



M Dream Inworld Limited
聯夢活力世界有限公司



Third Quarterly Report 2004

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This report, for which the Directors (the “Directors”) of M Dream Inworld Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, (1) the information contained in the report is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date hereof, the executive directors of the Company are Mr. Koh Tat Lee, Michael, Mr. Wong Shui Fun, Mr. Xu Hanjie and Dr. Choong Ying Chuan; the non-executive directors of the Company are Mr. Tay Yew Beng, Peter, Mr. Wong Kean Li and Mr. Ng Yat Cheung; the independent non-executive directors of the Company are Mr. Domingo Chen, Mr. Robert Wong and Ms. Hilda Sung.

Highlights

- Turnover of the Group for the nine months ended 30 September 2004 increased by 49 times over the same period in 2003.
- Turnover of the Group for the three months ended 30 September 2004 increased by 29% over the prior quarter.
- Loss per share narrow from HK cents 2.2378 to HK cents 0.5423 per share, representing an improvement of 76%.

CHAIRMAN'S STATEMENT

I am pleased to announce the results of M Dream Inworld Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the third quarter ended 30 September 2004.

This quarter has been an encouraging period for us. The turnover of the Group for the quarter ended 30 September 2004 was approximately HK\$15,215,000, which is a 25 times improvement compared with the corresponding period in 2003. The turnover for the nine months ended 30 September 2004 was HK\$27,339,000, which is a 49 times improvement over the same period in 2003. The operation of subsidiaries of the Group, including mobile and online games operations, mobile value-added services and system integration continued to grow in the period and recorded a steady growth in revenue.

The Group is constantly exploring new business opportunities in order to achieve better returns for our shareholders. On 30 July 2004, the Group entered into the MDC Subscription Agreement; the STT Subscription Agreement; and the Elipva Share Swap Agreement. The above transactions were completed on 29 October 2004.

Through the MDC Subscription Agreement and the STT Subscription Agreement, the Company will be in a stronger position to capture future business opportunities. Our new substantial shareholders, namely Temasek Holdings (Private) Limited and Lippo Group, added significant credibility and brand name awareness to the Group. This will greatly assist the Group's expansion into new markets for our mobile and online games operation and mobile value added services in the South East Asia market.

The Elipva Share Swap Agreement provides the Group the opportunity to gain immediate business access into the South East Asian market and a further extension to the Group's system integration business. In addition, Elipva help the Group's system integration to foster a better business ties in South East Asia. In return, the Group can bring Elipva to the North Asia market to create a win/win situation. The Group also enrich our customer base by Elipva's customer list which includes various government authorities, financial institutions and multinational companies.

In October, the Group took part in the second China Digital Entertainment Expo & Conference ("China Joy") which was held in Shanghai. During China Joy, the Group exhibited some of the online games that will be launched in the fourth quarter 2004 and year 2005.

I would like to thank the Board of Directors and all of the Group's employees for their hard work, support and dedication.

Koh Tat Lee, Michael
Chairman

Hong Kong, 9 November 2004

BUSINESS REVIEW

After the acquisition of M Dream Mobile Entertainment Limited and the establishment of M Dream Online Limited in May 2004, the Group started mobile and online games operation and mobile value-added services in Mainland China. A consistent growth of revenue has been recorded from the mobile games and mobile value-added services operation since its commencement.

The system integration business of the Group continued its steady stream of revenue in the quarter. The Group commenced its operation in Thailand for its system integration business and continued its coverage in Mainland China, Hong Kong and the Philippines.

On 30 July 2004, the Company has entered into three agreements, the MDC Subscription Agreement, the STT Subscription Agreement and the Elipva Share Swap Agreement.

- (a) Pursuant to the MDC Subscription Agreement, M Dream China (Holdings) Limited agreed to subscribe for an aggregate of 152,941,176 new shares of the Company at HK\$0.051 per share for a total consideration of US\$1 million;
- (b) Pursuant to the STT Subscription Agreement, stt Venture Ltd. agreed subscribe for an aggregate of 152,941,176 new shares of the Company at HK\$0.051 per share for a total consideration of US\$1 million; and
- (c) Pursuant to the Share Swap Agreement, Elipva Shareholders agreed to sell, and the Company agreed to purchase, the entire issued share capital of Elipva Limited held by Elipva Shareholders for S\$6,875,000 in exchange of 610,459,559 new shares of the Company.

