



# China Advance Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8117



2005  
Annual Report

## 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 suit 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 documents 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 “Company”) 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 the Company. 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.*



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# Corporate Information

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Mr. Yu Hongzhi  
Ms. Ma Zheng  
Mr. Chiu Winerthan

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Tze Fan Terence  
Mr. Liu Weichang  
Mr. Gao Sheng Yu

## REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

### REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1415  
Ocean Centre  
5 Canton Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

## COMPANY SECRETARY

Mr. Chan Wai, *CPA, FCCA*

## COMPLIANCE OFFICER

Mr. Chiu Winerthan

## QUALIFIED ACCOUNTANT

Mr. Chan Wai, *CPA, FCCA*

## AUDIT COMMITTEE

Mr. Wan Tze Fan Terence  
Mr. Liu Weichang  
Mr. Gao Sheng Yu

## REMUNERATION COMMITTEE

Mr. Wan Tze Fan Terence  
Mr. Liu Weichang  
Mr. Gao Sheng Yu

## AUTHORISED REPRESENTATIVES

Mr. Chiu Winerthan  
Ms. Ma Zheng

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
Wing Hang Bank Limited

## SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Ltd.  
Butterfield House, 68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands

## STOCK CODE

8117

## CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

## AUDITORS

Grant Thornton  
*Certified Public Accountants*

## HONG KONG SHARE REGISTRAR

Tengis Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong



# Chairman's Statement

It is my pleasure to present the annual results of China Advance Holdings Limited (the "Company"), together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2005.

## RESULTS

During the year under review, the Board was able to keep its effectiveness in the pursuing the early completion of the project in Yichang City, so that the Company will be able to produce our own Fibre Glass Reinforced Plastic pipes ("FRP pipes"). The Group recorded a turnover of approximately HK\$24,613,860 for the year ended 31 December 2005, representing an increase of approximately 250% over the corresponding year and the profit attributable to shareholders increased to approximately HK\$23,382,151. The turnover was mainly derived from selling of FRP pipes.

The Board of Directors do not recommend the payment of any dividend for the year ended 31 December 2005.

## LOOKING AHEAD

### Production of FRP pipes

Since our own production base was established, our next task is to maintain the effectiveness of our management teams to rapidly streamline our operation and production process so as to increase the products' competitiveness in terms of quality and price. On the other hand, although we only had our own products for sale since the third quarters of the year, the sales volume has been inspiring. The Board will seriously consider to put more resources in enhancing the sales team for exploring more sale channels and creating more wealth for our shareholders.

### Other Business opportunity

On 8 March 2006, the Company had entered into a Letter of Intent with Xin Shougang Zi Yuan Holdings Limited, a non-wholly owned subsidiary of Shougang Holding Limited, this Letter of Intent provides the Company an opportunity to engage in the project related to mining of precious metal in Yichang City. The management is now still studying the details of the project. The management is very seriously in choosing and exploring other new business for the Company. As such, our potential partner is a very large and reputable state owned enterprise in the PRC, they had adequate resources and experiences in the mining business in the PRC. The management hopes this new potential project will be our other arms in creating wealth for our shareholders.



# Chairman's Statement

## APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers and business partners for their tremendous ongoing support, dedication and contribution, especially those who involved in the project mentioned above. The coming years will be challenging and inspiring for both the Group and its shareholders.

**Yu Hongzhi**  
*Chairman*

Hong Kong, 27 March 2006





# Management Discussion and Analysis

## OPERATION REVIEW

During the year under review, the Group continued to engage in general trading of FRP pipes in the PRC and the provision of internet game services in Hong Kong. On the other hand, the construction of the production plant in Yichang City was completed, and the production was initiated in the third quarters of the year. It was the Board's closely monitoring the process of the construction progress so that this project was completed earlier than expected, and contribution, in term of turnover, was approximately of HK\$12,535,263.

## FINANCIAL REVIEW

Turnover was HK\$24,613,860 for the year under review, which represented an increase of 250% while compared with that of last year. The significant improvement was mainly contributed from the selling the FRP pipes. The audited profit before income tax for the year under review was approximately HK\$23,388,000 but it was a loss of approximately HK\$5,474,000 in the previous year. This great improvement was mainly contributed by recognizing government subsidy of approximately RMB29,391,000 (equivalent to approximately HK\$28 million) granted from The Management Committee of Yichang High-Tech Industry Development Zone (宜昌高新技術產業開發區管委會). The profit attributable to shareholders increased to approximately of HK\$23,382,000. However, even the business growth is the main concern of the Board, the Board will still adopt the stringent cost control and maintain thin and effective overhead structure and prudently utilize the corporate resources to create wealth for the shareholders.

## BUSINESS OUTLOOK AND PROSPECTS

The production of the FRP pipes is initiated, the management now will focus their effort on maintaining the production and operation process of the plant in Yichang City, and more resources will be put on increasing and enhancing the sales of the products.

On the other hand, in order to diversify and pursue more business opportunities for the shareholders of the Company, as stated in the announcement dated 8 March 2006, the management had entered into a Letter of Intent with Xin Shougang Zi Yuan Holdings Limited, a non-wholly owned subsidiary of Shougang Holding Limited, on 8 March 2006. This arrangement provides the Company the opportunities to involve in the mining business.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the net assets of the Group has increased to HK\$56,331,961 (2004: HK\$4,215,869) while its total assets were HK\$65,064,332 (2004: HK\$8,235,234) including cash and bank balances of approximately of HK\$5,890,000. With the current ratio of 3.03, the Group remained in a financially liquid position and is able to finance ongoing operations.



# Management Discussion and Analysis

## FUNDING ACTIVITIES DURING THE YEAR

During the year, the Company had raised funds from the following activities:

### 1. Rights Issue (“Rights Issue”)

Regarding the Rights Issue, the basis was one Right Share (the “Rights Share”) for every consolidated share held on the Record Date (i.e. 3 May 2005), as such, there were 118,272,000 Rights Shares issued based on the subscription price of HK\$0.25 for each Rights Share, the proceeds was 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) was applied for the repayment of a loan from Future Advance Holdings Limited (the “Future Advance”), the controlling shareholder of the Company, which in turn was applied for the settlement of the consideration of the acquisition of a piece of land situated in Yichang City (the “Acquisition”). The Rights Issue is fully underwritten by the Future Advance. Details of these were stated in the circular and the 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 increased 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 (“Capital Increase”). Details of these were stated in the circular dated 14 April 2005.

In addition, 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”) implemented the share consolidation (“Share Consolidation”), pursuant to which every five shares were consolidated into one consolidated share (the “Consolidated Share”). On the basis of that, the issued share capital of the Company comprised of 118,272,000 Consolidated Shares of HK\$0.025 each. Details of these were stated in the circular dated 14 April 2005.

On 3 May 2005, an Extraordinary General Meeting (the “EGM”) was held and resolutions were duly passed by poll for approving the Acquisition, Share Consolidation, Capital Increase and the Rights Issue. Details of the EGM results were stated in the announcement dated 3 May 2005. The Rights Issue was completed on 24 May 2005 at 4:00 p.m.



# Management Discussion and Analysis

## 2. Warrant Placing (“Warrants”)

On 18 August 2005, Warrant Placing Agreement was entered into between the Company and 胡玉 (Hu Yu) (the “Subscriber”) in relation to a private placing of 23,654,400 non-listed warrants (hereinafter referred as “Warrants”) at an issue price of HK\$0.02 per Warrant, the Warrants entitle the Subscriber to subscribe for New Shares of the Company at an initial exercise price of HK\$0.32 per New Share for a period of two years commencing from the date of issue of the Warrants. The net proceeds from the Warrants placing was approximately of HK\$350,000 which will be applied as general working capital of the Group. Details of these are stated in our announcements dated 18 August 2005 and 23 September 2005. The Warrants Placing was completed on 4 October 2005.

Except for the above, the Company has no other funds raising activities during the year under review. All the above funds raising activities was necessary for the development of the Company, they provide the Company present and future capital resources.

With the funds raised previously and the internal generated financial resources, the Group has cash and bank balances approximately of HK\$5,890,000, the directors of the Company (the “Directors”) anticipate that the Group have adequate financial resources to meet its ongoing operations and present development.

## GEARING RATIO

As at 31 December 2005, the Group had cash of approximately HK\$384,000 and RMB5,727,000 in its current assets while its current liabilities stood at approximately HK\$3,215,730. The Group had long-term loan of approximately HK\$5,498,000 as of 31 December 2005 and its shareholders’ funds amounted to approximately HK\$56,332,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 10% (long term loan to total equity) as of 31 December 2005.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi (“RMB”). No hedging or other alternatives have been implemented. As the exchange of Hong Kong dollars against RMB were relatively stable during the year, the Group’s exposure to currency exchange risk was minimal.

## CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (2004: Nil).



# Management Discussion and Analysis

## SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

## 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

The resolution for the Acquisition was duly passed, the Company had constructed a manufacturing plant on the land acquired and production of which was initiated then. Save as disclosed, the Group had no other significant investments for the year ended 31 December 2005.

## MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Company announced that a Letter of Intent for the formation of a joint venture company in the PRC, expecting to engage in mining of precious metal in Yichang City, Hubei Province, was entered into on 8 March 2006. The formal agreement is not yet entered into up to the approval date of this annual report. Save as disclosed, there were no material acquisition or disposal of subsidiaries and affiliated companies during the year. The Company has no other future plans for material investments.

