

1st Quarterly Report 2005



China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET
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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 aspects 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 found on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover for the three months ended 31 March 2005 was approximately HK102,000, representing a decrease of approximately 75% from the corresponding period.

Loss attributable to shareholders for the same period amounted to approximately HK\$941,000, representing a decrease of approximately 65% over the corresponding period.

The directors do not recommend the payment of any interim dividend for the three months ended 31 March 2005.

An announcement relating to a Very Substantial Acquisition Transaction, Rights Issue, Shares Consolidation and Increase in Authorised Share Capital was announced on 24 March 2005. A Circular dated 14 April 2005 for all these matters was posted to all our shareholders and all the resolutions for the Acquisition Transaction, Rights Issue, Shares Consolidation and Increase in Authorised Share Capital were duly passed on the Extraordinary General Meeting (the “EGM”) held on 3 May 2005. All these information and details were posted in the GEM web-site.

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 2005 together with the comparative figures for the corresponding period as follows:

Unaudited Consolidated Income Statement

	<i>Notes</i>	For the three months ended 31 March	
		2005	2004
		HK\$	HK\$
TURNOVER	2	101,788	403,012
OTHER REVENUE	2	12,038	181
Staff costs, including directors’ remuneration		(369,285)	(891,740)
Depreciation		(136,642)	(148,251)
Royalties for game contents		(81,251)	(140,815)
Research and development costs		–	(103,000)
Marketing and promotion expenses		–	(418,003)
Other operating expenses		(467,774)	(1,366,027)
LOSS BEFORE TAXATION		(941,126)	(2,664,643)
Taxation	3	–	–
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(941,126)	(2,664,643)
DIVIDENDS	4	–	–
LOSS PER SHARE	5		
Basic		HK0.16 cents	HK0.61 cents
Diluted		N/A	N/A

Notes to the Consolidated Financial Statements

1. Basis of presentation and consolidation

The financial statements are prepared in accordance with and comply with all applicable accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). 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 2005. All material intercompany transactions and balances within the Group are eliminated on consolidation.

2. Turnover and other revenue

Turnover represents the value of services provided.

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

	For the three months ended 31 March	
	2005	2004
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Turnover:		
Game-on-demand services income	33	8,020
MMOG services income	101,755	394,992
	101,788	403,012
Other revenue:		
Interest income	11,838	–
Others	200	181
	12,038	181
Total revenue	113,826	403,193

3. Taxation

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the three months ended 31 March 2005 (three months ended 31 March 2004: Nil).

No PRC profits tax has been provided as the subsidiary of the Group in the PRC did not generate any assessable profits in the PRC during the three months ended 31 March 2005 (three months ended 31 March 2004: Nil).

4. Dividends

The Directors do not recommend the payment of any interim dividend in respect of for the three months ended 31 March 2005 (three months ended 31 March 2004: Nil).

5. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2005 is based on the loss attributable to shareholders of HK\$941,126 (three months ended 31 March 2004: HK\$2,664,643) and the number of 591,360,000 ordinary shares in issue during the three months ended 31 March 2005 (three months ended 31 March 2004: 440,000,000 ordinary shares).

No diluted loss per share is presented for the three months ended 31 March 2005 and 31 March 2004 because the company has no dilutive potential shares for these period.

6. Capital and Reserves

	Share capital <i>HK\$</i>	Share premium account <i>HK\$</i>	Statutory surplus reserve <i>HK\$</i>	Statutory public welfare reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Balance						
at 1 January 2004	2,200,000	33,527,560	-	-	(38,151,662)	(2,424,102)
Loss for the three months ended						
31 March 2004	-	-	-	-	(2,664,643)	(2,664,643)
Balance						
at 31 March 2004	<u>2,200,000</u>	<u>33,527,560</u>	<u>-</u>	<u>-</u>	<u>(40,816,305)</u>	<u>(5,088,745)</u>
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>3,274,743</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.