In October, the Group participated in the second China Digital Entertainment Expo & Conference (“China Joy”) in Shanghai. During China Joy, the Group exhibited some of the online games that will be launched in the fourth quarter 2004 and year 2005.

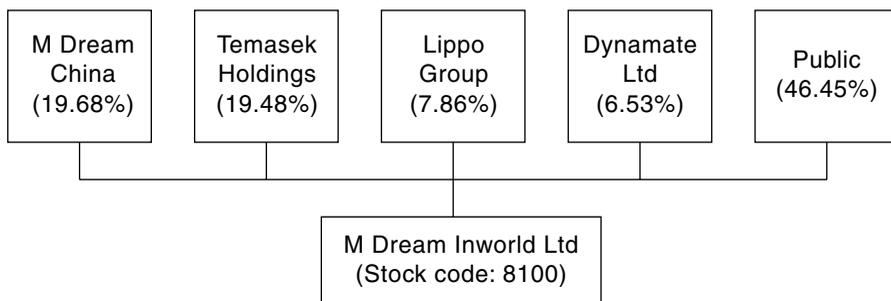
Prospects

The Directors considered that the MDC Subscription and STT Subscription were the best interests of the Company to raise further capital from the equity market, in order to place the Company in a stronger position to capture business opportunities. The capital base of the Company would be enhanced; the financial position of the Group would be strengthened; and the investment strategy of the Group in next year would be facilitated.

Taking into consideration the existing business scope and coverage of Elipva, the Directors considered that the entering into of the Share Swap Agreement (a) provided the Company with the opportunity to gain business access into the South East Asian market, particularly Singapore and Indonesia, which is in line with the business direction and expansion policy of the Group; (b) offered a further extension to the Group's system integration business, in particular, the area relating to information technology solution providing; and (c) enriched the Group's customer base by Elipva's customer list which includes various government authorities, financial institutions and multinational companies in Singapore.

In addition, the Share Swap Agreement and the STT Subscription enabled the Company to bring in two reputable partners namely, Temasek Holdings (Private) Limited and Lippo Group to become shareholders holding approximately 19.48% and 7.86% respectively of the issued share capital of the Company as enlarged by the issue of new shares under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement.

Shareholder Structure of the Company after the completion of Share Swap Agreement, MDC Subscription and STT Subscription



The Three agreements were completed on 29 October 2004.

The Group will continue to expand its business over the online platform. Game Dao, the online game portal of Group, and other MMORPG and RPG games will be launched in the coming quarter and year 2005. The Group will strive to bridge the online and mobile platform for its game operation to improve the mobility and playability of our game.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit and turnover

The Group recorded turnover of HK\$27,339,000 for the nine months ended 30 September 2004, compared with HK\$557,000 for the nine months ended 30 September 2003. This represents an increase of almost 49 times.

Gross profit for the nine months ended 30 September 2004 amounted to HK\$9,892,000 compared with a gross loss of HK\$1,030,000 for the same period in 2003. The significant improvement in gross profit margin reflected the profitability of the Group current operation.

Operating expenses

The operating expenses of the Group had been kept under tight control by management. However, due to the expansion of operation in Shanghai, Hangzhou, Shenzhen and Hong Kong, the headcount of the Group grew to over 120 people during the period with the addition of a full operating office in Shanghai.

Loss for the period

The consolidated loss of the Group for the nine months ended 30 September 2004 was approximately HK\$8,165,000 (2003: loss of HK\$13,390,000). The current period loss was mainly attributed to an unrealized holding loss on investment of HK\$5,691,000.

Segmental information

The Group is principally engaged in the provision of mobile and online game operation, mobile value added service and system solution during the period.

Both of the new business segments of mobile and online game operation and mobile value added service recorded encouraging operating results for the Group. The mobile value-added services brought in a revenue of HK\$4,527,000. The online gaming provision contributed a revenue of HK\$21,607,000 through the re-sale of gaming licenses during the nine months ended 30 September 2004.

The other business segments all recorded healthy growth over prior period as the overall global economy is recovering.

