



**Billybala Holdings Limited**  
(incorporated in the Cayman Islands with limited liability)

**霹靂啪喇控股有限公司**  
(於開曼群島註冊成立之有限公司)

Annual Report 2001  
2001年報

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

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

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

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

## TABLE OF CONTENT

	Page
CORPORATE INFORMATION	1
CHAIRMAN'S STATEMENT	2-3
COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS	4-6
MANAGEMENT DISCUSSION AND ANALYSIS	7-9
REPORT OF THE DIRECTORS	10-17
BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT	18-21
REPORT OF THE AUDITORS	22
CONSOLIDATED PROFIT AND LOSS ACCOUNT	23
CONSOLIDATED BALANCE SHEET	24
CONSOLIDATED CASH FLOW STATEMENT	25
BALANCE SHEET	26
NOTES TO FINANCIAL STATEMENTS	27-53
FINANCIAL SUMMARY	54
NOTICE OF ANNUAL GENERAL MEETING	55-58

## CORPORATE INFORMATION

<b>Board of Directors</b>	
<b>Executive Directors</b>	Mr. Cheng Kar Shing Mr. Leung Wai Keung Mr. Lee Shu En alias Derek Shuen Lee Mr. Ng, Kenny Chi Kin Mr. Li Ka Kui
<b>Non-executive Directors</b>	Mr. Fung Hoo Wing, Thomas Mr. Tung Wai Wa, Wallace
<b>Independent non-executive Directors</b>	Mr. Cheung Hon Kit Mr. Ma Ching Nam
<b>Registered office</b>	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman
<b>Head office and principal place of business</b>	British West Indies 19th Floor Asia Standard Tower 59-65 Queen's Road Central Hong Kong
<b>Website address</b>	www.billybala.com
<b>Company secretary</b>	Mr. Wong Hon Kit, <i>AHKSA</i>
<b>Compliance officer</b>	Mr. Ng, Kenny Chi Kin
<b>Qualified accountant</b>	Mr. Wong Hon Kit, <i>AHKSA</i>
<b>Audit committee</b>	Mr. Cheung Hon Kit Mr. Ma Ching Nam
<b>Authorised representatives</b>	Mr. Leung Wai Keung Mr. Ng, Kenny Chi Kin
<b>Principal bankers</b>	The Hong Kong and Shanghai Banking Corporation Limited
<b>Share registrar and transfer office</b>	Bank of Butterfield International (Cayman) Ltd. Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
<b>Stock Code</b>	8117
<b>Cayman Islands Assistant Secretary</b>	Codan Trust Company (Cayman) Limited
<b>Sponsor</b>	Tai Fook Capital Limited
<b>Auditors</b>	Ernst & Young <i>Certified Public Accountants</i>
<b>Hong Kong Share Registrar</b>	Tengis Limited 4th Floor Hutchison House 10 Harcourt Road Central Hong Kong

## CHAIRMAN'S STATEMENT

The Board of Directors of Billybala Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to present the first annual report after the Company's successful listing on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") in December 2001. For the year ended 31 December 2001, the Group recorded a total revenue of HK\$228,000. Loss attributable to shareholders was approximately HK\$9,690,000.

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2001.

### Business Review

During the year under review, the Group launched its arcade game-on-demand ("GOD") service through a partnership with PCCW IMS Limited ("NOW"), a subsidiary of Pacific Century CyberWorks Limited ("PCCW"). The co-branded website 'billybala.now.com.hk', targeted at all the game players in Hong Kong, was successfully launched in September 2001. Enjoying a first mover advantage in the provision of multiplayer arcade GOD via the Internet, subsequent to the launch of 'billybala.now.com.hk', game developers and other information technology companies in South Korea and Japan approached the Company, seeking cooperation in various Asian markets. The Company took a prudent approach in overseas expansion and will keep an eye on all appropriate business or joint venture opportunities.

The Group became the first arcade GOD service provider listed on GEM on 13 December 2001. Through listing, the Company raised net proceeds of approximately HK\$16,300,000, fuelling our expansion and development plan in the targeted Greater China market. Despite the damp performance of a number of technology stocks and the global economy, the Group's sector stands out as one of the most prosperous and promising industry as demonstrated by numerous Internet game products launched and the growing Internet gaming market.

### Financial Highlights

The Group recorded a total revenue of HK\$228,000 for the year ended 31 December 2001. It mainly came from fee receipt from the leasing of its GOD platform in Hong Kong and the launching of 'billybala.now.com.hk' in September 2001. We are pleased to record revenue in such a short time period and are expecting to generate revenue from non now.com.hk users in the near future.

Understanding that technology business involves substantial start-up cost, the Group has taken an extremely stringent approach towards managing our operating, administrative, human resources and other overheads.

Given that the Group is still at the development stage and incurred significant start-up cost and research and development expenses, a net loss of HK\$9,690,000 (2000: HK\$5,891,000) was recorded. The Group maintains a healthy liquidity ratio. As at 31 December 2001, the Group had approximately HK\$20,202,000 in cash and bank balances and had no outstanding bank borrowings.

## **CHAIRMAN'S STATEMENT**

### **Prospects**

The Group will continue to position itself as a leading provider of arcade GOD service provider in the Greater China region. The management, composed of a team of talented professionals, will locate and secure various business opportunities in this market with infinite potentials.

As one of the first online arcade GOD platforms in Greater China to offer interactive online arcade games with multiplayer feature, the Group will explore cooperative relationships with arcade and Personal Computer ("PC") game developers. A PC GOD platform is expected to be launched in the second half of 2002.

On the distribution side, besides allying with NOW, the Group has also planned to cooperate with property developers in China and to explore other revenue channels. Our commitment to strive for the best services and to develop products that conform to the consumer requirements will help to strengthen the Group to move forward and bravely embrace the challenges and opportunities ahead.

### **Appreciation**

On behalf of the Board of Directors, I have pleasure in taking this opportunity to express our gratitude to our shareholders for their continuous support and our management and staff for their dedication and contribution in the past year.

