th June, 2002, 10,560,000 share options with the exercise price HK\$0.24 per share held by him had been cancelled in accordance with the terms of the Pre-Scheme.

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

- (ii) On 28th November, 2001, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the company. The purpose of the Post-Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the group. The

board of Directors may, at their discretion, grant options to any full-time employee and any director of the company or its subsidiaries, including executive, non-executive and independent non-executive Directors or any individuals who has/shall contribute to the success to the Groups operation, to subscribe for shares of the company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes by the company must not exceed 30% of the shares in issue from time to time. A nonrefundable nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option.

Any share options granted to a substantial shareholder or an independent non-executive Director or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5,000,000, with any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

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

19. RESERVES

Group

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

Company

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

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

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

Pursuant to resolutions of the Board of Directors passed on 24th September, 2001, the Company issued an aggregate of 181,789,999 shares of HK\$0.01 each credited as fully paid, and credited the one share issued nil paid on 12th September, 2001 as fully paid as the consideration for the acquisition of the entire issued share capital of e-gameasia. The excess of the fair value of the shares of e-gameasia, determined on the basis of its consolidated net assets at that date, over the nominal value of the company's shares issued in exchange therefor, amounting to HK\$4,953,503, was credited to the company's share premium account.

20. POST BALANCE SHEET EVENTS

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

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

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

21. CONTINGENT LIABILITIES

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

22. COMMITMENTS

(a) Capital commitments

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

(b) Commitment under operating leases

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

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

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

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

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

23 EMPLOYEE RETIREMENT BENEFITS**Defined contribution retirement plan**

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

24. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

25. CHARGES ON ASSETS

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

26. ULTIMATE PARENT ENTERPRISE

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

27. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE GROUP

Set out below are the unaudited interim financial results of the Group for the six months ended 30th June, 2003:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
TURNOVER	4	922,350	27,686	1,991,003	35,569
OTHER REVENUE		2,146	74,197	8,042	136,548
OTHER EXPENSES					
Staff costs, including directors' remuneration		(980,642)	(1,237,153)	(1,969,902)	(2,259,600)
Depreciation		(164,280)	(69,830)	(326,758)	(153,896)
Royalties for game contents		(248,467)	(145,227)	(481,131)	(146,015)
Research and development costs		(184,010)	(51,035)	(588,813)	(110,035)
Marketing and promotion expenses		(362,957)	(127,533)	(1,035,306)	(135,881)
Other operating expenses		(881,097)	(987,694)	(1,628,175)	(1,673,478)
LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION	5	(1,896,957)	(2,516,589)	(4,031,040)	(4,306,788)
FINANCE COST	6	(42,413)	–	(42,413)	–
LOSS BEFORE TAXATION		(1,939,370)	(2,516,589)	(4,073,453)	(4,306,788)
TAXATION	7	–	–	–	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,939,370)</u>	<u>(2,516,589)</u>	<u>(4,073,453)</u>	<u>(4,306,788)</u>
DIVIDENDS	8	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
LOSS PER SHARE					
Basic	9	<u>HK0.44 cents</u>	<u>HK0.57 cents</u>	<u>HK0.93 cents</u>	<u>HK0.98 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30th June, 2003 <i>HK\$</i> (Unaudited)	31st December, 2002 <i>HK\$</i> (Audited)
ASSETS			
Non-current assets			
Fixed assets	<i>11</i>	1,426,622	1,690,440
Current Assets			
Accounts receivables	<i>12</i>	953,397	38,302
Prepayments, deposits and other receivables		1,958,595	1,208,046
Fixed deposits	<i>13</i>	1,917,041	6,027,084
Cash and bank balances	<i>13</i>	725,132	332,369
		<u>5,554,165</u>	<u>7,605,801</u>
LIABILITY			
Current Liability			
Accruals and other payables		<u>(1,135,668)</u>	<u>(1,907,182)</u>
Net current assets		<u>4,418,497</u>	<u>5,698,619</u>
Total assets less current liability		5,845,119	7,389,059
Non-current liability			
Loan from ultimate parent enterprise	<i>14</i>	<u>(2,529,513)</u>	<u>–</u>
NET ASSETS		<u><u>3,315,606</u></u>	<u><u>7,389,059</u></u>
CAPITAL AND RESERVES			
Issued capital	<i>15</i>	2,200,000	2,200,000
Reserves		<u>1,115,606</u>	<u>5,189,059</u>
		<u><u>3,315,606</u></u>	<u><u>7,389,059</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$ (note 15)	Share premium account# HK\$	Accumulated losses HK\$	Total HK\$
At 1st January, 2002	2,200,000	33,527,560	(15,580,349)	20,147,211
Loss for the six months ended 30th June, 2002	–	–	(4,306,788)	(4,306,788)
At 30th June, 2002	<u>2,200,000</u>	<u>33,527,560</u>	<u>(19,887,137)</u>	<u>15,840,423</u>
At 1st January, 2003	2,200,000	33,527,560	(28,338,501)	7,389,059
Loss for the six months ended 30th June, 2003	–	–	(4,073,453)	(4,073,453)
At 30th June, 2003	<u>2,200,000</u>	<u>33,527,560</u>	<u>(32,411,954)</u>	<u>3,315,606</u>