The major component of cost of services rendered for system solution is labour cost. In view of increasing efficiency and flexibility of labour force, the management of the Group did not assign certain employees to specific business segment. Similarly, all distribution costs and administrative expenses were incurred on a group basis; therefore no segment expenses were allocated to various business segments.

Interim dividend

The Directors do not recommend the payment of an interim dividend for the period ended 30 September 2004 (2003: nil).

Liquidity, financial resources and gearing

The Group generally finances its operation with generated cash flow and net proceeds from fund raising activities. As at 30 September 2004, shareholders' funds of the Group amounted to approximately HK\$55,015,000 (30 September 2003: HK\$33,308,000). The Group expresses its gearing ratio (if any) as a percentage of bank borrowing, short-term loans and long-term debts over total assets. As at 30 September 2004, the gearing ratio of the Group was 13% (30 September 2003: nil).

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

The capital structure, funding and treasury policies of the Group

The Group intends to finance its operation with its internal resources and net proceeds from fund raising activities.

On 30 July 2004, the Company has entered into the MDC Subscription Agreement and the STT Subscription Agreement. Pursuant to the MDC Subscription Agreement, M Dream China (Holdings) Limited agreed to subscribe for an aggregate of 152,941,176 new shares of the Company at HK\$0.051 per share for a total consideration of US\$1 million. Pursuant to the STT Subscription Agreement, stt Venture Ltd. agreed subscribe for an aggregate of 152,941,176 new shares of the Company at HK\$0.051 per share for a total consideration of US\$1 million.

The Directors estimated that the net proceeds (after taking into account all relevant expenses incurred/to be incurred for the completion) derived from the MDC Subscription and the STT Subscription would be approximately HK\$13.34 million.

Details of the MDI Subscription and STT Subscription were set out in the circular of the Company dated 8 October 2004. The subscriptions were completed on 29 October 2004.

During the period under review, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not employ any financial instruments for hedging purposes and does not engage in foreign currency speculative activities.

Details of material acquisitions and disposals of subsidiaries and affiliated companies in the course of the period under review

On 30 July 2004, the Company entered into the Share Swap Agreement with Elipva Shareholders (including STT Communications Limited, Allwin Asia, Inc., eMatrix Pte Ltd., Dr. Choong Ying Chuan, Mr. Chang Sau Sheong) and Elipva Limited. Details of the Elipva Share Swap were set out in the circular of the Company dated 8 October 2004.

Pursuant to the Share Swap Agreement, Elipva Shareholders agreed to sell, and the Company agreed to purchase, the entire issued share capital of Elipva Limited held by Elipva Shareholders for S\$6,875,000 in exchange of 610,459,559 new shares of the Company. The agreement was completed on 29 October 2004.

Investment

As at 30 September 2004, the Group held shares of two companies which shares are listed on GEM. During the period under review, the Group did not receive any dividend from these listed securities (2003: Nil). The Group intends to hold these listed securities for trading purpose.

The investment of shares in one of these listed companies were suspended from June 2003 until June 2004. Subsequent to the resumption of trading, the share price decreased by 72%. Due to this significant drop in share price, the Group suffered an unrealized holding loss on investment of HK\$743,000 in the quarter ended 30 September 2004 and a cumulative loss of HK\$5,691,000 for the nine months ended 30 September 2004.

Future plans for material investments or capital assets

The Directors confirm that there are current negotiations relating to an intended acquisition of certain equity interests in other entities by the Company. However, no terms have been finalized and no agreements have been signed regarding such transactions, which may or may not proceed pending the outcome of the negotiations.

Employees and remuneration policies

As at 30 September 2004, the Group had over 120 employees (2003: 85), including directors of the Company. For the nine months ended 30 September 2004, the remuneration of the Group amounted to approximately HK\$3,760,000 (nine months ended 30 September 2003: HK\$748,000). The Group's remuneration policies are in line with prevailing market practice and are determined on the basis of the performance and experience of individual employees. The Group also provides retirement schemes and medical insurance scheme for its employees.

Details of charges on Group assets

During the period under review, no assets of the Group were pledged (2003: Nil).

Contingent liabilities

As at 30 September 2004, the Group had no contingent liabilities (2003: nil).