CHENG KAR SHING

Chairman

Hong Kong

20 March 2002



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the Prospectus	Actual business progress up to 31 December 2001
<b>2. RESEARCH AND DEVELOPMENT</b>	
<ul style="list-style-type: none"><li>- Continue research and development on the arcade and PC GOD platform</li><li>- Perform research and development on the application streaming technology for the GOD platform</li><li>- Perform research and development on payment gateway via new media</li></ul>	<ul style="list-style-type: none"><li>- Negotiation in progress with three US companies for development of PC GOD platform and streaming technologies</li><li>- Searched for suitable external contractors to provide such service</li><li>- Discussion in progress with PCCW IMS Limited for SMS payment gateway</li><li>- Completed alpha and beta test of the research and development on payment gateway via visa card</li></ul>
<b>3. BRAND BUILDING AND MARKETING</b>	
<ul style="list-style-type: none"><li>- Coordinate with PCCW IMS Limited for joint marketing effort</li><li>- Perform road show of the arcade GOD service in Hong Kong</li><li>- Place advertisement in game magazines in Hong Kong</li></ul>	<ul style="list-style-type: none"><li>- Launched joint marketing efforts including placing advertisement in newspapers, game magazines and other leisure magazines to promote co-brand name “billybala.now.com.hk”</li><li>- Delivered marketing package to attract potential on-line game players</li><li>- Launched direct mailing, e-newsletter and dedicated e-mail to NOW’s subscribers</li><li>- Launched mass on-line advertising and promotion on some game portals, ICPs and ISPs</li><li>- Road show was performed in more than 80 retail shops of a local leading mobile phone operator for joint promotion of arcade GOD services in Hong Kong</li><li>- Road shows and joint marketing programs were performed in major shopping malls in Hong Kong</li><li>- Placed advertisement in five game magazines, two leisure magazines and three local newspapers from November to December 2001 together with business partners in Hong Kong</li></ul>



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the Prospectus	Actual business progress up to 31 December 2001
<ul style="list-style-type: none"> <li>- Launch television commercial in Hong Kong</li> </ul>	<ul style="list-style-type: none"> <li>- Advertisement posters were placed in high-traffic areas in Hong Kong such as Mongkok, Tsimshatsui and Causeway Bay</li> <li>- Launched multimedia advertising from November to December 2001 and over 800 buses were covered through Roadshow Media</li> <li>- Launched television commercials in a Hong Kong television channel from October to December 2001</li> </ul>

### 4. HUMAN RESOURCES

Management	5	Management	5
Finance and administration	2	Finance and administration	3
Business development and marketing	3	Business development and marketing	2
Technical and research and development	<u>7</u>	Technical and research and development	<u>6</u>
	<u>17</u>		<u>16</u>

### USE OF PROCEEDS

The net proceeds raised from the initial listing of the shares of the Company on GEM on 13 December 2001 were approximately HK\$16,300,000. The net proceeds have been applied to achieve the business objectives as set out in the Prospectus and details below:

For the period from 13 to 31 December 2001

	Actual HK\$
Brand building and marketing	41,000
Research and Development	45,500
	-----
Total	86,500 =====

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Review

The Company and its subsidiaries (collectively referred to as the “Group”) is principally engaged in the provision of arcade Game-On-Demand (“GOD”) service via the Internet through turning traditional arcade games into online version together with GOD and multiplayer features in the Greater China region.

The Group entered into a co-operative agreement with PCCW IMS Limited (“NOW”), a subsidiary of Pacific Century CyberWorks Limited (“PCCW”) in August 2001. Pursuant to the agreement, the Group would become one of the content providers and the only arcade game provider of www.now.com.hk, which is NOW’s broadband content website. ‘billybala.now.com.hk’ was successfully launched on 25 September, 2001. Under the mutually exclusive contract and revenue sharing model, the Group supplies its arcade GOD services to NOW only and will not supply the same services to any other Internet services provider for a period of two years in Hong Kong.

During the year under review, the Group maintained a fruitful and amicable relationship with our sole game supplier, Capcom Asia Co. Ltd. Our game library increased from 25 games in January 2001 to 62 games as at 31 December 2001. Besides online GOD services, the Group ventured into the PC module arcade GOD services in September 2001 and has in aggregate two PC GOD machines placed at two arcade game centers in Hong Kong. In August 2001, the Group signed a contract with a South Korean Internet game service provider, pursuant to which the Group’s arcade GOD platform (excluding the game content) was licensed to this South Korean Internet game service provider for rendering its online arcade games on a GOD basis in South Korea.

The Group recorded a total revenue of HK\$228,000 for the year ended 31 December 2001 as the service was launched in September 2001. Given that the Group is still at the development stage and incurred significant start-up cost and research and development expenses, a net loss of HK\$9,690,000 (2000:HK\$5,891,000) was recorded.

### Business Outlook

Looking ahead, Greater China remains our business focus for market expansion. In preparation for the Group to launch its GOD services in the PRC, the Group signed two memoranda of understanding (“MOU”) on 20 August 2001 with a state-owned real estate developer. Pursuant to the two MOUs, the Group and the real estate developer will consider developing a joint venture through which the Group’s GOD services will be provided to household users.

The Group will also seek cooperation with various strategic alliances that bring synergies to existing business as well as broaden the Group 's income stream.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Position**

For the year under review, the Groups financed its operations mainly with its own working capital and did not have any bank borrowings. As at 31 December 2001, the Group had total assets of approximately HK\$23,579,000 (2000: HK\$5,358,000), including cash and bank balances of approximately HK\$20,202,000 (2000: HK\$2,650,000). After the year end date, approximately HK\$17,800,000 of such cash and bank balances were placed in time deposit accounts. As there was no external borrowing outstanding, the gearing ratio (i.e. total external borrowing / total equity) of the Group as at 31 December 2001 was nil (2000: nil).

Taking into consideration the existing financial resources available to the Group including the net proceeds from listing, it is anticipated that the Company should have adequate financial resources to meet its ongoing operations and development requirement.

Currently, all of the transactions of the Group are denominated in Hong Kong dollars, no hedging or other arrangements to reduce the currency risk have been implemented and there is no charge on Group's assets.

The Group had no external financing facilities as at 31 December 2001.

### **Significant Investment**

During the year under review, there was no significant investment held by the Group.

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

Other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares on the GEM, there were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of this year.

### **Contingent Liabilities**

As at 31 December 2001, the Directors are not aware of any material contingent liabilities (2000: Nil).

### **Employees**

As at 31 December 2001, the Group had 16 full-time employees (2000: 10). The staff costs, including directors' remuneration were approximately HK\$2,691,000 (2000: HK\$1,001,000). The reason of the increase in staff cost is that 4 employees, who joined the Group in the second half of 2000, received full year salaries this year. The Group offers a comprehensive remuneration package and benefits to its full-time employees, including medical scheme. In order to attract, retain and motivate quality employees, the Group will review remuneration package from time to time.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Share Option Schemes

On 28 November 2001, two share option schemes of the Company were approved by shareholders of the Company, namely, the Pre-IPO Share Option Scheme and the Share Option Scheme (both terms as defined in the Prospectus). The summary of the terms of the two schemes has been set out in Appendix IV of the Prospectus under the section headed "Share Option Schemes".

As at 31 December 2001, the Company had granted 44,000,000 options under the Pre-IPO Share Option Scheme to 5 executive Directors, 2 non-executive Directors. Except for the Directors, no options were granted to any employee. As at 31 December 2001, no options were granted under the Share Option Schemes. No share options were exercised under the above two named share option schemes up to the date of this announcement.

### Future Prospects

As stated in our Prospectus, a PC GOD platform is planned to be launched in the second half of 2002. To complement with this development, the Group is pro-actively expanding its game sourcing capability. We are in negotiation with various arcade and PC game developers, one of them being a renowned US game manufacturer. We shall disclose more details in due course.

