

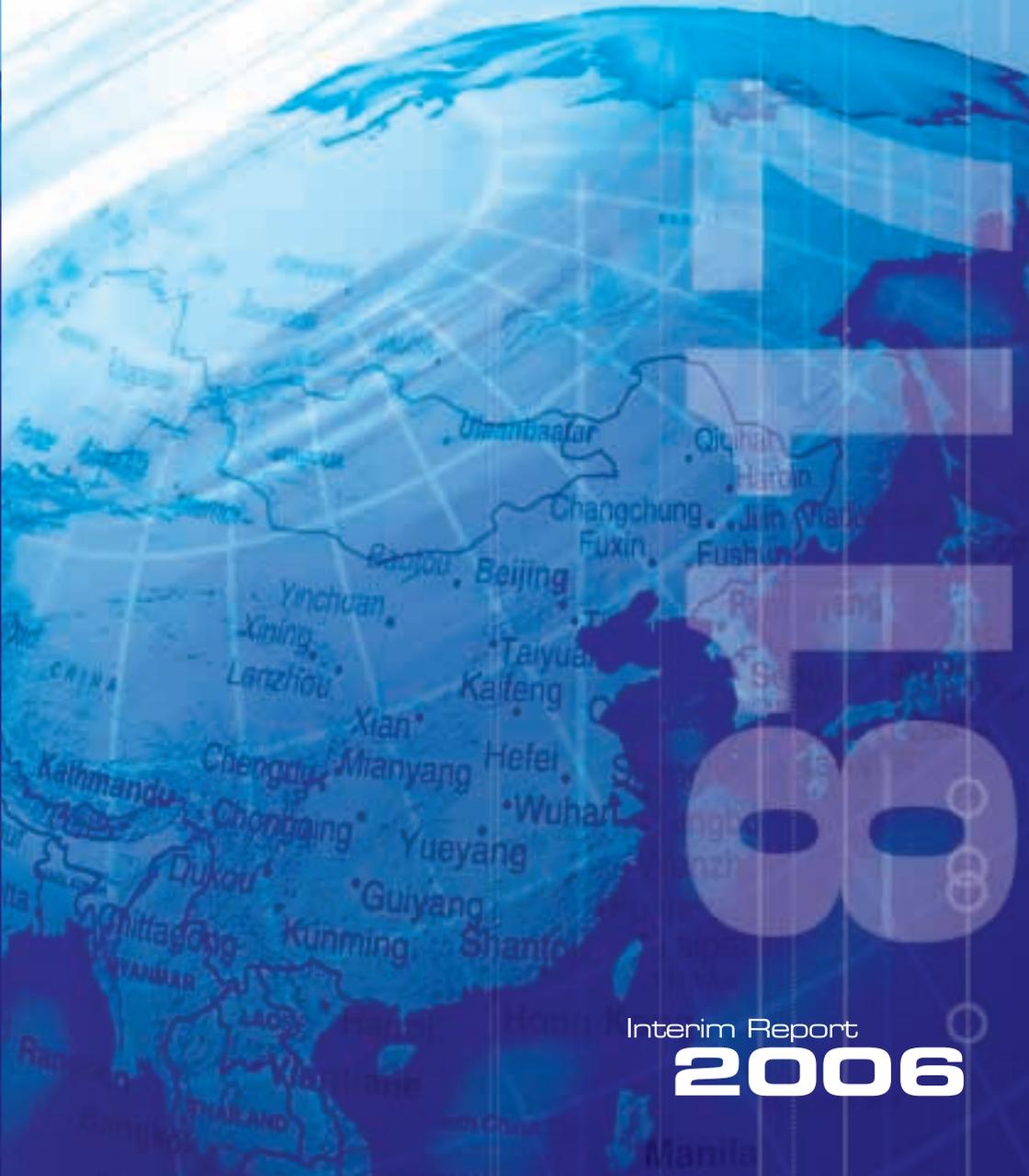


# 中國宏達控股有限公司

CHINA ADVANCE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8117)



Interim Report

# 2006

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

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### ***HIGHLIGHTS***

Turnover for the six months ended 30 June 2006 was approximately HK\$22,136,000, representing an increase of approximately 86% from the corresponding period.

