



China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2004

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 suit 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 documents 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.

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 howsoever 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 “Company”) 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 the Company. 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 respects 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 founded on bases and assumptions that are fair and reasonable.

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Corporate Information

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China Advance Holdings Limited

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yu Hongzhi
Mr. Lang Fulai
Ms. Ma Zheng
Mr. Chiu Winerthan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Tze Fan Terence
Mr. Zhou Guang Qi
Mr. Zhang Hongru

REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Bristish West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1415, Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon, Hong Kong

COMPANY SECRETARY

Mr. Chan Wai, *CPA, FCCA*

COMPLIANCE OFFICER

Mr. Chiu Winerthan

QUALIFIED ACCOUNTANT

Mr. Chan Wai, *CPA, FCCA*

AUDIT COMMITTEE

Mr. Wan Tze Fan Terence
Mr. Zhou Guang Qi
Mr. Zhang Hongru

AUTHORISED REPRESENTATIVES

Mr. Chiu Winerthan
Ms. Ma Zheng

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hong Kong and Shanghai Banking
Corporation Limited
Wing Hang Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

STOCK CODE

8117

CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

AUDITORS

Grant Thornton
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Tengis Limited
G/F, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

It is my pleasure to present the annual results of China Advance Holdings Limited (the "Company"), together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2004.

RESULTS

During the year under review, the Group continued to engage in the provision of arcade game-on-demand service via Internet services and general trading in PRC. The market conditions of the on-line game business remained harsh and very competitive. However, the Group's turnover improved because of the contribution from the trading businesses.

The Group recorded a turnover of approximately HK\$7,038,000 for the year ended 31 December 2004, representing an increase of approximately 87% from the corresponding period last year; and the loss attributable to shareholders decreased by 42% to approximately HK\$5,669,000.

The Board of Director does not recommend the payment of any dividend for the year ended 31 December 2004.

CHANGE OF CONTROLLING SHAREHOLDER AND NAME OF THE COMPANY

In January 2004, the Company announced that the share and shareholders' loan sale agreement was entered into between the ex-controlling shareholders and Future Advance Holdings Limited (the "Future Advance"). Upon the completion of the said agreement, Future Advance became the controlling shareholder holding approximately 71.27% of the entire issued capital of the Company at that time.

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

LOOKING AHEAD

As stated in the third quarter's report, our management team was very cautious in using the precious financial resources of the Group. Leveraging on the new controlling shareholder's business experience and network in the PRC, the Group diversified into trading of FRP Pipes, raw materials and composite materials for use in facilities of transporting the oil and natural gas, chemicals and electronics and information products in the second quarter of 2004. This not only strengthened and broadened the earning bases of the Group, but also presented a new business opportunities and market for the Group. Accordingly, the Group entered into a conditional agreement with an independent third party in respect of a proposed acquisition of a piece of industrial land in China for our future development. Details of which are stated in the Company's announcement dated 26 January 2005. This will be the

Chairman's Statement

management's major challenge in the coming years and we are confident that this project would in the long term be beneficial and rewarding for our shareholders. Further details of this transaction will be announced as soon as possible.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, fellow directors, staffs, customers and business partners for their tremendous ongoing support, dedication and contribution, especially those who involved in the project mentioned above. After a year of concerted efforts to explore more business opportunities and developments, the coming years will be harvest time for both the Group and its shareholders.

Yu Hongzhi

Chairman

Hong Kong 22 March 2005

OPERATION REVIEW

During the year under review, the Group continued to engage in the provision of arcade game-on-demand service via Internet services and general trading of FRP Pipes, raw materials and composite materials.

The on-line gaming business continued to run under difficult market conditions, but the trading of FRP Pipes, raw materials and composite materials shown that the demands for the products were considerable.

FINANCIAL REVIEW

Turnover was HK\$7,038,482 for the year under review, which represented an increase of 87% while compared with that of last year. The significant improvement was mainly attributed to the management's effort in exploring new business opportunities in China by involving in trading businesses. Therefore, the audited loss before taxation for the year under review decreased to approximately HK\$5,474,000 from approximately HK\$9,821,000 in the previous year, the loss attributable to shareholders decreased by 42% to approximately of HK\$5,669,000. Loss attributable to shareholders reduces significantly was due to the adoption of stringent cost control and maintain thin and effective overhead structure. The Company will continue to monitor its expense while prudently utilize the corporate resources into new business opportunities that would bring positive returns.

BUSINESS OUTLOOK AND PROSPECTS

The gaming business heavily relies on the content of the game which must be update, creative and innovative, and that requires a lot of financial recourses for its development or acquisition, but results were comparatively remote and uncertain. In order to maximize the shareholders' return, the management continued to explore business opportunities. Accordingly, the Group entered into a conditional agreement with an independent third party in respect of a proposed acquisition of a piece of land in China, this proposed acquisition constitutes a very substantial acquisition under the GEM Listing Rules. The Company proposed that the Proposed Acquisition would be funded by the Rights Issue. All of these were stated in our announcement dated 26 January 2005, and the further details of transaction will be announced as soon as possible.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the net assets of the Group has increased to HK\$4,215,869 (2003: net liabilities of HK\$2,424,102) while its total assets were HK\$8,235,234 (2003: HK\$3,531,037) including cash and bank balances of approximately of HK\$5,179,000. With the current ratio of 7.36, the Group remained in a financially liquid position and is able to finance ongoing operations.

OTHER FUNDING ACTIVITIES DURING THE YEAR

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 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 general working capital. This Placing was completed on 18 May 2004. Please be referred 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 in the issued share capital of the Company 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.

GEARING RATIO

As at 31 December 2004, the Group had cash of approximately HK\$516,000 and RMB4,955,000 in its current assets while its current liabilities stood at approximately HK\$1,003,000. The Group had long-term loan of approximately HK\$2,998,000 as of 31 December 2004 and its shareholders' funds amounted to approximately HK\$4,216,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 71% (long term loan to total equity) as of 31 December 2004.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales of the Group are denominated in Hong Kong dollars and RMB and payment of royalties for game contents of the Group denominated in United States dollars. No hedging or other alternatives have been implemented. As the exchange of HK dollars against United States dollars and RMB were relatively stable during the year, the Group's exposure to currency exchange risk was minimal.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (31 December 2003: Nil).