The Group envisages that Massive Multi-player Online Games (MMOG) will be a huge trend for online games in the coming years. In view of this, we are going to speed up the development of MMOG in Greater China. More concrete developments are expected to happen before 2003, the original proposed date for MMOG in our prospectus.

With Greater China continuing to be our target market, the Group will seek alliance with Internet Content Provider and game portals in China and pursue joint promotions or other forms of cooperation. We believe that these strategic alliances will greatly enhance our user base and bring significant revenue to the Group.

In order to further strengthen our game sourcing capacity and diversify our distribution channels, the Group has signed a MOU with game distributor in Japan on 28 December 2001. Such game distributor in Japan will help us to source different games with various Japanese game companies which will help the Group explore the Japanese market for providing our similar Internet GOD service in Japan.

## **REPORT OF THE DIRECTORS**

The directors herein present their first report and the audited financial statements of the Company for the period from 5 September 2001 (date of incorporation) to 31 December 2001 and of the Group for the year ended 31 December 2001.

### **Group reorganisation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group on 24 September 2001. Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 1, 2 and 18 to the financial statements.

The shares of the Company were listed on the GEM on 13 December 2001.

### **Principal activities**

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries comprise the provision of Internet game platform licensing and game-on-demand services. There were no significant changes in the nature of the Group's principal activities during the year.

### **Segment information**

An analysis of the Group's turnover by principal activities and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

### **Results and dividends**

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 53.

The directors do not recommend the payment of any dividends in respect of the year.

### **Fixed assets**

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

### **Share capital and share options**

Details of movements in the Company's share capital and share options during the period from 5 September 2001 (date of incorporation) to 31 December 2001, together with reasons therefor, are set out in note 18 to the financial statements.

## **REPORT OF THE DIRECTORS**

### **Reserves**

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

### **Pre-emptive rights**

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

### **Distributable reserves**

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands, amounted to HK\$20,253,763. This includes the Company's share premium account in the amount of HK\$20,640,063 at 31 December 2001, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

### **Major customers and suppliers**

In the year under review, sales to the Group's five largest customers accounted for approximately 90% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 54%.

Purchases from the Group's largest and only supplier accounted for 100% of the Group's total purchases for games content and software.

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

### **Directors**

The directors of the Company during the year and at the date of this report are:

Executive directors:

Mr. Cheng Kar Shing	(appointed on 12 September 2001)
Mr. Leung Wai Keung	(appointed on 12 September 2001)
Mr. Derek Shuen Lee	(appointed on 12 September 2001)
Mr. Ng, Kenny Chi Kin	(appointed on 12 September 2001)
Mr. Li Ka Kui	(appointed on 12 September 2001)

## REPORT OF THE DIRECTORS

Non-executive directors:

Mr. Neil T. Cox	(appointed on 5 September 2001 and resigned on 12 September 2001)
Mr. Fung Hoo Wing, Thomas	(appointed on 12 September 2001)
Mr. Tung Wai Wa, Wallace	(appointed on 12 September 2001)

Independent non-executive directors:

Mr. Cheung Hon Kit	(appointed on 25 September 2001)
Mr. Ma Ching Nam	(appointed on 25 September 2001)

In accordance with article 14(4) of the Company's articles of association, all directors will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### **Directors' service contracts**

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

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

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

### **Directors' interests in contracts**

Save for transactions in connection with the Group Reorganisation in preparation for the Company's placing and as disclosed in note 23 to the financial statements, no director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its holding companies or subsidiaries was a party during the year.

## REPORT OF THE DIRECTORS

### Directors' interests in shares

On 13 December 2001, the Company's shares were listed on the GEM. At 31 December 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as set out below:

Name of director	Notes	Number of shares held	
		Corporate interest	Personal interest
Mr. Cheng Kar Shing	(a)	281,268,118	-
Mr. Derek Shuen Lee		-	886,000
Mr. Leung Wai Keung	(b)	14,658,362	-
Mr. Li Ka Kui		-	2,944,954
Mr. Tung Wai Wa, Wallace		-	4,909,290
Mr. Fung Hoo Wing, Thomas	(c)	<u>17,670,550</u>	<u>-</u>

#### Notes:

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

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

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



## REPORT OF THE DIRECTORS

### Directors' rights to acquire shares

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

Name of director	Number of share options granted on 28 November 2001	Exercise period of share options	Exercise price per share HK\$
Mr. Cheng Kar Shing	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Leung Wai Keung	7,920,000	14 December 2002 to 27 November 2011	0.24
	7,920,000	14 December 2003 to 27 November 2011	0.24
Mr. Derek Shuen Lee	5,280,000	14 December 2002 to 27 November 2011	0.24
	5,280,000	14 December 2003 to 27 November 2011	0.24
Mr. Li Ka Kui	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Fung Hoo Wing, Thomas	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Ng, Kenny Chi Kin	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	14 December 2003 to 27 November 2011	0.24

## **REPORT OF THE DIRECTORS**

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

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

No further options will be granted under the Pre-Scheme following the listing of the Company's shares on the GEM. Upon the exercise of all outstanding pre-IPO share options in full, a total of 44,000,000 shares, representing in aggregate approximately 10% of the issued share capital of the Company immediately following the completion of the placing and the listing of the Company's shares on the GEM, would be issued.

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

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

### **Audit committee**

The Company established an audit committee on 28 November 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises two members, Mr. Cheung Hon Kit and Mr. Ma Ching Nam, who are the independent non-executive directors of the Company. The Group's audited results for the year ended 31 December 2001 have been reviewed by the committee, which was of the opinion that the preparation of such results complies with the applicable accounting standards and requirements, and that adequate disclosures have been made.

## REPORT OF THE DIRECTORS

### Substantial shareholders

At the date of this report, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

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

Notes:

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

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

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

## **REPORT OF THE DIRECTORS**

### **Sponsor's interests**

As at 31 December 2001, neither Tai Fook Capital Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

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

### **Connected and related party transactions**

Details of the related party transactions for the year are set out in note 23 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected or related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

### **Purchase, redemption or sale of listed securities of the Company**

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

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

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

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

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

### **Auditors**

Ernst & Young were appointed as the first auditors of the Company for the period ended 31 December 2001.

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

CHENG KAR SHING  
Chairman

Hong Kong  
20 March 2002

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

### **Directors**

Mr. Cheng Kar Shing, aged 49  
Chairman and Executive Director

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

Mr. Leung Wai Keung, aged 48  
Managing Director

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

Mr. Derek Shuen Lee, aged 32  
Executive Director and Chief Executive Officer

Mr. Lee joined the Group in August 2000. Mr. Lee graduated from Stanford University, the United States of America with a Master's degree in Operation Research. He worked at Citibank NA as a risk manager in the risk management department prior to joining the Group. Mr. Lee also has experience in managing financial, credit market and transaction risks, and is responsible for the operational management, research design, strategic planning and business development of the Group.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Mr. Ng Kenny Chi Kin, aged 42  
Executive Director

Mr. Ng joined the Group in September 2001. Mr. Ng received his Bachelor's degree in Engineering from the National Taiwan College of Marine Science & Technology and a Master of Business Administration degree from the American University in London, the United Kingdom. From 1997 to 1999, Mr. Ng joined Ming Pao Newspapers (Canada) Limited and was responsible for the computerisation of the production department. Prior to working for Ming Pao Newspaper (Canada) Limited, Mr. Ng was the plant manager of Kosonic Industry Company Limited. Mr. Ng has 16 years of experience in management and overall planning of companies. He is responsible for the business advisory and strategic planning of the Group.