Profit attributable to shareholders for the same period amounted to approximately HK\$119,000, representing an increase of approximately 105% over the corresponding period.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 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 six months ended 30 June 2006 together with the comparative figures as follows. The consolidated interim financial statements of the Group have not been audited but have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2006	2005	2006	2005
		HK\$	HK\$	HK\$	HK\$
Turnover	2	<b>8,581,078</b>	11,800,556	<b>22,135,739</b>	11,902,344
Other revenue	2	<b>68,769</b>	5,382	<b>72,597</b>	17,420
Cost of trading					
merchandise sold		<b>(1,065,705)</b>	(11,622,599)	<b>(12,135,725)</b>	(11,622,599)
Raw materials and					
consumables used		<b>(6,090,229)</b>	–	<b>(6,202,442)</b>	–
Staff costs, including					
directors’ remuneration		<b>(532,890)</b>	(450,375)	<b>(1,139,151)</b>	(819,660)
Depreciation and amortisation		<b>(317,535)</b>	(196,557)	<b>(659,247)</b>	(333,199)
Royalties for game contents		<b>(21,264)</b>	(50,325)	<b>(35,831)</b>	(131,576)
Other operating expenses		<b>(998,300)</b>	(662,223)	<b>(1,808,756)</b>	(1,129,997)
Profit/(Loss) from operations	3	<b>(376,076)</b>	(1,176,141)	<b>227,184</b>	(2,117,267)
Finance costs	4	<b>(68,746)</b>	(108,136)	<b>(107,864)</b>	(108,136)
Profit/(Loss) before taxation		<b>(444,822)</b>	(1,284,277)	<b>119,320</b>	(2,225,403)
Taxation	5	–	(5,822)	–	(5,822)
Profit/(Loss) attributable to shareholders		<b><u>(444,822)</u></b>	<u>(1,290,099)</u>	<b><u>119,320</u></b>	<u>(2,231,225)</u>
Dividends	6	–	–	–	–
Earnings/(Loss) per share	7				
Basic		<b><u>(HK0.15 cents)</u></b>	<u>(HK0.75 cents)</u>	<b><u>HK0.04 cents</u></b>	<u>(HK1.49 cents)</u>
Diluted		<b><u>(HK0.15 cents)</u></b>	<u>N/A</u>	<b><u>HK0.04 cents</u></b>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2006</b> <b>HK\$</b> <b>(Unaudited)</b>	2005 <b>HK\$</b> <b>(Audited)</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		26,944,452	26,192,868
Land use right		28,837,568	29,132,831
		<b>55,782,020</b>	<b>55,325,699</b>
<b>Current assets</b>			
Inventories		2,529,084	3,315,734
Trade receivables	9	8,440,300	116,696
Prepayments, deposits and other receivables		21,474,279	407,030
Tax refundable		9,301	9,301
Cash and bank balances		82,887,449	5,889,872
		<b>115,340,413</b>	<b>9,738,633</b>
<b>Current liabilities</b>			
Trade payables		(5,984,545)	(2,155)
Accruals and other payables		(2,643,178)	(2,813,575)
Loans from ultimate holding company		-	(400,000)
		<b>(8,627,723)</b>	<b>(3,215,730)</b>
<b>Net current assets</b>		<b>106,712,690</b>	<b>6,522,903</b>
<b>Total assets less current liabilities</b>		<b>162,494,710</b>	<b>61,848,602</b>
<b>Non-current liabilities</b>			
Loans from ultimate holding company		-	(5,497,701)
Convertible bond	10	(5,275,646)	-
Deferred tax liabilities		(18,940)	(18,940)
		<b>(5,294,586)</b>	<b>(5,516,641)</b>
<b>Net assets</b>		<b>157,200,124</b>	<b>56,331,961</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	11	8,515,584	5,913,600
Reserves		148,684,540	50,418,361
<b>Total equity</b>		<b>157,200,124</b>	<b>56,331,961</b>

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

	Share capital	Share premium account	Statutory surplus reserve	Statutory public welfare		Warrants reserve	Convertible bond equity		Exchange translation reserve	Total
				reserve	reserve		reserve	reserve		
	HK\$	HK\$	HK\$	HK\$	Accumulated losses	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 six months ended 30 June 2005	-	-	-	-	(2,231,225)	-	-	-	-	(2,231,225)
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	-	-	(582)	(291)	873	-	-	-	-	-
<b>Balance at 30 June 2005</b>	<b>5,913,600</b>	<b>69,496,699</b>	<b>33,690</b>	<b>16,845</b>	<b>(46,102,873)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,357,961</b>
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 six months ended 30 June 2006	-	-	-	-	119,320	-	-	-	-	119,320
Exchange differences on translation of overseas operations	-	-	-	-	-	-	-	(248,655)	-	(248,655)
Issuance of share capital	2,601,984	97,456,128	-	-	-	-	-	-	-	100,058,112
Share issue expenses	-	(123,780)	-	-	-	-	-	-	-	(123,780)
Issuance of Convertible bond	-	-	-	-	-	-	1,063,166	-	-	1,063,166
<b>Balance at 30 June 2006</b>	<b>8,515,584</b>	<b>166,829,047</b>	<b>2,851,081</b>	<b>1,425,540</b>	<b>(24,596,263)</b>	<b>473,088</b>	<b>1,063,166</b>	<b>638,881</b>	<b>-</b>	<b>157,200,124</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
(UNAUDITED)**

