



China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Interim Report
2004

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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 six months ended 30 June 2004 was approximately HK\$2,449,000, representing an increase of approximately 23% from the corresponding period.

Net loss attributable to shareholders for the same period amounted to approximately HK\$3,571,000, representing a decrease of approximately 12% over the corresponding period.

As compared with the first quarter 2004 unaudited results, net loss attributable to shareholders for the three months ended decreased from approximately HK\$2,665,000, to approximately HK\$906,000, representing a decrease of 66% over the first quarter 2004 unaudited results.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

UNAUDITED RESULTS

The board of directors (the “Board”) of China Advance Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 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		Six months ended	
		30 June		30 June	
		2004	2003	2004	2003
		HK\$	HK\$	HK\$	HK\$
TURNOVER	3	2,045,631	922,350	2,448,643	1,991,003
COST OF SALES		(1,764,676)	–	(1,764,676)	–
GROSS PROFIT		280,955	922,350	683,967	1,991,003
OTHER REVENUE		1,042	2,146	1,223	8,042
OTHER EXPENSES					
Staff costs, including directors’ remuneration		(240,025)	(980,642)	(1,131,765)	(1,969,902)
Depreciation		(137,245)	(164,280)	(285,496)	(326,758)
Royalties for game contents		(149,089)	(248,467)	(289,904)	(481,131)
Research and development costs		–	(184,010)	(103,000)	(588,813)
Marketing and promotion expenses		(43,819)	(362,957)	(461,822)	(1,035,306)
Other operating expenses		(593,773)	(881,097)	(1,948,343)	(1,628,175)
LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION		(881,954)	(1,896,957)	(3,535,140)	(4,031,040)
FINANCE COST	5	–	(42,413)	(11,457)	(42,413)
LOSS BEFORE TAXATION		(881,954)	(1,939,370)	(3,546,597)	(4,073,453)
TAXATION	6	(23,956)	–	(23,956)	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(905,910)	(1,939,370)	(3,570,553)	(4,073,453)
DIVIDENDS	7	–	–	–	–
LOSS PER SHARE					
Basic	8	HK0.19 cents	HK0.44 cents	HK0.77 cents	HK0.93 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 HK\$ (Unaudited)	31 December 2003 HK\$ (Audited)
ASSETS			
Non-current asset			
Fixed Assets	<i>10</i>	883,111	1,055,327
Current Assets			
Accounts receivable	<i>11</i>	2,381,640	1,301,654
Prepayments, deposits and other receivables		487,172	565,399
Deferred tax assets		26,641	7,701
Cash and bank balances		1,582,719	582,016
		<u>4,478,172</u>	<u>2,456,770</u>
LIABILITIES			
Current Liabilities			
Accruals and other payables		(927,619)	(2,906,686)
Deferred tax liabilities		(63,276)	–
Loan from former ultimate parent enterprise		–	(3,029,513)
		<u>(990,895)</u>	<u>(5,936,199)</u>
Net current assets/(liabilities)		<u>3,487,277</u>	<u>(3,479,429)</u>
TOTAL ASSETS LESS CURRENT ASSETS/(LIABILITIES)			
		<u>4,370,388</u>	<u>(2,424,102)</u>
Non-current liability			
Loan from ultimate parent enterprise	<i>12</i>	(2,997,701)	–
NET ASSETS/(LIABILITIES)		<u>1,372,687</u>	<u>(2,424,102)</u>
CAPITAL AND RESERVES			
Issued capital	<i>13</i>	2,640,000	2,200,000
Reserves		(1,267,313)	(4,624,102)
		<u>1,372,687</u>	<u>(2,424,102)</u>

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

	Share capital HK\$ <i>(note 13)</i>	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
Loss for the six months ended 30 June 2003	–	–	(4,073,453)	(4,073,453)
At 30 June 2003	<u>2,200,000</u>	<u>33,527,560</u>	<u>(32,411,954)</u>	<u>3,315,606</u>
At 1 January 2004	2,200,000	33,527,560	(38,151,662)	(2,424,102)
Loss for the six months ended 30 June 2004	–	–	(3,570,553)	(3,570,553)
Share issued on subscription	440,000	–	–	440,000
Net share premium received	–	6,927,342	–	6,927,342
At 30 June 2004	<u>2,640,000</u>	<u>40,454,902</u>	<u>(41,722,215)</u>	<u>1,372,687</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six Months ended 30 June 2004 HK\$	Six Months ended 30 June 2003 HK\$
Net cash outflow from operating activities	(5,854,556)	(6,183,853)
Net cash outflow from investing activities	(480,271)	(62,940)
Net cash outflow before financing	(6,334,827)	(6,246,793)
Net cash inflow from financing	7,335,530	7,572,515
Increase in cash and cash equivalents	1,000,703	1,325,722
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	582,016	1,146,080
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,582,719	2,471,802
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	–	1,746,670
Cash at bank and in hand	1,582,719	725,132
	1,582,719	2,471,802

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 2004, 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, game licence and general trading in Hong Kong and the People’s Republic of China (“PRC”).