QUARTERLY RESULTS

The unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months and three months ended 30 September 2004 together with comparative figures for the corresponding periods in 2003 are as follows:

	<i>Notes</i>	Nine months ended 30 September		Three months ended 30 September	
		2004 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i> (Note 6)	2004 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i>
Turnover		27,339	557	15,215	619
Cost of services rendered		(17,447)	(1,587)	(10,427)	(211)
Gross profit (loss)		9,892	(1,030)	4,788	408
Other revenues		88	5,855	35	–
Distribution costs		(1,920)	(1,872)	(692)	(151)
Administrative expenses		(8,610)	(9,846)	(4,223)	(1,757)
Unrealisation holdings loss on investment		(5,691)	–	(743)	–
Impairment of product development costs		–	(5,825)	–	–
Amortization of goodwill		(1,599)	–	(783)	–
Depreciation		(378)	(494)	(108)	(121)
Loss before taxation		(8,218)	(13,212)	(1,726)	(1,621)
Taxation	3	–	–	–	–
Loss after taxation		(8,218)	(13,212)	(1,726)	(1,621)
Minority interest		53	(178)	21	11
Net loss attributable to shareholders		<u>(8,165)</u>	<u>(13,390)</u>	<u>(1,705)</u>	<u>(1,610)</u>
Loss per share					
– Basic (<i>cents</i>)	4	<u>(0.5423)</u>	<u>(2.2378)</u>	<u>(0.1009)</u>	<u>(0.2529)</u>
– Diluted (<i>cents</i>)	4	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes:

1. Basis of presentation

The accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except that certain investment securities are stated at fair value.

The accounting policies adopted in the preparation of the accounts are consistent with those used in the annual financial statements for the period ended 31 December 2003. All significant transactions and balances between companies comprising the Group have been eliminated on consolidation.

2. Turnover

	Nine months ended	
	30 September 2004 HK\$'000	30 September 2003 HK\$'000
Turnover		
Online game operation	21,607	–
Mobile value added service	4,527	–
System solutions services income	1,119	402
Cyber café income	86	155
	<hr/>	<hr/>
	27,339	557
	<hr/> <hr/>	<hr/> <hr/>

3. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong for the period ended 30 September 2004 (2003: Nil).

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. No provision for overseas taxation has been made in the accounts as the subsidiaries operating outside Hong Kong have no assessable profits for the period ended 30 September 2004 (2003: Nil).

No provision for deferred taxation has been made as the Group have no material potential liabilities arising on timing difference at 30 September 2004 (2003: Nil).

4. Loss per share

The calculation of the Group's basic loss per share for the period ended 30 September 2004 is based on the Group's loss attributable to shareholders of approximately HK\$8,165,000 (2003: approximately HK\$13,390,000) and the weighted average number of approximately 1,505,498,511 shares of the Company for the period ended 30 September 2004 (2003: 598,349,480 shares).

Diluted loss per share has not been presented since the exercise of share options granted by the Company could have an anti-dilutive effect on the loss per share for the period ended 30 September 2003 and 2004.

5. Reserves

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	22,666	7,396	(15,942)	14,120
Placement of shares	12,000	-	-	12,000
Issuance of shares for acquisition of subsidiary	8,962	-	-	8,962
Share issuing expenses	(810)	-	-	(810)
Loss for the period	-	-	(13,390)	(13,390)
	<u>42,818</u>	<u>7,396</u>	<u>(29,332)</u>	<u>20,882</u>
At 30 September 2003	<u>42,818</u>	<u>7,396</u>	<u>(29,332)</u>	<u>20,882</u>
At 1 January 2004	42,818	7,396	(33,291)	16,923
Placement of shares	31,790	-	-	31,790
Share issuing expenses	(2,438)	-	-	(2,438)
Loss for the period	-	-	(8,165)	(8,165)
	<u>72,170</u>	<u>7,396</u>	<u>(41,456)</u>	<u>38,110</u>
At 30 September 2004	<u>72,170</u>	<u>7,396</u>	<u>(41,456)</u>	<u>38,110</u>

6. Comparative figures

The results of the Group for the nine months ended 30 September 2003 is prepared based on the audited consolidated income statement for the year ended 30 June 2003 as extracted from the annual report of the Group then ended and adjusted for the unaudited consolidated results of the Group for the 6 months ended 31 December 2002 as extracted from the interim report of the Group for the year 2002/2003 and the unaudited consolidated results of the Group for the three months ended 30 September 2003 as extracted from the quarterly report of the Group for the quarter then ended.