	<b>Six months ended 30 June 2006 HK\$</b>	<b>Six months ended 30 June 2005 HK\$</b>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(21,711,168)</b>	5,243,005
<b>Net cash outflow from investing activities</b>	<b>(1,378,925)</b>	(34,757,748)
<b>Net cash outflow before financing activities</b>	<b>(23,090,093)</b>	(29,514,743)
<b>Net cash inflow from financing activities</b>	<b>100,336,324</b>	27,773,317
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>77,246,231</b>	(1,741,426)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>5,889,872</b>	5,178,914
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(248,654)</b>	2,050
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>82,887,449</u></b>	<u>3,439,538</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	<u>82,887,449</u>	<u>3,439,538</u>
	<b><u>82,887,449</u></b>	<b><u>3,439,538</u></b>

## **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.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The financial statements are prepared under the historical cost convention.

#### *Principal accounting policies*

The consolidated financial statements incorporated the financial statements of the Company and its principal subsidiaries for the period ended 30 June 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:

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Turnover:				
Game-on-demand services income	105	39	132	72
MMOG services income	<u>27,820</u>	58,333	<u>46,951</u>	160,088
Provision of services	<u>27,925</u>	58,372	<u>47,083</u>	160,160
Sales of Composite Materials	1,097,633	11,742,184	14,633,136	11,742,184
Manufacturing and sales of Pipes	<u>7,455,520</u>	–	<u>7,455,520</u>	–
Sales of goods	<u>8,553,153</u>	11,742,184	<u>22,088,656</u>	11,742,184
	<u><b>8,581,078</b></u>	<u>11,800,556</u>	<u><b>22,135,739</b></u>	<u>11,902,344</u>
Other revenue:				
Interest income	63,789	5,183	67,617	17,021
Others	<u>4,980</u>	199	<u>4,980</u>	399
	<u>68,769</u>	5,382	<u>72,597</u>	17,420
Total revenue	<u><b>8,649,847</b></u>	<u>11,805,938</u>	<u><b>22,208,336</b></u>	<u>11,919,764</u>

### 3. Profit/(Loss) from operations

Profit/(Loss) from operations is arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Interest income	(63,789)	(5,183)	(67,167)	(17,021)
Cost of services provided	21,264	50,325	35,831	131,576
Cost of inventories sold	7,155,934	11,622,599	18,338,167	11,622,599
Operating lease charges on land and buildings	138,585	151,651	274,394	265,200
Depreciation and amortisation	317,535	196,557	659,247	333,199
Staff costs, including directors' emoluments	532,890	450,375	1,139,151	819,660
Contribution to retirement benefit scheme*	19,185	19,670	35,109	35,582
Net exchange loss/(gain)	4,730	(27,015)	5,340	(27,015)

\* Contribution to retirement benefit scheme for the period is included in "staff costs" above

### 4. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Interest charges on loans from ultimate holding company	–	108,136	39,118	108,136
Convertible bond wholly repayable within three years	68,746	–	68,746	–
	<u>68,746</u>	<u>108,136</u>	<u>107,864</u>	<u>108,136</u>

## **5. Taxation**

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided as the Group did not generate any assessable profits in those jurisdictions during the three months and six months ended 30 June 2006 (three months and six months ended 30 June 2005: HK\$5,822 representing the previous under-provided PRC income tax). No provision for PRC income tax has been made as the subsidiary was exempted from PRC income tax during the period under review.

The Group has tax losses arising in Hong Kong of approximately HK\$39,805,000 (as at 30 June 2005: HK\$35,862,000) and overseas of approximately HK\$1,239,000 (as at 30 June 2005: HK\$802,000) 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.