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set in our note 4 to the financial statements.

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 year ended 31 December 2004.

MATERIAL ACQUISITION AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

There were no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2004. The Company has no plans for material investments or capital assets other than those set out in the Prospectus dated 6 December 2001 and the annual report 2004 and announcement dated 26 January 2005, of which we propose for an acquisition of a piece of land in China.

EMPLOYEE INFORMATION

As at 31 December 2004, 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, including that of directors and provident fund contributions, for the year under review amounted to approximately HK\$2,070,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Biographical Details of Directors and Senior Management

DIRECTORS

Mr. Yu Hongzhi, aged 43

Chairman and Executive Director

Mr. Yu joined the Group in February 2004. He is currently the chief director of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司). Mr. Yu graduated from Wuhan University (武漢大學) majoring in construction structure engineering in 1984. Prior to joining Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司), Mr. Yu has over 16 years since 1988 and worked for several power companies in the PRC. Since 1996, Mr. Yu has engaged in the business of investment banking and has over seven years of experience in investment and management.

Ms. Ma Zheng, aged 38

Executive Director

Ms. Ma joined the Group in February 2004. She is currently a general manager of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司) which is a private investment and development company. Ms. Ma has over 15 years of extensive experience in international trading, electronic industry and corporation management. She graduated from Wuhan University (武漢大學) majoring in construction structure engineering.

Mr. Lang Fulai, aged 46

Executive Director

Mr. Lang joined the Group in March 2004. He is currently a president of Da Qing Yifeng Hainan Environmental Protection and Technology Company Limited (大慶市怡方海嵐環保科技有限責任公司). Mr. Lang holds a master of social science degree in economic management from Heilongjiang Academy of Social Science (黑龍江社會科學院). Mr. Lang has over 15 years experience in corporate management and development.

Mr. Chiu Winerthan, age 50

Executive Director

Mr. Chiu joined the Group in March 2004. Mr. Chiu graduated from university majoring in Chemical Engineering and worked in the university as lecturer in 1982. He had studied and worked in USA for ten years. Since 1989, he had engaged in the business of investment and had over 15 years of experience in investment and management. Prior joining the Group, he worked for a subsidiary of a company listed on the Stock Exchange of Hong Kong Limited.

Biographical Details of Directors and Senior Management

Mr. Wan Tze Fan Terence, aged 40

Independent Non-executive Director

Mr. Wan joined the Group in March 2004. Mr. Wan holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has over 14 years of experience in accounting and financial management. He has worked for international accounting firms and listed companies in Hong Kong. He is an associate member of Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. Currently, he is the financial controller and company secretary of a company listed on The Stock Exchange of Hong Kong Limited.

Mr. Zhou Guang Qi, aged 48

Independent Non-executive Director

Mr. Zhou joined the Group in March 2004. Mr. Zhou graduated from Hunan College of Finance and Economics (湖南財經學院) and holds a master degree in business administration from Renmin University of China (中國人民大學). Mr. Zhou has over 23 years of experience in the field of finance and cost accounting. He is currently the general manager of Yichang Pipe Technology Company Limited (宜昌管業科技有限公司).

Mr. Zhang Hongru, aged 41

Independent Non-executive Director

Mr. Zhang joined the Group in September 2004. Mr. Zhang held a master degree in geography from Chinese Academy of Science, Beijing, China and a master degree in economics from University of Alaska-Fairbanks. Mr. Zhang has over 14 years experience in the field of banking, finance and corporate management. Mr. Zhang was also an Executive Director of a GEM listed company "SYSCAN Technology Holdings Limited", stock code 8083. Currently, Mr. Zhang is a Director of Osbeck Investments Ltd.

SENIOR MANAGEMENT

Mr. Chan Wai, aged 36

Financial Controller and Company Secretary

Mr. Chan joined the Group in April 2004. Mr. Chan holds a master degree in Professional Accounting awarded from Hong Kong Polytechnic University. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan has over 12 years of experience in accounting field. Mr. Chan has worked for an international accounting firm and listed company in Hong Kong.

The directors present their report and the audited financial statements for the year ended 31 December 2004.

CHANGE OF COMPANY'S NAME

The name of the Company was changed from "Billybala Holdings Limited" to "China Advance Holdings Limited" with effect from 11 May 2004. The change of name was approved by the shareholders of the Company pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 11 May 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 13 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 22 to page 54

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 18 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company does not have any reserves available for distribution as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 12 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 55 to page 56 of the annual report.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors of the Company during the year were as follows:

EXECUTIVE DIRECTORS

Ms. Ma Zheng	<i>(appointed on 25 February 2004)</i>
Mr. Yu Hongzhi	<i>(appointed on 25 February 2004)</i>
(Formerly known as Yu Hongwen)	
Mr. Lang Fulai	<i>(appointed on 19 March 2004)</i>
Mr. Chiu Winerthan	<i>(appointed on 30 March 2004)</i>
Mr. Cheng Kar Shing	<i>(resigned on 19 March 2004)</i>
Mr. Leung Wai Keung	<i>(resigned on 19 March 2004)</i>
Mr. Li Ka Kui	<i>(resigned on 19 March 2004)</i>
Mr. Ng, Kenny Chi Kin	<i>(resigned on 19 March 2004)</i>
Mr. Wong Hon Kit	<i>(resigned on 17 May 2004)</i>

NON-EXECUTIVE DIRECTORS

Mr. Fung Hoo Wing, Thomas	<i>(resigned on 19 March 2004)</i>
Mr. Tung Wai Wa, Wallace	<i>(resigned on 19 March 2004)</i>

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Tze Fan Terence	<i>(appointed on 30 March 2004)</i>
Mr. Zhang Hongru	<i>(appointed on 28 September 2004)</i>
Mr. Zhou Guang Qi	<i>(appointed on 30 March 2004)</i>
Mr. Cheung Hon Kit	<i>(resigned on 30 March 2004)</i>
Mr. Ma Ching Nam	<i>(resigned on 30 March 2004)</i>

In accordance with article 86(3) of the Company's articles of association, Mr. Zhang Hongru will retire and, being eligible, will offer himself for re-election at the forming annual general meeting.