The Group recorded a turnover of approximately HK\$102,000 for the three months ended 31 March 2005, representing a decrease of approximately 75% from the corresponding period. The turnover was mainly derived from “MMOG services” in Hong Kong. Loss attributable to shareholders decreased by 65% to approximately HK\$941,000. As stated in our announcement date 24 March 2005 and the Circular dated 14 April 2005, the principal activities of the company will be changed to manufacture of the Fibre Glass Reinforced Plastic Pipes (“FRP Pipes Project”) with a production base in Yichang, PRC. However, there were no trading activities during the period under review, because of seasonal effect and management’s effort was wholly dedicated to the FRP Pipes Project.

Acquisition

On 21 January 2005, a wholly owned subsidiary of the Company, “Yichang Fulianjiang Joint Composite Limited”, and The Management of Committee of Yichang High-Tech Industry Development Zone (the “Vendor”) had entered into a agreement (the “Agreement”) relating to acquire a piece of vacant industrial land (a total area of approximately 213,162 square metres.) for a consideration of RMB29,390,800 (equivalent to approximately HK\$27.7 million). Pursuant to the Agreement, the Vendor will subsidise the Company with amount equivalent to the consideration for the Acquisition in accordance with certain terms of the Agreement. Through the Company’s experience in the trading of FRP pipes and raw material, the Directors believe the potential of the market of FRP pipes is considerable. As such, the Directors undergo this FRP Pipes Project to constructing a manufacturing plant for the production of the FRP pipes on the land.

Share Consolidation, Increase in Authorized Share Capital & Rights Issue

In order to create a more meaningful board lot value and improve cost effectiveness in trading in the shares of the Company, the Board of the Directors (the “Board”) proposed to implement the Share Consolidation, pursuant to which every five shares will be consolidated into one Consolidated Share (the “Consolidated Share”). On the basis of that, the issued share capital of the Company is 118,272,000 Consolidated Shares of HK\$0.025 each. Details of these were stated in the Circular dated 14 April 2005.

Regarding the Rights Issue (the “Rights Issue”), the basis was one Right Share (the “Right Share”) for every consolidated share held on the Record Date (i.e. 3 May 2005), as such, there will be 118,272,000 Rights Shares to be issued, and based on the subscription price of HK\$0.25 for each Rights Share, the estimated proceeds will be approximately HK\$29.6 million. The entire amount of the net proceeds of approximately HK\$27.5 million from the Rights Issue (after some expenses for the Rights Issue) will be applied for the repayment of a Loan from Future Advance Holdings Limited (the “Future Advance”), the controlling shareholder of the Company, which in turn will be applied for the settlement of the consideration of the Acquisitions. The Rights Issue is fully underwritten by the Future Advance. Details of these were stated in the Circular and Prospectus dated 14 April 2005 and 4 May 2005, respectively.

In order to facilitate the Rights Issue and provide flexibility for equity fund raising in the future, the Company proposed to increase its authorised share capital from HK\$5,000,000 to HK\$125,000,000 by creation of an additional 4,800,000,000 Consolidated Shares. Details of these were stated in the Circular date 14 April 2005.

On 3 May 2005, an Extraordinary General Meeting (the “EGM”) were held and resolutions were duly passed by poll for approving the acquisition of a piece of land, Share Consolidation, Capital Increase and the Rights Issue. Details of the EGM result were stated in the announcement dated 3 May 2005. In accordance with the expected timetable in the Prospectus dated 4 May 2005, the Rights Issue will be completed on 24 May 2005 at 4:00 p.m.

Future outlook

Looking ahead, the Group will continue to engage in the trading business and the development of the FRP Pipes Project. It is anticipated that the construction of the manufacturing plant will be completed at the early of the year 2006, and therefore, it will be the management's major task in this year to develop and complete the said production base, and then strengthening and widening the sale channels of the products so as to maximize the shareholders' wealth as early as possible. Details of the said project were in our Circular dated 14 April 2005.

Financial review

The unaudited loss before taxation for the three months under review decreased from approximately HK\$2,665,000 to approximately HK\$941,000 over the corresponding period in the previous year. The Company will continue to manage its expense base while prudently investing in the necessary corporate resources to penetrate new market and add value to new services. Notwithstanding the above results, this is the objective of the Group to adopt stringent cost control and maintain the thin and effective overhead structure. The Group is optimistic in completing the project on schedule and aftermath, enjoying a fruitful harvest in the future.