## **6. Dividends**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

## 7. Earnings/(loss) per share

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

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Profit/(loss) for the year for the purposes of calculating basic earnings/(loss) per share	<u>(444,822)</u>	<u>(1,290,099)</u>	<u>119,319</u>	<u>(2,231,225)</u>
Profit/(loss) for the year for the purposes of calculating diluted earnings/(loss) per share	<u>(444,822)</u>	N/A	<u>119,319</u>	N/A
Weighted average number of shares for the purposes of calculating basic earnings/(loss) per share	<u>304,065,615</u>	<u>172,304,152</u>	<u>281,991,813</u>	<u>149,402,007</u>
Effect of dilutive potential shares:				
Warrants		– (Note 1)	<u>19,855,717</u>	
Convertible bond		– (Note 1)		– (Note 2)
		–	<u>19,855,717</u>	
Weighted average number of shares for the purposes of calculating diluted earnings per share	<u>304,065,615</u>		<u>301,847,530</u>	

*Notes:*

1. The computation of diluted loss per share does not assume the conversion of warrant and convertible bond since their exercise will result in a decrease effect in the loss per share.
2. The calculation of earnings per share for the six-month period did not include the effect of convertible bond because its impact was anti-dilutive.

## 8. Segment information

(a) *Business segment*

	Come-on-demand services		MMOG services		Sales of Composite Materials		Manufacturing and sales of Pipes		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Revenue from external customers	132	72	46,951	160,088	14,633,136	11,742,184	7,455,520	-	22,135,739	11,902,344
Cost of services provided	-	(21,666)	(35,831)	(109,910)	-	-	-	-	(35,831)	(131,576)
Cost of inventories sold	-	-	-	-	(12,135,725)	(11,622,599)	(6,202,442)	-	(18,338,167)	(11,622,599)
Other operating expenses	(1,219)	(19,342)	(1,219)	(789,784)	(964,449)	(182,708)	(491,382)	-	(1,458,269)	(991,834)
Profit/(Loss) from operating activities	<u>(1,087)</u>	<u>(40,936)</u>	<u>9,901</u>	<u>(739,606)</u>	<u>1,532,962</u>	<u>(63,123)</u>	<u>761,696</u>	<u>-</u>	<u>2,303,472</u>	<u>(843,665)</u>
Other revenue									72,596	17,420
Operating profit/(loss)									2,376,068	(826,245)
Unallocated expenses									(2,148,884)	(1,291,022)
Finance costs									(107,864)	(108,136)
Taxation									-	(5,822)
Profit/(loss) attributable to shareholders									<u>119,320</u>	<u>(2,231,225)</u>

(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	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:						
Revenue from external customers	<u>47,083</u>	160,160	<u>22,088,656</u>	11,742,184	<u>22,135,739</u>	11,902,344
Other segment information:						
Segment assets	<u>123,422,061</u>	1,781,558	<u>47,700,372</u>	43,996,713	<u>171,122,433</u>	45,778,271
Capital expenditure	<u>-</u>	319	<u>1,378,925</u>	5,787,982	<u>1,378,925</u>	5,788,301

**9. Trade receivables**

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

	30 June	31 December
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Audited)
Within 30 days	<u>8,437,500</u>	8,153
31 – 60 days	<u>2,800</u>	1,647
61 – 90 days	<u>-</u>	106,896
	<u><u>8,440,300</u></u>	<u>116,696</u>

## 10. Convertible bond

The convertible bond (“CB”) were created and issued on 27 April 2006. The CB is convertible into ordinary shares of the Company at any time commencing from six months following the date of issue of the CB up to 4:00 p.m. on the day immediately prior to and exclusive of the maturity date of 27 April 2009. The CB can be converted into 15,675,164 shares at an initial conversion price of HK\$0.4. Interest of one per cent (1%) will be paid annually up until the settlement date.

The fair value of the liability component, included in the CB, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders’ equity.

The CB recognized in the balance sheet are calculated as follows:

	<b>30 June 2006 HK\$ (Unaudited)</b>	31 December 2005 HK\$ (Audited)
Fair value of convertible bond created and issued on 27 April 2006	<b>6,270,066</b>	–
Equity component	<b>(1,063,166)</b>	–
Liability component on initial recognition at 27 April 2006	<b>5,206,900</b>	–
Interest expense ( <i>note 4</i> )	<b>68,746</b>	–
Liability component at 30 June 2006	<b><u>5,275,646</u></b>	<b><u>–</u></b>

The fair value of the liability component of the CB at 30 June 2006 amounted to HK\$5,275,646. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 7.426%.

Interest expense on the CB is calculated using the effective interest method by applying the effective interest rate of 7.426% to the liability component.