In accordance with article 87(1) of the Company's articles of association, Mr. Wan Tze Fan Terence and Zhou Guang Qi will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. All other remaining directors will continue in office.

All directors, except for the chairman and managing director but including the non-executive directors, are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 8 to page 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS

Save as disclosed in note 21 to the financial statements, no contract of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2004, the interests and short position of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Long position in ordinary shares of HK\$0.005 each in the Company at 31 December 2004:

Name of directors	Personal interests	Number of ordinary shares held			Total	Approximate percentage of interests
		Family interests	Corporate interests (Note)	Other interests		
Mr. Lang Fulai	–	–	321,341,984	–	321,341,984	54.34%
Mr. Yu Hongzhi	–	–	321,341,984	–	321,341,984	54.34%
Ms. Ma Zheng	–	–	321,341,984	–	321,341,984	54.34%

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 Hongzhi, 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 Hongzhi, Mr. Lang Fulai and Ms. Ma Zheng are the executive directors of the Company.

Save as disclosed above, as at 31 December 2004, none of the directors and chief executives, or their respective associates had any interest or short position in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of listed issuers as referred to Rules 5.40 of the Rules Governing The Listing of Securities on The Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules").

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives:

Long positions in ordinary shares of HK\$0.005 each in the Company:

Name of shareholders	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Future Advance Holdings Limited	Beneficial	321,341,984	54.34%
China Zong Heng Holdings Limited	Corporate (Note)	321,341,984	54.34%

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 Hongzhi, 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 Hongzhi, Mr. Lang Fulai and Ms. Ma Zheng are the executive directors of the Company.

Save as disclosed above, as at 31 December 2004, the directors are not aware of any person who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 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 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 2004	Cancelled during the year	Number of share options outstanding at 31 December 2004	Exercise period of share options	Exercise price per share HK\$
Mr. Cheng Kar Shing*	1,760,000	1,760,000	(1,760,000)	-	14-Dec-02 to 27-Nov-11	0.24
	1,760,000	1,760,000	(1,760,000)	-	14-Dec-03 to 27-Nov-11	0.24
Mr. Leung Wai Keung*	7,920,000	7,920,000	(7,920,000)	-	14-Dec-02 to 27-Nov-11	0.24
	7,920,000	7,920,000	(7,920,000)	-	14-Dec-03 to 27-Nov-11	0.24
Mr. Li Ka Kui*	1,760,000	1,760,000	(1,760,000)	-	14-Dec-02 to 27-Nov-11	0.24
	1,760,000	1,760,000	(1,760,000)	-	14-Dec-03 to 27-Nov-11	0.24
Mr. Ng Kenny Chi Kin*	1,760,000	1,760,000	(1,760,000)	-	14-Dec-02 to 27-Nov-11	0.24
	1,760,000	1,760,000	(1,760,000)	-	14-Dec-03 to 27-Nov-11	0.24

Directors' Report

Name of director	Number of share options granted on 28 November 2001	Number of share options outstanding at 1 January 2004	Cancelled during the year	Number of share options outstanding at 31 December 2004	Exercise period of share options	Exercise price per share HK\$
Mr. Fung Hoo Wing, Thomas*	1,760,000	1,760,000	(1,760,000)	-	14-Dec-02 to 27-Nov-11	0.24
	1,760,000	1,760,000	(1,760,000)	-	14-Dec-03 to 27-Nov-11	0.24
Mr. Tung Wai Wa, Wallace*	1,760,000	1,760,000	(1,760,000)	-	14-Dec-02 to 27-Nov-11	0.24
	1,760,000	1,760,000	(1,760,000)	-	14-Dec-03 to 27-Nov-11	0.24
	<u>33,440,000</u>	<u>33,440,000</u>	<u>(33,440,000)</u>	<u>-</u>		

* These directors resigned during the year.

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 of the Stock Exchange. The granting of the pre-IPO share options is limited to the directors (excluding independent non-executive directors). All the outstanding share options under the Pre-Scheme are cancelled and extinguished during the year. For details of these options, please refer to note 18 to the financial statement.

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 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 of directors, have contributed or may contribute to the Group.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any director or the respective spouse or children under 18 years of age; or were any such rights exercised by them to subscribe for shares of the Company and its associated corporations (within the meaning of the SFO); or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 87% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 80%.

Purchases from the Group's largest supplier accounted for approximately 61% of the total purchases for the year and the five largest suppliers accounted for the Group's total purchases for the year.

As far as the directors are aware, other than Mr. Leung Wai Keung, a former director of the Company, who is also the director of Golden Globe Industries Limited, one of the top five customers for the year ended 31 December 2004, none of the directors or any shareholders (which, to the best knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major customers or suppliers.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive directors, Mr. Wan Tze Fan Terence, Mr. Zhou Guang Qi and Mr. Zhang Hongru. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee held four meetings. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

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, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict interests with the Group during the year ended 31 December 2004.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31 December 2005.

AUDITORS

The financial statements of the Company for the year ended 31 December 2004 were audited by Messrs. Grant Thornton. A resolution to re-appoint the retiring auditors, Messrs. Grant Thornton, will be put at the forthcoming annual general meeting of the Company.

Messrs. Charles Chan, Ip & Fung CPA Ltd. tendered their resignation as auditors of the Company with effect from 19 August 2004 and Messrs. Grant Thornton were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Charles Chan, Ip & Fung CPA Ltd., by the shareholders of the Company at the extraordinary general meeting of the Company held on 22 September 2004.

The financial statements of the Company for the year ended 31 December 2002 and 2003 were audited by Messrs. Charles Chan, Ip & Fung CPA Ltd.. There have been no other changes of auditors of the Company in the past three years.