Liquidity and financial resources

With the funds raised in last year and internal resources of the Company, as at 31 March 2005, the Group have cash approximately HK\$4,376,000, the Directors anticipate that the Group have adequate financial resources to meet its ongoing operations and development.

The Directors will still undergo other fund raising activities if it is in the interest of the Group and there is capital needs, however, as at 31 March 2005, the directors have no such intention to raise further funds.

Directors' interests in shares

As at 31 March 2005, the following Directors and the Chief executive of the Company had interests and/or short positions in the securities 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	Number of the Shares held	Approximate percentage of issued share capital (%) (Note 3)
Mr. Lang Fulai	Corporate (Note 1)	591,360,004 (Note 2)	50%
Mr. Yu Hongzhi	Corporate (Note 1)	591,360,004 (Note 2)	50%

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.
- These Shares represent the sum of the Shares held by each of these Shareholders as at 31 March 2005 and the number of Underwritten Shares before the Share Consolidation taking effect.
- The percentage of Shares is calculated by the formula that the total number of Shares the relevant Shareholder is interested in as at 31 March 2005 divided by, assuming the Share Consolidation has not taken effect, the total number of issued share capital of the Company after the completion of the Rights Issue.

4. The resolution for the proposed share consolidation was duly passed on the Extraordinary General Meeting held on 3 May 2005. Accordingly, the number of the consolidated shares held by these shareholders will be 182,540,396 and approximate percentage of issued share capital will be 77.2%. These Consolidated Shares represent the sum of the Consolidated Shares held by them on 3 May 2005, the number of Rights Shares undertaken by them and the number of the Underwritten Shares (i.e. 54,003,604 Rights Shares). The percentage of Consolidated Shares is calculated by the formula that the total number of Consolidated Shares the relevant Shareholder is interested in divided by the total number of issued share capital of the Company after the completion of the Rights Issue. Details of these, please refer to the Prospectus dated 4 May 2005.

Save as disclosed above, as at 31 March 2005, none of the Directors and the Chief executive of the Company had any interests or short positions in the securities 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.

Substantial shareholders

As at 31 March 2005, so far as is known to any Director or chief executive of the Company, the following person(s) had, or was deemed or taken to have, an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (“SFO”):

Long position in the Shares:

Name of the Shareholder	Nature of interests	Number of the Shares held <i>(Notes 2)</i>	Approximate percentage of issued share capital <i>(% (Note 3))</i>
Future Advance Holdings Limited	Beneficial	591,360,004	50%
China Zong Heng Holdings Limited	Corporate <i>(Note 1)</i>	591,360,004	50%

Notes:

1. 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.
2. These Shares represent the sum of the Shares held by each of these Shareholders as at 31 March 2005 and the number of Underwritten Shares before the Share Consolidation taking effect.
3. The percentage of Shares is calculated by the formula that the total number of Shares the relevant Shareholder is interested in as at 31 March 2005 divided by, assuming the Share Consolidation has not taken effect, the total number of issued share capital of the Company after the completion of the Rights Issue.
4. The resolution for the proposed share consolidation was duly passed on the Extraordinary General Meeting held on 3 May 2005. Accordingly, the number of the consolidated shares held by these shareholders will be 182,540,396 and approximate percentage of issued share capital will be 77.2%. These Consolidated Shares represent the sum of the Consolidated Shares held by them on 3 May 2005, the number of Rights Shares undertaken by them and the number of the Underwritten Shares (i.e. 54,003,604 Rights Shares). The percentage of Consolidated Shares is calculated by the formula that the total number of Consolidated Shares the relevant Shareholder is interested in divided by the total number of issued share capital of the Company after the completion of the Rights Issue. Details of these, please refer to the Prospectus dated 4 May 2005.

Save as disclosed above, as at 31 March 2005, the Directors and the chief executive of the Company were not aware of any person who has an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV 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 31 March 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

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. 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 ended 31 March 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 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 31 March 2005.

By Order of the Board

Yu Hongzhi

Chairman

Hong Kong, 12 May 2005