The share premium account of the Group includes the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 2 to the condensed consolidated financial statements, over the nominal value of the share capital of the Company issued in exchange therefor.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six Months ended 30th June, 2003 HK\$	Six Months ended 30th June, 2002 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(4,073,453)	(4,306,788)
Adjustments for:		
Depreciation	326,758	153,896
Interest paid	42,413	–
Interest income	(8,022)	(136,548)
Operating loss before changes in working capital	(3,712,304)	(4,289,440)
(Increase)/decrease in accounts receivables	(915,095)	82,358
(Increase)/decrease in prepayments, deposits and other receivables	(750,493)	425,995
Decrease in accrual and other payables	(813,927)	(2,312,635)
Cash used in operations	(6,191,819)	(6,093,722)
Interest received	7,966	136,548
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,183,853)	(5,957,174)
INVESTING ACTIVITIES		
Purchase of fixed assets	(62,940)	(47,034)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(62,940)	(47,034)
FINANCING ACTIVITIES		
Increase in loan from ultimate parent enterprise	2,529,513	–
Decrease/(increase) in pledged fixed deposit	5,043,002	(5,170,034)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	7,572,515	(5,170,034)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,325,722	(11,174,242)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,146,080	20,202,468
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,471,802	9,028,226
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	1,746,670	–
Cash at bank and in hand	725,132	9,028,226
	2,471,802	9,028,226

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**1. Corporate Information**

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

During the six months ended 30th June, 2003, the principal activity of the Company is investment holding. The principal activities of the subsidiaries were the provision of Game-On-Demand (“GOD”) services, Massive Multi-player Online Game (“MMOG”) services and game licence in Hong Kong and the People’s Republic of China (“PRC”).

2. Group reorganisation and basis of presentation and consolidation*Group reorganisation*

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

Basis of presentation and consolidation

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

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

3. Principal accounting policies*Adoption of revised SSAPs*

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2002, except that the Group has adopted the SSAP 12 (revised) “Income Taxes” issued by the Hong Kong Society of Accountants which was effective for accounting periods commencing on or after 1st January, 2003. The adoption of SSAP 12 (revised) has no material impact on the Group’s interim financial statements.

Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with SSAP 25 “Interim financial reporting” and the applicable disclosure requirements of the GEM Listing Rules.

4. Turnover

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

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

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	2003	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover (income from external customers):				
– Game-on-demand services income	116,014	27,686	176,506	35,569
– MMOG services income	135,860	–	214,497	–
– Licensed fee income	670,476	–	1,600,000	–
	<u>922,350</u>	<u>27,686</u>	<u>1,991,003</u>	<u>35,569</u>

5. Loss from operating activities before taxation

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

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	2003	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of services provided	839,678	531,271	1,704,797	871,277
Interest income	<u>(2,146)</u>	<u>(74,197)</u>	<u>(8,022)</u>	<u>(136,548)</u>

6. FINANCE COST

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	2003	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest paid to ultimate parent enterprise	<u>42,413</u>	<u>–</u>	<u>42,413</u>	<u>–</u>

7. Taxation

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

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

There was no material unprovided deferred taxation for the six months ended 30th June, 2003.

8. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the three months and six months ended 30th June, 2003 (three months and six months ended 30th June, 2002: Nil).

9. Loss per share

The calculation of basic loss per share for the three months and six months ended 30th June, 2003 is based on the net loss attributable to shareholders of HK\$1,939,370 and HK\$4,073,453, respectively (three months ended and six months ended 30th June, 2002: HK\$2,516,589 and HK\$4,306,788, respectively) and the weighted average number of 440,000,000 ordinary shares in issue during the three months and six months ended 30th June, 2002 (three months and six months ended 30th June, 2002: 440,000,000 ordinary shares).

No diluted loss per share for the three months and six months ended 30th June, 2003 (three months ended and six months ended 30th June, 2002: Nil) have been presented because the share options outstanding had an antidilutive effect on the basic loss per share for these periods.

10. Segment Information

Business segments

An analysis of the Group's performance by business segments, namely "Game-On-Demand Services", "MMOG services income" and "Game licensing" are summarised below.

