



# Billybala Holdings Limited

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



Interim Report 2003

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

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

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

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

## UNAUDITED RESULTS

The board of directors (the “Board”) of Billybala Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with the comparative figures as follows. The condensed consolidated interim financial statements of the Group have not been audited but have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

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

## CONDENSED CONSOLIDATED BALANCE SHEET

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

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

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

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

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate Information

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

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

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

#### *Group reorganisation*

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

#### *Basis of presentation and consolidation*

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

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

### 3. Principal accounting policies

#### *Adoption of revised SSAPs*

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

#### *Basis of preparation*

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

#### 4. Turnover

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

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

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

#### 5. Loss form operating activities before taxation

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

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

#### 6. FINANCE COST

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



## **7. Taxation**

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

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

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

## **8. Dividends**

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

## **9. Loss per share**

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

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

## 10. Segment Information

### Business segments

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

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

### Geographical segments

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

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

### II. Fixed Assets

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

## 12. Accounts Receivables

An aged analysis of the accounts receivables is as follows:

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

## 13. Fixed Deposits and Cash and Bank Balances

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

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

## 14. Loan from ultimate parent enterprise

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

## 15. Share Capital

	<b>30 June 2003 HK\$ (Unaudited)</b>	31 December 2002 HK\$ (Audited)
Authorized :		
1,000,000,000 ordinary shares of HK\$0.005 each	<u><b>5,000,000</b></u>	<u>5,000,000</u>
Issued and fully paid :		
440,000,000 ordinary shares of HK\$0.005 each	<u><b>2,200,000</b></u>	<u>2,200,000</u>
<i>Share options</i>		

- (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 share of the Company in issue at any time with any 12-month period, are subject to shareholders’ approval on advance in a general meeting.

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 4 executive directors and 2 non-executive directors to subscribe for a total of 33,440,000 shares, representing in aggregate approximately 7.6% of the then issued share capital of the Company. No further share options will be granted under the Pre-Scheme after the listing of the Company’s shares on the GEM. 50% of the share options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the share options granted may be exercised after the expiry of 24 months from 13 December 2001, and in each case, not later than 10 years from the date of grant of the share options. Each grantee has paid HK\$1 in total to the Company as consideration for such grant.

The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 33,440,000 additional share of the Company of HK\$0.005 each.

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

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 share options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant share options to any full-time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company.

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

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

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

The options granted may be exercised at any time or times during a period of not less than 3 years to be notified by the Board and in any event not later than 10 years from the date of the grant of the options.

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

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

## 16. Related Party Transactions

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

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

Notes:

- (i) During the period from 1 January 2002 to 30 June 2002, development fees were paid to DeliriumCyberTouch (H.K.) Limited, a fellow subsidiary of Delirious Ventures Inc., a minority shareholder of the Group, for the design and development of a website and Internet game platform for the Group. The Directors consider that the development fees were charged on a basis similar to those charged by unrelated website and platform developers of the Group.
- (ii) On 1 October 2002 and 20 February 2003, the Group entered into eight agreements with seven related companies (the "Site Providers"), of which a Director of the Company is also a director of these companies, whereby the Group agreed to provide each of the Site Providers one or two PC Module arcade GOD machines and related technical support and maintenance services, for a term of 12 months in their arcade game centres. Each of the Site Providers agreed to share with the Group ranging from 45% to 50% of the gross revenue generated by the PC module arcade game-on-demand machines provided by the Group. The Directors consider that such sharing of revenue was charged on a basis similar to those charged to independent arcade game centres.

## 17. Commitments

### (a) Capital commitments

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

### (b) Commitment under operating leases

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

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

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

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

## 18. Post Balance Sheet Events

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

During the period under review, the Group continued in the development of the provision of Game-On-Demand (GOD) services, by enhancing the GOD platform and expanding the contents within the GOD platform which contains Online Arcade Game, Online PC Game and Massive Multi-player Online Game ("MMOG") services and game licence in Hong Kong and the People's Republic of China ("PRC"). For the first six months ended 30 June 2003, even under the adverse effect of SARS, the Group's foundation, the expansion of subscriber base and development of its business network in both Hong Kong and PRC had shown results with an improvement. The Group is pleased to report progresses in these areas.