## EMPLOYEE INFORMATION

As at 31 December 2005, the Group has 4 full-time employees working in Hong Kong and 25 full-time employees working in the PRC respectively. The total of employees' remuneration, for the year under review amounted to approximately HK\$1,883,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

# Biographical Details of Directors and Senior Management

## DIRECTORS

**Mr. Yu Hongzhi**, aged 44

*Chairman and Executive Director*

Mr. Yu joined the Group in February 2004. He is currently the chief director of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司). Mr. Yu graduated from Wuhan University (武漢大學) majoring in construction structure engineering in 1984. Prior to joining Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司), Mr. Yu has over 16 years since 1988 and worked for several power companies in the PRC. Since 1996, Mr. Yu has engaged in the business of investment banking and has over seven years of experience in investment and management.

**Ms. Ma Zheng**, aged 39

*Executive Director*

Ms. Ma joined the Group in February 2004. She is currently a general manager of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司) which is a private investment and development company. Ms. Ma has over 16 years of extensive experience in international trading, electronic industry and corporation management. She graduated from Wuhan University (武漢大學) majoring in construction structure engineering.

**Mr. Chiu Winerthan**, aged 50

*Executive Director*

Mr. Chiu joined the Group in March 2004. Mr. Chiu graduated from university majoring in Chemical Engineering and worked in the university as lecturer in 1982. He had studied and worked in USA for ten years. Since 1989, he had engaged in the business of investment and had over 16 years of experience in investment and management. Prior joining the Group, he worked for a subsidiary of a company listed on The Stock Exchange of Hong Kong Limited.

**Mr. Wan Tze Fan Terence**, aged 41

*Independent Non-executive Director*

Mr. Wan joined the Group in March 2004. Mr. Wan holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has years of experience in accounting and financial management. He has worked for international accounting firms and listed companies in Hong Kong. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountants of CPA Australia. Currently, he is the financial controller and company secretary of a company listed on The Stock Exchange of Hong Kong Limited.



## Biographical Details of Directors and Senior Management

**Mr. Liu Weichang**, aged 47

*Independent Non-executive Director*

Mr. Liu joined the Group in May 2005. Mr. Liu held a degree from Shenzhen University. He has over 22 years experience in the field of corporate management. Mr. Liu is a director and standing deputy general manager of Shenzhen China Travel Service (Cargo) Hong Kong Ltd. At the same time, he is a director of Shenzhen CTS (Hong Kong) Transportation Ltd.

**Mr. Gao Sheng Yu**, aged 69

*Independent Non-executive Director*

Mr. Gao joined the Group in February 2006. He is an adviser of Guangdong Nuclear Power Joint Venture Co., Limited and Yangjiang nuclear power plant. Mr. Gao had over 45 years working experience in operating and constructing power plants in the PRC. He is a professorship senior engineer and graduated from Xi An Electric Power College (西安電力學校) and then studied at Tsinghua University majoring in Power Plant and Grid System (發電廠電網及系統專業).

### SENIOR MANAGEMENT

**Mr. Chan Wai**, aged 37

*Financial Controller and Company Secretary*

Mr. Chan joined the Group in April 2004. Mr. Chan holds a master degree in Professional Accounting awarded from Hong Kong Polytechnic University. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan has over 13 years of experience in accounting field. Mr. Chan has worked for an international accounting firm and listed company in Hong Kong.



# Corporate Governance Report

## (A) CORPORATE GOVERNANCE PRACTICE

The Code on Corporate Governance Practice (“the CG Code”) as promulgated by the Stock Exchange had come into effect for the 2005 reporting year, and the Company has applied the principles and requirement of the CG Code, except for certain deviation as disclosed in this report, in the opinion of the Directors, the Company has met the code provisions set out in the CG Code contained in the Appendix 15 of the GEM Listing Rules.

## (B) DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (“the Code”) regarding securities transactions by Directors and relevant employees on terms no less than exacting the required standard of dealings set out in the Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors confirmed they have complied with the Code throughout the year and there is no directors’ securities transaction made during the year.

## (C) BOARD OF DIRECTORS

The Company is governed by a Board of Directors, which has the responsibility for leadership and control of the Company. These directors are collectively responsible for promoting the success of the Company by directing and supervising the Company’s affairs. Be more specifically, the Board formulates over strategy, monitors its financial performance and maintains effective oversight over the management. Daily operations and administration are delegated to the management.

The Board includes (up to the approval date of this financial statements) the Chairman, two other Executive Directors, and three Independent Non-Executive Directors, and their biographical details are in the section of Biographical Details of Directors and Senior Management.

There were 23 board meetings held during the year. The attendance of individual directors at the board meetings is set out below:

# Corporate Governance Report

Member	Attendance
Mr. Yu Hongzhi ( <i>note</i> )	16/23
Ms. Ma Zheng ( <i>note</i> )	20/23
Mr. Chiu Winerthan	22/23
Mr. Lang Fulai (resigned on 6 March 2006)	6/23
Mr. Wan Tze Fan Terence	15/23
Mr. Liu Weichang	2/23
Mr. Zhou Guang Qi (resigned on 26 May 2005)	1/23
Mr. Zhang Hongru (resigned on 18 November 2005)	1/23

*Note:* Mr. Yu Hongzhi and Ms. Ma Zheng attended a meeting by telephone.

For regular meeting, 14 days' notice (or shorter notice if there is no objection from the Directors) were given to all our Directors, and they were allowed freely to include other matters in the agenda of the regular board meeting. Company Secretary was required to attend the board meetings and will then draft the relevant minutes, and it will be finalized once the draft was circularized and approved by all Directors who attend the meetings. All minutes were kept in the Hong Kong's principal place of business and are open for inspection by Directors.

During the year, there was no conflict of interest in any matters between our substantial shareholders and Director. In addition, the director, whom the Board considers to be having a conflict of interest, will be required to abstain from voting.

## (D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As it was stated in our interim report 2005, we do not have an officer with the title of "Chief Executive Officer" (the "CEO"). The Code of Listing Rules 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 on the CEO. Mr. Yu Hongzhi, the Chairman, is also responsible for the operation of production plant in Yichang City: this constitutes a deviation of Code Provision A.2.1. The Board still holds the view that this arrangement is still the best for the running of the production plant because of Mr. Yu Hongzhi's extensive experience and knowledge of the industry. Mr. Yu Hongzhi will regularly inform the Board of the latest development of the plant in Yichang City. This is one of deviation from the CG Code, however, the Board will discuss the appointment of the post of CEO but only if it is in the best interest of the shareholders.





# Corporate Governance Report

## (E) APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with 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 than one-third, shall retire from office by rotation, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation. In addition, any Director at any time appoints 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 shall hold office only until next following annual general meeting of the Company and shall then be eligible for re-election. These deviated from the code provision of A.4.1 and A.4.2, which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the Articles of Association of the Company, the Board will propose a special resolution to amend the relevant Articles of Association of the Company at the AGM to be held on 27 April 2006 so as to comply with the said code provision. In the forthcoming AGM, the Company will still follow the existing Articles of Association for the Director's rotation for retirement.

## (F) NON-EXECUTIVE DIRECTORS

As at the approval date of this financial statements, the Company has three independent Non-executive Directors, they were Mr. Wan Tze Fan Terence ("Mr. Wan"), Mr. Liu Weichang ("Mr. Liu") and Mr. Gao Sheng Yu ("Mr. Gao"), except Mr. Gao who was appointed for a specific term of two years, the other two were not appointed for specific terms, but they are subject to rotation, retirement and re-election at each annual general meeting in accordance with the Company's Articles of Association. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election was fair and reasonable, and therefore will not change the terms of appointment of Mr. Wan and Mr. Liu.

## (G) REMUNERATION OF DIRECTORS

On 1 June 2005, the Board has established a remuneration committee with specific written terms of reference in compliance with the GEM Listing Rules. This terms of reference will be put on the Company's website once the site is ready for use. This terms of reference was already reviewed by all Directors before it was adopted. The remuneration committee is now consisting only of the independent non-executive Directors, which included Mr. Wan, Mr. Liu (appointed on 26 May 2005) and Mr. Gao (appointed on 17 February 2006). Mr. Wan is the chairman of the remuneration committee. The role and function of the remuneration committee included



# Corporate Governance Report

determination of the specific remuneration packages of all executive Directors, including benefit in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration. In view of the current situation of the Company, all Directors accept the recommendation of the remuneration committee not to change the current remuneration package until further recommendation from the remuneration committee.

## (H) RESPONSIBILITIES OF DIRECTORS

The Board will make sure every newly appointed director to have necessary information for their proper understanding of the operations and business of the Group and that they will be fully aware of his responsibilities under the statute and common law, the GEM Listing Rules and other regulatory requirements and governance policies of the Company. The Board will continually update with legal and regulatory developments, business and market changes and the development of the Company so as to facilitate the discharges of their responsibilities.

## (I) NOMINATION OF DIRECTORS

During the year under review, all new candidates were recommended by the Chairman of the Company, however, the determination of the candidate's appointment was rested on the Board, and it was the practice of the Company to have at least 50 per cent. of the Board members, with at least one of independent non-executive director's attendance, to review and consider the application. As such, this will ensure the involvement of the majority of member of the Board, with the opinion of the independent non-executive director, in considering the candidate's application. The Board considered this practice is fair and reasonable, so there is no nomination committee established during the year. In addition, the Board also made the recommendation for the rotation of the Director for the forthcoming AGM.