	Game-On-Demand services		MMOG services income		Game licensing income		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30th June,		30th June,		30th June,		30th June,	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	176,506	35,569	214,497	-	1,600,000	-	1,991,003	35,569
Cost of services provided	(151,133)	(871,277)	(183,663)	-	(1,370,001)	-	(1,704,797)	(871,277)
Other operating expenses	(383,444)	(3,607,628)	(465,977)	-	(3,475,867)	-	(4,325,288)	(3,607,628)
Loss from operating	<u>(358,071)</u>	<u>(4,443,336)</u>	<u>(435,143)</u>	<u>-</u>	<u>(3,245,868)</u>	<u>-</u>	<u>(4,039,082)</u>	<u>(4,443,336)</u>
Other revenue							8,042	136,548
Operating loss							(4,031,040)	(4,306,788)
Finance costs							(42,413)	-
Loss attributable to shareholders							<u>(4,073,453)</u>	<u>(4,306,788)</u>
Unallocated assets							<u>6,980,787</u>	<u>9,296,241</u>
Unallocated liabilities							<u>(3,665,181)</u>	<u>(1,907,182)</u>
Other segment information:								
Depreciation							<u>326,758</u>	<u>153,896</u>
Capital expenditure							<u>62,940</u>	<u>47,034</u>

Geographical segments

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

	Hong Kong		Japan		PRC		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30th June,		30th June,		30th June,		30th June,	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	<u>623,647</u>	<u>35,569</u>	<u>53,070</u>	<u>-</u>	<u>1,314,286</u>	<u>-</u>	<u>1,991,003</u>	<u>35,569</u>
Segment assets	<u>4,378,158</u>	<u>9,296,241</u>	<u>3,070</u>	<u>-</u>	<u>2,599,559</u>	<u>-</u>	<u>6,980,787</u>	<u>9,296,241</u>
Capital expenditure	<u>49,940</u>	<u>47,034</u>	<u>-</u>	<u>-</u>	<u>13,000</u>	<u>-</u>	<u>62,940</u>	<u>47,034</u>

11. Fixed Assets

	Leasehold improvements HK\$	Furniture, fixtures and office equipment HK\$	Computer equipment HK\$	Total HK\$
Cost:				
At 1st January, 2003	662,244	423,407	1,157,537	2,243,188
Additions	<u>-</u>	<u>2,880</u>	<u>60,060</u>	<u>62,940</u>
At 30th June, 2003 (Unaudited)	<u>662,244</u>	<u>426,287</u>	<u>1,217,597</u>	<u>2,306,128</u>
Accumulated depreciation:				
At 1st January, 2003	110,374	136,744	305,630	552,748
Provided during the period	<u>165,561</u>	<u>42,484</u>	<u>118,713</u>	<u>326,758</u>
At 30th June, 2003 (Unaudited)	<u>275,935</u>	<u>179,228</u>	<u>424,343</u>	<u>879,506</u>
Net book value:				
At 30th June, 2003 (Unaudited)	<u>386,309</u>	<u>247,059</u>	<u>793,254</u>	<u>1,426,622</u>
At 31st December, 2002 (Audited)	<u>551,870</u>	<u>286,663</u>	<u>851,907</u>	<u>1,690,440</u>

12. Accounts Receivables

An aged analysis of the accounts receivables is as follows:

	30th June, 2003	31st December, 2002
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Within 30 days	408,252	28,614
31–60 days	454,604	4,133
61–90 days	61,074	5,555
over 90 days	29,467	–
	<u>953,397</u>	<u>38,302</u>

13. Fixed Deposits and Cash and Bank Balances

	30th June, 2003	31st December, 2002
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Cash and bank balances	725,132	332,369
Time deposits	1,917,041	6,027,084
	<u>2,642,173</u>	<u>6,359,453</u>
<i>Less:</i> Pledged time deposits for banking facility granted to the Group	<u>(170,371)</u>	<u>(5,213,373)</u>
Cash and cash equivalents	<u>2,471,802</u>	<u>1,146,080</u>

As at 30th June, 2003, the Group has pledged its bank fixed deposits of HK\$170,371 to secure the corporate credit cards (31st December, 2002: HK\$5,213,373 to secure a bank overdraft facility and the corporate credit cards) granted to the Group. No bank overdraft was drawn down by the Group as at 30th June, 2002 or during the six months then ended.

14. Loan from ultimate parent enterprise

Loan from ultimate parent enterprise is unsecured, interest bearing at prime rate plus 1% per annum and not repayable within one year.

15. Share Capital

	30th June, 2003	31st December, 2002
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
<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 28th November, 2001, a share option scheme (the “Pre-Scheme”) was approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme was to recognise the contribution of certain directors and employees of the Group to its growth.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5,000,000, 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 share 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 28th November, 2001, the Company granted pre-IPO share options under the Pre-Scheme to 4 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 share options will be granted under the Pre-Scheme after the listing of the Company’s shares on the GEM. 50% of the share options granted may be exercised after the expiry of 12 months from 13th December, 2001, and the remaining 50% of the share options granted may be exercised after the expiry of 24 months from 13th December, 2001, and in each case, not later than 10 years from the date of grant of the share options. Each grantee has paid HK\$1 in total 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 share of the Company of HK\$0.005 each.

None of these share options were exercised during the six months ended 30th June, 2003.

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

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

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

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5,000,000, 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 and in any event not later than 10 years from the date of the grant of the options.