For and on behalf of the board

Yu Hongzhi

Chairman

Hong Kong,

22 March 2005

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均富會計師行

To the members of China Advance Holdings Limited

(Formerly known as Billybala Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on page 22 to page 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton

Certified Public Accountants

Hong Kong

22 March 2005

Consolidated Income Statement

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For the year ended 31 December 2004

China Advance Holdings Limited

	Notes	2004 HK\$	2003 HK\$
Turnover	3	7,038,482	3,768,960
Other revenue	3	223,924	223,868
Cost of inventories sold		(5,593,733)	(577,380)
Staff costs, including directors' remuneration		(2,070,027)	(3,622,561)
Depreciation		(601,464)	(671,408)
Royalties for game contents		(531,564)	(1,223,022)
Research and development costs		(103,000)	(1,575,368)
Marketing and promotion expenses		(219,838)	(1,931,147)
Other operating expenses		(3,605,330)	(4,091,073)
Loss from operations	5	(5,462,550)	(9,699,131)
Finance costs	6	(11,457)	(121,731)
Loss before taxation		(5,474,007)	(9,820,862)
Taxation	7	(195,444)	106,562
Loss attributable to shareholders		(5,669,451)	(9,714,300)
Loss per share	8		
Basic		HK1.1cents	HK2.2cents
Diluted		N/A	N/A

Consolidated Balance Sheet

As at 31 December 2004

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	Notes	2004 HK\$	2003 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	851,918	1,055,327
Deferred tax assets	17	–	26,641
		851,918	1,081,968
Current assets			
Trade receivables	14	725,326	1,301,654
Prepayments, deposits and other receivables		1,479,076	565,399
Cash at banks and in hand		5,178,914	582,016
		7,383,316	2,449,069
Current liabilities			
Trade payables	15	(396,761)	–
Accruals and other payables		(437,921)	(2,906,686)
Provision for tax		(168,042)	–
Loans from immediate holding company	16	–	(3,029,513)
		(1,002,724)	(5,936,199)
Net current assets/(liabilities)		6,380,592	(3,487,130)
Total assets less current liabilities		7,232,510	(2,405,162)
Non-current liabilities			
Loans from ultimate holding company	16	(2,997,701)	–
Deferred tax liabilities	17	(18,940)	(18,940)
		(3,016,641)	(18,940)
Net assets/(liabilities)		4,215,869	(2,424,102)
CAPITAL AND RESERVES			
Share capital	18	2,956,800	2,200,000
Reserves	19	1,259,069	(4,624,102)
Shareholders' funds/(deficits)		4,215,869	(2,424,102)

Yu Hongzhi
Director

Ma Zheng
Director

Balance Sheet

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As at 31 December 2004

China Advance Holdings Limited

	Notes	2004 HK\$	2003 HK\$
ASSETS AND LIABILITIES			
Non-current asset			
Investments in subsidiaries	13	–	–
Current assets			
Prepayments, deposits and other receivables		173,829	86,700
Amounts due from subsidiaries	13	975,000	6,805,126
Cash at banks and in hand		2,433	–
		1,151,262	6,891,826
Current liabilities			
Accruals and other payables		(265,857)	(989,661)
Amounts due to subsidiaries	13	(1,766,567)	(1,766,565)
Loans from immediate holding company	16	–	(3,029,513)
		(2,032,424)	(5,785,739)
Net current (liabilities)/assets		(881,162)	1,106,087
Total assets less current liabilities		(881,162)	1,106,087
Non-current liability			
Loans from ultimate holding company	16	(2,997,701)	–
Net (liabilities)/assets		(3,878,863)	1,106,087
CAPITAL AND RESERVES			
Share capital	18	2,956,800	2,200,000
Reserves	19	(6,835,663)	(1,093,913)
Shareholders' (deficits)/funds		(3,878,863)	1,106,087

Yu Hongzhi
Director

Ma Zheng
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2004

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	Notes	2004 HK\$	2003 HK\$
Cash flows from operating activities			
Loss before taxation		(5,474,007)	(9,820,862)
Adjustments for:			
Depreciation	5	601,464	671,408
Loss on disposal of property, plant and equipment	5	481,180	183,445
Interest income	5	(2,085)	(9,613)
Interest expenses	6	11,457	121,731
Operating loss before working capital changes		(4,381,991)	(8,853,891)
Decrease/(Increase) in trade receivables		576,328	(1,263,352)
(Increase)/Decrease in prepayments, deposits and other receivables		(913,677)	642,647
Increase in trade payables		396,761	–
(Decrease)/Increase in accruals and other payables		(2,468,765)	999,504
Cash used in operations		(6,791,344)	(8,475,092)
Interest received		2,085	9,613
Interest paid		(11,457)	(121,731)
Overseas income taxes paid		(761)	–
Net cash outflow from operating activities		(6,801,477)	(8,587,210)
Cash flows from investing activities			
Purchases of property, plant and equipment		(938,735)	(219,740)
Proceeds from disposal of property, plant and equipment		59,500	–
Net cash used in investing activities		(879,235)	(219,740)
Cash flows from financing activities			
Proceeds from issuance of share capital		12,510,080	–
Share issue expenses		(200,658)	–
(Decrease)/Increase in loans from holding companies	22	(31,812)	3,029,513
Net cash from financing activities		12,277,610	3,029,513
Net increase/(decrease) in cash and cash equivalents		4,596,898	(5,777,437)
Cash and cash equivalents at beginning of year		582,016	6,359,453
Cash and cash equivalents at end of year		5,178,914	582,016
Analysis of balances of cash and cash equivalents			
Cash at banks and in hand		5,178,914	582,016
		5,178,914	582,016

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital HK\$	Share premium account HK\$	Statutory surplus reserve HK\$ <i>(note 19(b))</i>	Statutory public welfare reserve HK\$ <i>(note 19(c))</i>	Accumulated losses HK\$	Total HK\$
Balance at 1 January 2003	2,200,000	33,527,560	-	-	(28,437,362)	7,290,198
Loss for the year	-	-	-	-	(9,714,300)	(9,714,300)
Balance at 31 December 2003 and 1 January 2004	2,200,000	33,527,560	-	-	(38,151,662)	(2,424,102)
Loss for the year	-	-	-	-	(5,669,451)	(5,669,451)
Transfer to capital reserves	-	-	34,272	17,136	(51,408)	-
Issuance of share capital	756,800	11,753,280	-	-	-	12,510,080
Share issue expenses	-	(200,658)	-	-	-	(200,658)
Balance at 31 December 2004	2,956,800	45,080,182	34,272	17,136	(43,872,521)	4,215,869

Notes to the Financial Statements

For the year ended 31 December 2004

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Annual Report 2004

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 13 to the financial statements. As at 31 December 2004, the directors consider that the ultimate holding company to be Future Advance Holdings Limited ("Future Advance"), a company incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(A) BASIS OF PREPARATION

The financial statements on page 22 to page 54 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention.