However, in order to establish a formal written procedure for the appointment of new directors to the Board. A nomination committee will be established. The nomination committee will consist of four members and they are, Mr. Yu Hongzhi, the chairman of the Company and also the chairman of the nomination committee, and three independent non-executive Directors, which included Mr. Wan, Mr. Liu and Mr. Gao. The role and function of the nomination committee is to make recommendation on the appointment and removal of Directors.

# Corporate Governance Report

## (J) AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Mr. Wan, Mr. Liu (appointed on 26 May 2005) and Mr. Gao (appointed on 17 February 2006). All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Wan.

The audit committee held 4 meetings during the year under review. Details of attendance of the audit committee meetings are as follows:

Member	Attendance
Mr. Wan Tze Fan Terence	4/4
Mr. Zhang Hongru (by telephone) (resigned on 18 November 2005)	4/4
Mr. Liu Weichang	1/4

## (K) AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK\$533,000 to the external auditors for their audit and non-audit services. There are no other services provided by the external auditors to the Group.

## (L) INTERNAL CONTROL

The Company has regularly discuss the effectiveness of the internal control system with the management team in Yichang City since it is our main production base for producing the FRP pipes, and the full operation was only commenced in the third quarter of 2005. The Directors are of view that the existing system of internal control is effective, but the Company will review internal system regularly afterwards.



# Corporate Governance Report

## (M) INVESTOR RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. The Company also replied the enquires from shareholders upon their requested. The Directors host the annual general meeting each year to meet and answer the Shareholders.



# Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 26 to page 73.

The directors do not recommend the payment of a dividend.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 to the financial statements.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company does not have any reserves available for distribution as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

# Directors' Report

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74 of the annual report.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

### EXECUTIVE DIRECTORS

Mr. Yu Hongzhi

Ms. Ma Zheng

Mr. Lang Fulai (resigned on 6 March 2006)

Mr. Chiu Winerthan

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Tze Fan Terence

Mr. Liu Weichang (appointed on 26 May 2005)

Mr. Zhang Hongru (resigned on 18 November 2005)

Mr. Zhou Guang Qi (resigned on 26 May 2005)

Mr. Gao Sheng Yu (appointed on 17 February 2006)

In accordance with article 86(3) of the Company's Articles of Association, Mr. Liu Weichang and Mr. Gao Sheng Yu will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 87(1) of the Company's Articles of Association, Ms. Ma Zheng and Mr. Chiu Winerthan will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. All other remaining directors will continue in office.





# Directors' Report

All directors, except for the chairman and managing director but including the non-executive Directors, are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association.

Mr. Wan Tze Fan Terence and Mr. Liu Weichang are independent non-executive Directors and were appointed without a specific term.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 10 to page 11 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Mr. Chiu Winerthan, Executive Director, has entered into a service contract with the Company for a term of two years from 1 April 2005 and subject to termination by either party giving not less than three months' written notice. This service contract is exempt from the shareholders' approval requirement under Rule 17.90 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange (the "GEM Listing Rules").

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

## DIRECTORS' INTERESTS

Save as disclosed in note 27 to the financial statements, no contract of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2005, the interests and short positions of each director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of the Securities and Future Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company, were as follows:

# Directors' Report

Long position in the ordinary shares of HK\$0.025 each in the Company at 31 December 2005:

Name of directors	Number of ordinary shares held				Total	Approximate percentage of interests
	Personal interests	Family interests	Corporate interests (Note)	Other interests		
Mr. Lang Fulai	-	-	128,809,723	-	128,809,723	54.5%
Mr. Yu Hongzhi	-	-	128,809,723	-	128,809,723	54.5%

Note: 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 31 December 2005, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company. These interests are in addition to those disclosed above in respect of the directors and chief executives:

# Directors' Report

Long position in the ordinary shares of HK\$0.025 each in the Company:

Name of shareholders	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Future Advance Holdings Limited	Beneficial	128,809,723	54.5%
China Zong Heng Holdings Limited	Corporate (Note)	128,809,723	54.5%

Note: These shares are held by 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 31 December 2005, the directors are not aware of any other person (other than director or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 17 March 2004, the Company had forfeited all the outstanding share options granted from a pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, which means that all the outstanding share options were cancelled and extinguished. For further details of these, please refer to our announcement dated 17 March 2004. As at 31 December 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



# Directors' Report

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, at no time during the year 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.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 99.6% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 73.8%.

Purchases from the Group's largest supplier accounted for approximately 32.6% of the total purchases for the year and the five largest suppliers accounted for approximately 94.6% of the Group's total purchases for the year.

## CORPORATE GOVERNANCE

Subject to the deviations as disclosed in the Corporate Governance Report, the Company has complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practice to the GEM Listing Rules during the year under review.

## 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 financial statements for the year ended 31 December 2005 have been reviewed by the audit committee, who was of the opinion that the preparation of such financial statements complies with applicable accounting standards and requirements, and adequate disclosures have been made.



# Directors' Report

## REMUNERATION COMMITTEE

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

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

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, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict interests with the Group during the year ended 31 December 2005.

## SUBSEQUENT EVENTS

Details of the subsequent events are disclosed in the note 28 of this financial statements.

## AUDITORS

The financial statements of the Company for the years ended 31 December 2004 and 2005 were audited by Messrs. Grant Thornton. A resolution to re-appoint the retiring auditors, Messrs. Grant Thornton, will be put at the forthcoming annual general meeting of the Company.

The financial statements of the Company for the year ended 31 December 2003 were audited by Messrs. Charles Chan, Ip & Fung CPA Ltd. and there have been no other changes of auditors of the Company in the past three years.

On behalf of the board

**Yu Hongzhi**

*Chairman*

Hong Kong, 27 March 2006

# Auditors' Report

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

## To the members of China Advance Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 26 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Grant Thornton

Certified Public Accountants  
Hong Kong

27 March 2006



# Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 HK\$	2004 HK\$
<b>Revenue</b>	5	<b>24,613,860</b>	7,038,482
Other operating income	5	<b>27,995,197</b>	223,924
Cost of trading merchandise sold		<b>(11,733,291)</b>	(5,593,733)
Raw materials and consumables used		<b>(11,578,185)</b>	–
Staff costs, including directors' remuneration	12	<b>(1,883,744)</b>	(2,070,027)
Depreciation		<b>(530,894)</b>	(601,464)
Amortisation on land use rights		<b>(389,937)</b>	–
Royalties for game contents		<b>(180,602)</b>	(531,564)
Research and development costs		–	(103,000)
Marketing and promotion expenses		<b>(5,235)</b>	(219,838)
Other operating expenses		<b>(2,759,825)</b>	(3,605,330)
<b>Operating profit/(loss)</b>		<b>23,547,344</b>	(5,462,550)
Finance costs	7	<b>(159,317)</b>	(11,457)
<b>Profit/(Loss) before income tax</b>	8	<b>23,388,027</b>	(5,474,007)
Income tax expense	9	<b>(5,876)</b>	(195,444)
<b>Profit/(Loss) for the year</b>	10	<b>23,382,151</b>	(5,669,451)
<b>Earnings/(Loss) per share</b>	11		
Basic		<b>HK12.1 cents</b>	(HK5.1 cents)
Diluted		<b>HK12.0 cents</b>	N/A

# Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 HK\$	2004 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	26,192,868	851,918
Land use rights	16	29,132,831	–
		<b>55,325,699</b>	851,918
<b>Current assets</b>			
Inventories	18	3,315,734	–
Trade receivables	19	116,696	725,326
Prepayments, deposits and other receivables		407,030	1,479,076
Tax refundable		9,301	–
Cash and cash equivalents	20	5,889,872	5,178,914
		<b>9,738,633</b>	7,383,316
<b>Current liabilities</b>			
Trade payables	21	(2,155)	(396,761)
Accruals and other payables		(2,813,575)	(437,921)
Provision for tax		–	(168,042)
Loans from ultimate holding company	22	(400,000)	–
		<b>(3,215,730)</b>	(1,002,724)
<b>Net current assets</b>		<b>6,522,903</b>	6,380,592
<b>Total assets less current liabilities</b>		<b>61,848,602</b>	7,232,510
<b>Non-current liabilities</b>			
Loans from ultimate holding company	22	(5,497,701)	(2,997,701)
Deferred tax liabilities	23	(18,940)	(18,940)
		<b>(5,516,641)</b>	(3,016,641)
<b>Net assets</b>		<b>56,331,961</b>	4,215,869
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	24	5,913,600	2,956,800
Reserves	25	50,418,361	1,259,069
<b>Total equity</b>		<b>56,331,961</b>	4,215,869

