



China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly 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 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 nine months ended 30 September 2004 was approximately HK\$6,955,000 representing an increase of approximately 47% from the corresponding period.

Net loss attributable to shareholders for the same period amounted to approximately HK\$4,434,000 representing a decrease of approximately 12% over the corresponding period.

The directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2004.

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 2004 together with the comparative figures for the corresponding periods as follows.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2004	2003	2004	2003
		HK\$	HK\$	HK\$	HK\$
TURNOVER	2	4,505,879	2,746,469	6,954,522	4,737,473
COST OF SALES		(3,896,966)	–	(5,661,642)	–
GROSS PROFIT		608,913	2,746,469	1,292,880	4,737,473
OTHER REVENUE		74,984	1,681	76,207	9,723
OTHER EXPENSES					
Staff costs, including directors’ remuneration		(440,460)	(916,402)	(1,572,225)	(2,886,304)
Depreciation		(180,168)	(170,160)	(465,664)	(496,919)
Royalties for game contents		(103,954)	(289,623)	(393,858)	(770,755)
Research and development costs		–	(364,307)	(103,000)	(953,119)
Marketing and promotion expenses		(5,000)	(675,449)	(466,822)	(1,710,755)
Other operating expenses		(670,611)	(1,265,078)	(2,618,954)	(2,893,253)
LOSS FROM OPERATING ACTIVITIES BEFORE TAXATION		(716,296)	(932,869)	(4,251,436)	(4,963,909)
FINANCE COST	3	–	(39,053)	(11,457)	(81,466)
LOSS BEFORE TAXATION		(716,296)	(971,922)	(4,262,893)	(5,045,375)
TAXATION	4	(147,205)	–	(171,161)	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(863,501)	(971,922)	(4,434,054)	(5,045,375)
DIVIDENDS	5	–	–	–	–
LOSS PER SHARE					
Basic	6	HK0.15 cents	HK0.22 cents	HK0.89 cents	HK1.15 cents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and of its subsidiaries for the period ended 30 September 2004. The results of subsidiaries acquired during the period are included in the consolidated income statement from or to the date of their acquisition as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

2. Turnover

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

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

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover (income from external customers):				
– Game-on-demand services income	31,828	110,635	69,877	287,142
– MMOG services income	107,834	141,959	644,686	356,456
– Licensed fee income	–	–	–	1,600,000
– Online Arcade Game machine income	–	2,493,875	–	2,493,875
– Trading income	4,366,217	–	6,239,959	–
	<u>4,505,879</u>	<u>2,746,469</u>	<u>6,954,522</u>	<u>4,737,473</u>

3. FINANCE COST

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on advance from former ultimate parent enterprise	-	39,053	11,457	81,466

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 2004 (three months and nine months ended 30 September 2003: Nil).

Provision for PRC profits tax of HK\$147,205 and HK\$171,161 has been provided respectively during the three months and nine months ended 30 September 2004 (three months and nine months ended 30 September 2003: Nil).

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 2004 (three months and nine months ended 30 September 2003: Nil).

6. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 September 2004 is based on the net loss attributable to shareholders of HK\$863,501 and HK\$4,434,054 respectively (three months ended and nine months ended 30 September 2003: HK\$971,922 and HK\$5,045,375, respectively) and the weighted average number of 568,633,043 and 497,322,044 ordinary shares in issue during the three months and nine months ended 30 September 2004 respectively (three months and nine months ended 30 September 2003: 440,000,000 ordinary shares).

No diluted loss per share for the three months and nine months ended 30 September 2004 (three months ended and nine months ended 30 September 2003: 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\$	Accumulated losses HK\$	Total HK\$
At 1 January 2003	2,200,000	33,527,560	(28,338,501)	7,389,059
Loss for the nine months ended 30 September 2003	–	–	(5,045,375)	(5,045,375)
At 30 September 2003	<u>2,200,000</u>	<u>33,527,560</u>	<u>(33,383,876)</u>	<u>2,343,684</u>
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)
Issues of shares	756,800	11,753,280	–	12,510,080
Issues of shares' expenses	–	(200,658)	–	(200,658)
At 30 September 2004	<u>2,956,800</u>	<u>45,080,182</u>	<u>(42,585,716)</u>	<u>5,451,266</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group continued to engage in the provision of arcade game-on-demand service via Internet services and general trading.

While the on-line game business continued to run under difficult market conditions, the general trading business of the Group has shown significant improvement. The increase in the Group's turnover during the period is mainly due to contribution from the trading business.

The Group recorded a turnover of approximately HK\$6,955,000 for the nine months ended 30 September 2004, representing an increase of approximately 47% from the corresponding period; and the loss attributable to shareholders decreased by 12% to approximately HK\$4,434,000.

Outlook

In order to strengthen and broaden the earning bases of the Company, the Company commenced trading of FRP pipe, raw materials and composite materials (the "Composite Material") in the second quarter of this year. Composite material is generally used in the facilities of transporting the oil and natural gas, chemicals and electronics and information products, and there is huge demand in the PRC. With the experience and the connection of the directors in the PRC market, the Company will continue to expand its trading business while actively seeking other investment opportunities that will bring reasonable return to the Group.

The online game market remains competitive and difficult. The cost of developing or acquiring new games is high. The Board is reviewing all kinds of proposals on effectively improving the performance of the Group's gaming business. The Board will continue to be very cautious in allocating the Group's resources in all kinds of projects.

Financial review

The Group reported a turnover of approximately HK\$6,955,000 for the nine months ended 30 September 2004, representing an increase of approximately 47%.

The unaudited loss from operating activities before taxation for the nine months under review decreased to HK\$4,263,000 from approximately HK\$5,045,000 in the previous year. Loss attributable to shareholders reduces significantly 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.

Liquidity and financial resources

With the funds from pervious funds raising activities and internal resources, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations and development requirements. As at 30 September 2004, the Group had cash of approximately HK\$1,390,000 and RMB5,330,000.

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

Directors’ interests in shares

As at 30 September 2004, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the “SFO”)) which (a) were required 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 the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to

Substantial shareholders

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

Long position in the shares

Name of Shareholders	Nature of interests	Number of Shares held	Approximate percentage of issued share capital (%)
Future Advance Holdings Limited	Beneficial	321,341,984	54.34%
China Zong Heng Holdings Limited	Corporate <i>(Note)</i>	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, the Directors are not aware of any person as at 30 September 2004 had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under 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 any member of the Group, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Group under Section 336 of the SFO.

Directors' rights to acquire shares

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

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the "Post-Scheme") was also approved by the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the terms of the Post-Scheme, the Board 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 2004, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

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. Zhou Guang Qi and Mr. Zhang Hongru 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 2004 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 listing securities

The Company's shares were listed on the GEM on 13 December 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 30 September 2004.

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

Hong Kong, 11 November 2004