

Third Quarterly Report 2005



China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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This report, for which the directors of CHINA ADVANCE HOLDINGS LIMITED (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to CHINA ADVANCE HOLDINGS LIMITED. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material 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.

HIGHLIGHTS

Turnover for the nine months ended 30 September 2005 was approximately HK\$12,284,000, representing an increase of approximately 77% from the corresponding period.

Profit attributable to shareholders for the period under review amounted to approximately HK\$24,645,000.

The directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2005.

UNAUDITED THIRD QUARTERLY RESULTS

The board of directors (the “Board”) of China Advance Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2005 together with the comparative figures for the corresponding periods as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2005	2004	2005	2004
		HK\$	HK\$	HK\$	HK\$
Turnover	2	269,682	4,505,879	12,283,856	6,954,522
Other revenue	2	27,993,570	74,984	28,011,149	76,207
Cost of inventories sold		(124,810)	(3,896,966)	(11,858,101)	(5,661,642)
Staff costs, including directors’ remuneration		(464,728)	(440,460)	(1,284,820)	(1,572,225)
Depreciation and amortisation		(224,653)	(180,168)	(558,845)	(465,664)
Royalties for game contents		(28,298)	(103,954)	(159,874)	(393,858)
Research and development costs		-	-	-	(103,000)
Marketing and promotion expenses		-	(5,000)	-	(466,822)
Other operating expenses		(536,164)	(670,611)	(1,666,689)	(2,618,954)
Profit/(loss) from operations		26,884,599	(716,296)	24,766,676	(4,251,436)
Finance costs	3	(7,809)	-	(115,945)	(11,457)
Profit/(loss) before taxation		26,876,790	(716,296)	24,650,731	(4,262,893)
Taxation	4	-	(147,205)	(5,877)	(171,161)
Profit/(loss) attributable to shareholders		26,876,790	(863,501)	24,644,854	(4,434,054)
Dividends	5	-	-	-	-
Earnings/(loss) per share	6				
Basic (HK cents)		11.36	(0.71)	13.79	(4.17)
Diluted (HK cents)		N/A	N/A	N/A	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and principal accounting policies

Basic of presentation

The Company was incorporated in the Cayman Islands, as an exempted company which with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001.

Principal accounting policies

The condensed consolidated results have been prepared on the historical cost convention.

The accounting policies adopted in the condensed consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has adopted, for the first time, all applicable new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of these applicable new HKFRSs did not result in substantial changes to the Group's accounting policies, and the adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for the Evaluation of Mineral Resources
HKFRS – Int 4	Determining whether in Arrangement Contains a Lease
HKFRS – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

2. Turnover and other 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:–

	Three months ended 30 September		Nine months ended 30 September	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Turnover				
Trading income	232,607	4,366,217	12,086,621	6,239,959
Game-on-demand services income	75	31,828	147	69,877
MMOG services income	37,000	107,834	197,088	644,686
	<u>269,682</u>	<u>4,505,879</u>	<u>12,283,856</u>	<u>6,954,522</u>
Other revenue				
Interest income	2,296	908	19,476	908
Government subsidy	27,991,274	–	27,991,274	–
Others	–	74,076	399	75,299
	<u>27,993,570</u>	<u>74,984</u>	<u>28,011,149</u>	<u>76,207</u>
Total revenue	<u>28,263,252</u>	<u>4,580,863</u>	<u>40,295,005</u>	<u>7,030,729</u>

3. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Interest charges on loans from immediate holding company	–	–	–	11,457
Interest charges on loans from ultimate holding company	7,809	–	115,945	–
	<u>7,809</u>	<u>–</u>	<u>115,945</u>	<u>11,457</u>

4. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided as the Group did not generate any assessable profits in those jurisdictions during the three months and nine months ended 30 September 2005 (three months and nine months ended 30 September 2004: Nil).

The People's Republic of China (the "PRC") profits tax of HK\$5,877 under-provided previously has been provided during the nine months ended 30 September 2005 (provision for the PRC profits tax for three months and nine months ended 30 September 2004: HK\$147,205 and HK\$171,161).

5. Dividends

The Directors do not recommend the payment of any interim dividend in respect of the three months and nine months ended 30 September 2005 (three months and nine months ended 30 September 2004: Nil).

6. Earnings/(loss) per share

Pursuant to a resolution passed at the extraordinary general meeting held on 3 May 2005, every five of the authorised, issued and unissued ordinary shares of HK\$0.005 each in the share capital of the Company were consolidated into one share of HK\$0.025 each.

