

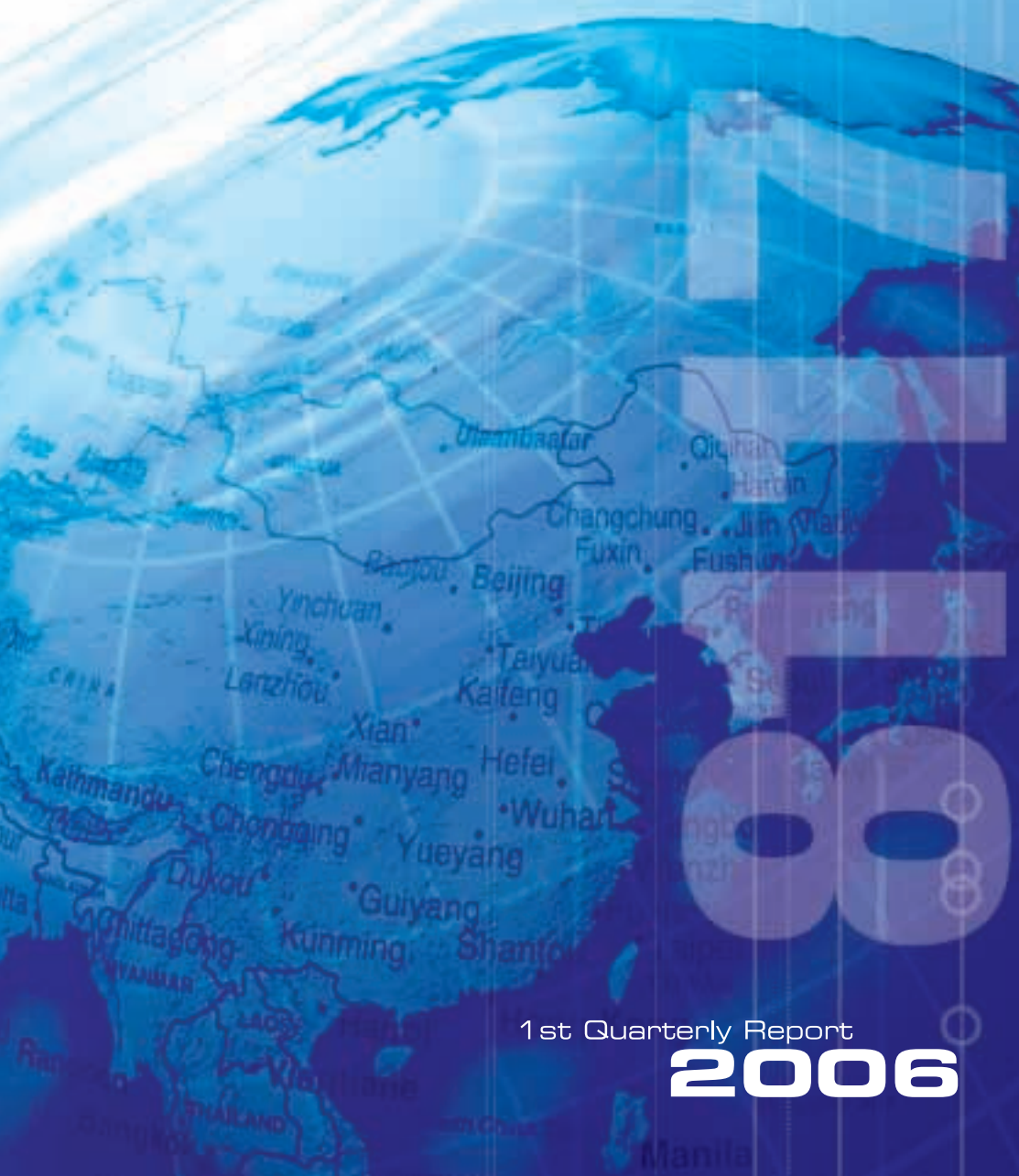


中國宏達控股有限公司

CHINA ADVANCE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8117)



1st Quarterly Report

2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 announcements 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 “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 three months ended 31 March 2006 was approximately HK\$13,555,000, representing an increase of approximately 132 fold over the corresponding period.