2. 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. The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company’s annual financial statements for the year ended 31 December 2003.

3. Turnover

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

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

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover (income from external customers):				
– Game-on-demand services income	30,029	116,014	38,049	176,506
– MMOG services income	141,860	135,860	536,852	214,497
– Licensed fee income	–	670,476	–	1,600,000
– Trading income	1,873,742	–	1,873,742	–
	<u>2,045,631</u>	<u>922,350</u>	<u>2,448,643</u>	<u>1,991,003</u>

4. Loss from operating activities before taxation

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

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of services provided	149,089	839,678	343,636	1,704,797
Interest income	–	(2,146)	–	(8,022)
Cost of sales	<u>1,764,676</u>	<u>–</u>	<u>1,764,676</u>	<u>–</u>

5. Finance cost

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on advance from former ultimate parent enterprise	-	42,413	11,457	42,413

6. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided as the Group did not generate any assessable profits in those jurisdictions during the three months and six months ended 30 June 2004 (three months and six months ended 30 June 2003: Nil).

Provision for PRC profits tax of HK\$23,956 has been provided during the three months and six months ended 30 June 2004 (three months and six months ended 30 June 2003: Nil).

The potential deferred tax asset of HK\$5,738,271 (as at 30 June 2003: HK\$4,714,134) in respect of tax losses available for carry forward and other timing difference as at 30 June 2004 has not been recognised as the probability that future taxable profit will be available against which the temporary differences can be utilized in the foreseeable future is uncertain.

7. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

8. Loss per share

The calculation of basic loss per share for the three months and six months ended 30 June 2004 is based on the net loss attributable to shareholders of HK\$905,910 and HK\$3,570,553, respectively (three months ended and six months ended 30 June 2003: HK\$1,939,370 and HK\$4,073,453, respectively) and the weighted average number of 482,549,000 and 462,512,000 ordinary shares in issue during the three months and six months ended 30 June 2004, respectively (three months and six months ended 30 June 2003: 440,000,000 ordinary shares).

No diluted loss per share for the three months and six months ended 30 June 2004 have been presented because the Company has no dilutive potential shares in issue during the period.

9. Segment information

Business segments

	Game-on-demand services		MMOG services income		Game Licensing income		Trading income		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	38,049	176,506	536,852	214,497	-	1,600,000	1,873,742	-	2,448,643	1,991,003
Cost of services provided	(22,743)	(151,133)	(320,893)	(183,663)	-	(1,370,001)	-	-	(343,636)	(1,704,797)
Cost of sales	-	-	-	-	-	-	(1,764,676)	-	(1,764,676)	-
Other operating expenses	(215,121)	(383,444)	(3,035,281)	(465,977)	-	(3,475,867)	19,765	-	(3,230,637)	(4,325,288)
Profit/(Loss)										
from operating activities	<u>(199,815)</u>	<u>(358,071)</u>	<u>(2,819,322)</u>	<u>(435,143)</u>	<u>-</u>	<u>(3,245,868)</u>	<u>128,831</u>	<u>-</u>	<u>(2,890,306)</u>	<u>(4,039,082)</u>
Other revenue									1,223	8,042
Operating loss									(2,889,083)	(4,031,040)
Unallocated corporate expenses									(646,057)	-
Finance costs									(11,457)	(42,413)
Taxation									(23,956)	-
Loss attributable to shareholders									<u>(3,570,553)</u>	<u>(4,073,453)</u>

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	<u>564,063</u>	<u>623,647</u>	<u>10,838</u>	<u>53,070</u>	<u>1,873,742</u>	<u>1,314,286</u>	<u>2,448,643</u>	<u>1,991,003</u>

10. Fixed Assets

	Leasehold	Furniture, fixtures and office equipment	Computer equipment	Total
	improvements HK\$	HK\$	HK\$	HK\$
Cost:				
At 1 January 2004		597,889	426,287	1,066,677
Additions		298,196	–	182,075
Disposal		–	(51,691)	(515,775)
At 30 June 2004 (Unaudited)	896,085	374,596	732,977	2,003,658
Accumulated depreciation:				
At 1 January 2004		404,671	221,857	408,998
Provided during the period		177,986	33,608	73,902
Eliminated on disposals		–	(37,045)	(163,430)
At 30 June 2004 (Unaudited)	582,657	218,420	319,470	1,120,547
Net book value:				
At 30 June 2004 (Unaudited)	313,428	156,176	413,507	883,111
At 31 December 2003 (Audited)	<u>193,218</u>	<u>204,430</u>	<u>657,679</u>	<u>1,055,327</u>