DISCLOSURE OF INTERESTS

Directors' Interests in Shares

At 30 September 2004, the long and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (“SFO”) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Rules 5.40 to 5.58 of the Rules Governing The Listing of Securities on The Growth Enterprises Market of the Stock Exchange (the “GEM Listing Rules”) relating to securities transaction by Directors, were as follows:

Ordinary Shares Long Position

Name of Directors	Number of shares in the Company				Percentage of Interests
	Personal Interests	Family Interests	Corporate Interests	Total Interests	
Mr. Koh Tat Lee, Michael (<i>Note</i>)	–	–	170,163,200	170,163,200	10.07%

Note:

These shares are held by Dynamate Limited of which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited.

Saved as disclosed above and below in the section on Options to Subscribe for Shares in the Company, none of the Directors nor the chief executive of the Company had or was deemed to have any long or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transaction by Directors.

Options to subscribe for shares in the Company

Pursuant to the Share Option Scheme adopted by the Company on 14 December 2001 (“Share Option Scheme”), as at 30 September 2004, the following directors and employees were granted share options to subscribe for shares of the Company, details of which were as follows:

Name of Category of participant	As at 1 January 2004	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 September 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Wong Shui Fun	-	10,000,000	-	-	-	10,000,000	31 March 2004	31 March 2004 to 30 March 2014	HK\$0.060
	-	6,000,000	-	-	-	6,000,000	20 May 2004	20 May 2004 to 19 May 2014	HK\$0.036
Mr. Xu Hanjie	-	16,000,000	-	-	-	16,000,000	20 May 2004	20 May 2004 to 19 May 2014	HK\$0.036
Mr. Wong Kean Li	-	16,000,000	-	-	-	16,000,000	20 May 2004	20 May 2004 to 19 May 2014	HK\$0.036
Employees	32,000,000	-	-	-	(15,000,000)	17,000,000	9 October 2003	9 October 2003 to 8 October 2013	HK\$0.076
Employees	-	1,500,000	-	-	-	1,500,000	31 March 2004	31 March 2004 to 30 March 2014	HK\$0.060
Employees	-	35,400,000	-	-	-	35,400,000	20 May 2004	20 May 2004 to 19 May 2014	HK\$0.036
Employees	-	16,000,000	-	-	-	16,000,000	30 June 2004	30 June 2004 to 29 June 2014	HK\$0.047
Total	32,000,000	100,900,000	-	-	(15,000,000)	117,900,000			

None of the Directors and employees of the Group had exercised their share options during the period ended 30 September 2004.

Other than the share option schemes as described above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, or their respective Associates (which has the meaning ascribed to it under the Rules Governing the Listing of Securities on the GEM), had any right to subscribe for the securities of the Company, or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons (not being directors or chief executive of the Company) had interests and short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of shareholders	Number of shares held	Percentage of the Company's share capital
M Dream China (Holdings) Ltd (<i>Note 1</i>)	360,000,000	21.29%
Vasina Limited (<i>Note 1</i>)	360,000,000	21.29%
Dynamate Limited (<i>Note 2</i>)	170,163,200	10.07%
Shenzhen Ingen Technology Company Limited	147,440,000	8.72%

Notes:

1. These shares are held by M Dream China (Holdings) Limited of which 50.44% of the voting rights are held by Vasina Limited. Accordingly, Vasina Limited is deemed to be interested in the shares beneficially owned by M Dream China (Holdings) Limited.
2. These shares are held by Dynamate Limited of which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited under Part XV of the SFO.

COMPETING INTERESTS

None of the Directors or management shareholders (as defined in the GEM Listing Rules) of the Company have any interest in any business which competes with or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 September 2004.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises one Non-Executive Director and two Independent Non-Executive Directors of the Company. The Audit Committee members have reviewed the quarterly results for the nine months ended 30 September 2004.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period except Rule 5.05 of the GEM Listing Rules, the Company must have at least 3 independent non-executive directors. Prior to the appointment of Ms. Hilda Sung as the Company's third independent non-executive director on 11 October 2004, the Company has been looking for an independent non-executive director for quite some time but no suitable candidate has been identified due to the fact that not much personnel possesses the required knowledge of the industries that the Group is engaged.