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

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

16. Related Party Transactions

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

	<i>Notes</i>	Three months ended 30th June,		Six months ended 30th June,	
		2003	2002	2003	2002
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Development fees paid	(i)	–	51,035	–	110,035
GOD services income	(ii)	25,312	–	59,765	9,738

Notes:

- (i) During the period from 1st January, 2002 to 30th June, 2002, development fees were paid to DeliriumCyberTouch (H.K.) Limited, a fellow subsidiary of Delirious Ventures Inc., a minority shareholder of the Group, for the design and development of a website and Internet game platform for the Group. The Directors consider that the development fees were charged on a basis similar to those charged by unrelated website and platform developers of the Group.

- (ii) On 1st October, 2002 and 20th February, 2003, the Group entered into eight agreements with seven related companies (the “Site Providers”), of which a Director of the Company is also a director of these companies, whereby the Group agreed to provide each of the Site Providers one or two PC Module arcade GOD machines and related technical support and maintenance services, for a term of 12 months in their arcade game centres. Each of the Site Providers agreed to share with the Group ranging from 45% to 50% of the gross revenue generated by the PC module arcade game-on-demand machines provided by the Group. The Directors consider that such sharing of revenue was charged on a basis similar to those charged to independent arcade game centres.

17. Commitments

(a) Capital commitments

	30th June, 2003	31st December, 2002
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Contracted but not provided for –		
Contribution of capital to a subsidiary	–	1,000,000
Contribution of capital to a jointly controlled entity	1,321,000	–
	<u>1,321,000</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:

	30th June, 2003	31st December, 2002
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Not later than one year	562,550	562,550
Later than one year and not later than five years	–	321,041
	<u>562,550</u>	<u>883,591</u>

Save as aforesaid, the Group did not have any other significant commitments as at 30th June, 2003.

18. Post Balance Sheet Events

On 22th July, 2003, the Group entered into an agreement with a connected party and appointed this connected party as an agent for the promotion and distribution of the game software name “iHorse Arcade” in Hong Kong and Macau. This connected party is a wholly-owned subsidiary of a limited company incorporated in Hong Kong of which a Director is also the director. This agreement was subject to the approval from independent shareholders of the Company. A circular and a notice of a special general meeting are pending and will be dispatched to the shareholders as soon as possible. Please refer to the Company’s announcement dated 8th August, 2003 in respect of the entering of the agreement for further details.

4. UNAUDITED CONSOLIDATED THIRD QUARTER FINANCIAL STATEMENTS OF THE GROUP

Set out below are the unaudited third quarter results of the Group for the nine months ended 30th September, 2003:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Group reorganisation and basis of presentation and consolidation

Group reorganisation

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

Basis of presentation and consolidation

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

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

2. Turnover

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

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

	Three months		Nine months	
	ended 30th September,		ended 30th September,	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover (income from external customers):				
– Game-on-demand services income	110,635	54,753	287,142	90,322
– MMOG services income	141,959	–	356,456	–
– Licensed fee income	–	–	1,600,000	–
– Online Arcade Game machine income	2,493,875	–	2,493,875	–
	<u>2,746,469</u>	<u>54,753</u>	<u>4,737,473</u>	<u>90,322</u>

3. Finance Cost

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

4. Taxation

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

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

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

5. Dividends

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

6. Loss per share

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

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

7. Capital and reserves

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

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

5. STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE

Set out below is a pro forma statement of the unaudited adjusted consolidated net tangible asset value of the Group based on the audited consolidated net tangible asset value of the Group as at 31st December, 2002 and adjusted as follows:

	<i>HK\$'000</i>
Audited consolidated net tangible asset value of the Group as at 31st December, 2002	7,389
Prior year adjustment – adoption of new SSAP 12 (<i>Note 1</i>)	(99)
Unaudited consolidated loss after tax for the twelve months ended 31st December, 2003 (<i>Note 2</i>)	(9,714)
Unaudited adjusted consolidated deficiency in net tangible asset value of the Group	(2,424)
Unaudited adjusted consolidated deficiency in net tangible asset value per Share (based on 440,000,000 Shares in issue as at the Latest Practicable Date)	HK0.55 cent

Notes:

1. The Group has adopted the new Statement of Standard Accounting Practice 12 (Revised) (“SSAP 12”) “Income Taxes” issued by the Hong Kong Society of Accountants during the financial year ended 31st December, 2003. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the reserves as at 31st December, 2002 has to be reduced by approximately HK\$99,000, which amount represents unprovided net deferred tax liabilities.
2. **The amount represents the unaudited consolidated loss after taxation of the Group for the twelve months ended 31st December, 2003 based on the management accounts as prepared by the Directors. The management accounts are subject to audit and therefore may be subject to adjustments upon audit and/or changes as a result of any subsequent events which may arise after the Latest Practicable Date.**

6. INDEBTEDNESS

As at the close of business on 31st December, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had loan from parent enterprise of approximately HK\$3,030,000. Save as aforesaid and apart from intra-group liabilities, the Group did not have any any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance lease or hire purchases commitments, guarantees or other material contingent liabilities as at the close of business on 31st December, 2003.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31st December, 2003.