The Group recorded a turnover of approximately \$1,991,000 for the six months ended 30 June 2003, representing an increase of approximately 55 folds from the corresponding period. Such growth was mainly attributable to the increase in the incomes derived from distribution of Necropolis licensed by the Group in the PRC, assignment of technical development project by strategic partners in the PRC, recurring income received by subscription income its GOD platform offering to the general public in Hong Kong and also the income generated from Group's first horse racing online game series "iHorse2" in Hong Kong. The unaudited loss from operating activities before taxation for the period under review decreased from approximately HK\$4,307,000 to approximately HK\$4,073,000, representing a decrease of approximately 6% over the corresponding period in the previous year. In addition, as compared with the first quarter 2003 unaudited results, net loss attributable to shareholders for the three months ended amounted decrease from approximately HK\$2,134,000, to approximately HK\$ 1,939,000, representing a decrease of 10% over the first quarter 2003 unaudited results.

### PRC

After completing all the necessary products and internal trial run testing, the Group started the public Beta testing of Necropolis in the PRC, a MMOG developed by Arkisoft Limited, a Korean-based game development company, in January 2003. Necropolis, as the world's first Massive Multimedia Online Role Play Game ("MMORPG") and First Person Shooting ("FPS") game, will be distributed by the Group to 12 various cities and provinces in the PRC. The number of registered users is over 200,000 and under continuous expansion. It is expected that concurrent online users will reach over 15,000 by the end of the year, and Necropolis is expected to help generate a steady and encouraging revenue stream for the Group with its service charge and distribution fee.

In February 2003, the Group also entered into an agreement for the establishment of a 70-30 joint venture (the "Joint Venture") in Nanjing with its strategic partner, Jiangsu Sainty International Group Modern Information Industry Company Limited ("Jiangsu Sainty") in the PRC. Pursuant to the joint venture agreement, the Group holds a 70% interest whereas Jiangsu Sainty holds a 30% interest in the joint venture. The Group will benefit immensely from partnering with the renowned local specialist, by bundling its information portal and content value-added services to a server and providing its gaming service to Jiangsu Sainty's widespread Internet Cafams network in the PRC. Through the delivery of information and game content to Internet Cafams, the Group can establish a physical distribution channel for game contents that are either owned by the Group itself or other game developers. By aggregating the distribution channels of Internet Cafams with the existing channels of the Group established with its strategic partners in the PRC targeting broadband users of ICPs, ISPs and community, the Group will build up an all rounded distribution channels for delivering game contents to the gamers in the PRC. Please refer to the Company's announcement dated 4 March 2003 in respect of the establishment of the joint venture for further details. Due to the adverse effect of SARS, the capital injection of the joint venture amounted approximately HK\$1,321,000 has not been injected and it is scheduled that capital injection will be completed by the end of this year.

For enriching the information contents to be provided to the Internet Cafam network in the PRC, in June 2003, the Group entered into a service agreement which the provider supplies the ringtone, logo, MMS logo, Java mobile games and SMS message download service to all our websites and the Internet Cafam network in the PRC. The Group recognizes that the mobile environment shall be a popular communication channel and delivering mobile contents shall improve the competitive advantage and enhance the overall subscriber experience to the contents of the information portal.

In June 2003, the Group also entered into a Memorandum of Understanding to appoint a Taiwan based telecom solution provider, Vondelon International Group, to look after the billing and platform integration of the information portal and content value added services for Internet Cafam Network in the PRC.

The Group continued to establish strategic alliances with various content and distribution partners to reach over 23 million users and over 1,400 Internet Cafes in the PRC. In addition, www.pilitiandi.com.cn, the game portal website launched by the Group and Unionnet at the end of 2002, recorded increasing market acceptance, and popularity subscriber base within a few months of operation. As at the end of June 2003, www.pilitiandi.com.cn has already attracted approximately over 60,000 subscribers. Moreover, www.chinagames.net, one of the biggest game portals in the PRC, has signed a contract to embed the Group's Arcade Game platform into its game portal, which is regularly enjoyed by 13 millions gamers in the PRC.