Mr. Li Ka Kui, aged 30  
Executive Director

Mr. Li joined the Group in May 2000. Mr. Li is also a director of Prince Win Limited, a company engaging in the business of real estate development. Mr. Li has over 9 years of experience in business development, marketing and real estate investment. Throughout these 9 years, Mr. Li has developed an extensive business network. Mr. Li is primarily responsible for the Group's business development and marketing.

Mr. Fung Hoo Wing, Thomas, aged 46  
Non-executive Director

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

Mr. Tung Wai Wa, Wallace, aged 35  
Non-executive Director

Mr. Tung joined the Group in May 2000. Mr. Tung holds directorships in various private companies engaging in general trading and property investment, including Horwin Industries Limited and LK Property Agency Limited. Mr. Tung has over 13 years of experience in property investment, catering and finance related businesses. Mr. Tung is an active entrepreneur in Hong Kong and the People's Republic of China (the "PRC").

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Mr. Cheung Hon Kit, aged 48  
Independent Non-executive Director

Mr. Cheung joined the Group in September 2001. Mr. Cheung has over 23 years of experience in real estate development and investment. Mr. Cheung graduated from the University of London, the United Kingdom, with a Bachelor of Arts degree. He has worked in top executive posts for various leading property companies in Hong Kong. Currently, he is an executive director of ITC Corporation Ltd., an executive vice-chairman of China Land Group Ltd., and also a director of Hanny Holdings Ltd., Asean Resources Holdings Limited, Panva Gas Holdings Limited, hkcyber.com (Holdings) Ltd., Companion Building Material International Holdings Limited and Skynet (International Group) Holdings Limited.

Mr. Ma Ching Nam, aged 49  
Independent Non-executive Director

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

### **Senior Management**

Mr. Wong Hon Kit, aged 35

Mr. Wong joined the Group in September 2001. Mr. Wong is the Chief Financial Officer and Company Secretary of the Group. He is an associate member of the Hong Kong Society of Accountants and has 10 years of experience in the accounting field. He also possesses accounting experience for businesses in the PRC. Prior to joining the Group, Mr. Wong was the finance and administration manager for Keensmart Asia Limited. Mr. Wong is responsible for the financial controls of the Group.

Mr. Chu Kam Keung, Joseph, aged 47

Mr. Chu joined the Group in September 2001. He is responsible for the business development and legal advisory of the Group. He is a solicitor, notary public, and China-appointed attesting officer with over 19 years of experience practising law. He is also currently the general manager of Freeway Finance Company Limited, a finance company and a consultant to a law firm, Joseph Chu, Lo & Lau.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Mr. Ko Wing Ting, Waine, aged 23

Mr. Ko joined the Group in July 2001. Mr. Ko is the Chief Technical Officer of the Group. He is an analyst programmer responsible for the research, technical support and maintenance of the Group. Prior to joining the Group, he was a programmer for Ace Brock Creative Limited, a local game developer. He has three years of experience in computer-related operations and was the first runner-up of a computer programming design competition in 1995. Mr. Ko also has experience in the development of PC games, web and WAP pages, building sound effects and scripting story events of games.

Mr. Leung Shi Wang, aged 25

Mr. Leung joined the Group in June 2000. Mr. Leung is the marketing officer of the Group. He has finished the advanced commercial design training from the Kwun Tong Vocational Training Centre. He has experience in designing many different kinds of products such as logos, style sheets, advertisements, business cards, brochures and other advertising products to meet different marketing directives. Prior to joining the Group, he was an assistant producer and a video editor for A. Showcase Promotion Limited. He is responsible for creative, Internet and graphic design of the Group.

Ms. Lam Fung, aged 25

Ms. Lam joined the Group in September 2000. Ms. Lam is the manager of the editorial department of the Group. Ms. Lam has experience in development and maintenance of web databases, e-business project management and editorial support to websites. Prior to joining the Group, she was the database administrator of Show 8 Cyber Media Limited which runs portal sites in Hong Kong. She is responsible for the Internet content research and editorial work of the Group.

Ms. Chan Siu Yee, aged 23

Ms. Chan joined the Group in October 2000. Ms. Chan is the assistant manager for the editorial department of the Group. As the former editor of an Internet bookshop and the student magazine of the Baptist University of Hong Kong, Ms. Chan has experience in content editing. Prior to joining the Group, she was an editor at silkbook.com.hk, engaging in book and homepage design. She is responsible for the Internet content research and editorial work of the Group.

Mr. Li Ka Cheung, aged 27

Mr. Li joined the Group in July 2000. Mr. Li is the manager of the administration department of the Group. He is a brother of Mr. Li Ka Kui, an Executive Director of the Company. He graduated from the University of British Columbia, Canada, with a Bachelor's degree in Mathematics. Prior to joining the Group, Mr. Li gained experience in business administration at Extreme Motor Sport, an auto parts trading company in Canada. Mr. Li is responsible for the overall administration and treasury of the Group.



## REPORT OF THE AUDITORS



Certified Public Accountants      Phone: 852 2846 9888  
15th Floor Hutchison House      852 2526 5371  
10 Harcourt Road      Fax: 852 2868 4432  
Central, Hong Kong      852 2845 9208

To the members  
Billybala Holdings Limited  
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those 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 an 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG  
*Certified Public Accountants*

Hong Kong  
20 March 2002

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

		Year ended 31 December 2001 HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 HK\$
<b>TURNOVER</b>	5	228,189	-
Other revenue	5	65,813	58,634
Staff costs, including directors' remuneration		(2,690,507)	(1,001,131)
Depreciation		( 175,510)	( 53,426)
Royalties for game contents		( 18,136)	-
Research and development costs		(2,195,657)	(1,843,557)
Marketing and promotion expenses		(1,105,639)	( 3,000)
Other operating expenses		(3,798,140)	(3,048,282)
<b>LOSS FROM OPERATING ACTIVITIES BEFORE TAX</b>	6	(9,689,587)	(5,890,762)
Tax	9	-	-
<b>LOSS BEFORE MINORITY INTERESTS</b>		(9,689,587)	(5,890,762)
Minority interests		-	-
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>	10	<u>(9,689,587)</u>	<u>(5,890,762)</u>
Dividends	11	<u>-</u>	<u>-</u>
<b>LOSS PER SHARE</b>	12		
Basic		<u>HK2.6 cents</u>	<u>HK1.6 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Other than the net loss attributable to shareholders, the Group had no recognised gains or losses for the year. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

## CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK\$	2000 HK\$
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	903,464	625,636
<b>CURRENT ASSETS</b>			
Short term investment	15	-	1,505,000
Accounts receivable	16	100,966	-
Prepayments, deposits and other receivables		2,372,293	176,734
Due from related companies	17	-	401,100
Cash and bank balances		20,202,468	2,649,781
		<u>22,675,727</u>	<u>4,732,615</u>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		<u>3,431,832</u>	<u>1,249,013</u>
<b>NET CURRENT ASSETS</b>			
		<u>19,243,895</u>	<u>3,483,602</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		20,147,359	4,109,238
<b>MINORITY INTERESTS</b>		<u>148</u>	<u>-</u>
		<u>20,147,211</u>	<u>4,109,238</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	18	2,200,000	1,817,900
Reserves	19	<u>17,947,211</u>	<u>2,291,338</u>
		<u>20,147,211</u>	<u>4,109,238</u>

LEUNG WAI KEUNG  
Director

NG, KENNY CHI KIN  
Director

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

		Year ended 31 December 2001 HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 HK\$
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	20(a)	(9,693,596)	(3,330,279)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		<u>65,813</u>	<u>58,634</u>
Net cash inflow from returns on investments and servicing of finance		<u>65,813</u>	<u>58,634</u>
<b>TAX</b>		-	-
<b>INVESTING ACTIVITIES</b>			
Acquisition of a subsidiary	20(c)	-	( 91,680)
Purchase of fixed assets		( 453,338)	( 580,794)
Acquisition of an unlisted short term investment		-	(3,005,000)
Proceeds from disposal of an unlisted short term investment		1,505,000	-
Advance to a related company		-	( 401,100)
Repayment from a related company		401,100	-
Net cash inflow/(outflow) from investing activities		<u>1,452,762</u>	<u>(4,078,574)</u>
<b>NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES</b>		(8,175,021)	(7,350,219)
<b>FINANCING ACTIVITIES</b>	20(b)		
Proceeds from issue of shares of a subsidiary		9,658,900	10,000,000
Proceeds from issue of shares		22,031,200	-
Share issue expenses		(5,962,540)	-
Cash contribution by a minority shareholder		<u>148</u>	<u>-</u>
Net cash inflow from financing activities		<u>25,727,708</u>	<u>10,000,000</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		17,552,687	2,649,781
Cash and cash equivalents at beginning of the year/period		<u>2,649,781</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>		<u>20,202,468</u>	<u>2,649,781</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<u>20,202,468</u>	<u>2,649,781</u>

## BALANCE SHEET

31 December 2001

	Notes	2001 HK\$
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	14	6,771,403
<b>CURRENT ASSETS</b>		
Other receivables		1,757,350
Due from a subsidiary	14	<u>15,596,859</u>
		<u>17,354,209</u>
<b>CURRENT LIABILITIES</b>		
Accrued liabilities and other payables		1,668,349
Due to a subsidiary	14	<u>3,500</u>
		<u>1,671,849</u>
<b>NET CURRENT ASSETS</b>		
		<u>15,682,360</u>
		<u>22,453,763</u>
<b>CAPITAL AND RESERVES</b>		
Issued capital	18	2,200,000
Reserves	19	<u>20,253,763</u>
		<u>22,453,763</u>

LEUNG WAI KEUNG  
Director

NG, KENNY CHI KIN  
Director

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 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 5 September 2001.

No balance sheet of the Company as at 31 December 2000 is presented as it was incorporated subsequent to that date.

#### Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 December 2001, the Company became the holding company of the companies now comprising the Group on 24 September 2001. This was accomplished by acquiring the entire issued share capital of e-gameasia.com Limited ("e-gameasia"), the then holding company of the Group which consequently became the intermediate holding company of the other subsidiaries set out in note 14 to the financial statements, in consideration of and in exchange for the allotment and issue of a total of 181,789,999 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid, to the then shareholders of e-gameasia. Further details of the Group Reorganisation are set out in the Company's prospectus dated 6 December 2001 (the "Prospectus").

#### Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the period from 18 May 2000 (date of establishment of the companies comprising the acquired e-gameasia Group) to 31 December 2000, rather than from the date of their acquisitions on 24 September 2001. Accordingly, the consolidated results and cash flows of the Group for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 include the results and cash flows of the Company and its subsidiaries with effect from 18 May 2000 or since their respective dates of incorporation or acquisition by the Group, where this is a shorter period. 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 14 to the financial statements prior to and after the Group Reorganisation.

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 2. CORPORATE INFORMATION

Had the Group Reorganisation been completed on 18 May 2000 (pro forma formation date of the Group) and had the Group been in existence since that date, the Group's principal activities would have involved in the provision of Internet game platform licensing and game-on-demand services in Hong Kong during the period from 18 May 2000 to 31 December 2001.

The Company was a subsidiary of Romson Limited, a company incorporated in the British Virgin Islands, as at the balance sheet date. At 31 December 2001, the directors consider Poly Planning Limited, a company incorporated in Hong Kong, to be the Company's ultimate holding company.

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

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the accounts disclosed in these financial statements of adopting those SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustments to the financial statements and which require disclosure but no adjustment, and has had no major impact on these financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. It has made certain amendments to the previous accounting treatments, however these amendments have not had a material effect on the amounts previously recorded in the profit and loss account and balance sheet, therefore no prior year adjustments have been required. The disclosure changes under SSAP 14 (Revised) have resulted in total future commitments being disclosed for commitments under operating leases, rather than only the forthcoming year's commitments as previously the case, as detailed in note 22 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment reporting format, with the other as the secondary segment reporting format. The impact of SSAP 26 is the inclusion of additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosure in respect thereof. The principal impact of SSAP 28 on these financial statements is the requirement to discount the amounts of provisions to their present value at the balance sheet date, where the effect of discounting is material. The new SSAP 28 has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of SSAP 29 has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have had no significant impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The new SSAP 30 has had no major impact on these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP 31 is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.



## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic measurement of certain short term investments, as further explained below.

#### **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 bases:

- 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.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. 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 profit and loss account 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, 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 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 a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### **Subsidiaries**

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

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

### **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 profit and loss account for the period in which they arise.

### **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 profit and loss account 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 profit and loss account 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### **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 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.

### **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 profit and loss account on the straight-line basis over the lease terms.

### **Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects 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.

### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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.