7. MATERIAL CHANGE

Save as disclosed below, the Directors are not aware of any material change in the financial or trading position or prospect of the Group since 31st December, 2002, the date to which the latest audited financial statements of the Company were made up:

- (i) based on the unaudited management accounts of the Group prepared by the Directors, the Group recorded an unaudited consolidated loss after tax of approximately HK\$9.7 million for the twelve months ended 31st December, 2003. The management accounts are, however, subject to audit and therefore may be subject to adjustments upon audit and/or changes as a result of any subsequent events which may arise after the Latest Practicable Date;
- (ii) on 28th February, 2003, Jantek Limited (“Jantek”), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the “JV Agreement”) with Jiangsu Sainty International Group Modern Information Industry Company Limited to establish a sino-foreign equity joint venture company, namely, Billybala Content Sanice (Nanjing) Limited to engage in the provision of an information portal and content value-added services and products to the Internet cafes operating in Jiangsu, Nanjing. Pursuant to the JV Agreement, Jantek is required to contribute RMB1,400,000 (equivalent to approximately HK\$1,321,000) for its 70% equity interest in Billybala Content Sanice (Nanjing) Limited. As at the Latest Practicable Date, Jantek was yet to make the contribution pursuant to the JV Agreement; and
- (iii) during the twelve months ended 31st December, 2003, the Company has adopted a new accounting standard regarding income taxes issued by the Hong Kong Society of Accountants. This resulted in a prior year adjustment of approximately HK\$99,000.

8. COMFORT LETTERS

Set out below are texts of the letters received by the Directors from CCIF and Hantec and Baron in connection with the preparation of the unaudited consolidated results of the Group for the twelve months ended 31st December, 2003, as set out under the section headed “Statement of unaudited adjusted consolidated net tangible asset value” in this appendix.



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25th February, 2004

The Directors
Billybala Holdings Limited
20/F, 10 Knutford Terrace
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

We have reviewed the unaudited consolidated results of Billybala Holdings Limited (the “Company”) and its subsidiaries (hereinafter referred to collectively as the “Group”) for the twelve months ended 31st December, 2003 (the “Unaudited Results”) for which the directors of the Company are solely responsible, as set out under the section headed “Statement of unaudited adjusted consolidated net tangible asset value” in Appendix II to the document dated 25th February, 2004 issued in connection with the mandatory unconditional cash offers by Somerley Limited on behalf of Future Advance Holdings Limited for all the issued shares of HK\$0.005 each and all the outstanding options (other than those already owned by Future Advance Holdings Limited or parties acting in concert with it) of the Company (the “Document”).

A review of the Unaudited Results consists principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making inquiries of management and/or staff responsible for financial and accounting matters. The review was substantially less in scope than an audit performed in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants and, accordingly, we do not express an audit opinion on the Unaudited Results.

Based on our review, so far as the accounting policies and calculations are concerned, the Unaudited Results are prepared on a basis consistent in all material aspects with those accounting policies adopted by the Group for the financial year ended 31st December, 2003, which are the same as those adopted in the Group's financial statements for the year ended 31st December, 2002 together with the new adoption of Statement of Standard Accounting Practice 12 (Revised) Income Taxes which is applicable to financial statements relating to periods beginning on or after 1st January, 2003, and we are not aware of any material modifications that should be made to the Unaudited Results as presented in the Document.

Yours faithfully,
For and on behalf of
Charles Chan, Ip & Fung CPA Ltd.
Chan Wai Dune, Charles
Managing Director



Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong



Baron Capital Limited
4th Floor, Aon China Building
29 Queen's Road Central
Hong Kong

25th February, 2004

The Directors
Billybala Holdings Limited
20th Floor, 10 Knutsford Terrace
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

We refer to the unaudited consolidated results of Billybala Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the twelve months ended 31st December, 2003 (the "Unaudited Results"), for which the directors of the Company are solely responsible, as set out under the section headed "Statement of unaudited adjusted consolidated net tangible asset value" in Appendix II to the circular of the Company dated 25th February, 2004 (the "Circular").

We have discussed with you the accounting policies adopted in the derivation of the Unaudited Results and, in particular, discussed with you as to whether the Unaudited Results have been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Although we have not performed any independent review of the preparation of the Unaudited Results, we have discussed with you the bases upon which the Unaudited Results have been made and performed analytical review on the Unaudited Results and made inquiry to you in respect of the reasons for the fluctuations of the Unaudited Results. We have relied on the representations made to us by you that transactions entered into by the Group are properly recorded and that the accounts of the Group are properly consolidated with all necessary adjustments being made. Based on our discussion with you, we have no reason to believe any representation made to us is untrue, inaccurate or incomplete.