Profit attributable to shareholders for the same period amounted to approximately HK\$564,000 while it was loss of approximately HK\$941,000 in the corresponding period.

The directors do not recommend the payment of any interim dividend for the three months ended 31 March 2006.

UNAUDITED RESULTS

The board of Directors (the “Board”) of China Advance Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2006 together with the comparative figures for the corresponding period as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 31 March	
		2006	2005
		HK\$	HK\$
Turnover	2	13,554,661	101,788
Other revenue	2	3,828	12,038
Cost of trading merchandise sold		(11,182,233)	–
Staff costs, including directors’ remuneration		(606,261)	(369,285)
Depreciation and amortisation		(341,712)	(136,642)
Royalties for game contents		(14,567)	(81,251)
Other operating expenses		(810,456)	(467,774)
Operating profit/(loss)		603,260	(941,126)
Finance costs	3	(39,118)	–
Profit/(loss) before taxation		564,142	(941,126)
Taxation	4	–	–
Profit/(loss) attributable to shareholders		<u>564,142</u>	<u>(941,126)</u>
Dividends	5	<u>–</u>	<u>–</u>
Profit/(loss) per share	6		
Basic		<u>HK0.22 cents</u>	<u>(HK0.16 cents)</u>
Diluted		<u>HK0.21 cents</u>	<u>N/A</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and principal accounting policies

Basis 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 financial statements 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. The financial statements are prepared under the historical cost convention.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the period ended 31 March 2006. All material intercompany transactions and balances within the Group are eliminated on consolidation.

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 2005.

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:

	For the three months ended 31 March	
	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Turnover		
Game-on-demand services income	27	33
MMOG services income	<u>19,131</u>	<u>101,755</u>
Provision of services	19,158	101,788
Sales of Composite Materials	<u>13,535,503</u>	<u>–</u>
	<u>13,554,661</u>	<u>101,788</u>
Other revenue		
Interest income	3,828	11,838
Others	<u>–</u>	<u>200</u>
	<u>3,828</u>	<u>12,038</u>
Total revenue	<u>13,558,489</u>	<u>113,826</u>

3. Finance costs

	Three months ended 31 March	
	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Interest charges on loans from ultimate holding company	<u>39,118</u>	<u>–</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 ended 31 March 2006 (three months ended 31 March 2005: Nil).

No PRC profits tax has been provided as the subsidiary companies in PRC were either entitled to an exemption from PRC state and local corporate income tax or did not generate any assessable profits in the PRC during the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

5. Dividends

The Directors do not recommend the payment of any interim dividend in respect of the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

6. Profit/(loss) per share

The calculations of the basic and diluted profit/(loss) per share are based on the following:

	Three months ended 31 March	
	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)
Profit/(loss) for the year for the purposes of calculating basic and diluted profit/(loss) per share	<u>564,142</u>	<u>(941,126)</u>
Weighted average number of shares for the purposes of calculating basic profit/(loss) per share	259,147,093	<u>591,360,000</u>
Effect of dilutive potential shares relating to outstanding Warrants	<u>12,200,379</u>	
Weighted average number of shares for the purposes of calculating diluted earnings per share	<u>271,347,472</u>	