### **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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 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 profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	Year ended 31 December 2001 HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 HK\$
Turnover (income from external customers):		
Game platform licensing income	200,000	-
Game-on-demand services income	28,189	-
	<u>228,189</u>	<u>-</u>
Interest income	<u>65,813</u>	<u>58,634</u>
Total revenue	<u><u>294,002</u></u>	<u><u>58,634</u></u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

The turnover of the Group is further analysed by geographical area as follows:

	Year ended 31 December 2001	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000
	HK\$	HK\$
Hong Kong	178,189	-
South Korea	<u>50,000</u>	<u>-</u>
	<u>228,189</u>	<u>-</u>

Analyses of contributions to the operating results and the assets and liabilities of the business segments and by geographical market have not been prepared as most of the Group's costs and expenses and assets and liabilities were unallocated. Accordingly, the directors consider that such information is not meaningful or representative for the purpose of the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 6. LOSS FROM OPERATING ACTIVITIES BEFORE TAX

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

	Year ended 31 December 2001  HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000  HK\$
Cost of services provided	1,091,871	-
Operating lease rentals in respect of land and buildings	451,112	85,680
Auditors' remuneration	358,000	350,000
Unrealised holding loss of an unlisted short term investment (note 15)	-	1,500,000
Staff costs, including directors' emoluments (note 7):		
Wages and salaries	2,606,292	996,523
Pension contributions	84,215	4,608
	2,690,507	1,001,131
Interest income	(65,813)	(58,634)

The cost of services provided includes HK\$898,225 (period ended 31 December 2000: Nil) relating to staff costs, which are also included in the total amount of staff costs disclosed separately above.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 7. 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:

	Year ended 31 December 2001	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000
	HK\$	HK\$
Fees:		
Executive directors	-	-
Non-executive directors	-	-
Independent non-executive directors	-	-
Other emoluments, executive directors:		
Basic salaries, bonuses and housing benefits other allowances and benefits in kind	632,287	139,000
Pension contributions	14,249	
	646,536	139,000
	646,536	139,000

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

Four executive directors (period ended 31 December 2000: one) of the Company received emoluments of HK\$337,536, HK\$204,000, HK\$75,000 and HK\$30,000 for the year (period ended 31 December 2000: HK\$139,000).

No emoluments were paid to the other executive directors or the non-executive directors of the Company during the current year or the prior period.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (period ended 31 December 2000: Nil).

During the year, share options to subscribe for 44,000,000 (period ended 31 December 2000: Nil) ordinary shares of the Company were granted to certain directors of the Company. No value of share options granted to these directors is included in this report as the directors consider that, since the shares of the Company were only listed on the GEM since 13 December 2001, there would not be sufficient historical price performance data to produce reasonable valuations using commonly used methodologies. Further details of the share options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of Directors.

### **8.FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included two directors and three employees (period ended 31 December 2000: one director and four employees).

During the year, one of the five highest paid employees was appointed as a director of the Company, and his emoluments during the periods when he was an employee and a director have been included in the employees' and directors' emoluments, respectively.



## NOTES TO FINANCIAL STATEMENTS

31 December 2001

The details of the emoluments of the director mentioned above in his capacity as an employee and the remaining three (period ended 31 December 2000: four) non-director, highest paid employees are as follows:

	Year ended 31 December 2001	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000
	HK\$	HK\$
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	<u>1,020,616</u>	<u>483,383</u>

The remuneration of all of the non-director, 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.

### 9. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the year (2000: Nil).

The principal components of the deferred tax liability/(asset) not provided for/(recognised) at the balance sheet date were as follows:

	2001 HK\$	2000 HK\$
Tax losses Accelerated depreciation allowances	(2,164,051)	(799,640)
Accelerated depreciation allowances	<u>109,293</u>	<u>87,737</u>
	<u>(2,054,758)</u>	<u>(711,903)</u>

## **NOTES TO FINANCIAL STATEMENTS**

31 December 2001

### **10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS**

The net loss attributable to shareholders dealt with in the financial statements of the Company for the period from 5 September 2001 (date of incorporation) to 31 December 2001 was HK\$386,300.

### **11. DIVIDENDS**

No dividends have been paid or declared by the Company or any of the companies comprising the Group during the year or period presented.

### **12. LOSS PER SHARE**

The calculation of basic loss per share for the year ended 31 December 2001 is based on the net loss attributable to shareholders of HK\$9,689,587 (period ended 31 December 2000: HK\$5,890,762) and the weighted average number of 370,885,216 (period ended 31 December 2000: 366,666,000) ordinary shares deemed to have been in issue during the year. The weighted average number of shares used to calculate both the current and prior years' loss per share includes the pro forma issued share capital of the Company of 366,666,000 deemed to have been in issue prior to the new issue of shares by way of placing as further described in note 18 to the financial statements. The weighted average number of shares used in the current year's loss per share calculation also includes the 73,334,000 shares issued by way of placing in connection with the public listing of the Company's shares on 13 December 2001.

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

The diluted loss per share for the period ended 31 December 2000 is not presented since there were no potential ordinary shares in existence during the period.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 13. FIXED ASSETS

Group

	Leasehold improvements HK\$	Furniture, fixtures and office equipment HK\$	Computer equipment HK\$	Total HK\$
Cost:				
At 1 January 2001	-	241,504	437,558	679,062
Additions	152,030	39,399	261,909	453,338
At 31 December 2001	152,030	280,903	699,467	1,132,400
Accumulated depreciation:				
At 1 January 2001	-	24,274	29,152	53,426
Provided during the year	15,836	51,387	108,287	175,510
At 31 December 2001	15,836	75,661	137,439	228,936
Net book value:				
At 31 December 2001	136,194	205,242	562,028	903,464
At 31 December 2000	-	217,230	408,406	625,636

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 14. INVESTMENTS IN SUBSIDIARIES

Company	2001
	HK\$
Unlisted investments, at cost	6,771,403

The balances with subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

Particulars of the subsidiaries as at 31 December 2001 are as follows:

Name	Place of incorporation and operations	Issued and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
e-gameasia.com Limited (Limited)	British Virgin Islands ("BVI")	HK\$10,279,450	100%	-	Investment
Billybala iGame Limited (formerly iFunCity.com (H.K.) 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
Arcadia Studio Limited (formerly West Honour Limited)	BVI	US\$100	-	81%	Dormant

\*Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 15. SHORT TERM INVESTMENT

On 3 July 2000, the Group acquired an arcade game centre business (the "Business") in Hong Kong through a shell company, Faxon Limited, at a total consideration of HK\$3,005,000. The primary purpose of the acquisition was to facilitate the Group's research and development in the arcade game business in preparing for the Group's venture into the online arcade game business. It was the Group's intention to hold the Business for the short term until the completion of the related research programme. On 30 June 2001, the Group disposed of its entire interest in Faxon Limited and the Business for a total consideration of HK\$1,505,000. Accordingly, the Group's interest in Faxon Limited, the sole purpose of which was to hold the Business, was classified as a short term investment as at 31 December 2000, and the results and assets and liabilities of Faxon Limited were not consolidated in the financial statements for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 and the year ended 31 December 2001 on the grounds of control that was intended to be temporary. In addition, a holding loss of HK\$1,500,000 was recorded by the Group for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000.