## 11. Share capital

	Number of shares	Nominal value HK\$
<i>Authorised:</i>		
At beginning and end of period		
Ordinary shares of HK\$0.025	5,000,000,000	125,000,000
<i>Issued and fully paid:</i>		
At beginning of period		
Ordinary shares of HK\$0.025	236,544,000	5,913,600
Issuance of new shares ( <i>note</i> )	104,079,360	2,601,984
At end of period		
Ordinary share of HK\$0.025	340,623,360	8,515,584

### *Note:*

On 16 February 2006, 47,308,800 ordinary shares of HK\$0.025 each in the issued share capital of the Company were issued are allotted 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\$0.29 per share. The issued share capital was then increased from HK\$5,913,600 to HK\$7,096,320.

On 9 May 2006, the Company entered into the subscription agreements with four subscribers pursuant to which the four subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 56,770,560 shares in cash. All the subscribers are independent of each other and are not connected persons of the Company.

- (i) The first completion of the subscription was on 26 May 2006, the issued share capital of the Company was increased from HK\$7,096,320 to HK\$8,174,961 by issuing and allotting of 43,145,626 ordinary shares of HK\$0.025 each for cash at a premium of HK\$1.475 per share to three subscribers.
- (ii) The second completion of the subscription was on 10 June 2006, the issued share capital of the Company was increased from HK\$8,174,961 to HK\$8,515,584 by issuing and allotting of 13,624,934 ordinary shares of HK\$0.025 each for cash at a premium of HK\$1.475 per share to the remaining subscriber.

## 12. Commitments

### *Commitment under operating leases*

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

As at 30 June 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	<b>30 June 2006</b>	31 December 2005
	<i>HK\$</i>	<i>HK\$</i>
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>428,583</b>	439,025
In the second to fifth years	–	136,818
	<u><b>428,583</b></u>	<u>575,843</u>

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2006.

## 13. Capital Commitment

### **Group**

	<b>30 June 2006</b>	31 December 2005
	<i>HK\$</i>	<i>HK\$</i>
	<b>(Unaudited)</b>	(Audited)
Property, plant and equipment		
Contracted but not provided for	<u><b>1,106,583</b></u>	<u>–</u>

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review and future outlook**

During the period under review, the Group continued to engage in general trading of fibre glass reinforced plastic pipes (“FRP pipes”), raw materials and composite materials and production of FRP pipes in the PRC.

The Group recorded a turnover of approximately HK\$22,136,000 for the six months ended 30 June 2006, representing an increase of approximately 86% over the corresponding period. The turnover was mainly derived from the trading of raw materials and polyethylene pipes (“PE pipes”) in China. Profit attributable to shareholders was then increased by 105% to approximately HK\$119,000.

During the three-month period, the sales of FRP pipes were less than expected. The production of FRP pipes was still in the preliminary stage, therefore, in order to maintain its stable supply and quality, the major task of the management in Yichang plant, during these periods, was to improve the quality control systems. That was the main reason for decreasing of the sale of FRP pipes. The management will take that seriously so that the future sales can be soon improving.

In addition, the management is very active in exploring new profitable and potential business opportunities for the Company so as to establish a solidifying earning base for its shareholders. During the period under review, they have the following accomplishments.

#### *A. Development of a new production line*

In order to diversify the variety of the products and explore new lines of sales, the Company has a new production line installed to produce a new product – PE pipes. PE pipes are kinds of plastics pipes. Common applications are:

- Mine water supply
- Mineral slurry pipelines
- Domestic water supply house service connections
- Vacuum sewerage systems
- Sewer rising mains

- Process pipe work
- Compressed air services
- Natural gas transmission and reticulation

In order to enhance the existing production scale of the PE pipes, by the end of June 2006, the management in Yichang factory entered into a contract to buy and install another PE pipes production line. They believe that the contribution from PE pipes will be the other arms in maximizing the shareholders' wealth.

*B. Development of mining business*

On 12 June 2006, an extraordinary general meeting was held and an ordinary resolution was duly passed in relation with the formation of a joint venture company ("JV Company") in Yichang City. Details of this were stated in the circular dated 26 May 2006 and the announcements dated 8 March 2006, 21 April 2006 and 12 June 2006. On 28 June 2006, the Company made a great progress in exploring the mining business in Yichang City, our JV Company partner – 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited)<sup>#</sup> (the "**Xin Shougang**") (a 95% owned subsidiary of 首鋼控股有限責任公司 (Shougang Holdings Limited Liability Company)<sup>#</sup>) was granted the approval of determination of the mineral area scope (" 國土資源部劃定礦區範圍批複 ") (the "Approval") by 中華人民共和國國土資源部 (State Lands Bureau)<sup>#</sup>. As stated in the Approval, the mineral area scope was approximately of 26.8860 square kilometers and the estimated capacity of vanadium ( 鈮 ) is approximately 25,933 tonnes, and the estimated duration of service is 30 years. In addition, pursuant to the co-operation agreement entered into between 宜昌市人民政府 (Yichang Municipal People's Government) and 首鋼控股有限責任公司, the JV Company can proceed the comprehensive exploration of vanadium ( 鈮 ), silver vanadium( 銀鈮 ) and manganese ( 錳 ). Details of this were stated in the announcement dated 7 July 2006.

