

Interim Report 2005



China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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.

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This report, for which the directors of CHINA ADVANCE HOLDINGS LIMITED (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to CHINA ADVANCE HOLDINGS LIMITED. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover for the six months ended 30 June 2005 was approximately HK\$11,902,000, representing an increase of approximately 386% from the corresponding period.

Loss attributable to shareholders for the same period amounted to approximately HK\$2,231,000, representing a decrease of approximately 38% over the corresponding period.

As compared with the first quarter 2005 unaudited results, loss attributable to shareholders for the three months ended increased from approximately HK\$941,000, to approximately HK\$1,290,000, representing an increase of 37% over the first quarter 2005 unaudited results.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005.

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 2005 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 30 June		Six months ended 30 June	
		2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Turnover	2	11,800,556	2,045,631	11,902,344	2,448,643
Other revenue	2	5,382	1,042	17,420	1,223
Cost of inventories sold		(11,622,599)	(1,764,676)	(11,622,599)	(1,764,676)
Staff costs, including directors' remuneration		(450,375)	(240,025)	(819,660)	(1,131,765)
Depreciation and amortisation		(196,557)	(137,245)	(333,199)	(285,496)
Royalties for game contents		(50,325)	(149,089)	(131,576)	(289,904)
Research and development costs		-	-	-	(103,000)
Marketing and promotion expenses		-	(43,819)	-	(461,822)
Other operating expenses		(662,223)	(593,773)	(1,129,997)	(1,948,343)
Loss from operations	3	(1,176,141)	(881,954)	(2,117,267)	(3,535,140)
Finance costs	4	(108,136)	-	(108,136)	(11,457)
Loss before taxation		(1,284,277)	(881,954)	(2,225,403)	(3,546,597)
Taxation	5	(5,822)	(23,956)	(5,822)	(23,956)
Loss attributable to shareholders		<u>(1,290,099)</u>	<u>(905,910)</u>	<u>(2,231,225)</u>	<u>(3,570,553)</u>
Dividends	6	-	-	-	-
Loss per share	7				
Basic		<u>HK0.75 cents</u>	<u>HK0.88 cents</u>	<u>HK1.49 cents</u>	<u>HK3.62 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2005 HK\$ (Unaudited)	31 December 2004 HK\$ (Audited)
ASSETS			
Non-Current Assets			
Property, plant and equipment	<i>9a</i>	6,403,616	851,918
Land use right	<i>9b</i>	28,872,851	–
		<u>35,276,467</u>	<u>851,918</u>
Current Assets			
Trade receivables	<i>10</i>	18,448	725,326
Prepayments, deposits and other receivables		7,043,818	1,479,076
Cash and bank balances		3,439,538	5,178,914
		<u>10,501,804</u>	<u>7,383,316</u>
LIABILITIES			
Current Liabilities			
Trade payables		–	(396,761)
Accruals and other payables		(501,913)	(437,921)
Deposits received		(12,501,756)	–
Provision for tax		–	(168,042)
Loans from ultimate holding company	<i>11</i>	(400,000)	–
		<u>(13,403,669)</u>	<u>(1,002,724)</u>
Net Current Assets/(Liabilities)		<u>(2,901,865)</u>	<u>6,380,592</u>
Total Assets Less Current Liabilities		<u>32,374,602</u>	<u>7,232,510</u>
Non-Current Liabilities			
Loans from ultimate holding company	<i>11</i>	(2,997,701)	(2,997,701)
Deferred tax liabilities		(18,940)	(18,940)
		<u>(3,016,641)</u>	<u>(3,016,641)</u>
Net Assets		<u>29,357,961</u>	<u>4,215,869</u>
CAPITAL AND RESERVES			
Share capital	<i>12</i>	5,913,600	2,956,800
Reserves		23,444,361	1,259,069
Shareholders' Funds		<u>29,357,961</u>	<u>4,215,869</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Share premium account	Statutory surplus reserve	Statutory public welfare reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2004	2,200,000	33,527,560	-	-	(38,151,662)	(2,424,102)
Loss for the six months ended 30 June 2004	-	-	-	-	(3,570,553)	(3,570,553)
Issuance of share capital	440,000	7,128,000	-	-	-	7,568,000
Share issue expenses	-	(200,658)	-	-	-	(200,658)
Balance at 30 June 2004	2,640,000	40,454,902	-	-	(41,722,215)	1,372,687
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	-
Balance at 30 June 2005	5,913,600	69,496,699	33,690	16,845	(46,102,873)	29,357,961