Yu Hongzhi  
Director

Ma Zheng  
Director

# Balance Sheet

As at 31 December 2005

	<i>Notes</i>	<b>2005</b> <b>HK\$</b>	2004 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current asset</b>			
Interests in subsidiaries	17	<b>312,000,000</b>	–
<b>Current assets</b>			
Prepayments, deposits and other receivables		–	173,829
Amounts due from subsidiaries	17	<b>30,240,461</b>	975,000
Cash and cash equivalents	20	<b>1,014</b>	2,433
		<b>30,241,475</b>	1,151,262
<b>Current liabilities</b>			
Accruals and other payables		<b>(420,951)</b>	(265,857)
Amounts due to subsidiaries	17	<b>(313,776,565)</b>	(1,766,567)
Loans from ultimate holding company	22	<b>(400,000)</b>	–
		<b>(314,597,516)</b>	(2,032,424)
<b>Net current liabilities</b>		<b>(284,356,041)</b>	(881,162)
<b>Total assets less current liabilities</b>		<b>27,643,959</b>	(881,162)
<b>Non-current liabilities</b>			
Loans from ultimate holding company	22	<b>(5,497,701)</b>	(2,997,701)
<b>Net assets/(liabilities)</b>		<b>22,146,258</b>	(3,878,863)
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	24	<b>5,913,600</b>	2,956,800
Reserves	25	<b>16,232,658</b>	(6,835,663)
<b>Total equity</b>		<b>22,146,258</b>	(3,878,863)

Yu Hongzhi  
Director

Ma Zheng  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital	Share premium account	Statutory surplus reserve	Statutory public welfare reserve	Accumulated losses	Warrants reserve	Exchange translation reserve	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2004	2,200,000	33,527,560	-	-	(38,151,662)	-	-	(2,424,102)
Loss for the year	-	-	-	-	(5,669,451)	-	-	(5,669,451)
Transfer to capital reserves	-	-	34,272	17,136	(51,408)	-	-	-
Total recognised income and expense for the year	-	-	34,272	17,136	(5,720,859)	-	-	(5,669,451)
Issuance of new shares	756,800	11,753,280	-	-	-	-	-	12,510,080
Share issue expenses	-	(200,658)	-	-	-	-	-	(200,658)
<b>Balance at 31 December 2004 and 1 January 2005</b>	<b>2,956,800</b>	<b>45,080,182</b>	<b>34,272</b>	<b>17,136</b>	<b>(43,872,521)</b>	<b>-</b>	<b>-</b>	<b>4,215,869</b>
Currency translation (Net income recognised directly in equity)	-	-	-	-	-	-	887,536	887,536
Profit for the year	-	-	-	-	23,382,151	-	-	23,382,151
Transfer to capital reserves	-	-	2,816,809	1,408,404	(4,225,213)	-	-	-
Total recognised income and expense for the year	-	-	2,816,809	1,408,404	19,156,938	-	887,536	24,269,687
Issuance of rights shares	2,956,800	26,611,200	-	-	-	-	-	29,568,000
Rights share issue expenses	-	(2,194,683)	-	-	-	-	-	(2,194,683)
Issuance of warrants	-	-	-	-	-	473,088	-	473,088
<b>Balance at 31 December 2005</b>	<b>5,913,600</b>	<b>69,496,699</b>	<b>2,851,081</b>	<b>1,425,540</b>	<b>(24,715,583)</b>	<b>473,088</b>	<b>887,536</b>	<b>56,331,961</b>

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 HK\$	2004 HK\$
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		23,388,027	(5,474,007)
Adjustments for:			
Depreciation	8	638,310	601,464
Amortisation on land use rights	8	389,937	–
Loss on disposal of property, plant and equipment	8	–	481,180
Bank interest income	5	(1,323)	(2,085)
Loan interest expenses	7	159,317	11,457
		<hr/>	<hr/>
Operating profit/(loss) before working capital changes		24,574,268	(4,381,991)
Increase in inventories		(3,315,734)	–
Decrease in trade receivables		608,630	576,328
Decrease/(Increase) in prepayments, deposits and other receivables		1,072,046	(913,677)
(Decrease)/Increase in trade payables		(394,606)	396,761
Increase/(Decrease) in accruals and other payables		2,375,654	(2,468,765)
		<hr/>	<hr/>
Cash generated from/(used in) operations		24,920,258	(6,791,344)
Interest received		1,323	2,085
Interest paid		–	(11,457)
Overseas income taxes paid		(183,219)	(761)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		24,738,362	(6,801,477)
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(25,979,776)	(938,735)
Purchases of land use rights		(29,526,519)	–
Proceeds from disposal of property, plant and equipment		–	59,500
		<hr/>	<hr/>
Net cash used in investing activities		(55,506,295)	(879,235)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital		29,568,000	12,510,080
Share issue expenses		(2,194,683)	(200,658)
Proceeds from issuance of warrants		473,088	–
Loans from ultimate holding company		32,468,000	–
Repayment of loans from ultimate holding company		(29,568,000)	(31,812)
Loan interest paid		(159,317)	–
		<hr/>	<hr/>
Net cash generated from financing activities		30,587,088	12,277,610
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(180,845)</b>	<b>4,596,898</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>5,178,914</b>	<b>582,016</b>
<b>Effect of foreign exchange rate changes</b>		<b>891,803</b>	<b>–</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	20	<b>5,889,872</b>	<b>5,178,914</b>



# Notes to the Financial Statements

For the year ended 31 December 2005

## 1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands, as an exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and, its principal place of business is in Hong Kong. The Company's shares are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements. As at 31 December 2005, the directors consider the ultimate holding company of the Company to be Future Advance Holdings Limited ("Future Advance"), a company incorporated in the British Virgin Islands.

The financial statements on pages 26 to 73 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 27 March 2006.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 2. ADOPTION OF NEW/REVISED HKFRS

From 1 January 2005, the Group has adopted the new/revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share – based Payment
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

The adoption of new/revised standards did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards did not result in any significant changes to the amounts or disclosures in these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 2. ADOPTION OF NEW/REVISED HKFRS (Continued)

The Group has not early adopted the following Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a lease <sup>2</sup>
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

### 3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

### 3.4 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the company.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.4 Foreign currency translation *(Continued)*

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange translation reserve in equity.

### 3.5 Income and expenses recognition

Revenue comprises the fair value for the sale of goods and services, and net of rebates. Revenue is recognised as follows:

- sale of goods are recognised upon transfer of risk to the customer and collectibility of the related receivables is reasonably assured;
- income from the provision of Game-On-Demand services and Massive Multiplayer Online Game ("MMOG") services are recognised at the time when the services are provided;
- income from sales of Online Arcade Game machines and other goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed; and
- interest income is recognised on a time-proportion basis using the effective interest method.

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.6 Borrowing costs

All borrowing costs are expensed as incurred.

### 3.7 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	over the lease terms
Leasehold improvements	4 years or over the lease terms, whichever is shorter
Computer equipment	5 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### 3.8 Land use rights

Land use rights represent up-front payments to acquire long term interest in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight line basis net of any impairment losses.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.9 Impairment testing of property, plant and equipment, land use rights and interests in subsidiaries

The Group's property, plant and equipment, land use rights and interests in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Any impairment loss is charged pro rata to the assets in the cash generating unit. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, net of depreciation or amortisation, if no impairment had been recognised.

### 3.10 Operating leases

Leases where substantially all the rewards and risks of ownership of leased assets remain with the lessor are account for as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

### 3.11 Financial assets

The Group's financial assets include trade receivables, deposits and other receivables and cash and cash equivalents. They are included in balance sheet line items 'Trade receivables', 'Prepayments, deposits and other receivables', and 'Cash and cash equivalents'.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.11 Financial assets *(Continued)*

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment loss. Any change in their value is recognised in income statement. Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

### 3.12 Inventories

Inventories comprise raw materials, supplies and purchased goods. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. At the balance sheet date, inventories are carried at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### 3.13 Accounting for income taxes

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. No deferred taxes are recognised on temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.13 Accounting for income taxes *(Continued)*

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

### 3.14 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposit.

### 3.15 Equity

Share capital is determined using the nominal value of shares that have been issued.

Share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Warrants reserve is determined using the issue price of the warrants that have been issued.

Exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the subsidiaries originally presented in a currency different from the Group's presentation currency.

### 3.16 Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.16 Employee benefits *(Continued)*

#### (ii) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to relevant rules and regulations in the People's Republic of China ("PRC"), each of the Company's subsidiaries operating in the PRC is required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of the employees to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

### 3.17 Financial liabilities

The Group's financial liabilities include trade payables, accruals and other payables and loans from ultimate holding company. They are included in balance sheet line items 'Trade payables', 'Accruals and other payables' and 'Loans from ultimate holding company'.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest rate method.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.17 Financial liabilities *(Continued)*

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 3.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants awarded for the purpose of giving immediate financial support to the Group rather than as an incentive to undertake specific expenditure is recognised as income in the period in which the Group qualifies to receive it.

### 3.19 Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes, are recognised as intangible assets if the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development. The development costs capitalised include the cost of materials, direct labour and an appropriate proportion of overheads. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.20 Related parties

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the Group;
  - has an interest in the Group that gives it significant influence over the Group;  
or
  - has joint control over the Group;
- (ii) the party is a member of the key management personnel of the Company or its parent;
- (iii) the party is a close member of the family of any individual referred to in (i) or (ii);
- (iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii); or
- (v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### 3.21 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets in business segment consist primarily of buildings, plant and equipment, land use rights, inventories and trade receivables, and mainly exclude cash at banks and in hand. Segment liabilities in business segment comprise operating liabilities and exclude items such as accrual for common expenses.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 3.21 Segment reporting *(Continued)*

Capital expenditure comprises additions to property, plant and equipment and land use rights.