We have also considered the letter dated 25th February, 2004 addressed to you from Charles Chan, Ip & Fung CPA Ltd. (the "Letter"). We note the view of Charles Chan, Ip & Fung CPA Ltd. stated in the Letter that (i) so far as the accounting policies and calculations are concerned, the Unaudited Results have been prepared on a basis consistent in all material respects with the accounting policies adopted by the Group for the twelve months ended 31st December, 2003, which are the same as those adopted in its financial statements for the year ended 31st December, 2002, together with the new adoption of Statement of Standard Accounting Practice 12 (Revised) Income Taxes which is applicable to the financial statements relating to the periods beginning on or after 1st January, 2003; and (ii) Charles Chan, Ip & Fung CPA Ltd. is not aware of any material modifications that are required to be made to the Unaudited Results as presented in the Circular.

On the basis of the accounting policies adopted in the derivation of the Unaudited Results and the review performed by Charles Chan, Ip & Fung CPA Ltd., we are satisfied that the Unaudited Results, for which you as Directors are solely responsible, have been prepared with due care and consideration.

Your faithfully,
For and on behalf of
Hantec Capital Limited
Andrew Tang **Thomas Lai**
Director *Director*

Your faithfully,
For and on behalf of
Baron Capital Limited
Thomas Chiu **Monica Lin**
Managing Director *Director*

1. RESPONSIBILITY STATEMENT

The information in this document relating to the Group has been supplied by the Company. All Directors jointly and severally accept full responsibility for the accuracy of information contained in this document (other than information relating to the Offeror, the terms and conditions of the Offers and the Offeror's intention regarding the Group), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this document (other than those relating to the Offeror), the omission of which would make any statement in this document misleading.

The information in this document relating to the Offeror, the terms and conditions of the Offers and the Offeror's intention regarding the Group have been supplied by the Offeror. The directors of the Offeror accept full responsibility for the accuracy of information contained in this document (other than that relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Company) have been arrived at after due and careful consideration and that there are no other facts not contained in this document (other than those relating to the Group), the omission of which would make any statement in this document misleading.

2. SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

		<i>HK\$</i>
<i>Authorised:</i>		
<u>1,000,000,000</u>	Shares	<u>5,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
<u>440,000,000</u>	Shares	<u>2,200,000</u>

No Shares have been issued since 31st December, 2002, being the date to which the latest audited consolidated financial statements of the Group are made up, and up to the Latest Practicable Date. All the issued Shares rank pari passu with each other in all respects including the right as to dividends, voting rights and right to return on capital.

(b) Share option scheme

The Company has adopted the Pre-IPO Share Option Scheme. As at the Latest Practicable Date, there were 33,440,000 outstanding Options entitling the Optionholders to subscribe for an aggregate of 33,440,000 Shares at an exercise price of HK\$0.24 per Share, with exercise periods expiring on various dates up to and including 27th November, 2011.

The Company also has a post-IPO share option scheme in place. No share option has been granted by the Company under the said scheme up to the Latest Practicable Date.

Save as disclosed above, there were no outstanding warrants or share options or equity derivatives which are convertible or exercisable into the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS**(a) Directors' interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the following Director(s) had interests and/or short positions in the securities of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this document pursuant to the requirements of the Takeovers Code:

Shares

Name of Director	Nature of interests	Number of Shares held	Approximate percentage of issued share capital (%)
Mr. Tung Wai Wa, Wallace	Personal	4,909,290	1.12
Mr. Li Ka Kui	Personal	2,944,954	0.67

<i>Options</i>			
Name of Director	Number of Options outstanding	Exercise period of the Options	Exercise price per Share HK\$
Mr. Cheng	1,760,000	14th December, 2002 to 27th November, 2011	0.24
	1,760,000	14th December, 2003 to 27th November, 2011	0.24
Mr. Leung	7,920,000	14th December, 2002 to 27th November, 2011	0.24
	7,920,000	14th December, 2003 to 27th November, 2011	0.24
Mr. Li Ka Kui	1,760,000	14th December, 2002 to 27th November, 2011	0.24
	1,760,000	14th December, 2003 to 27th November, 2011	0.24
Mr. Ng, Kenny Chi Kin	1,760,000	14th December, 2002 to 27th November, 2011	0.24
	1,760,000	14th December, 2003 to 27th November, 2011	0.24
Mr. Fung	1,760,000	14th December, 2002 to 27th November, 2011	0.24
	1,760,000	14th December, 2003 to 27th November, 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	14th December, 2002 to 27th November, 2011	0.24
	1,760,000	14th December, 2003 to 27th November, 2011	0.24

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the securities of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short

positions which they were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this document pursuant to the requirements of the Takeovers Code.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following person(s) had, or was deemed or taken to have, an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the Shares:

Name of Shareholder	Nature of interests	Number of Shares held	Approximate percentage of issued share capital
The Offeror	Beneficial	313,597,030	71.27%
Mr. Lang Fulai	Corporate (<i>Note</i>)	313,597,030	71.27%
Mr. Yu Hongwen	Corporate (<i>Note</i>)	313,597,030	71.27%
China Zong Heng Holdings Limited	Corporate (<i>Note</i>)	313,597,030	71.27%

Note:

These Shares are held by the Offeror and Mr. Lang Fulai is beneficially interested in 50% of the entire issued share capital of the Offeror and China Zong Heng Holdings Limited, which is wholly and beneficially owned by Mr. Yu Hongwen, is beneficially interested in 37.5% of the entire issued share capital of the Offeror. The remaining 12.5% of the entire issued share capital of the Offeror is beneficially owned by Ms. Ma Zheng.

