Billybala Holdings Limited

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2002

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.

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The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.

This announcement, for which the directors of BILLYBALA HOLDINGS LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to BILLYBALA HOLDINGS LIMITED. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the date of its posting.

FOR THE THREE MONTHS ENDED 31 MARCH 2002

HIGHLIGHTS

Turnover for the three months ended 31 March 2002 was approximately HK$8,000.

Net loss attributable to shareholders amounted to approximately HK$1,790,000 for the period under review.

The board of directors of Billybala Holdings Limited does not recommend the payment of an interim dividend for the three months ended 31 March 2002.

UNAUDITED RESULTS

The board of directors (the "Directors") of Billybala Holdings Limited (the "Company") is pleased to announce the unaudited consolidated profit and loss account of the Company and its subsidiaries (collectively referred to as "Group"), together with the comparative figures of the corresponding period in 2001 as follows:

	Notes	For the three months ended 31 March 2002 HK$	2001 HK$
TURNOVER	2	7,883	-
Other revenue		62,351	-
Staff costs, including directors' remuneration		(1,022,447)	(413,207)
Depreciation		(84,066)	(35,335)
Royalties for game contents		(788)	-
Research and development costs		(59,000)	(197,353)
Marketing and promotion expenses		(8,348)	-
Other operating expenses		(685,784)	(856,017)
LOSS FROM OPERATING ACTIVITIES BEFORE TAX		(1,790,199)	(1,501,912)
Tax	3	-	-
LOSS BEFORE MINORITY INTERESTS		(1,790,199)	(1,501,912)
Minority interests		-	-
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(1,790,199)	(1,501,912)
LOSS PER SHARE	5		
Basic		HK 0.41cents	HK0.41cents
Diluted		N/A	N/A

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 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. Further details of the Group Reorganisation were set out in the Company’s prospectus (the “Prospectus”) dated 6 December 2001.

Basis of presentation and consolidation

The Group Reorganisation has been accounted for by the Company using the merger accounting method in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 2.127 “Accounting for Group Reconstructions”. The unaudited consolidated results of the Group included the results of all companies now comprising the Group as if the current Group structure had been in existence throughout the periods covered by this report or since their respective dates of incorporation, where this was a shorter period.

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

2. Turnover

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

3. Tax

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the period under review (2001: Nil).

4. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).

5. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2002 is based on the unaudited consolidated net loss attributable to shareholders of the Company for the said period of HK$1,790,199 (2001: HK$1,501,912) and the weighted average number of 440,000,000 ordinary shares deemed to have been in issue during the said period (2001: 366,666,000 shares, which were deemed to have been issued on the assumption that the Group Reorganisation had been effective during the three months ended 31 March 2001).

No diluted loss per share is presented for the three month ended 31 March 2002 because the share options outstanding had an anti-dilutive effect on the basic loss per share for the said period.

The diluted loss per share for the period ended 31 March 2001 is not presented as there were no potential ordinary shares in existence during the period.

6. Reserves

	Share Premium Account # HK$	Accumulated losses HK$	Total HK$
At 1 January 2001	8,182,100	(5,890,762)	2,291,338
Net loss for the three months	-	(1,501,912)	(1,501,912)
At 31 March 2001	8,182,100	(7,392,674)	789,426
At 1 January 2002	33,527,560	(15,580,349)	17,947,211
Net loss for the three months	-	(1,790,199)	(1,790,199)
At 31 March 2002	33,527,560	(17,370,548)	16,157,012

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.

BUSINESS REVIEW AND OUTLOOK

Business Review

During the period under review, the Group continued in the development of the provision of Internet game platform licensing and game-on-demand ("GOD") services. Specifically, we have been focusing on two areas, namely the sourcing of new games and geographical expansion. The Group is pleased to report progresses in both areas.