In respect of geographical segment reporting, sales are based on the jurisdiction in which the customer is located and total assets and capital expenditure are where the assets are located.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Depreciation

The Group depreciated and amortised the property, plant and equipment on a straight-line basis over the estimated useful lives of 4 to 50 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

### 4.2 Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibility and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 5. REVENUE AND OTHER OPERATING INCOME

Revenue, which is also turnover represents the value of services provided and net invoiced value of goods sold. Revenue recognised during the year is as follows:

	2005 HK\$	2004 HK\$
<b>Revenue</b>		
Game-On-Demand service income	199	68,262
MMOG service income	224,385	516,470
	<hr/>	<hr/>
Provision of services	224,584	584,732
	<hr/>	<hr/>
Sales of online Arcade Game machines	–	289,266
Sales of Composite Materials	11,854,013	6,164,484
Manufacturing and sales of FRP pipes	12,535,263	–
	<hr/>	<hr/>
Sales of goods	24,389,276	6,453,750
	<hr/>	<hr/>
	24,613,860	7,038,482
	<hr/>	<hr/>
<b>Other operating income</b>		
Government grants ( <i>Note</i> )	27,991,273	–
Bank interest income	1,323	2,085
Others	2,601	221,839
	<hr/>	<hr/>
	27,995,197	223,924
	<hr/>	<hr/>
<b>Total</b>	<b>52,609,057</b>	<b>7,262,406</b>

*Note:* Government grants are awarded for the purpose of giving immediate financial support to the Group rather than as an incentive to undertake specific expenditures. Accordingly, the directors considered the government grants are revenue in nature.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 6. SEGMENT REPORTING

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- Sales of Fibre Glass Reinforced Plastic ("FRP") pipes, raw materials and composite materials (collectively as the "Composite Materials")
- Manufacturing and sales of FRP pipes
- Game-On-Demand services
- MMOG services
- Sales of Online Arcade Game Machines

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There was no intersegment sale and transfer during the year (2004: Nil).

# Notes to the Financial Statements

For the year ended 31 December 2005

## 6. SEGMENT REPORTING (Continued)

### (a) Business segment

	Game-On-Demand services		MMOG services		Sales of Online Arcade Game machines		Sales of Composite Materials		Manufacturing and sales of FRP pipes		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Revenue from external customers</b>	199	68,262	224,385	516,470	-	289,266	11,854,013	6,164,484	12,535,263	-	24,613,860	7,038,482
Cost of services provided	(21,667)	(182,645)	(164,170)	(475,986)	-	(92,771)	-	-	-	-	(185,837)	(751,402)
Cost of goods sold	-	-	-	-	-	-	(11,733,291)	(5,593,733)	(11,578,185)	-	(23,311,476)	(5,593,733)
Other operating expenses	(27,742)	(488,306)	(24,098)	(3,694,521)	-	(2,069,238)	(518,880)	(127,756)	(548,700)	-	(1,119,420)	(6,379,821)
Segment results	(49,210)	(602,689)	36,117	(3,654,037)	-	(1,872,743)	(398,158)	442,995	408,378	-	(2,873)	(5,686,474)
Other operating income											27,995,197	223,924
Finance costs											(159,317)	(11,457)
Unallocated expenses											(4,444,980)	-
Profit/(Loss) before income tax											23,388,027	(5,474,007)
Income tax expense											(5,876)	(195,444)
Profit/(Loss) for the year											23,382,151	(5,669,451)
<b>Assets</b>												
Segment assets	-	-	-	-	-	-	-	1,628,224	57,511,219	-	57,511,219	1,628,224
Unallocated assets											7,553,113	6,607,010
Total assets											65,064,332	8,235,234
<b>Liabilities</b>												
Segment liabilities	-	-	-	-	-	-	-	(400,054)	(2,155)	-	(2,155)	(400,054)
Unallocated liabilities											(8,730,216)	(3,619,311)
Total liabilities											(8,732,371)	(4,019,365)
<b>Other information</b>												
Capital expenditure	-	-	-	-	-	-	-	12,285	54,713,137	-	54,713,137	12,285
Unallocated capital expenditures											793,158	926,450
Total capital expenditures											55,506,295	938,735
Depreciation for the year											638,310	601,464
Amortisation on land use rights											389,937	-

# Notes to the Financial Statements

For the year ended 31 December 2005

## 6. SEGMENT REPORTING (Continued)

### (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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment revenue:						
Revenue from external customers	<b>224,584</b>	873,998	<b>24,389,276</b>	6,164,484	<b>24,613,860</b>	7,038,482
Other segment information:						
Segment assets	<b>837,194</b>	1,510,029	<b>64,227,138</b>	6,725,205	<b>65,064,332</b>	8,235,234
Capital expenditure	<b>319</b>	454,696	<b>55,505,976</b>	484,039	<b>55,506,295</b>	938,735

## 7. FINANCE COSTS

	2005 HK\$	2004 HK\$
Interest charges on loans from		
– ultimate holding company	<b>159,317</b>	–
– former shareholder	–	11,457

# Notes to the Financial Statements

For the year ended 31 December 2005

## 8. PROFIT/(LOSS) BEFORE INCOME TAX

	2005 HK\$	2004 HK\$
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as an expense	<b>23,311,476</b>	5,593,733
Cost of services provided	<b>185,837</b>	751,402
Operating lease charges on land and buildings	<b>547,404</b>	571,786
Auditors' remuneration	<b>312,858</b>	262,381
Amortisation on land use rights	<b>389,937</b>	–
Depreciation ( <i>Note</i> )	<b>638,310</b>	601,464
Loss on disposal of property, plant and equipment	–	481,180
Net exchange (gain)/loss	<b>(4,571)</b>	2,639

*Note:* Depreciation expense of HK\$107,416 (2004: HK\$Nil) has been expensed in cost of goods sold and HK\$530,894 (2004: HK\$601,464) in administrative expenses.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 9. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil).

During the year, taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdiction in which the Group operates.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, 宜昌富連江複合材料有限公司, a wholly-owned subsidiary of the Company, established as a wholly foreign-owned enterprise in the PRC, is entitled to an exemption from the PRC state and local corporate income tax for the first two profitable financial years of its operation and thereafter a 50% relief from the state corporate income tax of the PRC for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday, the usual PRC corporate income tax rate is 33%, comprising a state corporate income tax rate of 30% and a local corporate income tax rate of 3%. No provision for PRC income tax has been made as the subsidiary was exempted from PRC income tax during the year.

	2005 HK\$	2004 HK\$
<b>Current tax</b>		
Hong Kong profits tax	—	—
Overseas taxation		
– current year	—	168,803
– under provision in prior year	<b>5,876</b>	—
	<b>5,876</b>	168,803
<b>Deferred tax</b>		
Current year (Note 23)	—	26,641
	<b>5,876</b>	195,444

As at 31 December 2005, the Group has tax losses arising in Hong Kong of approximately HK\$35,855,865 (2004: HK\$33,925,728) and overseas of approximately HK\$1,034,722 (2004: HK\$552,802) 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 arisen in group companies that have been loss-making for some time.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 9. INCOME TAX EXPENSE *(Continued)*

Reconciliation between tax expense and profit/(loss) before income tax at applicable tax rates is as follows:

	2005 HK\$	2004 HK\$
Profit/(Loss) before income tax	<u>23,388,027</u>	<u>(5,474,007)</u>
Tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	3,324,808	(852,047)
Tax effect of non-deductible expenses	13,503,092	385,948
Tax effect of non-taxable revenue	(17,286,356)	(128,978)
Tax effect of tax losses not recognised	458,456	790,521
Under provision in prior year	<u>5,876</u>	<u>–</u>
Income tax expense	<u>5,876</u>	<u>195,444</u>

## 10. PROFIT/(LOSS) FOR THE YEAR

Of the consolidated profit for the year attributable to equity holders of the Company of HK\$23,382,151 (2004: loss of HK\$5,669,451), a loss of HK\$1,821,284 (2004: loss of HK\$17,294,372) has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 11. EARNINGS/(LOSS) PER SHARE

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

	2005 HK\$	2004 HK\$
Profit/(Loss) for the year for the purposes of calculating basic and diluted earnings/(loss) per share	<b>23,382,151</b>	(5,669,451)
Weighted average number of shares for the purposes of calculating basic earnings/(loss) per share	<b>193,238,672</b>	111,055,563 (as adjusted)
Effect of dilutive potential shares relating to outstanding warrants	<b>1,984,080</b>	
Weighted average number of shares for the purposes of calculating diluted earnings per share	<b>195,222,752</b>	

The weighted average number of shares for the purposes of calculating basic earnings/(loss) per share for the year 2004 has been adjusted to reflect the share consolidation and issuance of rights shares on 3 May 2005 as detailed in note 24 to the financial statements.

No diluted loss per share is presented for year 2004 as the share options had an anti-dilutive effect on the basic loss per share.