The weighted average number of ordinary shares in 2004 for the purposes of calculating the basic earnings/(loss) per share have been retrospectively adjusted for the five-to-one share consolidation which took place in May 2005.

The calculation of basic earnings per share for the three months and nine months ended 30 September 2005 is based on the profit attributable to shareholders of HK\$26,876,790 and HK\$24,644,854, respectively (loss attributable to shareholders of three months and nine months ended 30 September 2004: HK\$863,501 and HK\$4,434,054, respectively) and the weighted average number of 236,544,000 and 178,768,539 ordinary shares in issue during the three months and nine months ended 30 September 2005, respectively (three months and nine months ended 30 September 2004: 121,393,571 and 106,214,700 ordinary shares after adjusting for the rights issue and share consolidation in 2005) in issue during the period.

No diluted earnings per share for the three months and nine months ended 30 September 2005 (three months and nine months ended 30 September 2004: Nil) have been presented because the Company has no dilutive potential shares for these period.

7. Capital and reserve

	Share capital HK\$	Share premium account HK\$	Statutory surplus reserve HK\$	Statutory public welfare reserve HK\$	Exchange reserve HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
Balance at							
1 January							
2004	2,200,000	33,527,560	-	-	-	(38,151,662)	(2,424,102)
Loss for the nine months ended							
30 September							
2004	-	-	-	-	-	(4,434,054)	(4,434,054)
Issuance of share capital	756,800	11,753,280	-	-	-	-	12,510,080
Share issue expenses	-	(200,658)	-	-	-	-	(200,658)
Balance at							
30 September							
2004	<u>2,956,800</u>	<u>45,080,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,585,716)</u>	<u>5,451,266</u>
Balance at							
1 January							
2005	2,956,800	45,080,182	34,272	17,136	-	(43,872,521)	4,215,869
Profit for the nine months ended							
30 September							
2005	-	-	-	-	-	24,644,854	24,644,854
Exchange differences on translation of overseas operations	-	-	-	-	861,791	-	861,791
Issuance of share capital	2,956,800	26,611,200	-	-	-	-	29,568,000
Share issue expenses	-	(2,194,683)	-	-	-	-	(2,194,683)
Transfer from capital reserves	-	-	(587)	(294)	-	881	-
Balance at							
30 September							
2005	<u>5,913,600</u>	<u>69,496,699</u>	<u>33,685</u>	<u>16,842</u>	<u>861,791</u>	<u>(19,226,786)</u>	<u>57,095,831</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and future outlook

During the period under review, the Group continued to engage in general trading and the provision of internet game services.

The Group recorded a turnover of approximately HK\$12,284,000 for the nine months ended 30 September 2005, representing an increase of approximately 77% over the corresponding period. The turnover was mainly derived from the trading of Fibre Glass Reinforced Plastic Pipes and raw materials in China.

The construction work of the manufacturing plant in Yichang was basically completed during the period under review and the production was initiated afterwards. The focus point of the management team in Yichang was then on the daily operation of the plant, especially the quality control section and the efficiency of the production teams in the production floor, and the marketing team will be reinforced because of exploration other sale channels. The Board was now closely monitoring the efficiency and effectiveness of the management team in the running the plant in Yichang and will prudently provide some extra resources once there is a need. Any research and development of new products and production of any products will be considered only if it is worthy and will be promptly benefit to the Group, since it was the Board's practice to prudently use the resources of the Group.

Financial review

The unaudited profit attributable to shareholders for the nine months under review was approximately HK\$24,645,000 but it was a loss of approximately HK\$4,434,000 in the corresponding period in the previous year. This great improvement was mainly contributed from the recognizing the government subsidy of approximately RMB29,391,000 (equivalent to approximately HK\$28 million) granted from The Management Committee of Yichang High-Tech Industry Development Zone (宜昌高新技術產業開發區管委會). In addition, the stringent cost control and the thin and effective overhead structure also play an important role on that. The Group will continue to manage its expense base while prudently using corporate resources to penetrate new markets and complete the project in Yichang.