In accordance with the Approval and the circular dated 26 May 2006, the JV Company will conduct the necessary specific procedures with the relevant local authorities for mining exploration.

Based on this achieved progress, the future task and development focus of the Group and the management will be in exploring the mining business in Yichang City. With the network and resources of the partner of our JV Company, the Board will also seriously investigate and consider investing in other mining business opportunities in other countries.

As at 30 June 2006, the Group is in a position to develop the abovementioned new production line and mining business while keeping abreast of its core business.

### **Financial review**

The unaudited profit attributable to shareholders for the six months under review increased from a loss of approximately HK\$2,231,000 to a profit of approximately HK\$119,000 over the corresponding period. The Group will continue to adopt a stringent cost control and maintain the thin and effective overhead structure while prudently investing with the necessary corporate resources in the mining business.

### **Liquidity and financial resources**

With the funds raised previously and the internal resources of the Company, as at 30 June 2006, the Group have cash approximately of HK\$82,887,000, the Directors anticipate that the Group have adequate financial resources to meet its ongoing operations and development.

### **Other information**

A. *On 31 July 2006, all the resolutions relating to the followings were duly passed:*

- i) Share subdivision (“Share Subdivision”)

With effective on 1 August 2006, the authorised share capital of the Company will become HK\$125,000,000 comprising 100,000,000,000 subdivided shares (“Subdivided Shares”) of which 6,812,467,200 Subdivided Shares were in issue. Following the Share Subdivision becoming effective, the Board change the existing board lot size for share trading from 2,000 Existing Shares to 10,000 Subdivided Shares with effective on the same date.

- ii) Proposed grant of options to a Director, proposed refreshment of 10 per cent limit on the grant of options under the share option scheme and proposed refreshment of general mandate to allot and issue shares were all approved by the shareholders.

Details of the above are stated in the circulars dated 5 July 2006 and 12 July 2006 and announcement dated 31 July 2006.

#### *B. Warrant Placing*

On 1 August 2006, warrant placing agreement was entered into between the Company and Mr. Ha Siu Wah ( the “Subscriber”) in relation to a private placing of 333,750,000 non-listed warrants (hereinafter referred as “Warrant(s)”) at an issue price of HK\$0.012 per Warrant, the Warrants entitled the Subscriber to subscribe for New Shares of the Company at an initial exercise price of HK\$0.265 per New Share for a period of three years commencing from the date of issue of Warrants. The net proceeds from the Warrant placing was approximately of HK\$3,800,000 which will be applied as general working capital of the Group. Details of this were stated in the announcement dated 1 August 2006.

#### **Employee information**

As at 30 June 2006, the Group has 4 full-time employees (excluding the Directors) working in Hong Kong and 32 full-time employees working in the PRC respectively. The total of employee remuneration, for the six months under review amounted to approximately HK\$1,139,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

#### **Capital structure**

The shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. Save as disclosed above, there has been no change in the capital structure of the Company since the Company’s listing on that date.

#### **Significant investments**

Save as disclosed above, for the period under review, the Group had no significant investments.

### **Material acquisition and disposals/future plans for material investments**

Save as disclosed above, the Group has not held any significant investment during the six months ended 30 June 2006 and made no material acquisition or disposals during the current period. As at 30 June 2006, save as disclosed above regarding the mining business, the Group has no other future plans for material investments.

### **Segmental information**

Details have been set out in note 8 under “Notes to the condensed consolidated financial statements” and further elaborated under “Business review and future outlook” of this section.

### **Charge on group assets and contingent liabilities**

During the period under review, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (six months ended 30 June 2005: Nil).

### **Gearing ratio**

As at 30 June 2006, the Group had cash and cash equivalents of approximately HK\$82,887,000 in its current assets while its current liabilities stood at approximately HK\$8,628,000, and the Group had total debts of approximately HK\$5,276,000 and its total equity amounted to approximately HK\$157,200,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 3% (total debts to total equity).

### **Exposure to fluctuations in exchange rates**

Sales of the Group are denominated in Hong Kong dollars and RMB. No hedging or other alternatives have been implemented.