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

	Six Months ended 30 June 2005 <i>HK\$</i>	Six Months ended 30 June 2004 <i>HK\$</i>
Net cash inflow/(outflow) from operating activities	5,243,005	(5,854,556)
Net cash outflow from investing activities	<u>(34,757,748)</u>	<u>(480,271)</u>
Net cash outflow before financing activities	(29,514,743)	(6,334,827)
Net cash inflow from financing activities	<u>27,773,317</u>	<u>7,335,530</u>
Net increase/(decrease) in cash and cash equivalents	(1,741,426)	1,000,703
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,178,914	582,016
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>2,050</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>3,439,538</u>	<u>1,582,719</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	<u>3,439,538</u>	<u>1,582,719</u>
	<u>3,439,538</u>	<u>1,582,719</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and principal accounting policies

Basic of presentation

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

During the six months ended 30 June 2005, the principal activity of the Company is investment holding. The principal activities of the subsidiaries were general trading and the provision of internet game services in Hong Kong and the People's Republic of China ("PRC").

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

Principal accounting policies

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

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

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

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

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

2. Turnover and other revenue

Turnover represents the value of services provided and net invoiced value of goods sold.

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

	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover:				
Trading income	11,742,184	1,873,742	11,742,184	1,873,742
Game-on-demand services income	39	30,029	72	38,049
MMOG services income	58,333	141,860	160,088	536,852
	<u>11,800,556</u>	<u>2,045,631</u>	<u>11,902,344</u>	<u>2,448,643</u>
Other revenue:				
Interest income	5,183	–	17,021	–
Others	199	1,042	399	1,223
	<u>5,382</u>	<u>1,042</u>	<u>17,420</u>	<u>1,223</u>
Total revenue	<u>11,805,938</u>	<u>2,046,673</u>	<u>11,919,764</u>	<u>2,449,866</u>

3. Loss from operations

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

	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	(5,183)	–	(17,021)	–
Cost of services provided	50,325	149,089	131,576	343,636
Cost of inventories sold	11,622,599	1,764,676	11,622,599	1,764,676
Operating lease charges on				
land and buildings	151,651	152,598	265,200	287,495
Depreciation and amortisation	196,557	137,245	333,199	285,496
Staff costs, including directors' emoluments	450,375	240,025	819,660	1,131,765
Contribution to retirement benefit scheme *	19,670	20,439	35,582	42,693
Net exchange gain	(27,015)	(34,808)	(27,015)	(40,663)

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

4. Finance costs

	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest charges on loans from immediate holding company	-	-	-	11,457
Interest charges on loans from ultimate holding company	<u>108,136</u>	-	<u>108,136</u>	-
	<u>108,136</u>	-	<u>108,136</u>	11,457

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 2005 (three months and six months ended 30 June 2004: Nil).

PRC profits tax of HK\$5,822 under-provided previously has been provided during the three months and six months ended 30 June 2005 (provision for PRC profits tax for three months and six months ended 30 June 2004: HK\$23,956).

The Group has tax losses arising in Hong Kong of approximately HK\$35,862,375 (as at 30 June 2004: HK\$32,790,122) and overseas of approximately HK\$802,457 (as at 30 June 2004: HK\$397,094) 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 2005 (six months ended 30 June 2004: Nil).

7. Loss per share

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

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

The calculation of basic loss per share for the three months and six months ended 30 June 2005 is based on the loss attributable to shareholders of HK\$1,290,099 and HK\$2,231,225, respectively (three months ended and six months ended 30 June 2004: HK\$905,910 and HK\$3,570,553, respectively) and the weighted average number of 172,304,152 and 149,402,007 ordinary shares in issue during the three months and six months ended 30 June 2005, respectively (three months and six months ended 30 June 2004: 103,016,175 and 98,738,437 ordinary shares after adjusting for the rights issue and share consolidation in 2005) in issue during the period.

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

8. Segment information

	Game-on-demand services		MMOG services		Trading income		Total	
	Six months		Six months		Six months		Six months	
	ended 30 June		ended 30 June		ended 30 June		ended 30 June	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
Revenue from external customers	72	38,049	160,088	536,852	11,742,184	1,873,742	11,902,344	2,448,643
Cost of services provided	(21,666)	(22,743)	(109,910)	(320,893)	-	-	(131,576)	(343,636)
Cost of inventories sold	-	-	-	-	(11,622,599)	(1,764,676)	(11,622,599)	(1,764,676)
Other operating expenses	(19,342)	(215,121)	(789,784)	(3,035,281)	(182,708)	19,765	(991,834)	(3,230,637)
Profit/(Loss) from operating activities	<u>(40,936)</u>	<u>(199,815)</u>	<u>(739,606)</u>	<u>(2,819,322)</u>	<u>(63,123)</u>	<u>128,831</u>	<u>(843,665)</u>	<u>(2,890,306)</u>
Other revenue							17,420	1,223
Operating loss							<u>(826,245)</u>	<u>(2,889,083)</u>
Unallocated expenses							<u>(1,291,022)</u>	<u>(646,057)</u>
Finance costs							<u>(108,136)</u>	<u>(11,457)</u>
Taxation							<u>(5,822)</u>	<u>(23,956)</u>
Loss attributable to shareholders							<u>(2,231,225)</u>	<u>(3,570,553)</u>