7. Capital and Reserves

	Share capital	Share premium account	Statutory surplus reserve	Statutory public welfare reserve	Accumulated losses	Warrants reserve	Exchange Translation reserve	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at								
1 January 2005	2,956,800	45,080,182	34,272	17,136	(43,872,521)	-	-	4,215,869
Loss for the three months ended								
31 March 2005	-	-	-	-	(941,126)	-	-	(941,126)
Balance at								
31 March 2005	<u>2,956,800</u>	<u>45,080,182</u>	<u>34,272</u>	<u>17,136</u>	<u>(44,813,647)</u>	<u>-</u>	<u>-</u>	<u>3,274,743</u>
Balance at								
1 January 2006	5,913,600	69,496,699	2,851,081	1,425,540	(24,715,583)	473,088	887,536	56,331,961
Profit for the three months ended								
31 March 2006	-	-	-	-	564,142	-	-	564,142
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(68,655)	(68,655)
Issuance of share capital	1,182,720	13,719,552	-	-	-	-	-	14,902,272
Share issue expenses	-	(91,430)	-	-	-	-	-	(91,430)
Balance at								
31 March 2006	<u>7,096,320</u>	<u>83,124,821</u>	<u>2,851,081</u>	<u>1,425,540</u>	<u>(24,151,441)</u>	<u>473,088</u>	<u>818,881</u>	<u>71,638,290</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and future outlook

During the period under review, the Group continued to engage in the business of general trading and production of Fibre Glass Reinforced Plastic Pipes (“FRP pipes”) in the PRC and provision of internet game services in Hong Kong.

During the period under review, because of the seasonal effect, the turnover was derived mainly from the trading of the composite materials in the PRC. The Group recorded only a turnover of approximately HK\$13,555,000 for the three months ended 31 March 2006, representing an increase of approximately 132 fold over the corresponding period, and profit attributable to shareholders was of approximately HK\$564,000 while it was loss of approximately HK\$941,000 in the last corresponding period.

Looking ahead, the Group will continue to engage in the trading business and production of FRP pipes. However, the attention of the Board will be to ensure the effectiveness of the plant’s operation. On the other hand, as stated in the announcement of the Company dated 21 April 2006, a joint venture company (the “JV Company”) will be established, named Yichang Xin Shougang Precious Metal Mining Limited, in Yichang City, the PRC. The JV Company will be engaged principally in projects relating to mine prospecting and mining of metal and minerals, processing, sale, export and import of mining by-products. The establishment of JV Company is subjected to the shareholders’ approval in the extraordinary general meeting about to be held on June 2006. The development of the JV Company will be the another major task for the Board to handle in the near future.

Financial review

The unaudited profit attributable to shareholders for the three months under review was approximately HK\$564,000. (The unaudited loss attributable to shareholders for the three months ended 31 March 2005: HK\$941,000). The profit was mainly attributable to the trading of the composite materials. On the other hand, the Board will still adopt the stringent cost control and maintain thin and effective overhead structure and prudently utilize the corporate resources to create wealth for the shareholders.

Liquidity and financial resources

With the funds raised previously and the internal resources of the Company, as at 31 March 2006, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations.

Other information

During the period under review, the Company has only one fund raising activity. On 25 January 2006, the Company had raised funds by entering into the subscription agreements with six subscribers (the “Subscribers”) pursuant to which the Subscribers have agreed to subscribe for an aggregate of 47,308,800 shares (“Subscription Shares”) of the Company in cash at the subscription price of HK\$0.315 per Subscription Share. Details of which has been disclosed in the announcement of the Company dated 26 January 2006. This Subscription for Subscription Shares was completed on 16 February 2006. Details of which has been disclosed in the announcement of the Company dated 16 February 2006. The Directors will still consider further fund raising activities if it is in the interest of the Group and there is a needs.

As at 27 April 2006, issuance of a Convertible Bond (the “Convertible Bond”) was completed, the entire amount of the shareholder’s loan of approximately HK\$6,270,066 had been applied to set off against the total subscription price of HK\$6,270,065.60 payable by Future Advance Holdings Limited under the subscription agreement entering into on 24 February 2006 for issuance of the Convertible Bond. Details of these have been disclosed in the announcements of the Company dated 28 February 2006, 7 April 2006 and 27 April 2006, respectively.