(B) CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

(C) SUBSIDIARIES

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2004

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China Advance Holdings Limited

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(D) PROPERTY, PLANT AND EQUIPMENT

(i) Depreciation and amortisation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following estimated useful lives:

Leasehold improvements	4 years or over the lease terms, whichever is shorter
Computer equipment	5 years
Furniture, fixtures and office equipment	5 years

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(E) OPERATING LEASES

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Notes to the Financial Statements

For the year ended 31 December 2004

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(F) RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes, are recognised as intangible assets if the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development. The development costs capitalised include the cost of materials, direct labour and an appropriate proportion of overheads. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses.

(G) FOREIGN CURRENCIES

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(H) INCOME TAX

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

For the year ended 31 December 2004

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(H) INCOME TAX *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(I) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the Financial Statements

For the year ended 31 December 2004

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(J) IMPAIRMENT

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(K) PROVISIONS

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Notes to the Financial Statements

For the year ended 31 December 2004

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(L) EMPLOYEE BENEFITS

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant rules and regulations in the People's Republic of China ("PRC"), each of the Company's subsidiaries operating in the PRC is required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of the employees to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

(iii) Equity compensations benefits

Share options are granted to directors and to employees at a price determined in accordance with the Company's share option scheme on the date of the grant and are exercisable at that price, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

Notes to the Financial Statements

For the year ended 31 December 2004

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Annual Report 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(M) REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- income from the provision of Game-On-Demand services and Massive Multiplayer Online Game (“MMOG”) services are recognised at the time when the services are provided;
- income from sales of Online Arcade Game machines and other goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed; and
- interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(N) RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(O) SEGMENT REPORTING

In accordance with the Group’s internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the jurisdiction in which the customer is located and total assets and capital expenditure are where the assets are located.

Notes to the Financial Statements

For the year ended 31 December 2004

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China Advance Holdings Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(P) RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. TURNOVER AND REVENUE

Turnover represents the value of services provided and net invoiced value of goods sold.

An analysis of the Group's turnover and other revenue are as follows:

	2004 HK\$	2003 HK\$
Turnover:		
Game-On-Demand service income	68,262	342,062
MMOG service income	516,470	476,728
Online Arcade Game machine income	289,266	2,950,170
Sales of goods	6,164,484	–
	<u>7,038,482</u>	<u>3,768,960</u>
Other revenue:		
Interest income	2,085	9,613
Others	221,839	214,255
	<u>223,924</u>	<u>223,868</u>
Total Revenue	<u>7,262,406</u>	<u>3,992,828</u>

Notes to the Financial Statements

For the year ended 31 December 2004

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Annual Report 2004

4. SEGMENT REPORTING

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- Game-On-Demand services
- MMOG services
- Sales of Online Arcade Game Machines
- Sales of FRP pipe, raw materials and composite materials (collectively as the "Composite Materials")

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There was no intersegment sale and transfer during the year (2003: Nil).

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENT REPORTING (Continued)

(A) BUSINESS SEGMENT

	Game-On-Demand services		MMOG services		Sales of the Online Arcade Game machines		Sales of the Composite Materials		Total	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Revenue from external customers	68,262	342,062	516,470	476,728	289,266	2,950,170	6,164,484	-	7,038,482	3,768,960
Cost of services provided	(182,645)	(287,473)	(475,986)	(400,647)	(92,771)	(1,698,732)	-	-	(751,402)	(2,386,852)
Cost of inventories sold	-	-	-	-	-	(1,358,008)	(5,593,733)	-	(5,593,733)	(1,358,008)
Other operating expenses	(488,306)	(955,177)	(3,694,521)	(1,331,220)	(2,069,238)	(7,660,702)	(127,756)	-	(6,379,821)	(9,947,099)
Loss from operating activities	(602,689)	(900,588)	(3,654,037)	(1,255,139)	(1,872,743)	(7,767,272)	442,995	-	(5,686,474)	(9,922,999)
Other revenue									223,924	223,868
Finance cost									(11,457)	(121,731)
Loss before taxation									(5,474,007)	(9,820,862)
Taxation									(195,444)	106,562
Loss attributable to shareholders									(5,669,451)	(9,714,300)
Depreciation for the year									601,464	671,408
Segment assets	-	-	-	-	-	-	1,628,224	-	1,628,224	-
Unallocated assets									6,607,010	3,531,037
Total assets									8,235,234	3,531,037
Segment liabilities	-	-	-	-	-	-	(400,054)	-	(400,054)	-
Unallocated liabilities									(3,619,311)	(5,955,139)
Total liabilities									(4,019,365)	(5,955,139)
Capital expenditure	-	-	-	-	-	-	12,285	-	12,285	-
Unallocated capital expenditures									926,450	219,740
Total capital expenditures									938,735	219,740

Notes to the Financial Statements

For the year ended 31 December 2004

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Annual Report 2004

4. SEGMENT REPORTING (Continued)

(B) GEOGRAPHICAL SEGMENT

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		The PRC		Consolidated	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Segment revenue:						
Revenue from external customers	873,998	3,768,960	6,164,484	–	7,038,482	3,768,960
Other segment information:						
Segment assets	1,510,029	3,531,037	6,725,205	–	8,235,234	3,531,037
Capital expenditure	454,696	219,740	484,039	–	938,735	219,740

5. LOSS FROM OPERATIONS

	2004 HK\$	2003 HK\$
Loss from operations is arrived at after charging:		
Cost of goods sold	5,593,733	1,358,008
Cost of services provided	751,402	2,386,852
Operating lease charges on land and buildings	571,786	450,791
Auditors' remuneration	262,381	261,905
Depreciation	601,464	671,408
Staff costs, including directors' emoluments (note 10)	2,070,027	3,622,561
Contribution to retirement benefit scheme*	87,198	177,424
Loss on disposal of property, plant and equipment	481,180	183,445
Net exchange loss/(gain)	2,639	(13,420)
and crediting:		
Interest income	2,085	9,613

* Contribution to retirement benefit scheme for the year is included in "staff costs" above.