## 12. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2005 HK\$	2004 HK\$
Wages and salaries	<b>1,839,570</b>	1,982,829
Pension costs – defined contribution plans	<b>44,174</b>	87,198
	<b>1,883,744</b>	2,070,027

# Notes to the Financial Statements

For the year ended 31 December 2005

## 13. DIRECTORS' REMUNERATION

The emoluments paid or payable to the directors were as follows:

	Fees HK\$	Salaries and allowances HK\$	Retirement benefit scheme contributions HK\$	Total HK\$
<b>2005</b>				
<b>Executive directors</b>				
Mr. Chiu Winerthan	–	360,000	8,000	368,000
Ms. Ma Zheng	–	–	–	–
Mr. Yu Hongzhi	–	–	–	–
Mr. Lang Fulai	–	–	–	–
	<u>–</u>	<u>360,000</u>	<u>8,000</u>	<u>368,000</u>
<b>Independent non-executive directors</b>				
Mr. Wan Tze Fan Terence	120,000	–	–	120,000
Mr. Liu Weichang	–	–	–	–
Mr. Zhang Hongru	105,667	–	–	105,667
Mr. Zhou Guang Qi	–	–	–	–
	<u>225,667</u>	<u>–</u>	<u>–</u>	<u>225,667</u>
<b>Total</b>	<u>225,667</u>	<u>360,000</u>	<u>8,000</u>	<u>593,667</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 13. DIRECTORS' REMUNERATION (Continued)

	Fees HK\$	Salaries and allowances HK\$	Retirement benefit scheme contributions HK\$	Total HK\$
2004				
Executive directors				
Mr. Chiu Winerthan	216,667	–	–	216,667
Mr. Wong Hon Kit	–	–	5,000	5,000
Ms. Ma Zheng	–	–	–	–
Mr. Yu Hongzhi	–	–	–	–
Mr. Lang Fulai	–	–	–	–
Mr. Cheng Kar Shing	–	100,000	–	100,000
Mr. Leung Wai Keung	–	–	–	–
Mr. Li Ka Kui	–	–	–	–
Mr. Ng, Kenny Chi Kin	–	–	–	–
	<u>216,667</u>	<u>100,000</u>	<u>5,000</u>	<u>321,667</u>
Independent non-executive directors				
Mr. Wan Tze Fan Terence	90,657	–	–	90,657
Mr. Zhang Hongru	31,000	–	–	31,000
Mr. Zhou Guang Qi	–	–	–	–
Mr. Fung Hoo Wing, Thomas	–	–	–	–
Mr. Tung Wai Wa, Wallace	–	–	–	–
Mr. Cheung Hon Kit	100,000	–	–	100,000
Mr. Ma Ching Nam	100,000	–	–	100,000
	<u>321,657</u>	<u>–</u>	<u>–</u>	<u>321,657</u>
Total	<u>538,324</u>	<u>100,000</u>	<u>5,000</u>	<u>643,324</u>

# Notes to the Financial Statements

For the year ended 31 December 2005

## 14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included two (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: two) individuals during the year are as follows:

	2005 HK\$	2004 HK\$
Basic salaries and other benefits	1,310,700	973,631
Discretionary bonuses	93,900	25,347
Retirement benefit scheme contributions	37,340	–
	<u>1,441,940</u>	<u>998,978</u>

The emoluments fell within the following bands:

	Number of individuals	
	2005 HK\$	2004 HK\$
Emolument bands HK\$nil – HK\$1,000,000	<u>3</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

No share options have been granted to any of the director of the Company or the five highest paid individuals of the Group to subscribe for ordinary shares of the Company for both years.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Leasehold improvements	Computer equipment	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2004							
Cost	-	597,889	1,066,677	-	426,287	-	2,090,853
Accumulated depreciation	-	(404,671)	(408,998)	-	(221,857)	-	(1,035,526)
Net book amount	-	193,218	657,679	-	204,430	-	1,055,327
Year ended 31 December 2004							
Opening net book amount	-	193,218	657,679	-	204,430	-	1,055,327
Additions	-	635,489	256,083	-	47,163	-	938,735
Disposals	-	(27,658)	(384,107)	-	(128,915)	-	(540,680)
Depreciation	-	(408,143)	(145,829)	-	(47,492)	-	(601,464)
Closing net book amount	-	392,906	383,826	-	75,186	-	851,918
At 31 December 2004							
Cost	-	635,489	738,696	-	110,054	-	1,484,239
Accumulated depreciation	-	(242,583)	(354,870)	-	(34,868)	-	(632,321)
Net book amount	-	392,906	383,826	-	75,186	-	851,918
Year ended 31 December 2005							
Opening net book amount	-	392,906	383,826	-	75,186	-	851,918
Exchange difference	(1,292)	-	2,025	(999)	-	(250)	(516)
Additions	20,354,036	-	113,148	4,832,582	319	679,691	25,979,776
Depreciation	(134,401)	(210,576)	(141,319)	(103,968)	(22,059)	(25,987)	(638,310)
Closing net book amount	20,218,343	182,330	357,680	4,727,615	53,446	653,454	26,192,868
At 31 December 2005							
Cost	20,354,036	635,489	851,844	4,832,582	110,373	679,691	27,464,015
Accumulated depreciation	(134,401)	(453,159)	(496,189)	(103,968)	(56,927)	(25,987)	(1,270,631)
Exchange difference	(1,292)	-	2,025	(999)	-	(250)	(516)
Net book amount	20,218,343	182,330	357,680	4,727,615	53,446	653,454	26,192,868



# Notes to the Financial Statements

For the year ended 31 December 2005

## 15. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

The Group's buildings are situated in the PRC. As at 31 December 2005, the Group is still in the process of obtaining the building ownership certificate for the buildings with a net book value of HK\$20,218,343 as at 31 December 2005 (2004: Nil). The buildings are erected on land for which relevant land use rights certificate has been obtained by the Group. As confirmed by the Group's legal advisor, the Group has obtained the right to use the buildings. Once the Group has obtained the relevant certificate, the Group has the right to assign, lease or mortgage the buildings.

## 16. LAND USE RIGHTS – GROUP

	HK\$
Year ended 31 December 2005	
Additions	29,526,519
Amortisation charge for the year	(389,937)
Exchange difference	(3,751)
	<hr/>
Closing net book amount	29,132,831
	<hr/>
At 31 December 2005	
Cost	29,526,519
Accumulated amortisation	(389,937)
Exchange difference	(3,751)
	<hr/>
Net book amount	29,132,831
	<hr/>

The land use rights is held outside Hong Kong on a medium term lease.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$	2004 HK\$
Unlisted investments, at cost	<b>318,791,403</b>	6,791,403
Less: Impairment loss	<b>(6,791,403)</b>	(6,791,403)
	<b>312,000,000</b>	–
Amounts due from subsidiaries	<b>60,464,862</b>	31,199,401
Less: Provision for amounts due from subsidiaries	<b>(30,224,401)</b>	(30,224,401)
	<b>30,240,461</b>	975,000
Amounts due to subsidiaries	<b>(313,776,565)</b>	(1,766,567)

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries as at 31 December 2005 are as follows:

Name	Place of incorporation and operation	Particulars of issued capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
e-gameasia.com Limited	British Virgin Islands ("BVI")	10,279,450 ordinary shares of HK\$1 each	100%	–	Investment holding
Billybala iGame Limited	Hong Kong	7 ordinary shares of HK\$1 each	–	100%	Provision of Internet game platform licensing and Game-On-Demand services

# Notes to the Financial Statements

For the year ended 31 December 2005

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operation	Particulars of issued capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Billybala Software (BVI) Limited	BVI	1 ordinary share of US\$0.01	100%	–	Investment holding
宜昌富連江複合材料有限公司 (Note)	PRC	HK\$32,380,000	–	100%	Trading of merchandise and manufacturing of FRP pipes
Shoukong Group Limited*	BVI	20,000,000 ordinary shares of US\$1 each	100%	–	Inactive
Sure Whole Investments Limited*	BVI	20,000,000 ordinary shares of US\$1 each	100%	–	Inactive

\* Newly incorporated during the year

Note:

宜昌富連江複合材料有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 10 years up to June 2014.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 18. INVENTORIES

	Group	
	2005	2004
	HK\$	HK\$
Raw materials	<b>3,315,734</b>	–

## 19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2005	2004
	HK\$	HK\$
Within 30 days	<b>8,153</b>	68,067
31 – 60 days	<b>1,647</b>	645,709
61 – 90 days	–	11,550
Over 90 days	<b>106,896</b>	–
	<b>116,696</b>	725,326

# Notes to the Financial Statements

For the year ended 31 December 2005

## 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group	
	2005 HK\$	2004 HK\$
Cash at banks and in hand	<b>5,889,872</b>	5,178,914

  

	Company	
	2005 HK\$	2004 HK\$
Cash at banks and in hand	<b>1,014</b>	2,433

Included in cash at banks and in hand of the Group is HK\$5,506,307 (2004:HK\$4,662,591) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

## 21. TRADE PAYABLES

The aging of the Groups' trade payables is analysed as follows:

	Group	
	2005 HK\$	2004 HK\$
31-60days	<b>2,155</b>	396,761

## 22. LOANS FROM ULTIMATE HOLDING COMPANY

On 19 January 2004, Future Advance entered into a share and shareholders' loan sale agreement (the "Agreement") with Romson Limited ("Romson"), the immediate holding company of the Company as at 31 December 2003, as detailed in the Company's announcement dated 30 January 2004 (the "Announcement").