Liquidity and financial resources

On 18 August 2005, Warrant Placing Agreement was entered into between the Company and a Subscriber in relation to a private placing of 23,654,400 Non-Listed Warrants (hereinafter referred as “Warrants”) at an issue price of HK\$0.02 per Warrant, the Warrants entitle Subscriber to subscribe for New Shares of the Company at an initial exercise price of HK\$0.32 per New Share for a period of two years commencing from the date of issue of the Warrants. The net proceeds from the Warrants placing was approximately of HK\$350,000 which will be applied as general working of the Group. Details of these are stated in our announcements dated 18 August 2005 and 23 September 2005. The Warrants Placing was completed on 4 October 2005. Except for that, the Company has no other funds raising activities during the period under review.

With the funds raised previously and the internal resources of the Company, as at 30 September 2005, the Group have cash approximately of HK\$5,492,000, the Directors anticipate that the Group have adequate financial resources to meet its ongoing operations and development.

The Directors will still consider further fund raising activities if it is in the interest of the Group and there is a needs.

Directors’ and Chief Executives’ interests and short positions in the shares, underlying shares and debentures

As at 30 September 2005, the following Directors and the chief executive of the Company had interests and/or short positions in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Future Ordinance (“SFO”), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the GEM

Listing Rules relating to securities transactions by directors of listed companies to be notified to the Company and the Stock Exchange:

Long position in the Shares:

Name of the Director	Nature of interests <i>(Note)</i>	Number of the Shares held	Approximate percentage of issued share capital <i>(%)</i>
Mr. Lang Fulai	Corporate	128,809,723	54.5%
Mr. Yu Hongzhi	Corporate	128,809,723	54.5%

Notes:

These Shares are held by Future Advance Holdings Limited (the "Future Advance"). Mr. Lang Fulai is beneficially interested in 50% of the entire issued share capital of Future Advance. 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. The remaining 12.5% of the entire issued share capital of Future Advance is beneficially owned by Ms. Ma Zheng.

Save as disclosed above, as at 30 September 2005, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the GEM Listing Rules relating to securities transactions by directors of listed companies to be notified to the Company and the Stock Exchange.

Interests and short position of substantial shareholders

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 September 2005, the Company had been notified of the following substantial shareholders' interests and short position, being 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. These interests are in addition to those disclosed above in respect of the Directors and chief executives:

Long position in the Shares:

Name of the Shareholder	Nature of interests	Number of the Shares held	Approximate percentage of issued share capital (%)
Future Advance Holdings Limited	Beneficial	128,809,723	54.5%
China Zong Heng Holdings Limited	Corporate (<i>Note</i>)	128,809,723	54.5%

Notes:

These Shares are held by Future Advance Holdings Limited (the "Future Advance"). Mr. Lang Fulai is beneficially interested in 50% of the entire issued share capital of Future Advance. 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. The remaining 12.5% of the entire issued share capital of Future Advance is beneficially owned by Ms. Ma Zheng.

Save as disclosed above, as at 30 September 2005, the Directors are not aware of any other person (other than director or chief executive of the Company) 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

As at 17 March 2004, the Company had forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, which means that all the outstanding share options were cancelled and extinguished. For further details of these, please refer to our announcement dated 17 March 2004. As at 30 September 2005, there are no share options outstanding under the Pre-Scheme.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the "Post-Scheme") was also approved by the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the terms of the Post-Scheme, the Board may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. No share options were granted by the Company under the Post-Scheme up to the date of approval of this report.

The Post-Scheme was amended and adopted by the shareholders in the annual general meeting of the Company held on 16 April 2003. The definition of eligible person in the Post-Scheme was extended to any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group.

Save as disclosed above, and other than in connection with the Group Reorganisation in preparation for the Company's placing, at no time since its incorporation was the Company, any of its holding companies or subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Competition and conflict of interests

As at 30 September 2005, none of the Directors, management shareholders, substantial shareholders and their respective associates compete or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

Audit committee

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Zhang Hongru and Mr. Liu Weichang who are the independent non-executive Directors of the Company. The Group's unaudited results for the three months and nine months ended 30 September 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complies with applicable accounting standards and requirements, and adequate disclosures have been made.

Purchase, redemption or sale of listed securities

The Company's shares were listed on the GEM on 13 December 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 30 September 2005.

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

Hong Kong, 10 November 2005

As at the date of this report, the Board comprises Mr. YU Hongzhi, Mr. LANG Fulai, Ms. MA Zheng, and Mr. CHIU Winerthan who are the executive directors, Mr. WAN Tze Fan Terence, Mr. ZHANG Hongru and Mr. LIU Weichang who are the independent non-executive directors.