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

As at 30 June 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under 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, were as follows:

- (i) *Long position in the ordinary shares of HK\$0.025 each in the Company as at 30 June 2006:*

Name of director	Number of ordinary shares held				Approximate percentage of interests	
	Personal interests	Family interests	Corporate interests	Other interests	Total	
Mr. Yu Hongzhi	-	-	128,809,723	-	128,809,723	37.82%

(Note)

*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)<sup>#</sup> and as to the remaining 10% by 陳宗安 (Chen Zong An)<sup>#</sup>. Zhong Nan Mining Group Limited, 吳用晉 (Wu Yong Jin)<sup>#</sup> and 陳宗安 (Chen Zong An)<sup>#</sup> acquired their respective interests in Future Advance on 24 February 2006 pursuant to three separate sale and purchase agreements which were completed on 6 March 2006. Details of which have been disclosed in the announcement of the Company dated 28 February 2006.

(ii) *Long position in the underlying shares or derivatives of the Company as at 30 June 2006:*

Name of directors	Type of interests	Description of derivatives	Number of underlying Shares	Approximate percentage of interests
Mr. Yu Hongzhi	Interest in controlled corporations	Convertible bond (Note 1)	15,675,164	4.6%
	Beneficial	Share option (Notes 2 & 3)	3,800,000	1.1%
Ms. Ma Zheng	Beneficial	Share option (Notes 2 & 3)	2,700,000	0.8%
Mr. Chiu Winerthan	Beneficial	Share option (Notes 2 & 3)	1,000,000	0.3%

*Notes:*

- On 27 April 2006, by an instrument dated the same date, the Company created and issued in favour of Future Advance a convertible bond in the principal amount of HK\$6,270,065.6 pursuant to a subscription agreement dated 24 February 2006 entered into between the Company and Future Advance. Details of which have been set out in the announcement dated 28 February 2006. These shares represent the maximum number of new shares, which may be converted from the said convertible bond held by Future Advance as at 30 June 2006. Mr. Yu Hongzhi is therefore deemed to be interested in these underlying shares under the SFO as well.
- On 3 April 2006, a total of 7,500,000 share options were conditionally granted as to 3,800,000 share options to Mr. Yu Hongzhi, as to 2,700,000 share options to Ms. Ma Zheng and as to 1,000,000 share options to Mr. Chiu Winerthan pursuant to a share option scheme adopted on 28 November 2001 by a written resolution of the then shareholders of the Company which confers discretionary power to the Directors to grant options to any Eligible Persons (including the full-time employees and any director of the Company) as defined in share option scheme. Details of the share options granted are set out under the heading "Share Option" below.

3. All the options offered on 3 April 2006 (“Offer”) were conditional upon the Offer having been accepted by all grantees (“Grantees”) and not subject to any conditions under the Post Scheme. As the shareholders’ approval was obtained on 31 July 2006, all the options will then become unconditional after the listing approval in respect of the shares which may fall to be allotted and issued upon the exercise of the share options granted to Mr. Yu Hongzhi is obtained from the Listing Committee of The Stock Exchange of Hong Kong Limited. In accordance with HKFRS 2 Share Based Payment, the financial impact of the options cost will be reflected in the account of the Company on the date when the aforementioned conditions are satisfied.

Save as disclosed above, as at 30 June 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.

### **Share Option**

On 17 March 2004, the Company 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, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. For further details of these, please refer to our announcement dated 17 March 2004. As at 30 June 2006, there were 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 Post-Scheme is valid and effective for a period of ten years commencing on the date on which it was adopted. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group’s operations. Under the terms of the Post-Scheme, the Board may, at its 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 fall to 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.

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

The subscription price will be determined by the Company's board of directors and will be the highest of (i) the quoted closing price of the Company's shares on the Commencement Date (as defined in the Post-Scheme), which must be a trading day, and (ii) the average of the quoted closing price of the Company's shares for the five trading days immediately preceding the Commencement Date (as defined in the Post-Scheme). Any options granted under the Post-Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Post-Scheme). A nominal value of HK\$1.00 is payable on acceptance of each grant of options.