At the end of June 2003, the Group entered into an agreement with its strategic partner pursuant to which the Group appointed the partner as its exclusive agent for launching iHorse2 in the PRC. This service is scheduled to be launched in the PRC at the end of third quarter of this year and the Directors expect to see a steady source of income for the Group.

During the first six months of 2003, the Group focused its technical development work at two areas. The first one was to enhance the features and functions of its existing GOD platform. An enhanced GOD platform has been delivered to the strategic partners in the PRC in June 2003. The second one was to enhance its existing iHorse2 to be able to distribute to Arcade Game centres. In June 2003, the Group has completed the development such online Arcade Game, namely "iHorse Arcade" and ready to be distributed to Arcade Game centres.

#### *Hong Kong*

The subscriber base recorded at www.billybala.now.com.hk reached 600,000 people, thanks to the vast diversity in the Group's product portfolio, which includes over 150 arcade games from Japan for its arcade game platform and 300 PC games for the respective GOD platform. At the same time, as the Group's first horse racing on-line game series in Hong Kong, iHorse2 attracted over 4,000 subscribers due to its attractive pricing.

In July 2003, the Group entered into an agreement with a connected party and appointed this connected party as an agent for the promotion and distribution of "iHorse Arcade" in Hong Kong and Macau. This connected party is a wholly-owned subsidiary of a limited company incorporated in Hong Kong of which a Director is also the director. This agreement was subject to the approval from independent shareholders of the Company. A circular and a notice of a special general meeting are pending and will be dispatched to the shareholders as soon as possible. Further details of the continuing connected transaction are set out in the Company's announcement dated 8 August 2003.

#### *Japan*

The Group also launched iHorse2 for its MMOG in Japan in 2003 to attract a significant subscriber base from the vast gaming market in Japan. The Group commenced its service charge in May 2003.

## **Future outlook**

The Group aims to be one of the biggest game platforms in the Greater China Region. There are three key success factors of achieving such goal. Firstly, the Group needs to offer a comprehensive platform with superb functions and features to its subscribers. Secondly, the GOD platform needs to provide a wide variety of games covering gamers of different favors. Last but not least, the Group has to establish a strong distribution channel, in both physical and virtual presence, to target the gamers in the PRC.

For the first point, the Group will continue to enhance the functions and features of GOD Platform. The latest GOD platform with MMOG components shall be delivered to PCCWIMS Limited in the third quarter 2003 and subsequently to other strategic partners in the PRC in the later part of the year.

For the second point, the Group should continue to source good games including Arcade Games, PC Games and MMOGs from its existing and new suppliers. In addition, the Group will continue developing a newer version of iHorse with enhanced graphics and features. Other than game contents, the Group has been successfully identified and licensed value added contents to its Internet caf m platform such as mobile ringtone and music. The license of new contents shall continue and it is anticipated that more and more vendors or content providers are willing to offer their contents to be listed on the platform.

For the third point, the Group will commence the operation of the Internet Caf m project by start delivering platform and services to the signed up Internet Caf m. By opening up the physical distribution channel of games in the PRC, together with the strong partnership relationship with existing ICP and ISP partners in the PRC, the Group shall enjoy the fruit of its hard work in the near future.

In addition, the Group shall remain focus in adopting a stringent cost and a thin and effective overhead structure so as to maximum the profit margin. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated rapid growth of customers, maturity of the GOD platform and establishment of physical and virtual distribution network in the coming second half of the year.

## **Financial review**

The Group reported an unaudited turnover of approximately HK\$1,991,000, represents the net invoiced value of services rendered, for the six months ended 30 June 2003 (2002: approximately HK\$36,000), representing an increase of approximately 55 folds. Such growth is contributed by the income derived from distribution of Necropolis licensed by the Group in the PRC, assignment of technical development project by strategic partner in the PRC, recurring income received by subscription income its GOD platform offering to the general public in Hong Kong and also the income generated from Group's first horse racing online game series "iHorse2" in Hong Kong.