Save as disclosed above, the Directors and the chief executive of the Company were not aware of any person who has an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) Interests of the Offeror in the Company

At the Latest Practicable Date, the Offeror held 313,597,030 Shares, representing approximately 71.27% of the entire issued share capital of the Company. Save for the Shares held by the Offeror, none of the Offeror, its directors or their respective concert parties had any interest in the issued share capital or warrants, options, derivatives or conversion rights affecting the Shares.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Offeror and any other person for the transfer of the beneficial interests in Shares acquired in pursuance of the Share Offer.

(d) Interests in the Offeror

As at the Latest Practicable Date,

- (i) neither the Company nor any Directors owned or controlled any shares, warrants, options, derivatives or conversion rights affecting the shares in the Offeror;
- (ii) neither the Company nor any Directors had dealt for value in the shares, warrants, options, derivatives or conversion rights affecting the shares in the Offeror during the Relevant Period;
- (iii) no subsidiary or associates (as defined in the Takeovers Code) of the Company, or any pension fund of the Group, owned or controlled any shares, warrants, options, derivatives or conversion rights affecting the shares in the Offeror;
- (iv) no subsidiary or associates (as defined in the Takeovers Code) of the Company, or any pension fund of the Group, had dealt for value in the shares, warrants, options, derivatives or conversion rights affecting the shares in the Offeror during the Relevant Period; and
- (v) neither Somerley, Hantec, Baron, CCIF nor any other advisers to the Company owned or controlled any shares, warrants, options, derivatives or conversion rights affecting the shares in the Offeror.

(e) Other interests

As at the Latest Practicable Date and save as disclosed herein,

- (i) no subsidiary or associate of the Company, or any pension fund of the Group owned or controlled any Shares or warrants, options, derivatives or conversion rights affecting the Shares;
- (ii) none of the professional advisers named under the section headed “Qualifications” in this appendix or other advisers to the Company as specified in class (2) of the definition of associate owned or controlled any Shares or warrants, options, derivatives or conversion rights affecting the Shares;
- (iii) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror, or its concert parties had any interest in any Shares or warrants, options, derivatives or conversion rights affecting the Shares;

- (iv) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate had any interest in any Shares or warrants, options, derivatives or conversion rights affecting the Shares;
- (v) pursuant to the Share and Shareholders' Loan Sale Agreement, the Vendors have undertaken to procure their associates not to accept the Offers. Save for the aforesaid, none of the Directors nor any person acting in concert with them had made any irrevocable commitment or indication to the Offeror on whether to accept or reject the Offers with respect to their own holdings;
- (vi) no Shares or warrants, options, derivatives or conversion rights affecting the Shares were managed on discretionary basis by fund managers (other than exempt fund managers) who are connected with the Company;
- (vii) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, or its concert party and any other person, or between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associates and any other person; and
- (viii) no person had irrevocably committed himself/herself/itself to the Offeror to accept or reject the Offers.

4. DEALINGS IN SECURITIES

During the Relevant Period,

- (i) save for the Sale Shares acquired pursuant to the Share and Shareholders' Loan Sale Agreement which was completed on 20th February, 2004, none of the Offeror, its directors, its ultimate beneficial owners or any Directors, or any parties acting in concert with them had dealt for value in any Shares or warrants, options, derivatives or conversion rights affecting the Shares;
- (ii) none of the subsidiaries of the Company, any pension funds of the Company or any of its subsidiaries, nor any of the professional advisers named under the section headed "Qualifications" in this appendix or other advisers to the Company as specified in class (2) of the definition of associate, had dealt for value in any Shares or warrants, options, derivatives or conversion rights affecting the Shares;
- (iii) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any persons who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate had dealt for value in any Shares or warrants, options, derivatives or conversion rights affecting the Shares;
- (iv) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or its concert parties had dealt for value in any Shares or warrants, options, derivatives or conversion rights affecting the Shares;

- (v) no fund managers (other than exempted fund managers) who are connected with the Company had dealt for value in any Shares or warrants, options, derivatives or conversion rights affecting the Shares; and
- (vi) save for the Sale Shares sold pursuant to the Share and Shareholders' Loan Sale Agreement which was completed on 20th February, 2004, none of the Directors or any parties acting in concert with them had dealt for value in any Shares or warrants, options, derivatives or conversion rights affecting the Shares or that of the Offeror.