11. Accounts Receivable

An aged analysis of the accounts receivable is as follows:

	30 June	31 December
	2004	2003
	HK\$	HK\$
	(Unaudited)	(Audited)
Within 30 days	2,345,673	291,778
31 - 60 days	18,674	225,519
61 - 90 days	5,230	784,357
over 90 days	12,063	–
	<u>2,381,640</u>	<u>1,301,654</u>

12. Loan from ultimate parent enterprise

Loan from ultimate parent enterprise is unsecured and not repayable within one year.

13. Share Capital

	30 June		31 December	
	2004		2003	
	No. of shares	HK\$	No. of shares	HK\$
	Unaudited		Audited	
Authorised				
Ordinary shares of HK\$0.005 each	1,000,000,000	5,000,000	1,000,000,000	5,000,000
Issued and fully paid				
At beginning of the period	440,000,000	2,200,000	440,000,000	2,200,000
Issuance of shares	88,000,000	440,000	–	–
At end of the period	<u>528,000,000</u>	<u>2,640,000</u>	<u>440,000,000</u>	<u>2,200,000</u>

On 18 May 2004, 88,000,000 ordinary shares were allotted and booked at prices of HK\$0.086 per share, which were arrived after arm's length negotiations between the Company and the subscribers. Details of this, please refer to our announcement dated 26 March 2004.

Share options

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

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

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

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 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 2004. In addition, as at 17 March 2004, the Company had forfeited all the outstanding share options granted from Pre-Scheme, which means that all the outstanding share options were cancelled and extinguished. For further details of these, please refer to our announcement dated 17 March 2004. There are no outstanding share options under the Pre-Scheme as at 30 June 2004.

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 report.

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

14. Commitments

(a) *Capital commitment*

	30 June 2004 HK\$ (Unaudited)	31 December 2003 HK\$ (Audited)
Contracted but not provided for		
Contribution of capital to a jointly controlled entity	<u>1,321,000</u>	<u>1,320,755</u>

(b) *Commitment under operating leases*

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

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	30 June 2004 HK\$ (Unaudited)	31 December 2003 HK\$ (Audited)
Not later than one year	–	238,656
Later than one year and not later than five years	<u>410,454</u>	<u>–</u>
	<u>410,454</u>	<u>238,656</u>

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group continued to engage in the provision of arcade game-on-demand services 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"). In addition, in order to enlarge the earning base of the Group, a new wholly owned subsidiary was set up in China to undertake some general trading business.

The Group recorded a turnover of approximately HK\$2,449,000 for the six months ended 30 June 2004, representing an increase of approximately 23% over the corresponding period. The loss attributable to shareholders for the same period decreased by 12% to approximately HK\$3,571,000.

In March 2004, a placement of 88,000,000 new shares was announced, and it was completed on 18 May 2004. The proceeds from the placing of approximately HK\$7 million provides the Group with additional working capital for its existing business activities. In order to raise new funds for Group's future investment purposes, another placement (the "second placement") of 63,360,000 new shares was announced by the end of May 2004, raising approximately HK\$4.8 million. Second placement was then completed on 3 August 2004.

Future outlook

Looking ahead, the Group will continue to pave the way to fortify its business foundation and network. The Group will continue the trading business while exploring another business opportunities in PRC.

Financial review

The Group reported a turnover of approximately HK\$2,449,000 for the six months ended 30 June 2004, representing an increase of approximately 23%. As compared with first quarter 2004 unaudited results, net loss attributable to shareholders for the three months ended decreased from approximately HK\$2,665,000, to approximately HK\$906,000, representing a decrease of 66% over the first quarter 2004 unaudited results. The operating environment for the game business of the Group remains difficult. In order to enhance the earning base of the Group, the Group began to engage in general trading business in the PRC during the period and a turnover of approximately HK\$1,874,000 was recorded.

The unaudited loss from operating activities before taxation for the six months under review decreased from approximately HK\$4,073,000 to approximately HK\$3,547,000 compared with the corresponding period in the previous year. The reduction of loss was a result of the Group's stringent cost control and light but effective overhead structure. The Company will continue to manage its expenses while prudently invest in potential investment project/business so as to create value to the Group and the shareholders of the Company.

Change of controlling shareholders and name of the Company

In January 2004, the Company announced that the then controlling shareholder Romson Limited and three other shareholders entered into a share and shareholders' loan agreement with Future Advance Holdings Limited ("Future Advance") for sale of their interest in the Company. Upon completion of the agreement, Future Advance became the controlling shareholder of the Company. As at 30 June 2004, Future Advance was interested in 321,341,984 shares of the Company, representing approximately 60.86% of the issued share capital of the Company.