The unaudited loss from operating activities before taxation for the six months under review decreased from approximately HK\$4,307,000 to approximately HK\$4,073,000 over the corresponding period in the previous year, as the Group allocated much time and resources into the establishment of new markets and new products compared with the same period in the previous year. Loss attributable to shareholders continued to narrow significantly compared with over the corresponding period in the previous year and with the first quarter 2003 unaudited results. Higher but yet effective marketing cost during the six months ended due to the Necropolis and open platform of GOD to the general public in Hong Kong of which the result will be seen in the near future.

## Liquidity and financial resources

The Company was listed on GEM of the Stock Exchange through a placement of 110,000,000 shares. The net proceeds from the placement, after deductions for relevant expenses, were approximately HK\$16,300,000. The Group intended to apply these proceeds in the manner disclosed in the Prospectus dated 6 December 2001 and the announcement dated 4 March 2003 respectively. For the period under review, Poly Planning Limited, the ultimate parent enterprise of the Company made a loan of approximately HK\$2,500,000 to the Company. This loan is unsecured, interest bearing at prime rate plus 1% per annum and not repayable within one year from the date of drawing. In addition, the immediate holding company, Romson Limited, has agreed to provide not less than HK\$2,500,000 or other funds to the Company and its subsidiaries immediately upon their written request. As at the date of this interim financial report, there is no drawing from the immediate holding company. Endorsed with external facilities and the internal generated working capital, the Directors anticipate that the Group should have adequate financial resources to meet its ongoing operations and development requirements. As at 30 June 2003, the Group had cash and cash equivalents of approximately HK\$2,642,000.

## Employee information

Currently, the Group has 19 full-time and 6 contracted employees working in Hong Kong and 6 full-time employees and 2 contracted employees working in the PRC respectively. The total of employee remuneration, for the six months under review amounted to approximately HK\$1,970,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Pursuant to a pre-IPO share option scheme adopted by the Company on 28 November 2001, the Company had granted pre-IPO share options on the Company's ordinary shares in favour of 4 executive directors and 2 non-executive directors to subscribe for a total of 33,440,000 shares, representing, in aggregate approximately 7.6% of the then issued share capital of the Company. No further share options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the share options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the share granted may be exercised after the expiry of 24 months from 13 December 2001 and in each case, not later than 10 years from the date of grant of the share options. Each grantee has paid HK\$1 to the Company as consideration for such grant. No further options will be granted under the pre-IPO share option scheme after the listing of the shares. None of these share options were exercised during the six months ended 30 June 2003.

As at 30 June 2003, the Company had 33,440,000 share options outstanding under the Pre-Scheme. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 33,440,000 additional shares of the Company of HK\$0.005 each.

On 28 November 2001, the Company had also adopted a post-IPO share option scheme under which full time employees, including directors, of the Company and its subsidiaries, might be granted options to subscribe for the Company's ordinary shares. At the date of this interim financial report, no share options were granted under the post-IPO share option scheme.

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

## **Capital Structure**

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

## **Significant investments**

On 28 February 2003, the Group signed a joint venture agreement with an independent third party to set up a joint venture in Nanjing, the PRC. Due to the adverse effect to SARS, the capital injection of the joint venture amounted approximately HK\$1,321,000 has not been invested. Details have been set out in Note 17 under "Notes to the condensed consolidated financial statements". Saved as disclosed above, the Group had no significant investments for the period ended 30 June 2003.

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

There were no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2003. The Company has no plans for material investments or capital assets other than those set out in the Prospectus dated 6 December 2001.

## **Segmental information**

Details have been set out in Note 10 under "Notes to the condensed consolidated financial statements" and further elaborated under "Business review" of this section.

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

As at 30 June 2003, the Group has pledged its bank fixed deposits of approximately HK\$170,00 to secure the corporate credit cards (31 December 2002: approximately HK\$5,213,000 to secure a bank overdraft facility and the corporate credit card) granted to the Group. No bank overdraft was drawn down by the Group as at 30 June 2002 or during the six months then ended.

Saved as above, the Group did not have any significant contingent liabilities as at 30 June 2003.

## **Gearing Ratio**

As at 30 June 2003, the Group had cash and cash equivalents of approximately HK\$2,642,000 in its current assets while its current liabilities stood at approximately HK\$1,136,000. The Group had long-term debt of approximately HK\$2,530,000 as of 30 June 2003 and its shareholders' funds amounted to approximately HK\$3,316,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 76% (long term loan to total equity) as of 30 June 2003.