The loss from operating activities before tax for the quarter under review increased from approximately HK$1,502,000 to HK$1,790,000 over the corresponding period in the previous year. The increase in loss was mainly due to the increase in staff costs, including directors' remuneration, in accordance with the increase in staff count from 10 to 16. Notwithstanding the above results, it has been our objective to adopt stringent cost control and maintain a thin but effective overhead structure.

The management of the Group understands that the success of our business model heavily relies on the variety, up-datedness and fun index of our game library. With this in mind, the Group continued to explore arcade and personal computer (PC) game suppliers on top of our existing long-term business partner, Capcom Asia Co., Ltd. We are glad to announce that the cooperation agreement with a renowned American game developer is confirmed. Under the agreement, we will be able to establish a PC GOD platform and explore the business opportunities in PC GOD arena.

In terms of geographical expansion, our initial target is to continue the success of our unique arcade game platform in other Greater China cities. Towards this end, the Group has signed two cooperation agreements with Internet content and service providers based in Shenzhen and Guangzhou. Negotiations in other major city in China such as Shanghai are also underway.

Financial Review

During the period under review, through our cooperation with the www.now.com.hk, the Group reported an unaudited turnover of approximately HK$8,000, after deducting all related fees, for the three months ended 31 March 2002 (2001:Nil as our service was launched in September 2001).

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. For the period under review, the Group financed its operation with its own listing proceeds and working capital and did not have any bank borrowings. As of 31 March 2002, the Group had total assets of approximately HK$19,317,000, including cash and bank balances of approximately HK$17,593,000. Taking into consideration the existing financial resources available to the Group including the net proceeds from listing, it is anticipated that the Group should have adequate financial resources to meet its ongoing operations and development requirements.

Outlook

During the period under review and for the months to come, the Group will continue to dedicate strenuous efforts to strengthen the market. Based in Hong Kong, the Group has the entire Greater China region as its target market. According to the latest statistics, one in four Internet users is a game player. Judging from online game markets in other developed countries and given the increasing popularity of Internet and online games in China, this market presents infinite potentials. Since GOD is a very new concept in the region, the Group will be utilising its first mover advantages in capturing this vast market. The most recent detailed progress in our business development is as follows:-

a) PC GOD platform

The Group has leased a PC GOD platform from a US company for the development of PC GOD platform and streaming technologies. The Group considers this a more cost effective and efficient way to lease this platform. Service of PC GOD will be launched in the near future.

b) Arcade Game Sourcing

In order to further strengthen our game capacity and diversify our sourcing channels, the Group signed a memorandum of understanding with a game distributor in Japan in December 2001. This Japanese game distributor increases our number of games in library from 62 to more than 90.

c) Geographical Expansion

On the distribution side, besides allying with PCCW IMS Limited, a subsidiary of Pacific Century CyberWorks Limited in Hong Kong, the Group has also devised concrete plans to develop markets outside Hong Kong and to explore other revenue channels. For the Great China region market, we intend to cooperate with property developers, Internet service providers and Internet content providers in China. Serious negotiations in major cities in China are underway and the Group will keep a close eye on all Greater China opportunities. Moreover, the Group is contemplating market development in Japan through licensing the GOD platform to one of our business partners, a Japanese game distributor.

We remain confident that through our dedication and efforts, we can become the leading provider of arcade GOD service provider in the Great China region.

Directors' interests in shares

On 13 December 2001, the Company's shares were listed on the GEM. As at 31 March 2002, 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 Interest) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by the Directors as referred to in rule 5.40 of the GEM Listing Rules were as set out below:

		Number of Shares held	
Name of director	Notes	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)	17,670,550	-

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 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 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 of debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Substantial shareholders

As at 31 March 2002, 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 the British Virgin lslands 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 the 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 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 as at 31 March 2002.

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

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 shared 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 form 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.

Competition and conflict of interests

As at 31 March 2002, 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 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 2002 have been reviewed by the 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 2002, neither Tai Fook Capital Limited (the "Sponsor"), nor any of its respective directors, employees or associate (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 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 March 2002.

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 2002