9. Non-current assets

a) Property, plant and equipment

	Construction in progress	Leasehold improvements	Furniture, fixtures and office equipments	Computer equipment	Motor vehicle	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost						
At 1 January 2005	-	635,489	110,054	738,696	-	1,484,239
Exchange adjustments	-	-	-	33	-	33
Additions	5,640,076	-	319	8,755	139,151	5,788,301
	<u>5,640,076</u>	<u>-</u>	<u>319</u>	<u>8,755</u>	<u>139,151</u>	<u>5,788,301</u>
At 30 June 2005						
(Unaudited)	<u>5,640,076</u>	<u>635,489</u>	<u>110,373</u>	<u>747,484</u>	<u>139,151</u>	<u>7,272,573</u>
Accumulated depreciation						
At 1 January 2005	-	242,583	34,868	354,870	-	632,321
Exchange adjustments	-	-	-	2	-	2
Provided during the period	-	148,480	11,021	70,871	6,262	236,634
	<u>-</u>	<u>148,480</u>	<u>11,021</u>	<u>70,871</u>	<u>6,262</u>	<u>236,634</u>
At 30 June 2005						
(Unaudited)	<u>-</u>	<u>391,063</u>	<u>45,889</u>	<u>425,743</u>	<u>6,262</u>	<u>868,957</u>
Net book value						
At 30 June 2005						
(Unaudited)	<u>5,640,076</u>	<u>244,426</u>	<u>64,484</u>	<u>321,741</u>	<u>132,889</u>	<u>6,403,616</u>
At 31 December 2004						
(Audited)	<u>-</u>	<u>392,906</u>	<u>75,186</u>	<u>383,826</u>	<u>-</u>	<u>851,918</u>

b) *Land use right*

	30 June	31 December
	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Acquired for the period	28,969,416	–
Less: Amortisation	96,565	–
	<hr/>	<hr/>
At end of period	<u>28,872,851</u>	<u>–</u>

10. Trade receivables

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

	30 June	31 December
	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Within 30 days	9,256	68,067
31 – 60 days	7,350	645,709
61 – 90 days	1,842	11,550
	<hr/>	<hr/>
	<u>18,448</u>	<u>725,326</u>

11. Loans from ultimate holding company

As at 30 June 2005, a loan of HK\$2,997,701 from Future Advance Holdings Limited (“holding company”) was unsecured, interest-free and not repayable within one year.

In addition, a short term loan of HK\$400,000 from holding company was also unsecured, but interest bearing at prime rate plus 1% per annum and repayable within one year.

12. Share capital

	Number of shares	Nominal value HK\$
<i>Authorised:</i>		
At beginning of period		
Ordinary shares of HK\$0.005	1,000,000,000	5,000,000
Share Consolidation (<i>note 1</i>)	<u>(800,000,000)</u>	<u>–</u>
	200,000,000	5,000,000
Increase in authorised share capital (<i>note 2</i>)	<u>4,800,000,000</u>	<u>120,000,000</u>
At end of period		
Ordinary share of HK\$0.025	<u>5,000,000,000</u>	<u>125,000,000</u>
<i>Issued and fully paid:</i>		
At beginning of period		
Ordinary shares of HK\$0.005	591,360,000	2,956,800
Share Consolidation (<i>note 1</i>)	(473,088,000)	–
Issue of shares (<i>note 3</i>)	<u>118,272,000</u>	<u>2,956,800</u>
At end of period		
Ordinary share of HK\$0.025	<u>236,544,000</u>	<u>5,913,600</u>

Notes:

At the Extraordinary General Meeting (the “EGM”) held on 3 May 2005, the resolutions for the followings were duly passed by poll:

- (1) with effective on 3 May 2005, every five shares of the Company were consolidated into one consolidated share (“Consolidated Share”), upon the share consolidation become effective, the authorised share capital remained at HK\$5,000,000 but divided into 200,000,000 Consolidated Shares;
- (2) with effective on 3 May 2005, the authorised share capital of the Company was increased from HK\$5,000,000 to HK\$125,000,000 by creation of an additional 4,800,000,000 Consolidated Shares;

- (3) on 24 May 2005, the issue of 118,272,000 right shares (“Right Shares”) became unconditional, and the issued share capital increase from 118,272,000 Consolidated Shares to 236,544,000 Consolidated Shares of HK\$0.025 each; and
- (4) Details of the results of the EGM and Rights Issue were in our announcements dated 3 May 2005 and 24 May 2005, respectively.