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

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

## COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2003

### PRODUCT DEVELOPMENT AND SERVICE ENHANCEMENT

Milestones (as per Prospectus)	Actual Progress
1 Operate arcade and PC GOD service at more than 20 arcade game centers in Hong Kong	Successfully placed nine arcade GOD machines at eight arcade game centers in Hong Kong.  Due to the market situation, the Directors consider it is appropriate to adjust the pace of launching these machines to the arcade game centers.
2 Implement more powerful joystick control feature to the GOD platform	After careful evaluation, the Directors consider such feature will be too costly to implement at this stage of the Group's GOD platform development. The Directors may re-evaluate the situation in a due course.
3 Maintain up to 120 arcade games in the platform's library	Currently the Group maintains over 150 arcade games in the arcade GOD platform's library
4 Maintain up to 30 PC games in the platform's library	Currently the Group maintains over 150 PC games in the PC GOD platform's library

### RESEARCH AND DEVELOPMENT

Milestones (as per Prospectus)	Actual Progress
1 Continue research and upgrade on the arcade and PC GOD platform	A new version of the arcade and PC GOD platform is planned to be launched in August of this year.
2 Continue research and development on the applications streaming technology for the GOD platform	A US company provided such streaming technology for the PC GOD platform
3 Continue research and development on payment gateway via new media	SMS payment gateway was successfully launched in the PRC
4 Perform research and development on force feed back on controlling device	Research and development in controlling device have been performed with satisfied results
5 Commence on the technical feasibility study of MMOG on GOD platform	As the game market is pushing towards a new era of pace, the Group has already launched its MMOG in the PRC to cope with the demand of the market in the PRC

## BRAND BUILDING AND MARKETING

Milestones (as per Prospectus)	Actual Progress
1 Continue advertising of the Group's arcade and PC GOD services in Hong Kong and the PRC	Continued joint marketing efforts including placing advertisement in game magazines to promote co-brand name "billybala.now.com.hk" and its brand name "game.billybala.com" respectively.  Placed on-line advertising and promotion on some game portals, ICPs, ISPs and newspaper websites  Promotion on front page of business partner's website such as PCCW NOW
2 Evaluate the past marketing and formulate new marketing strategies	The past marketing strategies were constantly evaluated and then the new strategies are formulated to face the trend of the market
3 Continue to advertise on television in Hong Kong	Under the current cost control campaign, the Directors consider placing television commercials in Hong Kong is too costly at this stage of the Group's business development. The Group placed advertisement in game magazines in Hong Kong which is relatively cost effective.
4 Launch television commercial in the PRC	Under the current cost control campaign, the Directors consider placing television commercials in PRC is too costly at this stage of the Group's business development. The Group placed advertisement in game magazines in the PRC which is relatively cost effective.

## USE OF PROCEEDS FROM 1 JANUARY 2003 TO 30 JUNE 2003

Details of the utilization of funds from the actual net proceeds of new shares versus that envisaged in the Prospectus are as follows:

	January to June 2003 stated in Prospectus HK\$	Actual spending during stated the Period HK\$
<b>Use of Proceeds</b>		
Product development and service enhancement	–	507,000
Brand building and marketing	–	1,035,000
Research and development	–	968,000
Acquisition of computer equipment and servers	–	299,000
	–	299,000
Total	–	2,809,000

As disclosed in the Annual Report 2002, part of the net proceeds as allocated in the respective periods have not been fully utilized. According to the Prospectus, it was expected that there would not be any net proceeds to be applied during the period from 1 January 2003 to 30 June 2003.

As illustrated in the above table, during this period the Group has utilized a total of approximately HK\$2,809,000 which was principally due to the postponement of certain business plans of the Group.

