



# Billybala Holdings Limited

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



**First Quarterly 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”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2003 together with the comparative figures of the corresponding period in 2002 as follows.

### UNAUDITED CONSOLIDATED INCOME STATEMENT

		<b>For the three months ended 31 March</b>	
	Notes	<b>2003 HK\$</b>	2002 HK\$
TURNOVER	2	<b>1,068,653</b>	7,883
Other revenue		<b>5,896</b>	62,351
Staff costs, including directors’ remuneration		<b>(989,260)</b>	(1,022,447)
Depreciation		<b>(162,478)</b>	(84,066)
Royalties for game contents		<b>(232,664)</b>	(788)
Research and development costs		<b>(404,803)</b>	(59,000)
Marketing and promotion expenses		<b>(672,349)</b>	(8,348)
Other operating expenses		<b>(747,078)</b>	(685,784)
		<hr/>	<hr/>
LOSS FROM OPERATING ACTIVITIES BEFORE TAX		<b>(2,134,083)</b>	(1,790,199)
Tax	3	<b>–</b>	–
		<hr/>	<hr/>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<b><u>(2,134,083)</u></b>	<b><u>(1,790,199)</u></b>
		<hr/>	<hr/>
LOSS PER SHARE			
Basic	5	<b><u>HK0.49 cents</u></b>	<b><u>HK0.41 cents</u></b>
Diluted		<b><u>N/A</u></b>	<b><u>N/A</u></b>

NOTES:

**1. Group reorganisation and basis of presentation**

*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 No. 2.127 “Accounting for Group Reconstructions”.

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

**2. Turnover**

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

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

	<b>For the three months ended 31 March</b>	
	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Turnover (income from external customers):		
Game-on-demand services income	<b>60,492</b>	7,883
MMOG services income	<b>78,637</b>	–
Licensed fee income	<b>929,524</b>	–
	<u><b>1,068,653</b></u>	<u>7,883</u>

**3. Tax**

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the three months ended 31 March 2003 (three months ended 31 March 2002: Nil).

No PRC profits tax has been provided as the Group did not generate any assessable profits in the PRC during the three months ended 31 March 2003 (three months ended 31 March 2002: Nil).

#### 4. Dividends

The Board does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2003 (three months ended 31 March 2002: Nil).

#### 5. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2003 is based on the net loss attributable to shareholders of HK\$2,134,083 (three months ended 31 March 2002: HK\$1,790,199) and the weighted average number of 440,000,000 ordinary shares have been issued during the three months ended 31 March 2003 (three months ended 31 March 2002: 440,000,000 ordinary shares).

No diluted loss per share is presented for the three months ended 31 March 2003 and 31 March 2002 because the share options outstanding had an anti-dilutive effect on the basic loss per share for these periods.

#### 6. Reserves

	Share Capital HK\$	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
Net loss for the three months	—	—	(1,790,199)	(1,790,199)
	<u>2,200,000</u>	<u>33,527,560</u>	<u>(17,370,548)</u>	<u>18,357,012</u>
At 31 March 2002	<u>2,200,000</u>	<u>33,527,560</u>	<u>(17,370,548)</u>	<u>18,357,012</u>
At 1 January 2003	2,200,000	33,527,560	(28,338,501)	7,389,059
Net loss for the three months	—	—	(2,134,083)	(2,134,083)
	<u>2,200,000</u>	<u>33,527,560</u>	<u>(30,472,584)</u>	<u>5,254,976</u>
<b>At 31 March 2003</b>	<b><u>2,200,000</u></b>	<b><u>33,527,560</u></b>	<b><u>(30,472,584)</u></b>	<b><u>5,254,976</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 1 over the nominal value of the share capital of the Company issued in exchange therefor.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

During the period under review, the Group advanced at an accelerated speed to further achieve its goal of becoming a leading online arcade game, PC game and MMOG content provider in the Greater China region. For the three months ended 31 March 2003, the Group's foundation and development of its business network in the PRC took a giant leap to help cement its market presence as well as to expand its revenue stream.

The Group recorded a turnover of approximately HK\$1,069,000 for the three months ended 31 March 2003, representing an increase of approximately 135 folds from the corresponding period and representing an increase of approximately 9 times growth from the previous quarter unaudited results. Such growth was primarily attributable to the increase in the income derived from Necropolis licensed by the Group. Loss attributable to shareholders increased slightly by 19% to approximately HK\$2,134,000. However, as compared to the last quarter 2002 unaudited results, the loss from operating activities before taxation for the three months ended was substantially decreased from approximately HK\$5,221,000 to approximately HK\$2,134,000.

#### *PRC*

After completing all the necessary products and trial run testing, the Group launched 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 through agent to 12 various cities and provinces in the PRC. 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 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 respectively. 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 Café network in the PRC. Further details please refer to the Company's announcement dated 4 March 2003 in respect of the establishment of the joint venture.

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](http://www.pilitiandi.com.cn), the game portal website launched by the Group and Unionnet at the end of 2002, recorded increasing market acceptance, popularity subscriber base within a few months of operation. As at the end of April 2003, [www.pilitiandi.com.cn](http://www.pilitiandi.com.cn) has already attracted approximately over 48,000 subscribers.

#### *Hong Kong*

The subscriber base recorded at [www.billybala.now.com.hk](http://www.billybala.now.com.hk) reached 600,000 people, accrediting 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.