Share options

- (i) On 28 November 2001, a share option scheme (the “Pre-Scheme”) was approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme was to recognise the contribution of certain directors and employees of the Group to its growth.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5,000,000, with any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

In addition, any share options granted to any one person in excess of 1% of the share of the Company in issue at any time with any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 4 executive directors and 2 non-executive directors to subscribe for a total of 33,440,000 shares, representing in aggregate approximately 7.6% of the then issued share capital of the Company. No further share options will be granted under the Pre-Scheme after the listing of the Company’s shares on the GEM. 50% of the share options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the share options granted may be exercised after the expiry of 24 months from 13 December 2001, and in each case, not later than 10 years from the date of grant of the share options. Each grantee has paid HK\$1 in total to the Company as consideration for such grant.

However, as at 17 March 2004, the Company had forfeited all the outstanding share options granted from Pre-Scheme, 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. There are no outstanding share options under the Pre-Scheme as at 30 June 2005.

The Pre-Scheme remains in force for a period of 10 years with effect from 28 November 2001.

- (ii) On 28 November 2001, a further share option scheme (the “Post-Scheme”) was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to grant share options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant share options to any full-time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-Scheme and other schemes by the Company must not exceed 30% of the shares in issue from time to time. A non-refundable nominal consideration of HK\$1 is payable by the grantee upon acceptance of a share option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a business day; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK\$5,000,000, with any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time with any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The options granted may be exercised at any time or times during a period of not less than 3 years to be notified by the Board and in any event not later than 10 years from the date of the grant of the options.

No share options had been granted by the Company under the Post-Scheme up to the date of approval of this interim report.

The Post-Scheme remains in force for a period of 10 years with effect from 28 November 2001.

13. Commitments

Commitment under operating leases

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

As at 30 June 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	30 June	31 December
	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Within one year	410,454	468,477
In the second to fifth years	342,045	547,272
	<u>752,499</u>	<u>1,015,749</u>

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and future outlook

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

The Group recorded a turnover of approximately HK\$11,902,000 for the six months ended 30 June 2005, representing an increase of approximately 386% over the corresponding period. The turnover was mainly derived from the trading of Fibre Glass Reinforced Plastic Pipes (“FRP pipes”) and raw materials in China. Loss attributable to shareholders was then decreased by 38% to approximately HK\$2,231,000.

With the effort of our management and our team members, it is expected that the construction work of the production base will be completed ahead of our planned schedule, and full operation of the manufacturing plant will therefore be able to start earlier. With this expectation, the management and team members changed its focus to the preparation work on how to streamline and practice the production process efficiently and effectively. However, thin and effective management structure was still our major management focus and direction, and therefore, only sufficient and experienced staffs were employed in Yichang to oversee the development of the project. Besides, with our management’s close involvement, our team members were also initiating in researching and developing new types of down-hole tubing products specifically for oil industry, enhancing the existing sale channels, and, at the same time, exploring the other new one.

Financial review

The unaudited loss attributable to shareholders for the six months under review decreased from approximately HK\$3,571,000 to approximately HK\$2,231,000 over the corresponding period in the previous year. This was the result of adopting stringent cost control and maintain the thin and effective overhead structure. In addition, the Group will continue to manage its expense base while prudently investing in the necessary corporate resources to penetrate new markets and develop the project in Yichang.

Liquidity and financial resources

With the funds raised previously and the internal resources of the Company, as at 30 June 2005, the Group have cash approximately of HK\$3,440,000, the Directors anticipate that the Group have adequate financial resources to meet its ongoing operations and development.

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

Employee information

As at 30 June 2005, the Group has 4 full-time employees working in Hong Kong and 11 full-time employees working in the PRC respectively. The total of employee remuneration, for the six months under review amounted to approximately HK\$820,000. 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. There has been no change in the capital structure of the Company since the Company's listing on that date.

Significant investments

For the period under review, the Group had no significant investments.

Material acquisition and disposals/future plans for material investments

The resolution for acquiring a land in Yichang was duly passed, the Company will construct a manufacturing plant on the land acquired and then produce the FRP pipes.