5. MARKET PRICES

- (a) During the Relevant Period, the highest and lowest closing prices of the Shares on the Stock Exchange were HK\$0.54 per Share as quoted on 30th July, 2003 and 31st July, 2003 and HK\$0.10 per Share as quoted on 5th February, 2004, 18th February, 2004 and 19th February, 2004, respectively.
- (b) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the issue of the Announcement on which trading of the Shares took place:

	Closing price <i>(HK\$)</i>
31st July, 2003	0.540
29th August, 2003	0.520
30th September, 2003	0.495
31st October, 2003	0.510
28th November, 2003	0.510
31st December, 2003	0.450

- (c) The closing price of the Shares as quoted on the Stock Exchange on 16th January, 2004, being the last trading day prior to the suspension of trading in the Shares pending the release of the Announcement, was HK\$0.53.
- (d) The closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date was HK\$0.11.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

As at the Latest Practicable Date, none of the contracts (not being contracts entered into in the ordinary course of business) entered into by a member of the Group during the period commencing from the date two years before the issue of the Announcement on 30th January, 2004 and ending on the Latest Practicable Date is considered to be material.

8. CONSENTS

Each of Somerley, CCIF, Hantec and Baron has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

9. SERVICE CONTRACTS

Save as disclosed below, none of the Directors had any service contract in force with the Company or any of its subsidiaries or associated companies which have more than 12 months to run from the Latest Practicable Date, and no service contract with any Director has been entered into or amended within six months before the commencement of the Offers:

On 1st December, 2003, the Company entered into a service agreement with Mr. Wong Hon Kit, a Director, for a term of two years commencing on 1st December, 2003 and expiring on 1st December, 2005 with a monthly remuneration of HK\$30,000. Such remuneration shall be reviewed annually by the Board and decided by the majority in number of the members of the Board, provided that such increase shall not be more than 10% of the annual salary immediately prior to such increase after each completed year of service. The Company did not enter any service contracts with Mr. Wong Hon Kit prior to 1st December, 2003.

10. ARRANGEMENTS AFFECTING DIRECTORS OF THE COMPANY

As at the Latest Practicable Date,

- (a) there was no benefit (other than statutory compensation) to be given to any Directors as compensation for loss of office or otherwise in connection with the Offers;
- (b) there was no agreement, arrangement or understanding between any Directors and any other persons, which is conditional on or dependent upon the outcome of the Offers or is otherwise connected with the Offers;
- (c) save for the Share and Shareholders' Loan Sale Agreement, there was no material contract entered into by the Offeror in which any past or current Directors had a material personal interest; and

- (d) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any of its concert parties and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offers.

11. QUALIFICATIONS

The following are the respective qualifications of the experts who have been named in this document or have given their opinions, letters or advice which are contained in this document:

Name	Qualification
Baron	A corporation licensed to undertake type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and being one of the joint independent financial advisers to the Independent Board Committee in relation to the Offers
CCIF	Certified Public Accountants
Hantec	A corporation deemed licensed under the transitional arrangements to undertake type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and being one of the joint independent financial advisers to the Independent Board Committee in relation to the Offers
Somerley	A corporation deemed licensed under the transitional arrangements to undertake type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and being the financial adviser to the Offeror in relation to the Offers

12. GENERAL

- (a) The registered office of the Company is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, and its head office and principal place of business in Hong Kong is at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong.
- (b) The registered office of the Offeror is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (c) The address of Somerley, the financial adviser to the Offeror, is at Suite 2201, 22nd Floor, Two International Finance Centre, 8 Finance Street, Hong Kong.
- (d) The address of Hantec, one of the joint independent financial advisers to the Independent Board Committee, is at 45th Floor, Cosco Tower, 183 Queen's Road Central, Hong Kong.

- (e) The address of Baron, one of the joint independent financial advisers to the Independent Board Committee, is at 4th Floor, Aon China Building, 29 Queen's Road Central, Central, Hong Kong.
- (f) The entire issued share capital of the Offeror is owned as to 50% by Mr. Lang Fulai, as to 12.5% by Ms. Ma Zheng and as to the balance of 37.5% by China Zong Heng Holdings Limited (中國縱橫控股有限公司), the entire issued share capital of which is beneficially owned by Mr. Yu Hongwen.
- (g) The board of directors of the Offeror comprises Ms. Ma Zheng, Mr. Yu Hongwen and Mr. Lang Fulai.
- (h) The English text of this document and the Forms of Acceptance shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 20th Floor, 10 Knutsford Terrace, Tsim Sha Tsui, Kowloon, Hong Kong while the Offers remain open:

- (a) the memorandum and articles of associations of the Company;
- (b) the memorandum and articles of associations of the Offeror;
- (c) the annual reports of the Company for the two years ended 31st December, 2002 and the interim report of the Company for the six months ended 30th June, 2003 and the third quarterly report of the Company for the nine months ended 30th September, 2003;
- (d) the offer letter from Somerley, the text of which is set out on pages 14 to 22 of this document;
- (e) the letter of advice from Hantec and Baron, the text of which is set out on pages 26 to 41 of this document;
- (f) the service agreement of Mr. Wong Hon Kit as referred to in the section headed "Service contracts" in this appendix; and
- (g) the letters of consent from Somerley, CCIF, Hantec and Baron referred to in the section headed "Consents" in this appendix.