Directors’ and chief executives’ interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

At 31 March 2006, the interests and short positions of each director and the chief executive of the Company 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 Part XV of the SFO, or as otherwise notified to the Company, were as follows:

Long position in the ordinary shares of HK\$0.025 each in the Company at 31 March 2006:

Name of director	Number of ordinary shares held				Total	Approximate percentage of interests
	Personal interests	Family interests	Corporate interests (Note)	Other interests		
Mr. Yu Hongzhi	-	-	144,484,887	-	144,484,887	50.9%

Note: These shares are held by Future Advance Holdings Limited (“Future Advance”). Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi), as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, as to 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), as to 13% by 吳用晉 (Wu Yong Jin)[#] and as to the remaining 10% by 陳宗安 (Chen Zong An)[#]. Zhong Nan Mining Group Limited, 陳宗安 (Chen Zong An)[#] and 吳用晉 (Wu Yong Jin)[#] acquired their respective interests in Future Advance on 24 February 2006 pursuant to three separate sale and purchase agreements which was completed on 6 March 2006. Details of which have been disclosed in the announcement of the Company dated 28 February 2006.

Save as disclosed above, as at 31 March 2006, none of the directors and chief executive of the Company had any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of 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 March 2006, the Company had been notified of the following substantial shareholders' interests and short positions, 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 ordinary shares of HK\$0.025 each in the Company:

Name of shareholders	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Future Advance Holdings Limited	Beneficial	144,484,887	50.9%
China Zong Heng Holdings Limited	Corporate	144,484,887 ^(Note 1)	50.9%
胡玉 (Ms. Hu Yu) [#]	Beneficial	23,654,400 ^(Note 2)	8.3%

Notes:

- These shares are held by Future Advance. Future Advance is the only substantial shareholder which is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi), as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, as to 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), as to 13% by 吳用晉 (Wu Yong Jin)[#] and as to the remaining 10% by 陳宗安 (Chen Zong An)[#]. Zhong Nan Mining Group Limited, 陳宗安 (Chen Zong An)[#] and 吳用晉 (Wu Yong Jin)[#] acquired their respective interests in Future Advance on 24 February 2006 pursuant to three separate sale and purchase agreements which was completed on 6 March 2006. Details of which have been disclosed in the announcement of the Company dated 28 February 2006.

2. On 18 August 2005, 胡玉 (Ms. Hu Yu)*, a private investor of the Company, entered into a warrant placing agreement with the Company pursuant to which 胡玉 (Ms. Hu Yu)* is entitled to subscribe for 23,654,400 shares at an initial exercise price of HK\$0.32 per shares (which has been adjusted to HK\$0.31 subsequently pursuant to the terms of the warrant) within a period of two years commencing from the date of issue of the warrants which was 4 October 2005. Details of which have been announced in the announcement of the Company dated 18 August 2005. As at 31 March 2006, Ms. Hu Yu does not yet exercise its right to subscribe for the 23,654,400 shares under the warrants.

Save as disclosed above, as at 31 March 2006, 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 the announcement of the Company dated 17 March 2004. As at 31 March 2006, 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. As at 31 March 2006, no share options were granted by the Company under the Post-Scheme.

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, at no time since its incorporation was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Competition and conflict of interests

As at 31 March 2006, 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. Liu Weichang and Mr. Gao Sheng Yu who are the independent non-executive Directors of the Company. The Group's unaudited results for the three months ended 31 March 2006 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.

Remuneration committee

The remuneration committee of the Company has been established on 1 June 2005. The function of the remuneration committee is to consider and recommend to the Board on the Group's remuneration policy and structure for all remuneration of executive directors and senior management and to review and determine the remuneration packages of the executive directors and senior management. The remuneration committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Gao Sheng Yu who are the independent non-executive Directors of the Company.

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 31 March 2006.

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

Hong Kong, 10 May 2006

For identification purpose only. The English transliteration of the Chinese names in this report are included for information only, and should not be regarded as the official English names of such Chinese names.

As at the date of this report, the Board comprises Mr. YU Hongzhi, Ms. MA Zheng and Mr. CHIU Winerthan who are the executive Directors, Mr. WAN Tze Fan Terence, Mr. LIU Weichang and Mr. GAO Sheng Yu who are the independent non-executive Directors.