Details of the share options conditionally granted by the Company pursuant to the Post-Scheme and the options outstanding as at 30 June 2006 were as follows:

Grantees	Date of Grant	Initial exercise price per share option	Exercisable Period	Options held as at 1 January 2006	Lapsed during the period	Options held as at 30 June 2006
<i>Executive Directors</i>						
Mr. Yu Hongzhi	3 April 2006	HK\$1.064	3 April 2006 to 27 November 2011	-	-	3,800,000 <i>(Notes 1, 2 &amp; 3)</i>
Ms. Ma Zheng	3 April 2006	HK\$1.064	3 April 2006 to 27 November 2011	-	-	2,700,000 <i>(Notes 1 &amp; 3)</i>
Mr. Chiu Winerthan	3 April 2006	HK\$1.064	3 April 2006 to 27 November 2011	-	-	1,000,000 <i>(Notes 1 &amp; 3)</i>
Continuous contracts employees	3 April 2006	HK\$1.064	3 April 2006 to 27 November 2011	-	-	1,300,000 <i>(Notes 1 &amp; 3)</i>

*Notes:*

1. On 3 April 2006, a total of 8,800,000 share options were conditionally granted as to 3,800,000 share options to Mr. Yu Hongzhi, as 2,700,000 share options to Ms. Ma Zheng and as to 1,000,000 share options to Mr. Chiu Winerthan, who are executive directors and as to 1,300,000 share options to two full-time employees.
2. In our circular dated 12 July 2006, 3,800,000 share options granted to Mr. Yu Hongzhi was conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the shares which may fall to be allotted and issued upon the exercise of those share options and shareholders' approval. The resolution in respect thereof was duly passed at the extraordinary general meeting held on 31 July 2006. The Company has made an application to the Listing Committee for listing of and permission to deal in the shares which may fall to be allotted and issued upon the exercise of those share options.
3. All the options offered on 3 April 2006 ("Offer") were conditional upon the Offer having been accepted by all grantees ("Grantees") and not subject to any conditions under the Post Scheme. As the shareholders' approval was obtained on 31 July 2006, all the options will then become unconditional after the listing approval in respect of the shares which may fall to be allotted and issued upon the exercise of the share options granted to Mr. Yu Hongzhi is obtained from the Listing Committee of The Stock Exchange of Hong Kong Limited. In accordance with HKFRS 2 Share Based Payment, the financial impact of the options cost will be reflected in the account of the Company on the date when the aforementioned conditions are satisfied.

**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 30 June 2006, the Company had been notified that the following substantial shareholders having the following 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, in the Company. These interests

are shown in addition to those disclosed above in respect of the directors and chief executives:

- (i) *Long position in the ordinary shares of HK\$0.025 each in the Company as at 30 June 2006:*

<b>Name of shareholders</b>	<b>Nature of interests</b>	<b>Number of the shares held</b>	<b>Approximate percentage of issued share capital</b>
Future Advance Holdings Limited	Beneficial	128,809,723	37.82%
China Zong Heng Holdings Limited	Corporate ( <i>Note</i> )	128,809,723	37.82%

*Note:* 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 10% by 陳宗安 (Chen Zong An)<sup>#</sup> and as to the remaining 13% by 吳用晉 (Wu Yong Jin)<sup>#</sup>. Zhong Nan Mining Group Limited, 陳宗安 (Chen Zong An)<sup>#</sup> and 吳用晉 (Wu Yong Jin)<sup>#</sup> acquired their respective interests in Future Advance on 24 February 2006 pursuant to three separate sale and purchase agreements which were completed on 6 March 2006. Details of which have been disclosed in the announcement of the Company dated 28 February 2006.

(ii) *Long position in the underlying shares or derivatives of the Company as at 30 June 2006:*

Name of shareholders	Type of interests	Description of derivatives	Number of underlying Shares	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	Convertible bond (Note 1)	15,675,164	4.6%
China Zong Heng Holdings Limited	Corporate	Convertible bond (Note 1)	15,675,164	4.6%
胡玉 (Ms. Hu Yu)#	Beneficial	Warrants (Note 2)	23,654,400	6.9%

*Notes:*

1. 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 10% by 陳宗安 (Chen Zong An)# and as to the remaining 13% by 吳用晉 (Wu Yong Jin)#. 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 were 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 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 30 June 2006, 胡玉 (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 30 June 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**

Save as disclosed under the heading "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" and "Share Option" 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, 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 30 June 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 and six months ended 30 June 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.

### **Purchase, redemption or sales 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 June 2006.

### **Code on Corporate governance**

None of the directors of the Company is aware of an information which reasonably indicates that there has been non-compliance with code provisions of the Code of Practice under Corporate Governance as set out in Appendix 15 of the GEM Listing Rules in any time during the period under review.

### **Code of conduct regarding securities transactions by Directors**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

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

Hong Kong, 10 August 2006

*# The English translation of Chinese name is for identification purpose only and should not be regarded as the official English translation of such Chinese name.*

*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, and Mr. WAN Tze Fan Terence, Mr. LIU Weichang and Mr. Gao Sheng Yu who are the independent non-executive directors.*