Notes to the Financial Statements

For the year ended 31 December 2004

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China Advance Holdings Limited

6. FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest charges on loans from immediate holding company	<u>11,457</u>	<u>121,731</u>

7. TAXATION

The amount of tax charged/(credited) to the income statement represents:

	2004 HK\$	2003 HK\$
Current tax		
Hong Kong profits tax	–	–
Overseas taxation	<u>168,803</u>	<u>–</u>
	<u>168,803</u>	<u>–</u>
Deferred tax (note 17)		
Current year	<u>26,641</u>	(7,701)
Over provision in prior years	–	(107,335)
Attributable to increase in tax rate	–	<u>8,474</u>
	<u>26,641</u>	<u>(106,562)</u>
	<u>195,444</u>	<u>(106,562)</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil).

During the year, taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdiction in which the Group operates. No provision for overseas profits tax was made in last year as the subsidiaries operating outside Hong Kong did not generate any assessable profits in last year.

Notes to the Financial Statements

For the year ended 31 December 2004

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7. TAXATION (Continued)

The Group has tax losses arising in Hong Kong of approximately HK\$33,925,728 (2003: HK\$30,012,528) and overseas of approximately HK\$552,802 (2003: Nil) that are available for offsetting against future taxable profits of the companies in which the losses arose indefinitely and for 5 years, respectively. Deferred tax assets have not been recognised in respect of these losses as they have been arisen in subsidiaries that have loss-making for some time.

Reconciliation between tax expense and accounting loss at applicable tax rates:

	2004	2003
	HK\$	HK\$
Loss before taxation	(5,474,007)	(9,820,862)
Tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	(852,047)	(1,659,664)
Tax effect of non-deductible expenses	385,948	399,689
Tax effect of non-taxable revenue	(128,978)	(1,665)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	8,474
Tax effect of tax losses not recognised	790,521	1,146,604
Total taxation	195,444	(106,562)

8. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2004 is based on the loss attributable to shareholders of HK\$5,669,451 (2003: HK\$9,714,300) and the weighted average number of 521,181,808 (2003: 440,000,000) ordinary shares in issue during the year.

No diluted loss per share is presented for both years as the share options had an anti-dilutive effect on the basic loss per share.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$17,294,372 (2003: HK\$9,299,532) which has been dealt with in the financial statements of the Company for the year ended 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") is as follows:

	2004	2003
	HK\$	HK\$
Fees		
Executive directors	216,667	–
Non-executive directors	–	–
Independent non-executive directors	321,657	–
	<hr/>	<hr/>
	538,324	–
	<hr/>	<hr/>
Other emoluments of executive directors		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	100,000	11,613
Retirement costs	5,000	387
	<hr/>	<hr/>
	105,000	12,000
	<hr/>	<hr/>

No emoluments were paid to the non-executive directors for both years.

Four (2003: None) independent non-executive directors received individual emoluments of approximately HK\$100,000, HK\$100,000, HK\$90,657 and HK\$31,000, respectively, during the year.

Two executive directors received individual emoluments of approximately HK\$105,000 (2003: Nil) and HK\$216,667 (2003: Nil) during the year. During the year ended 31 December 2003, one executive director received individual emoluments of approximately HK\$12,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

No share options have been granted to directors of the Company to subscribe for ordinary shares of the Company for both years. Further details of the share options granted to the directors are set out in note 18.

Notes to the Financial Statements

For the year ended 31 December 2004

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11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include one director (2003: None), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2003: five) highest paid individuals are as follows:

	2004	2003
	HK\$	HK\$
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	973,631	2,521,416
Retirement costs	25,347	56,828
	<u>998,978</u>	<u>2,578,244</u>

The emoluments paid to the five highest paid individuals are within the following bands:

	2004	2003
	Number of	Number of
	Individuals	individuals
HK\$Nil to HK\$1,000,000	5	4
HK\$1,000,001 to HK\$1,500,000	–	1
	<u>5</u>	<u>5</u>

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2003: Nil).

No share options have been granted to any of the five highest paid individuals of the Company to subscribe for ordinary shares of the Company for both years.

Notes to the Financial Statements

For the year ended 31 December 2004

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China Advance Holdings Limited

12. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Total
	HK\$	HK\$	HK\$	HK\$
Cost				
At 1 January 2004	597,889	1,066,677	426,287	2,090,853
Additions	635,489	256,083	47,163	938,735
Disposals	(597,889)	(584,064)	(363,396)	(1,545,349)
	<u>635,489</u>	<u>738,696</u>	<u>110,054</u>	<u>1,484,239</u>
At 31 December 2004	635,489	738,696	110,054	1,484,239
Accumulated depreciation				
At 1 January 2004	404,671	408,998	221,857	1,035,526
Charge for the year	408,143	145,829	47,492	601,464
Written back on disposal	(570,231)	(199,957)	(234,481)	(1,004,669)
	<u>242,583</u>	<u>354,870</u>	<u>34,868</u>	<u>632,321</u>
At 31 December 2004	242,583	354,870	34,868	632,321
Net book value				
At 31 December 2004	392,906	383,826	75,186	851,918
At 31 December 2003	<u>193,218</u>	<u>657,679</u>	<u>204,430</u>	<u>1,055,327</u>

Notes to the Financial Statements

For the year ended 31 December 2004

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13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$	2003 HK\$
Unlisted investments, at cost	6,781,403	6,781,403
Less: Impairment loss	(6,781,403)	(6,781,403)
	<u> </u>	<u> </u>
	–	–
	<u> </u>	<u> </u>
Amounts due from subsidiaries	31,199,401	20,957,318
Less: Provision for amounts due from subsidiaries	(30,224,401)	(14,152,192)
	<u> </u>	<u> </u>
	975,000	6,805,126
	<u> </u>	<u> </u>
Amounts due to subsidiaries	(1,766,567)	(1,766,565)
	<u> </u>	<u> </u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries as at 31 December 2004 are as follows:

Name	Place of incorporation and operation	Particulars of issued capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
e-gameasia.com Limited	British Virgin Islands ("BVI")	10,279,450 ordinary shares of HK\$1 each	100%	–	Investment holding
Billybala iGame Limited	Hong Kong	7 ordinary shares of HK\$1 each	–	100%	Provision of Internet game platform licensing and Game-On-Demand services
Billybala Software (BVI) Limited	BVI	1 ordinary share of US\$0.01 each	100%	–	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2004

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China Advance Holdings Limited

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operation	Particulars of issued capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
BBW Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	–	Sales and development of online arcade games machines
宜昌富連江复合材料有限公司 (Note)	PRC	HK\$5,380,000	–	100%	Trading of merchandise

Note:

宜昌富連江复合材料有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 10 years up to June 2014.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The aging of the Group's trade receivables is analysed as follows:

	Group	
	2004 HK\$	2003 HK\$
Within 30 days	68,067	291,778
31 – 60 days	645,709	225,519
61 – 90 days	11,550	784,357
	725,326	1,301,654

Notes to the Financial Statements

For the year ended 31 December 2004

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15. TRADE PAYABLES

The aging of the Groups' trade payables is analysed as follows:

	Group	
	2004 HK\$	2003 HK\$
31– 60 days	<u>396,761</u>	<u>–</u>

16. LOANS FROM HOLDING COMPANIES

During the year, on 19 January 2004, Future Advance has entered into a share and shareholders' loan sale agreement (the "Agreement") with Romson Limited ("Romson"), the immediate holding company of the Company as at 31 December 2003, as detailed in the Company's announcement dated 30 January 2004 (the "Announcement").

Pursuant to the Agreement, Future Advance agreed to purchase an aggregate of 313,597,030 ordinary shares of the Company from the Vendors (as defined in the Announcement). Upon the completion of the Agreement, Future Advance became the ultimate holding company of the Company. In addition, Future Advance also agreed to acquire from Romson the shareholders' loan at a consideration equivalent to the face value of the shareholders' loan as at the date of completion of the Agreement.

As at 31 December 2003, the loans from Romson amounted to HK\$3,029,513 were unsecured, interest bearing at rates ranging from prime rate plus 1% to 5% per annum and not repayable within one year from their dates of drawing of 21 March 2003 and 30 December 2003.

The loans from Future Advance, which were purchased from Romson as mentioned above, were unsecured, interest-free and not repayable within the next 12 months from the balance sheet date. Accordingly, the loans were classified under non-current liabilities as at 31 December 2004.

Notes to the Financial Statements

17. DEFERRED TAXATION

The movements in deferred tax assets and liabilities during the year is as follows:

GROUP

	Accelerated tax depreciation	
	2004 HK\$	2003 HK\$
Deferred tax assets		
At 1 January	(26,641)	–
Charged/(credited) to income statement	26,641	(26,641)
At 31 December	–	(26,641)

GROUP

	Accelerated tax depreciation		Tax losses		Total	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Deferred tax liabilities						
At 1 January	31,177	–	(12,237)	–	18,940	–
Charged/(credited) to income statement	(12,237)	31,177	12,237	(12,237)	–	18,940
At 31 December	18,940	31,177	–	(12,237)	18,940	18,940

Notes to the Financial Statements

For the year ended 31 December 2004

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18. SHARE CAPITAL

	2004		2003	
	Number of shares	HK\$	Number of shares	HK\$
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 1 January	440,000,000	2,200,000	440,000,000	2,200,000
Issue of shares	151,360,000	756,800	–	–
At 31 December	591,360,000	2,956,800	440,000,000	2,200,000

On 18 May 2004, 88,000,000 ordinary shares of HK\$0.005 each in the issued share capital of the Company were issued to six independent third parties, who are independent of each other and are not connected persons of the Company, for cash at a premium of HK\$0.081 per share. The issued share capital was then increased from HK\$2,200,000 to HK\$2,640,000.

On 3 August 2004, the issued share capital of the Company was increased from HK\$2,640,000 to HK\$2,956,800 by the issue of 63,360,000 ordinary shares of HK\$0.005 each for cash at a premium of HK\$0.073 per share to four independent third parties, who are independent of each other and are not connected persons of the Company.

The reason for the issues was to raise additional funds for the Group's general working capital and future investment purposes, while strengthening its financial position, and broadening the capital base of the Company.

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 is 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.

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For the year ended 31 December 2004

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China Advance Holdings Limited

18. SHARE CAPITAL *(Continued)*

SHARE OPTIONS *(Continued)*

- (i) 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.

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 5 former executive directors and 2 former non-executive directors to subscribe for a total of 33,440,000 shares, representing in aggregate approximately 5.7% of the issued share capital of the Company. No further options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the 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 the grant of the options. Each grantee has paid HK\$1 to the Company as consideration for such grant.

As at 31 December 2003, 33,440,000 pre-IPO share options were outstanding.

During the year, Future Advance has made an offer for all outstanding share options under Rule 13 of the Hong Kong Code on Takeovers and Mergers as Future Advance was interested in approximately 71.27% of the then issued share capital of the Company immediately following the completion of the Agreement.

Valid acceptances in respect of 33,440,000 options, which represented all the outstanding options of the Company, under the option offer were received at the close of the offer period on 17 March 2004. All the options tendered were then cancelled and extinguished. Accordingly, no share options were outstanding under the Pre-Scheme as at 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

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18. SHARE CAPITAL *(Continued)*

SHARE OPTIONS *(Continued)*

- (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 options to selected persons as incentives or rewards for their contribution to the Group. 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 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 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 an 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 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, within 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 within 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 of directors and in any event no later than 10 years from the date of the grant of the options.

No share options were granted by the Company under the Post-Scheme up to the date of approval of these financial statements.

