



China Advance Holdings Limited

(incorporated in the Cayman Islands with limited liability)



First Quarterly Report 2004

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The Stock Exchange takes no responsibility for the contents of this report, 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 report.

This report, for which the directors of CHINA ADVANCE HOLDINGS LIMITED (the “Directors”) 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 CHINA ADVANCE 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover for the three months ended 31 March 2004 was approximately HK\$403,000, representing a decrease of approximately 62% from the corresponding period.

Net loss attributable to shareholders for the same period amounted was approximately HK\$2,665,000.

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004.

In January 2004, the Company announced that the Share and Shareholders' Loan Sale Agreement was entered into with Future Advance Holdings Limited. The Sale Shares represent approximately 71.27% of the entire issued share capital of the Company. The new shareholders can help the Group to explore business opportunities in the PRC with their business experience and network.

As at 17 March 2004, the Company had forfeited 33,400,000 share options outstanding. All outstanding 33,400,000 share options were cancelled and extinguished. As at 31 March 2004, there are no share options outstanding under a pre-IPO share option scheme.

A special resolution to change the English name of the Company from "Billybala Holdings Limited" to "China Advance Holdings Limited" and the Chinese name from "霹靂哈喇控股有限公司" to "中國宏達控股有限公司" was passed at the extraordinary general meeting held on 11 May, 2004.

UNAUDITED RESULTS

The board of Directors (the "Board") of China Advance 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 2004 together with the comparative figures of the corresponding period in 2003 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 31 March	
		2004 HK\$	2003 HK\$
TURNOVER	2	403,012	1,068,653
Other revenue		181	5,896
Staff costs, including directors' remuneration		(891,740)	(989,260)
Depreciation		(148,251)	(162,478)
Royalties for game contents		(140,815)	(232,664)
Research and development costs		(103,000)	(404,803)
Marketing and promotion expenses		(418,003)	(672,349)
Other operating expenses		(1,366,027)	(747,078)
LOSS FROM OPERATING ACTIVITIES BEFORE TAX		(2,664,643)	(2,134,083)
Tax	3	-	-
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(2,664,643)	(2,134,083)
LOSS PER SHARE			
Basic	5	HK0.61 cents	HK0.49 cents
Diluted		N/A	N/A

Notes:

I. 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 consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the period ended 31 March 2004. The results of subsidiaries acquired during the period are included in the consolidated income statement from or to the date of their acquisition as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

2. Turnover

Turnover represents the net invoiced value of services provided.

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

	For the three months ended 31 March	
	2004	2003
	HK\$	HK\$
Game-on-demand services income	8,020	60,492
MMOG services income	394,992	78,637
Licensed fee income	—	929,524
	<u>403,012</u>	<u>1,068,653</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 2004 (three months ended 31 March 2003: Nil).

No PRC profits tax has been provided as the subsidiary of the Group in the PRC did not generate any assessable profits in the PRC during the three months ended 31 March 2004 (three months ended 31 March 2003: Nil).

4. Dividends

The Board does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2004 (three months ended 31 March 2003: Nil).

5. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2004 is based on the net loss attributable to shareholders of HK\$2,664,643 (three months ended 31 March 2003: HK\$2,134,083) and the number of 440,000,000 ordinary shares in issue during the three months ended 31 March 2004 (three months ended 31 March 2003: 440,000,000 ordinary shares).

No diluted loss per share is presented for the three months ended 31 March 2004 and 31 March 2003 because the share options outstanding had an anti-dilutive effect on the basic loss per share for both periods.

6. Reserves

	Share Capital HK\$	Share Premium Account# HK\$	Accumulated losses HK\$	Total HK\$
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)
At 31 March 2003	<u>2,200,000</u>	<u>33,527,560</u>	<u>(30,472,584)</u>	<u>5,254,976</u>
At 1 January 2004	2,200,000	33,527,560	(38,151,662)	(2,424,102)
Net loss for the three months	—	—	(2,664,643)	(2,664,643)
At 31 March 2004	<u>2,200,000</u>	<u>33,527,560</u>	<u>(40,816,305)</u>	<u>(5,088,745)</u>

The share premium account of the Group includes the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 1 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 continued to engage in the provision of arcade game-on-demand service via Internet services through converting existing games into online version together with game-on-demand multi-player feature in Hong Kong and the People's Republic of China (the "PRC").

The Group recorded a turnover of approximately HK\$403,000 for the three months ended 31 March 2004, representing a decrease of approximately 62% from the corresponding period. The turnover was mainly derived from "iHorse Arcade", online Arcade Game machines developed by the Group and distributed in Hong Kong and Macau. Loss attributable to shareholders increased slightly by 24% to approximately HK\$2,665,000.

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 Hong Kong and in the PRC.

Change of controlling shareholders and name of the Company

In January 2004, the Company announced that the Share and Shareholders' Loan Sale Agreement was entered into with Future Advance Holdings Limited. The Sale Shares represent approximately 71.27% of the entire issued share capital of the Company. The new shareholders can help the Group to explore business opportunities in the PRC with their business experience and network.