Save as disclosed above, the Group has not held any significant investment during the six months ended 30 June 2005 and made no material acquisition or disposals during the current period. As at 30 June 2005, the Group has no 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 2004: Nil).

Gearing ratio

As at 30 June 2005, the Group had cash and cash equivalents of approximately HK\$3,440,000 in its current assets while its current liabilities stood at approximately HK\$13,404,000, and the Group had total debts of approximately HK\$3,398,000 (including non-current and current loans from ultimate holding company) and its shareholders’ funds amounted to approximately HK\$29,358,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 12% (total debts to total equity).

Exposure to fluctuations in exchange rates

Sales of the Group are denominated in Hong Kong dollars and RMB and payment of royalties for game contents of the Group denominated in United States dollars. No hedging or other alternatives have been implemented.

Directors’ interests in shares

As at 30 June 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 (Note)	Number of the Shares held	Approximate percentage of issued share capital (%)
Mr. Lang Fulai	Corporate	128,809,723	54.5%
Mr. Yu Hongzhi	Corporate	128,809,723	54.5%

Notes:

These Shares are held by Future Advance Holdings Limited (the "Future Advance"). Mr. Lang Fulai is beneficially interested in 50% of the entire issued share capital of Future Advance. China Zong Heng Holdings Limited, which is wholly and beneficially owned by Mr. Yu Hongzhi, is beneficially interested in 37.5% of the entire issued share capital of Future Advance. The remaining 12.5% of the entire issued share capital of Future Advance is beneficially owned by Ms. Ma Zheng.

Save as disclosed above, as at 30 June 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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2005, the Company had been notified of the following substantial shareholders' interest and short position, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives:

Long position in the Shares:

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

Notes:

These Shares are held by Future Advance Holdings Limited (the "Future Advance"). Mr. Lang Fulai is beneficially interested in 50% of the entire issued share capital of Future Advance. China Zong Heng Holdings Limited, which is wholly and beneficially owned by Mr. Yu Hongzhi, is beneficially interested in 37.5% of the entire issued share capital of Future Advance. The remaining 12.5% of the entire issued share capital of Future Advance is beneficially owned by Ms. Ma Zheng.

Save as disclosed above, as at 30 June 2005, the Directors are not aware of any person who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to acquire shares

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

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

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

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

Competition and conflict of interests

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

Audit committee

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Zhang Hongru and Mr. Liu Weichang who are the independent non-executive Directors of the Company. The Group's unaudited results for the three months and six months ended 30 June 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.

Remuneration committee

The Company's remuneration committee was established during the period with written terms of reference to determine policy for the remuneration of directors and senior management of the Company, assessing their performance and approving the terms of their service contracts. The remuneration committee comprises at least three members, the majority of whom shall be independent non-executive directors of the Company. The current members of the remuneration committee are Mr. Wan Tze Fan Terence, Mr. Zhang Hongru and Mr. Liu Weichang.

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 2005.

Compliance with Code on Corporate Governance Practices

The Company has complied with all the code provisions (with the exception of Code Provision C.2 on internal controls) set out in Appendix 15, The Code on Corporate Governance Practices (the “Code”) to the GEM Listing Rules throughout the accounting period for the six months ended 30 June 2005, save and except the following:

Code Provision A.2.1

This Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Yu Hongzhi (“Mr. Yu”) is the Chairman of the Company. However, we do not have an officer with the title of “Chief Executive Officer”. The Code envisages that the management of the Board should rest on the Chairman, whereas the day-to-day management of the Company’s business should rest with the Chief Executive officer. Mr. Yu, as and at the same time as being the Chairman of the Company, is also responsible for the operation of the FRP pipes projects: this constitutes a deviation of Code Provision A.2.1. However, the Board considers that in light of the Company’s nature and mode of business, these duties are best served by the Chairman with his knowledge and experience. Further, the operation is also under the monitor and control of the Board. Therefore, all members of the Board consider that this structure will not impair the balance of power and authority between the Board and the management of the Company, particularly given that the Board comprises experienced and high caliber individuals and meets regularly every two months, or more frequently if it is necessary, to discuss issues affecting operations of the Company. The Board is confident in that arrangement, and believe it is beneficial to the business prospects of the Company.

Code Provision A.4.1 and A.4.2

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At present, the non-executive Directors do not have a specific term of appointment, but are subject to rotation in accordance with Article 87 of the Articles of Association of the Company (that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater one-third, shall retire from office). The Board considers that these measures are suffice to ensure the Company's corporate governance practices. Nevertheless, in accordance with Article 86(3), any Director at any time appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

However, in order to full comply with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the Annual General Meeting to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

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
Yu Hongzhi
Chairman

Hong Kong, 10 August 2005

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