Furthermore, there was a change in use of proceeds that approximately HK\$1,321,000 would be reallocated to capital injection in the formation of a sino-foreign equity joint venture in Nanjing, the PRC. To fund such capital contribution, the Directors decided to reallocate approximately HK\$1,321,000 from the net Placing proceeds initially designated for product development and services enhancement in terms of game content sourcing as disclosed in the Prospectus. The Directors believe that the formation of the Joint Venture will offer other business opportunities in the PRC market to the Company and this change of use of Placing proceeds will have no adverse impact on the Group's operation in the future. Further details of change of use of proceeds are set out in the Company's announcement dated 4 March 2003.



## Directors' interests in shares

As at 30 June 2003, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Notes	Number of Shares held				Total	Approximately percentage of interests
		Personal interests	Family interests	Corporate interests	Other interests		
Mr. Cheng Kar Shing	(a)	–	–	281,268,118	–	281,268,118	63.9%
Mr. Leung Wai Keung	(b)	–	–	14,658,362	–	14,658,362	3.3%
Mr. Fung Hoo Wing, Thomas	(c)	–	–	17,670,550	–	17,670,550	4.0%
Mr. Tung Wai Wa, Wallace		4,909,290	–	–	–	4,909,290	1.1%
Mr. Li Ka Kui		2,944,954	–	–	–	2,944,954	0.7%

### Notes:

- (a) By virtue of Mr. Cheng Kar Shing's interest in Potassium Corp., a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheng Kar Shing, Mr. Cheng Kar Shing is deemed to be interested in the 39,268,118 shares, representing 8.92% in the Company, held by Potassium Corp. and the 242,000,000 shares held by Romson Limited, a wholly-owned subsidiary of Poly Planning Limited, which is owned as to 46.24% by Potassium Corp..
- (b) These shares are held by Perfect Sun Development Limited, a company whose entire issued share capital is beneficially owned by Mr. Leung Wai Keung.
- (c) These shares are held by Kateman International Limited, a company in which Mr. Fung Hoo Wing, Thomas owns a 33% equity holding.

Save as disclosed above, as at 30 June 2003, none of Director and chief executive of the Company is interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

## Substantial shareholders

So far as is known to the Directors, the following parties, as at 30 June 2003, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of the Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Name	Notes	Number of Shares	Approximate percentage of interests
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, representing 8.92% in the Company, 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, representing 8.92% in the Company, held by Potassium Corp. and the 242,000,000 shares held by Romson Limited.
- (c) By virtue of its interest in Romson Limited, Poly Planning Limited is deemed to be interested in the 242,000,000 shares.
- (d) Romson Limited is an investment holding company incorporated in the British Virgin Islands all of whose issued shares are held by Poly Planning Limited, a company incorporated in the Hong Kong with limited liability.

Save as disclosed above, the Directors are not aware of any person as at the 30 June 2003 had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of the Division 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## Directors' rights to acquire shares

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

Name of director	Number of share options granted on 28 November 2001	Number of share options outstanding at 1 January and 30 June 2003	Exercise period of share options	Exercise price per share HK\$
Mr. Cheng Kar Shing	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Leung Wai Keung	7,920,000	7,920,000	14 December 2002 to 27 November 2011	0.24
	7,920,000	7,920,000	14 December 2003 to 27 November 2011	0.24
Mr. Li Ka Kui	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Ng, Kenny Chi Kin	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Fung Hoo Wing, Thomas	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	1,760,000	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	14 December 2003 to 27 November 2011	0.24

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

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

None of these share options were exercised during the six months ended 30 June 2003. As at 30 June 2003, the Company had 33,440,000 share options outstanding under the Pre-Scheme. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 33,440,000 additional shares of the Company of HK\$0.005 each.

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

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

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

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

As at 30 June 2003, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

### **Audit committee**

The Company established an audit committee with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises two members, Mr. Cheung Hon Kit and Mr. Ma Ching Nam, who are the independent non-executive Directors of the Company. The Group's unaudited results for the three months and six months ended 30 June 2003 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complies with applicable accounting standards and requirements, and adequate disclosures have been made.

### **Sponsor's interest**

As at 30 June 2003, neither Tai Fook Capital Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company of any members of the Group.

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

### **Purchase, redemption or sale of listing securities**

The Company's shares were listed on the GEM on 13 December 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 30 June 2003.

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

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

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

Hong Kong, 13 August 2003