A special resolution to change the English name of the Company from "Billybala Holdings Limited" to "China Advance Holdings Limited" and the Chinese name from "霹靂啪喇控股有限公司" to "中國宏達控股有限公司" was passed at the extraordinary general meeting held on 11 May, 2004.

Financial review

The unaudited loss from operating activities before taxation for the 3 months under review increased from approximately HK\$2,134,000 to approximately HK\$2,665,000 over the corresponding period in the previous year. 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. 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\$16.3 million. 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. The Share and Shareholders' Loan Sale Agreement was duly completed in accordance with its terms, disclosed in the announcement dated 20 February 2004. Immediately following the completion, Future Advance Holdings Limited, regarded by the Directors as ultimate parent enterprise of the Company, made an unsecured and interest-free loan of approximately HK\$3,163,000. In addition, an interest-free and unsecured loan from an independent third party who is not a connected person of the Company as defined in the GEM Listing Rules of approximately HK\$2.5 million. Moreover, Future Advance Holdings Limited has undertaken to the Company that for the period of 18 months, to provide or procure the provision to the Group, advances or facilities in amount of not exceeding HK4.5 million to meet the Group's operation cashflow requirements and to repay the debts of the Group. 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 2004, the Group had cash and cash equivalent of approximately HK\$401,000.

On 26 March 2004, the Board of Directors announced that the Company had entered into the Placing Agreements on the same date pursuant to which the Company agreed conditionally to issue a total of 88,000,000 new ordinary shares of HK\$0.005 each in the issued share capital of the Company at the placing price of HK\$0.086 per placing share to the places who are not connected persons of the Company. The net proceeds from the Placing are estimated to be approximately HK\$7 million and will be used as to HK\$2.5 million for the repayment of loans and as to HK4.5 million as the Group's general working capital. Please refer to the Company's circular dated 16 April 2004 in respect of major transaction – placing of new shares for further details.

Directors' interests and short positions in the securities of the Company and its associated corporations

As at 31 March 2004, the following Director(s) had interests and/or short positions in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii), pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

Long Position

Name of Director	Nature of interests	Number of Shares Held	Approximate percentage of issued capital (%)
Mr. Lang Fulai	Corporate (Note)	321,341,984	73.03
Mr. Yu Hongwen	Corporate (Note)	321,341,984	73.03

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

Save as disclosed above, as at 31 March 2004, none of Director had any interests or short position in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii), pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

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

As at 31 March 2004, so far as is known to the any Director or chief executive of the Company, the following person(s), had, or was deemed or taken to have, an interest or short position in the securities of the Company which would fall to be disclosed to the Company under the provisions of the Division 2 and 3 of Part XV of the SFO:

Long position in the Shares:

Name of Shareholder	Nature of interests	Number of Shares held	Approximate percentage of issued share capital (%)
Future Advance Holdings Limited	Beneficial	321,341,984	73.03%
China Zong Heng Holdings Limited	Corporate (Note)	321,341,984	73.03%

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

China Advance Holdings Limited

Save as disclosed above, as at the 31 March 2004, the Directors and the chief executive of the Company were not aware of any person had an interest or short position in the securities of the Company which would fall to be disclosed to the Company under the provisions of the Division 2 and 3 of Part XV of the SFO.

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 ex-director	Number of share options granted on 28 November 2001	Number of share options outstanding at 1 January 2004	Number of share options outstanding at 31 March 2004	Exercise period of share options	Exercise price per share HK\$
Mr. Cheng Kar Shing	1,760,000	1,760,000	0	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	0	14 December 2003 to 27 November 2011	0.24
Mr. Leung Wai Keung	7,920,000	7,920,000	0	14 December 2002 to 27 November 2011	0.24
	7,920,000	7,920,000	0	14 December 2003 to 27 November 2011	0.24
Mr. Li Ka Kui	1,760,000	1,760,000	0	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	0	14 December 2003 to 27 November 2011	0.24
Mr. Ng Chi Kin, Kenny	1,760,000	1,760,000	0	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	0	14 December 2003 to 27 November 2011	0.24
Mr. Fung Hoo Wing, Thomas	1,760,000	1,760,000	0	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	0	14 December 2003 to 27 November 2011	0.24
Mr. Tung Wai Wa, Wallace	1,760,000	1,760,000	0	14 December 2002 to 27 November 2011	0.24
	1,760,000	1,760,000	0	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).

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 17 March 2004, the Company had forfeited 33,440,000 share options outstanding. All outstanding 33,440,000 share options were cancelled and extinguished. Further details please refer to the announcement dated 17 March 2004. As at 31 March 2004, there are no share options outstanding under the Pre-Scheme.

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, management Shareholders, substantial shareholders and their respective associates compete or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

Audit committee

The audit committee comprises two members, Mr. Wan Tze Fan Terence and Mr. Zhou Guang Qi, who are the independent non-executive directors of the Company. The Group's unaudited results for the three months ended 31 March 2004 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.

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 2004.

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

Yu Hongwen

Chairman

Hong Kong, 12 May 2004