Pursuant to the Agreement, Future Advance agreed to purchase an aggregate of 313,597,030 ordinary shares of the Company from the Vendors (as defined in the Announcement). Upon the completion of the Agreement, Future Advance became the ultimate holding company of the Company. In addition, Future Advance also agreed to acquire from Romson the shareholders' loan at a consideration equivalent to the face value of the shareholders' loan as at the date of completion of the Agreement.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 22. LOANS FROM ULTIMATE HOLDING COMPANY *(Continued)*

The loans from Future Advance, which were purchased from Romson as mentioned above, were unsecured, interest-free and not repayable within one year from the balance sheet date. Accordingly, the loans were classified under non-current liabilities as at 31 December 2005.

As at 31 December 2005, the loans from Future Advance amounted to HK\$5,897,701 (2004: HK\$2,997,701), out of which HK\$2,997,701 was unsecured, interest-free and not repayable within one year from the balance sheet date. HK\$2,500,000 of the total amount was unsecured, interest bearing at prime rate plus 1% per annum and not repayable within one year from the balance sheet date. The remaining HK\$400,000 was unsecured, interest bearing at prime rate plus 1% per annum and repayable within one year from the balance sheet date.

Subsequent to the balance sheet date, the Company entered into an agreement with Future Advance which agreed to subscribe for convertible bond of the Company in February 2006. The entire amount of the loans from Future Advance was applied to set off against the total subscription price of the convertible bond (note 28(b)).

## 23. DEFERRED TAX

The movements in deferred tax liabilities/(assets) during the year is as follows:

### Group

	Accelerated tax depreciation	
	2005	2004
	HK\$'000	HK\$'000
Deferred tax assets		
At 1 January	—	(26,641)
Charged to income statement	—	26,641
At 31 December	—	—

# Notes to the Financial Statements

For the year ended 31 December 2005

## 23. DEFERRED TAX (Continued)

Group (Continued)

	Accelerated tax depreciation		Tax losses		Total	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Deferred tax liabilities At 1 January	18,940	31,177	–	(12,237)	18,940	18,940
Charged/(credited) to income statement	–	(12,237)	–	12,237	–	–
At 31 December	<b>18,940</b>	<b>18,940</b>	<b>–</b>	<b>–</b>	<b>18,940</b>	<b>18,940</b>

### Company

No deferred tax has been provided in the financial statement of the Company as there are no significant temporary differences.

## 24. SHARE CAPITAL

Notes	Number of shares of HK\$0.005 each		Number of shares of HK\$0.025 each		Share capital	
	2005	2004	2005	2005 HK\$	2004 HK\$	
Authorised:						
Ordinary shares at beginning of year	1,000,000,000	1,000,000,000	–	5,000,000	5,000,000	
Share consolidation (a)	(1,000,000,000)	–	200,000,000	–	–	
Increase in authorised ordinary shares (b)	–	–	4,800,000,000	120,000,000	–	
Ordinary shares at end of year	<b>–</b>	<b>1,000,000,000</b>	<b>5,000,000,000</b>	<b>125,000,000</b>	<b>5,000,000</b>	
Issued and fully paid:						
Ordinary shares at beginning of year	591,360,000	440,000,000	–	2,956,800	2,200,000	
Share consolidation (a)	(591,360,000)	–	118,272,000	–	–	
Issuance of rights shares (c)	–	–	118,272,000	2,956,800	–	
Issuance of new shares (d)	–	151,360,000	–	–	756,800	
Ordinary shares at end of year	<b>–</b>	<b>591,360,000</b>	<b>236,544,000</b>	<b>5,913,600</b>	<b>2,956,800</b>	



# Notes to the Financial Statements

For the year ended 31 December 2005

## 24. SHARE CAPITAL (Continued)

Notes:

(a) Share consolidation

Pursuant to a special resolution passed on 3 May 2005, five shares of HK\$0.005 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of HK\$0.025 each. The authorised share capital of the Company remained at HK\$5,000,000 but was divided into 200,000,000 shares of HK\$0.025 each.

(b) Increase of authorised ordinary shares

Pursuant to a special resolution passed on 3 May 2005, the authorised share capital of the Company was increased from HK\$5,000,000 divided into 200,000,000 ordinary shares of HK\$0.025 each to HK\$125,000,000 by the creation of a further 4,800,000,000 shares of HK\$0.025 each ranking *pari passu* in all respects with the consolidated shares of HK\$0.025 each of the Company.

(c) Issuance of rights shares

A special resolution was passed on 3 May 2005 to approve a rights issue on the basis of one rights share for every one consolidated share of HK\$0.025 each held by shareholders on the register of members on 3 May 2005 at an issue price of HK\$0.25 per rights share, for the purposes of acquisition of industrial land in Yichang, the PRC. The rights issue resulted in the issue of 118,272,000 shares of HK\$0.25 each for a total cash consideration, before share issue expenses, of approximately HK\$30 million.

(d) Issuance of new shares

On 18 May 2004, 88,000,000 ordinary shares of HK\$0.005 each in the issued share capital of the Company were issued 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\$0.081 per share. The issued share capital was then increased from HK\$2,200,000 to HK\$2,640,000.

On 3 August 2004, the issued share capital of the Company was increased from HK\$2,640,000 to HK\$2,956,800 by the issue of 63,360,000 ordinary shares of HK\$0.005 each for cash at a premium of HK\$0.073 per share to four independent third parties, who are independent of each other and are not connected persons of the Company.

The reason for the issues was to raise additional funds for the Group's general working capital and future investment purposes, while strengthening its financial position, and broadening the capital base of the Company.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 24. SHARE CAPITAL *(Continued)*

*Notes: (Continued)*

(e) 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, within 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.

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 5 former executive directors and 2 former non-executive directors to subscribe for a total of 33,440,000 shares, representing in aggregate approximately 5.7% of the issued share capital of the Company. No further options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the 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 the grant of the options. Each grantee has paid HK\$1 to the Company as consideration for such grant.

During the year ended 31 December 2004, Future Advance made an offer for all outstanding share options under Rule 13 of the Hong Kong Code on Takeovers and Mergers as Future Advance was interested in approximately 71.27% of the then issued share capital of the Company immediately following the completion of the agreement.

Valid acceptances in respect of 33,440,000 options, which represented all the outstanding options of the Company, under the option offer were received at the close of the offer period on 17 March 2004. All the options tendered were then cancelled and extinguished. Accordingly, no share options were outstanding under the Pre-Scheme as at 31 December 2004.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 24. SHARE CAPITAL *(Continued)*

*Notes: (Continued)*

(e) Share options *(Continued)*

- (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 options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant 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 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 an 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 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, within 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 within 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 of directors and in any event no later than 10 years from the date of the grant of the options.

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

No share options were granted by the Company under the Post-Scheme up to the date of approval of these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 25. RESERVES

### Group

	Share premium account (note (a)) HK\$	Statutory surplus reserve (note (b)) HK\$	Statutory public welfare Accumulated reserves (note (c)) HK\$		Warrants reserve (note (d)) HK\$	Exchange translation reserve HK\$	Total HK\$
			welfare reserve	Accumulated losses			
Balance at 1 January 2004	33,527,560	-	-	(38,151,662)	-	-	(4,624,102)
Loss for the year	-	-	-	(5,669,451)	-	-	(5,669,451)
Transfer to capital reserves	-	34,272	17,136	(51,408)	-	-	-
Total recognised income and expense for the year	-	34,272	17,136	(5,720,859)	-	-	(5,669,451)
Premium on issue of new shares	11,753,280	-	-	-	-	-	11,753,280
Share issue expenses	(200,658)	-	-	-	-	-	(200,658)
Balance at 31 December 2004 and 1 January 2005	45,080,182	34,272	17,136	(43,872,521)	-	-	1,259,069
Currency translation (Net income recognised directly in equity)	-	-	-	-	-	887,536	887,536
Profit for the year	-	-	-	23,382,151	-	-	23,382,151
Transfer to capital reserves	-	2,816,809	1,408,404	(4,225,213)	-	-	-
Total recognised income and expense for the year	-	2,816,809	1,408,404	19,156,938	-	887,536	24,269,687
Premium on issue of rights shares	26,611,200	-	-	-	-	-	26,611,200
Rights share issue expenses	(2,194,683)	-	-	-	-	-	(2,194,683)
Issuance of warrants	-	-	-	-	473,088	-	473,088
<b>Balance at 31 December 2005</b>	<b>69,496,699</b>	<b>2,851,081</b>	<b>1,425,540</b>	<b>(24,715,583)</b>	<b>473,088</b>	<b>887,536</b>	<b>50,418,361</b>

# Notes to the Financial Statements

For the year ended 31 December 2005

## 25. RESERVES (Continued)

### Company

	Share premium account (note (e)) HK\$	Warrants reserve (note (d)) HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2004	20,640,063	–	(21,733,976)	(1,093,913)
Premium on issue of shares	11,753,280	–	–	11,753,280
Share issue expenses	(200,658)	–	–	(200,658)
Net loss for the year	–	–	(17,294,372)	(17,294,372)
<hr/>				
At 31 December 2004 and 1 January 2005	32,192,685	–	(39,028,348)	(6,835,663)
Premium on issue of rights shares	26,611,200	–	–	26,611,200
Rights share issue expenses	(2,194,683)	–	–	(2,194,683)
Issuance of warrants	–	473,088	–	473,088
Net loss for the year	–	–	(1,821,284)	(1,821,284)
<hr/>				
<b>At 31 December 2005</b>	<b>56,609,202</b>	<b>473,088</b>	<b>(40,849,632)</b>	<b>16,232,658</b>

- (a) The share premium account of the Group includes: (i) the premium arising from issue of shares of the Company at a premium (note 24(c) and (d)) less share issue expenses; and (ii) the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange over the nominal value of the shares of the Company issued in exchange therefor.
- (b) Subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 25. RESERVES *(Continued)*

- (c) Subsidiaries of the Company established in the PRC are required to transfer 5% to 10% of their profit after tax calculated in accordance with PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution, except upon liquidation of the subsidiaries.
  