Particulars of Faxon Limited disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance are as follows:

Name	Place of incorporation and operation	Issued share capital	Percentage of equity attributable to the Group	Principal activity
Faxon Limited	Hong Kong	HK\$2	100%	Operation of an arcade game centre in Hong Kong

### 16. ACCOUNTS RECEIVABLE

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

An analysis of the accounts receivable is as follows:

	2001	2000
	HK\$	HK\$
30 - 60 days	966	-
Over 60 days	100,000	-
	<u>100,966</u>	<u>-</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 17. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name	At 31 December 2001 HK\$	Maximum outstanding during the year HK\$	31 December 2000 and 1 January 2001 HK\$
Faxon Limited	-	401,100	401,100
Well Silver International Limited	-	5,000	-
	<u>-</u>	<u>406,100</u>	<u>401,100</u>
	<u>-</u>		<u>401,100</u>

The amounts due from related companies were unsecured, interest-free and had no fixed terms of repayment.

### 18. SHARE CAPITAL

	Notes	Number of shares		Nominal value of ordinary shares HK\$
		Ordinary shares of HK\$0.01 each	Ordinary shares of HK\$0.005 each	
Authorised:				
On incorporation	(i)	39,000,000	-	390,000
Increase in authorised share capital	(ii)	461,000,000	-	4,610,000
Change of nominal value of shares from HK\$0.01 each to HK\$0.005 each	(v)	(500,000,000)	1,000,000,000	-
At 31 December 2001		<u>-</u>	<u>1,000,000,000</u>	<u>5,000,000</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

		Number of shares		Nominal value of ordinary shares HK\$
	Notes	Ordinary shares of HK\$0.01 each	Ordinary shares of HK\$0.005 each	
Issued and fully paid:				
On incorporation	(i)	1	-	-
On acquisition of e-gameasia:				
- consideration shares	(iii)	181,789,999	-	1,817,900
- nil paid share credited as fully paid	(iii)	-	-	-
Pro forma issued share capital as at 31 December 2000		181,790,000	-	1,817,900
Issued and fully paid	(iv)	1,543,000	-	15,430
Change of nominal value of shares from HK\$0.01 each to HK\$0.005 each	(v)	(183,333,000)	366,666,000	-
New issue of shares by way of the placing	(vi)	-	73,334,000	366,670
At 31 December 2001		-	440,000,000	2,200,000

The following changes in the Company's authorised and issued share capital took place during the period from 5 September 2001 (date of incorporation of the Company) to 31 December 2001:

- (i) On 5 September 2001, the authorised share capital of the Company was HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, one share of which was allotted and issued nil paid on 12 September 2001.
- (ii) Pursuant to a written resolution of the sole shareholder of the Company passed on 19 September 2001, the authorised share capital of the Company was increased from HK\$390,000 to HK\$5,000,000 by the creation of an additional 461,000,000 shares of HK\$0.01 each.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

- (iii) Pursuant to resolutions of the board of directors of the Company passed on 24 September 2001, the Company issued an aggregate of 181,789,999 shares of HK\$0.01 each credited as fully paid, and credited the one share issued nil paid on 12 September 2001 as fully paid as the consideration for the acquisition of the entire issued share capital of e-gameasia. 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 (note 19).
- (iv) On 24 September 2001, the Company allotted 1,100,000 and 443,000 ordinary shares to an independent third party and a director of the Company at subscription prices of HK\$11,000 and HK\$20,000, respectively.
- (v) Pursuant to written resolutions of all the shareholders of the Company passed on 28 November 2001, 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.
- (vi) Pursuant to the listing of the Company's shares on the GEM on 13 December 2001, the Company issued 73,334,000 shares of HK\$0.005 each at HK\$0.30 per share to the public by way of the placing (the "Placing") for a total consideration of HK\$22,000,200 before issue expenses of HK\$5,962,540.

### Share options

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

Any share options granted to a substantial shareholder or an independent non-executive director 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.

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 5 executive directors and 2 non-executive directors to subscribe for a total of 44,000,000 shares, representing in aggregate approximately 10% of the then issued share capital of the Company immediately following the completion of the Placing, at a subscription price of HK\$0.24 each. No further options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the options granted may be exercised after the expiry of 24 months from 13 December 2001, and in each case, not later than 10 years from the date of the grant of the options. Each grantee has paid HK\$1 to the Company as consideration for such grant.



## NOTES TO FINANCIAL STATEMENTS

31 December 2001

The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 44,000,000 additional shares of the Company of HK\$0.005 each.

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

- (ii) On 28 November 2001, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes by the Company must not exceed 30% of the shares in issue from time to time. A non-refundable nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option.

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

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

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

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

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

- (iii) No valuation of the options granted under the Pre-Scheme is included in these financial statements as the directors consider that, since the shares of the Company were only listed on 13 December 2001, there would not be sufficient historical price performance data to produce reasonable valuations using commonly used methodologies.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 19. RESERVES

<u>Group</u>	Share premium # account HK\$	Accumulated losses HK\$	Total HK\$
At 18 May 2000	8,182,100	-	8,182,100
Net loss for the period	-	( 5,890,762)	( 5,890,762)
	<hr/>	<hr/>	<hr/>
At 31 December 2000 and 1 January 2001	8,182,100	( 5,890,762)	2,291,338
Issue of shares of a subsidiary	9,658,900	-	9,658,900
Issue of shares	21,649,100	-	21,649,100
Share issue expenses	( 5,962,540)	-	( 5,962,540)
Net loss for the year	-	( 9,689,587)	( 9,689,587)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>33,527,560</u>	<u>(15,580,349)</u>	<u>17,947,211</u>

<u>Company</u>	Share premium * account HK\$	Accumulated losses HK\$	Total HK\$
Arising on acquisition of e-gameasia (note 18)	4,953,503	-	4,953,503
Applied in payment of 1 share allotted nil paid on incorporation (note 18)	-	-	-
Issue of shares	21,649,100	-	21,649,100
Share issue expenses	( 5,962,540)	-	( 5,962,540)
Net loss for the year	-	( 386,300)	( 386,300)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>20,640,063</u>	<u>( 386,300)</u>	<u>20,253,763</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

- # 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.

### 20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities before tax to net cash outflow from operating activities

	2001 HK\$	2000 HK\$
Loss from operating activities before tax	(9,689,587)	(5,890,762)
Interest income	( 65,813)	( 58,634)
Depreciation	175,510	53,426
Unrealised holding loss of an unlisted short term investment	-	1,500,000
Increase in accounts receivable	( 100,966)	-
Increase in prepayments, deposits and other receivables	(2,195,559)	( 174,234)
Increase in accrued liabilities and other payables	2,182,819	1,239,925
Net cash outflow from operating activities	<u>(9,693,596)</u>	<u>(3,330,279)</u>

The subsidiary acquired in the prior period made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the consolidated loss after tax and before minority interests for the period.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

(b) Analysis of changes in financing of the Group during the year

	Share capital including share premium HK\$	Minority interests HK\$
Net cash inflow from financing activities	10,000,000	-
At 31 December 2000 and 1 January 2001	10,000,000	-
Net cash inflow from financing activities	25,727,560	148
As at 31 December 2001	35,727,560	148

(c) Acquisition of a subsidiary

	2001 HK\$	2000 HK\$
Net assets acquired:		
Fixed assets	-	98,268
Cash and bank balances	-	3,067
Prepayments, deposits and other receivables	-	2,500
Accrued liabilities and other payables	-	( 9,088)
	-	94,747
	-	94,747
Represented by:		
Cash	-	94,747

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary

	2001 HK\$	2000 HK\$
Cash consideration	-	(94,747)
Cash and bank balances acquired	-	3,067
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>-</u>	<u>(91,680)</u>

The subsidiary acquired in the prior period made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the consolidated loss after tax and before minority interests for the period.