#### *Japan*

The Group also launched iHorse2 for its MMOG in Japan for trial run in 2003 to attract a significant subscriber base from the vast gaming market in Japan. The Group aims to commence its service charge in the second quarter of 2003 to bring forth a steady revenue base to the Group's turnover.

## **Future outlook**

Looking ahead, the Group will continue to pave the way to fortify its business foundation and network, so as to increase its game variety and enhance product quality and service standards to become a leading online game content provider in the region. The Group is also developing a new GOD platform for both the Hong Kong and the PRC market to enhance the scalability and competitive advantages of its game portal, with expected launch in second quarter of the year.

On the other hand, to react the SARS incident in the PRC, the Group will adapt a series of policies to cut down the operating cost. For instance, staff cost is voluntarily cut down by 10% starting from June 2003 indicating a unifier determination throughout the Company to reach a stringent cost control in reaction to the impact of SARS to the business of the Company.

The Group aims to accumulate a total of approximately 600 Arcade and PC games for its GOD platform to satisfy different tastes and preferences of the estimated 23 million Internet gamer population in the PRC. Since Internet Cafe is a pivotal channel to build up its customer base, enlarge revenue stream as well as enhance its brand recognition. The Group aims to sign up with 200 Internet Cafes in Nanjing and eventually expand to another 1,500 Internet Cafes throughout the PRC. Therefore, the Group will engage in the provision of approximately 600 Arcade and PC games for its GOD platform, an information portal and content value-added services and products to those signed up Internet Cafes as well as establish the physical distribution channels. Looking ahead, upon the completion of its business development and product range, the Company expects to see the fruits of its hard work in the near future and to reward its supportive shareholders.

## **Financial review**

The Group reported a turnover of approximately HK\$1,069,000 for the 3 months ended 31 March 2003, representing an increase of approximately 135 folds. Such growth is primarily contributed by Necropolis licensed by the Group. The non-refundable distribution licenses fee of RMB100,000 to RMB150,000 from each distributor of Necropolis, contributed 87% of total turnover during the period under review.

The unaudited loss from operating activities before taxation for the 3 months under review increased from approximately HK\$1,790,000 to approximately HK\$2,134,000 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. On the other hand, compared with the 4th quarter of 2002, based on unaudited results, the loss from operating activities before taxation for the three months ended was substantial decreased from approximately HK\$5,221,000 to approximately HK\$2,134,000. The loss from operating activities before taxation for the three months ended 31 December 2002 was calculated by the net loss for the year 2002 approximately HK\$12,758,000 deducting the loss for the nine months 30 September 2002 approximately HK\$7,537,000. The Company will continue to manage its expense base while prudently investing in the necessary corporate resources to penetrate new market and add value to new services. For instance, since January 2003, all executive directors waived their remuneration as a commitment on stringent cost control. Notwithstanding the above results, this is the objective of the Group to adopt stringent cost control and maintain the thin and effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated rapid growth of customers in the coming year.

## 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 advance of approximately HK\$2,500,000 to the Company. This advance is unsecured, interest bearing at prevailing market rate and not repayable within one year from the date of advance. In addition, the immediate holding company, Romson Limited, agreed to provide no less than HK\$2,500,000 or other funds to the Company and its subsidiaries immediately upon their written request. Endorsed with external facilities and the internal generated working capital, the Directors anticipate that the Group should have adequate financial resources to meet its ongoing operations and development requirements. As at 31 March 2003, the Group had cash and cash equivalent of approximately HK\$5,620,000.

## DIRECTORS' INTERESTS IN SHARES

As at 31 March 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
		Personal interests	Family interests	Corporate interests	Other interests	
Mr. Cheng Kar Shing	(a)	–	–	281,268,118	–	281,268,118
Mr. Leung Wai Keung	(b)	–	–	14,658,362	–	14,658,362
Mr. Fung Hoo Wing, Thomas	(c)	–	–	17,670,550	–	17,670,550
Mr. Tung Wai Wa, Wallace		4,909,290	–	–	–	4,909,290
Mr. Li Ka Kui		2,944,954	–	–	–	2,944,954

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% interests in the Company, held by Potassium Corp. and the 242,000,000 shares held by Romson Limited, a wholly-owned subsidiary of Poly Planning Limited, which is owned as to 46.24% by Potassium Corp..
- (b) These shares are held by Perfect Sun Development Limited, a company whose entire issued share capital is beneficially owned by Mr. Leung Wai Keung.
- (c) These shares are held by Kateman International Limited, a company in which Mr. Fung Hoo Wing, Thomas owns a 33% equity holding.

Save as disclosed above, as at 31 March 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 31 March 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% interests 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% interests 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 31 March 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 31 March 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 was limited to the Directors (excluding independent non-executive Directors).

None of these share options were exercised during the three months ended 31 March 2003. Following the resignation of Mr. Derek Shuen Lee on 25 June 2002, 10,560,000 share options held by him had been cancelled in accordance with the terms of the Pre-Scheme.

As at 31 March 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 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 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.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors, the initial 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 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 unaudited results for the three months ended 31 March 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 the adequate disclosures have been made.

## **SPONSOR'S INTEREST**

As at 31 March 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 continuing 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 31 March 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, 14 May 2003