- (d) On 4 October 2005, the Company issued 23,654,400 non-listed warrants at the issue price of HK\$0.02 per warrant. The warrants will mature in two years from the date of issue. Each warrant entitles the holder thereof to subscribe for one new share at initial exercise price of HK\$0.32 per new share, payable in cash and subject to adjustment, at any time from 4 October 2005 to 3 October 2007. Consideration of HK\$473,088 (2004: nil) was received in respect of warrants during the year.

During the year, none of the warrants has been exercised.

- (e) The share premium account of the Company includes: (i) the premium arising from issue of shares of the Company at a premium (note 24(c) and (d)) less share issue expenses; and (ii) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 26. OPERATING LEASE COMMITMENTS

The Group leases its office properties under operating lease arrangements for a term of two years.

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as at the balance sheet date are payable as follows:

	Group	
	2005	2004
	HK\$	HK\$
Within one year	439,025	468,477
In the second to fifth years	136,818	547,272
	575,843	1,015,749

The Company does not have any significant operating lease arrangements as at the balance sheet date (2004: Nil).

## 27. RELATED PARTY TRANSACTIONS

(a) Except as disclosed elsewhere in this financial statements, the Group entered into the following transactions with related parties during the year:

	Notes	2005	2004
		HK\$	HK\$
Service income from			
Game-On-Demand services	(i)	–	3,325
Commission paid in respect of			
Online Arcade Game machines	(ii)	–	53,732
Sales of property, plant and equipment	(iii)	–	50,000
Loans interest paid to			
ultimate holding company	(v)	159,317	–



# Notes to the Financial Statements

For the year ended 31 December 2005

## 27. RELATED PARTY TRANSACTIONS *(Continued)*

- (a) Except as disclosed elsewhere in this financial statements, the Group entered into the following transactions with related parties during the year: *(Continued)*

Notes:

- (i) The Company and certain related companies had jointly provided the Game-On-Demand services and the revenue derived from the provision of services had been shared with the related companies under the agreed sharing ratios ranging from 45% to 50%. The amount represented the shared revenue of the Company in 2004.
- (ii) One of the wholly-owned subsidiaries of the Company has appointed Golden Globe Industries Limited ("Golden Globe") as its non-exclusive agent for the promotion and distribution of its Online Arcade Game machines in Hong Kong and Macau. The amount represented commission paid to Golden Globe based on the sale and installation of Online Arcade Game machines to Arcade game centres in Hong Kong and Macau. The amount was mutually negotiated between the Group and Golden Globe.
- (iii) During the prior year, certain property, plant and equipment were sold at an aggregate consideration of HK\$50,000 to Golden Globe. The consideration was mutually negotiated between the Group and Golden Globe.
- (iv) Mr. Leung Wai Keung, a former director of the Company, is also the director of the above related companies and Golden Globe in 2004.
- (v) The ultimate holding company, Future Advance, has provided loans to the Group amounted to HK\$32,468,000 during the year. Out of which, HK\$29,568,000, which was repaid subsequently during the year, was unsecured, interest bearing at prime rate plus 1% per annum and repayable within 10 days after completion of issuance of rights shares as described in note 24(c). Another amount of HK\$2,500,000 was unsecured, interest bearing at prime rate plus 1% per annum and not repayable within one year from the balance sheet date. The remaining HK\$400,000 was unsecured, interest bearing at prime rate plus 1% per annum and repayable within one year from the balance sheet date. Interest paid on the loans amounted to HK\$159,317 (2004: HK\$Nil).
- (b) Compensation of key management personnel

	2005 HK\$	2004 HK\$
Total remuneration of directors and other members of key management during the year	<b>593,667</b>	643,324



# Notes to the Financial Statements

For the year ended 31 December 2005

## 28. POST BALANCE SHEET EVENTS

### (a) Allotment and issuance of new shares

On 25 January 2006, the Company entered into several subscription agreements with independent third parties (the “Subscribers”), pursuant to which the Subscribers have conditionally agreed to subscribe for 47,308,800 shares in cash at the subscription price of HK\$0.315 per ordinary share of the Company (the “Subscription”). Those shares are newly allotted and issued by the Company. On 16 February 2006, the Subscription was completed and the aggregate of 47,308,800 shares were issued to the Subscribers.

The net proceeds of the Subscription of approximately HK\$14.8 million would be applied towards the general working capital of the Group.

### (b) Connected transaction involving subscription of convertible bond

On 24 February 2006, the Company entered into a subscription agreement with Future Advance pursuant to which the Company has conditionally agreed to create and issue, and Future Advance has conditionally agreed to subscribe for a convertible bond (the “Convertible Bond”) which is not transferable in the principal amount of HK\$6,270,066 at a total subscription price of HK\$6,270,066 and the payment of which is satisfied by offsetting the loans from Future Advance of approximately HK\$6,270,066 as at the date of the subscription agreement. The Convertible Bond may be converted into ordinary shares of the Company at an initial price of HK\$0.40 per share during its conversion period. The maturity date of the bond is the third anniversary of the date of issue of the Convertible Bond (i.e. 4 October 2005).

The Convertible Bond is interest-bearing at 1% per annum on the outstanding principal amount of the Convertible Bond.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 28. POST BALANCE SHEET EVENTS *(Continued)*

### (c) Letter of intent in relation to the formation of a joint venture company

On 8 March 2006, 宜昌首控實業有限公司 and 宜昌富連江複合材料有限公司, wholly-owned subsidiaries of the Company, entered into a letter of intent with Xin Shougang Zi Yuan Holdings Limited (“Xin Shougang”), an independent third party, in relation to a proposed formation of a joint venture company which is expected to be principally engaged in the project relating to the mining of precious metal in Yichang City, Hubei Province, the PRC. It is intended that the registered capital of the joint venture company will be RMB30,000,000, out of which, Xin Shougang, 宜昌首控實業有限公司 and 宜昌富連江複合材料有限公司 will contribute in cash in the sum of RMB14,400,000, RMB8,100,000 and RMB7,500,000 respectively, representing 48%, 27% and 25% of the equity interests in the joint venture company respectively. The investment plans will be further negotiated among the parties. The letter of intent is not legally binding in nature and the transaction may or may not proceed.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group’s exposure to market risk, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group’s exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group’s financial assets include cash and cash equivalents, deposits, other receivables and trade receivables. The Group’s financial liabilities include trade payables, accruals and other payables and loans from ultimate holding company.

### (a) Interest rate risk

The interest rates and terms of repayment of the Group’s loans from ultimate holding company are disclosed in note 22.



# Notes to the Financial Statements

For the year ended 31 December 2005

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### **(b) Credit risk**

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The carrying amounts of trade receivables and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk.

### **(c) Foreign currency risk**

The sales and purchases of the Group are predominantly denominated in Renminbi and Hong Kong dollars. The Group does not hedge its foreign currency risks, as the management does not expect any significant movements in the RMB/HK\$ exchange rate.

### **(d) Fair values**

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity of these financial instruments. The fair value of non-current liabilities was not disclosed because the carrying value is not materially different from fair value.

# Five Year Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of China Advance Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), prepared for the last five years, as extracted from the audited consolidated financial statements of the Group. This summary does not form part of the audited financial statements.

## RESULTS

	<b>Year ended 31 December 2005 HK\$</b>	Year ended 31 December 2004 HK\$	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Year ended 31 December 2001 HK\$
<b>Revenue</b>	<b>24,613,860</b>	7,038,482	3,768,960	210,597	228,189
Other operating income	<b>27,995,197</b>	223,924	223,868	244,586	65,813
Operating expenses	<b>(29,061,713)</b>	(12,724,956)	(13,691,959)	(13,213,335)	(9,983,589)
Operating profit/(loss)	<b>23,547,344</b>	(5,462,550)	(9,699,131)	(12,758,152)	(9,689,587)
Finance costs	<b>(159,317)</b>	(11,457)	(121,731)	-	-
Profit/(Loss) before income tax	<b>23,388,027</b>	(5,474,007)	(9,820,862)	(12,758,152)	(9,689,587)
Income tax expense	<b>(5,876)</b>	(195,444)	106,562	-	-
Net profit/(loss) attributable to shareholders	<b>23,382,151</b>	(5,669,451)	(9,714,300)	(12,758,152)	(9,689,587)

## ASSETS AND LIABILITIES

	<b>2005 HK\$</b>	2004 HK\$	<b>31 December 2003 HK\$</b>	2002 HK\$	2001 HK\$
Total assets	<b>65,064,332</b>	8,235,234	3,531,037	9,296,241	23,579,191
Total liabilities	<b>(8,732,371)</b>	(4,019,365)	(5,955,139)	(2,006,043)	(3,431,832)
	<b>56,331,961</b>	4,215,869	(2,424,102)	7,290,198	20,147,359