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

Notes to the Financial Statements

For the year ended 31 December 2004

19. RESERVES

GROUP

	Share premium account (note (a)) HK\$	Statutory surplus reserve (note (b)) HK\$	Statutory Public welfare reserve (note (c)) HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2003	33,527,560	–	–	(28,437,362)	5,090,198
Loss for the year	–	–	–	(9,714,300)	(9,714,300)
At 31 December 2003 and 1 January 2004	33,527,560	–	–	(38,151,662)	(4,624,102)
Loss for the year	–	–	–	(5,669,451)	(5,669,451)
Transfer to capital reserves	–	34,272	17,136	(51,408)	–
Premium on issue of shares	11,753,280	–	–	–	11,753,280
Share issue expenses	(200,658)	–	–	–	(200,658)
At 31 December 2004	45,080,182	34,272	17,136	(43,872,521)	1,259,069

Notes to the Financial Statements

For the year ended 31 December 2004

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19. RESERVES (Continued)

COMPANY

	Share premium account <i>(note (d))</i> HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2003	20,640,063	(12,434,444)	8,205,619
Net loss for the year	–	(9,299,532)	(9,299,532)
At 31 December 2003 and 1 January 2004	20,640,063	(21,733,976)	(1,093,913)
Premium on issue of shares	11,753,280	–	11,753,280
Share issue expenses	(200,658)	–	(200,658)
Net loss for the year	–	(17,294,372)	(17,294,372)
At 31 December 2004	<u>32,192,685</u>	<u>(39,028,348)</u>	<u>(6,835,663)</u>

- (a) The share premium account of the Group includes: (i) the premium arising from issue of shares of the Company at a premium; and (ii) the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange over the nominal value of the shares of the Company issued in exchange therefor.
- (b) Subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.
- (c) Subsidiaries of the Company established in the PRC are required to transfer 5% to 10% of their profit after tax calculated in accordance with PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution, except upon liquidation of the subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2004

19. RESERVES (Continued)

- (d) The share premium account of the Company includes: (i) the premium arising from issue of shares of the Company at a premium; and (ii) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

20. OPERATING LEASE COMMITMENTS

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

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

	Group	
	2004	2003
	HK\$	HK\$
Within one year	468,477	238,656
In the second to fifth years	547,272	–
	1,015,749	238,656

The Company did not have any significant operating lease arrangements as at the balance sheet date (2003: Nil).

Notes to the Financial Statements

For the year ended 31 December 2004

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21. RELATED PARTY TRANSACTIONS

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

	Notes	2004 HK\$	2003 HK\$
Service income from Game-On-Demand services	(i)	<u>3,325</u>	<u>121,660</u>
Commission paid in respect of Online Arcade Game machines	(ii)	<u>53,732</u>	<u>581,602</u>
Sales of property, plant and equipment	(iii)	<u>50,000</u>	<u>—</u>

Notes:

- (i) The Company and certain related companies have jointly provided the Game-On-Demand services and the revenue derived from the provision of services have been shared with the related companies under the agreed sharing ratios ranging from 45% to 50%. The amount represented the shared revenue of the Company.
- (ii) One of the wholly-owned subsidiaries of the Company has appointed Golden Globe Industries Limited ("Golden Globe") as its non-exclusive agent for the promotion and distribution of its Online Arcade Game machines in Hong Kong and Macau. The amount represented commission paid to Golden Globe based on the sale and installation of Online Arcade Game machines to Arcade game centres in Hong Kong and Macau.
- (iii) During the year, certain property, plant and equipment were sold at an aggregate consideration of HK\$50,000 (2003: Nil) to Golden Globe. The consideration was mutually negotiated between the Group and Golden Globe.
- (iv) Mr. Leung Wai Keung, a former director of the Company, is also the director of the above related companies and Golden Globe.
- (v) The directors are of the opinion that these transactions were conducted on normal commercial terms in the normal course of business at prices and terms not less than those charged to or contracted with other third parties.

Notes to the Financial Statements

For the year ended 31 December 2004

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22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

During the year, Future Advance agreed to acquire from Romson the shareholders' loan amounted to HK\$3,029,513 at a consideration equivalent to the face value of the shareholders' loan. Further details of the acquisition of the shareholders' loan are included in note 16 above.

23. POST BALANCE SHEET EVENT

On 21 January 2005, a wholly-owned subsidiary of the Company entered into a conditional agreement with an independent third party in respect of a proposed acquisition of a piece of land in the PRC (the "Proposed Acquisition").

The Proposed Acquisition constitutes a very substantial acquisition under the GEM Listing Rules. It is proposed that the Proposed Acquisition will be funded by the rights issue (the "Rights Issue") intended to be underwritten by Future Advance. Up to the date of this financial statement, the Company and Future Advance are still finalising the terms of the Rights Issue. Further announcement regarding the Proposed Acquisition and the Rights Issue will be issued when the terms of the Rights Issue are finalised.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on page 22 to page 54 were approved by the board of directors on 22 March 2005.

Five Year Financial Summary

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The following is a summary of the consolidated results and of the assets and liabilities of China Advance Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), prepared on the basis set out in note 1 below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December 2004 HK\$	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Year ended 31 December 2001 HK\$	Period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 HK\$
Turnover	7,038,482	3,768,960	210,597	228,189	–
Other revenue	223,924	223,868	244,586	65,813	58,634
Operating expenses	(12,724,956)	(13,691,959)	(13,213,335)	(9,983,589)	(5,949,396)
Loss from operating activities	(5,462,550)	(9,699,131)	(12,758,152)	(9,689,587)	(5,890,762)
Finance costs	(11,457)	(121,731)	–	–	–
Loss before taxation	(5,474,007)	(9,820,862)	(12,758,152)	(9,689,587)	(5,890,762)
Taxation	(195,444)	106,562	–	–	–
Loss attributable to shareholders	(5,669,451)	(9,714,300)	(12,758,152)	(9,689,587)	(5,890,762)

Five Year Financial Summary

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China Advance Holdings Limited

ASSETS AND LIABILITIES

		31 December			
	2004	2003	2002	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$
Total assets	8,235,234	3,531,037	9,296,241	23,579,191	5,358,251
Total liabilities	<u>(4,019,365)</u>	<u>(5,955,139)</u>	<u>(2,006,043)</u>	<u>(3,431,832)</u>	<u>(1,249,013)</u>
	<u>4,215,869</u>	<u>(2,424,102)</u>	<u>7,290,198</u>	<u>20,147,359</u>	<u>4,109,238</u>

Note:

1. The summary of the consolidated results of the Group for the period from 18 May 2000 (pro forma formation date of the Group) to 31 December 2000 has been extracted from the Company's prospectus dated 6 December 2001. Such summary was prepared based on the financial statements of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial period, or from their respective dates of incorporation, where this is a shorter period.