### (d) Major non-cash transaction

The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of e-gameasia by the issue of shares of the Company, further details of which are set out in notes 1 and 18 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 21. CONTINGENT LIABILITIES

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

### 22. COMMITMENTS

The Group leases its office properties under a operating lease arrangement for a term of 2 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	
	2001	2002
	HK\$	HK\$
Within one year	299,232	448,848
Later than one year and not later than five years	-	299,232
	<u>299,232</u>	<u>748,080</u>

Save as aforesaid, the Group did not have any other significant commitments at 31 December 2001.

At 31 December 2001, the Company had no significant commitments.

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

### 23. RELATED PARTY TRANSACTIONS

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

		Year ended 31 December 2001 HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 HK\$
	Notes		
Consultancy fees paid	(i)	646,604	110,000
Development fees paid	(ii)	2,192,775	1,810,000
Consideration paid for acquisition of an unlisted short term investment	(iii)	-	3,005,000
Consideration received for disposal of an unlisted short term investment	(iii)	1,505,000	-
		1,505,000	3,005,000

## NOTES TO FINANCIAL STATEMENTS

31 December 2001

Notes:

(i) 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.

(ii) Development fees were paid to DeliriumCyberTouch (H.K.) Limited, a fellow subsidiary of Delirious Ventures Inc., a minority shareholder of the Group, for the design and development of a website and Internet 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.

(iii) The unlisted short term investment detailed in note 15 to the financial statements was acquired from two related companies, of which a director of the Company is also a director, at a total consideration of HK\$3,005,000. Subsequently, the investment was disposed of to two other related companies, of which the same director is also a director, for a total consideration of HK\$1,505,000. A holding loss of HK\$1,500,000 was recorded by the Group for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000. The directors consider that the considerations paid and received represented the fair values of the investment at the dates of acquisition and disposal, respectively.

### 24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2002 .



## FINANCIAL SUMMARY

The following is a summary of the consolidated results of Billybala Holdings Limited (the "Company" ) and its subsidiaries (collectively referred to as the "Group"), prepared on the bases set out in notes 1 and 2 below:

RESULTS	Year ended 31 December 2001 HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 HK\$
TURNOVER	228,189	-
Other revenue	65,813	58,634
Operating expenses	(6,185,449)	(2,901,114)
Other operating expenses	(3,798,140)	(3,048,282)
Loss from operating activities before tax	(9,689,587)	(5,890,762)
Tax	-	-
Loss before minority interests	(9,689,587)	(5,890,762)
Minority interests	-	-
Net loss attributable to shareholders	<u>(9,689,587)</u>	<u>(5,890,762)</u>

Notes:

1. The summary of the consolidated results of the Group for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 has been extracted from the Company's prospectus dated 6 December 2001. Such summary was prepared based on the financial statements of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial periods, or from their respective dates of incorporation, where this is a shorter period, and is presented on the basis set out in note 1 to the financial statements. The consolidated results of the Group for the year ended 31 December 2001 are also set out on page 23 of the audited financial statements.
2. Since the Company was incorporated on 5 September 2001, the only audited consolidated balance sheet of the Group that has been prepared is that set out on page 24 of the audited financial statements.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Billybala Holdings Limited (the "Company") will be held at the 19/F, Asia Standard Tower, 59-65 Queen's Road, Central, Hong Kong on Wednesday, 24 April, 2002 at 12:00 noon for the following purposes:

1. To receive and consider the audited consolidated accounts of the Company and its subsidiaries and the reports of the directors and of the auditors for the year ended 31 December 2001;
2. To re-elect directors and to authorise the board of directors or any of its authorised committees to fix the remuneration of the Directors;
3. To re-appoint auditors and to authorise the board of directors or any of its authorised committees to fix their remuneration; and,

as special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

### ORDINARY RESOLUTIONS

4. "THAT:

- (a) subject to paragraph (c) below, the directors of the Company ("Directors") be and are hereby granted an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company ("Shares") or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements and options which might require the exercise of such power;
- (b) the approval in paragraph (a) above shall be in addition to any other authorizations given to the Directors and shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, otherwise than pursuant to:
  - (i) a Rights Issue (as hereinafter defined);
  - (ii) the exercise of rights of subscription or conversion under the terms of any warrants or any securities which may be issued by the Company from time to time and which are convertible into Shares; or
  - (iii) the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or such other persons eligible to participate in any such scheme(s) or arrangement(s) of Shares or rights to acquire Shares; or
  - (iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company or a specific authority granted by the shareholders of the Company in general meeting,

## NOTICE OF ANNUAL GENERAL MEETING

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution;

- (d) subject to the passing of each of the paragraphs (a), (b) and (c) of this Resolution, any prior approvals of the kind referred to in paragraphs (a), (b) and (c) of this Resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and
- (e) for the purpose of this Resolution:  
“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or
  - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and
- “Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company).”

5. “THAT:

- (a) subject to paragraph (b) below, the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, securities in the Company and that the exercise by the Directors of all powers of the Company to repurchase such securities, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or rules of any other stock exchange as may be amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company (“Shares”) or securities of Billybala which may be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period (as hereinafter defined) shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution;

## NOTICE OF ANNUAL GENERAL MEETING

- (c) subject to the passing of each of the paragraphs (a) and (b) of this Resolution, any prior approvals of the kind referred to in paragraphs (a) and (b) of this Resolution which had been granted to the Directors and which are still in effect be and hereby revoked; and
  - (d) for the purpose of this resolution:
    - “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
      - (i) the conclusion of the next annual general meeting of the Company; and
      - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
      - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
6. “THAT conditional upon the passing of Resolutions numbered 4 and 5 set out in the notice convening this meeting, the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the general mandate granted under Ordinary Resolution numbered 4 set out in the notice convening this meeting be and is hereby extended by the addition thereto of the aggregate nominal amount of the shares in the capital of the Company which may be repurchased by the Company pursuant to and in accordance with the general mandate granted under Ordinary Resolution numbered 5 set out in the notice convening this meeting, provided that such amount shall not exceed 10% of aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution.”

By Order of the Board  
Billybala Holdings Limited  
Wong Hon Kit  
Company Secretary

Hong Kong, 27th March, 2002.

### Notes:

1. A member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
2. A form of proxy in respect of the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
3. In order to be valid, the form of proxy together with a power of attorney or other authority, (if any) under which it is signed, or a notarially certified copy of such power at authority must be deposited with the registered office of the Company at 19/F, Asia Standard Tower, 59-65 Queen's Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

## **NOTICE OF ANNUAL GENERAL MEETING**

4. Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.