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 "霹靂咁喇控股有限公司" to "中國宏達控股有限公司" was passed at the extraordinary general meeting held on 11 May 2004. The certificate of incorporation on change of name was issued by the Registrar of Companies in Cayman Islands on 13 May 2004. Besides, the stock short name for trading in shares of the Company on the Stock Exchange was also changed from "BILLYBALA" to "CHINA ADVANCE" in English and from "霹靂咁喇" to "中國宏達" in Chinese with effect from 23 June 2004.

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 HK\$4.5 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 30 June 2004, the Group had cash and cash equivalent of approximately HK\$1,583,000.

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 at the placing price of HK\$0.086 per placing share to the placees 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 HK\$4.5 million as the Group's additional working capital for its existing business activities. This Placing was completed on 18 May 2004. Please refer to the Company's circular dated 16 April 2004 in respect of major transaction – placing of new shares for further details.

On 31 May 2004, the Board of Directors announced that the Company had entered into the four Subscription Agreements (the "Placing") on the same date, pursuant to which the Company agreed conditionally to issue a total of 63,360,000 new ordinary shares of HK\$0.005 each at the placing price of HK\$0.078 per placing share to the placees who are not connected persons of the Company. The net proceeds from the Placing are estimated to be approximately HK\$4.8 million and will be used for future business investment purposes. For further details, please be referred to the announcement dated 31 May 2004. This Placing was completed on 3 August 2004.

Employee information

Currently, the Group has 5 full-time and 2 part-time employees working in Hong Kong and 2 full-time employees working in the PRC respectively. The total of employee remuneration, for the six months under review amounted to approximately HK\$723,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

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

The Group had no significant investments for the period ended 30 June 2004.

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 2004. 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 9 under "Notes to the condensed consolidated financial statements" and further elaborated under "Business review" of this section.

Charge on group assets and contingent liabilities

During the period under review, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (six months ended 2003: Nil).

Gearing Ratio

As at 30 June 2004, the Group had cash and cash equivalents of approximately HK\$1,583,000 in its current assets while its current liabilities stood at approximately HK\$991,000. The Group had long-term debt of approximately HK\$2,998,000 as of 30 June 2004 and its shareholders' funds amounted to approximately HK\$1,373,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 219% (long term loan to total equity) as of 30 June 2004.

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. As at the date of this report, Mr. Yu Hongwen, Mr. Lang Fulai and Ms. Ma Zheng are the executive directors of the Company.

Save as disclosed above, as at 30 June 2004, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debt securities of the Company and its associated corporations (within the meaning of Part XV 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 to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

Substantial shareholders

So far as is known to the Directors, the following parties, as at 30 June 2004, had an interest or short position in the shares and underlying shares, which would fall to be disclosed to the Group, as recorded in the register required to be kept under Section 336 of the SFO:

Long position in the shares:

Name of Shareholders	Nature of interests	Number of Shares held	Approximate percentage of issued share capital (%)
Future Advance Holdings Limited	Beneficial	321,341,984	60.86%
China Zong Heng Holdings Limited	Corporate (Note)	321,341,984	60.86%

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. As at the date of this report, Mr. Yu Hongwen, Mr. Lang Fulai and Ms. Ma Zheng are the executive directors of the Company.

Save as disclosed above, the Directors are not aware of any person as at the 30 June 2004 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 had an interest, 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, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Group under Section 336 of the SFO.

Directors' rights to acquire shares

As at 17 March 2004, the Company had forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, which means that all the outstanding share options were cancelled and extinguished. For further details of these, please refer to our announcement dated 17 March 2004. As at 30 June 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 of the directors may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised

under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. No share options were granted by the Company under the Post-Scheme up to the date of approval of this report.

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 2004, 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 principal business of the Group, or has any other conflict of interests with the Group.

Securities transactions by directors

Although the Company has not adopted any internal code of conduct regarding directors' securities transactions, it has made specific enquiry of all Directors and the Directors have confirmed that they have complied with all the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the six months ended 30 June 2004.

Audit committee

The Company established an audit committee with written terms of reference in compliance with 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. Wan Tze Fan Terence and Mr. Zhou Guang Qi, who are the independent non-executive Directors of the Company. The audit committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, which included a review of the unaudited interim result of the Group for the three months and six months ended 30 June 2004 and which was of opinion that the preparation of such result complied with applicable accounting standard.

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 2004.

Board practice and procedures

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during six months ended 30 June 2004.

By Order of the Board
China Advance Holdings Limited
Yu Hongwen
Chairman

Hong Kong, 10 August 2004