



**M Dream Inworld Limited**  
**聯夢活力世界有限公司\***

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

**(Stock Code: 8100)**

**THIRD QUARTERLY RESULTS ANNOUNCEMENT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This announcement, 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 announcement misleading; and (3) all opinions expressed in this announcement 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. Chen, Domingo, Mr. Wong Shui Fun, and Dr. Choong Ying Chuan; the non-executive directors of the Company are Mr. Tay Yew Beng, Peter, Dr. Lee Siu Lung, James, and Mr. Wong Kean Li; the independent non-executive directors of the Company are Ms. Sung, Hilda, Mr. Leigh Man Sung, Camballaw and Mr. Ng Wing Hang, Patrick.*

\* For identification purpose only

**Highlights**

- Turnover reached HK\$25.6 million for the nine months ended 30 September 2005
- Gross profit improved by 13.4% over the same period in 2004 and exceeded HK\$11.2 million
- Quarterly loss attributable to shareholders narrowed by 7.7% over the prior quarter and significantly improved by 76.2% over the First Quarter of 2005

The directors (the “Directors”) of M Dream Inworld Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 2005 together with comparative figures for the three months and nine months ended 30 September 2004 as follows:

## CONSOLIDATED INCOME STATEMENT

		<b>3 months ended 30 September 2005 HK\$'000</b>	3 months ended 30 September 2004 HK\$'000	<b>9 months ended 30 September 2005 HK\$'000</b>	9 months ended 30 September 2004 HK\$'000
	<i>Notes</i>				
Turnover	2	<b>7,070</b>	15,215	<b>25,598</b>	27,339
Cost of Sales		<b>(3,390)</b>	(10,427)	<b>(14,377)</b>	(17,447)
Gross Profit		<b>3,680</b>	4,788	<b>11,221</b>	9,892
Other Revenue		<b>61</b>	35	<b>127</b>	88
Distribution Costs		<b>(1,447)</b>	(692)	<b>(4,762)</b>	(1,920)
Administrative Expenses		<b>(6,043)</b>	(4,223)	<b>(23,196)</b>	(8,610)
Write off of goodwill upon disposal of equity interests in subsidiaries		–	–	<b>(17,197)</b>	–
Unrealised Profit/(loss) on other investment		<b>(486)</b>	(743)	<b>498</b>	(5,691)
Amortisation of Goodwill		–	(783)	–	(1,599)
Depreciation		<b>(172)</b>	(108)	<b>(446)</b>	(378)
Loss from Operations		<b>(4,407)</b>	(1,726)	<b>(33,755)</b>	(8,218)
Finance Costs		<b>(523)</b>	–	<b>(1,210)</b>	–
Loss before Taxation		<b>(4,930)</b>	(1,726)	<b>(34,965)</b>	(8,218)
Taxation	3	–	–	<b>(50)</b>	–
Loss after taxation		<b>(4,930)</b>	(1,726)	<b>(35,015)</b>	(8,218)
Minority Interests		<b>(530)</b>	21	<b>731</b>	53
Net Loss Attributable to Shareholders		<b><u>(5,460)</u></b>	<b><u>(1,705)</u></b>	<b><u>(34,284)</u></b>	<b><u>(8,165)</u></b>
Loss Per Share	5				
Basic, HK cents		<b><u>(0.2094)</u></b>	<b><u>(0.1009)</u></b>	<b><u>(1.3151)</u></b>	<b><u>(0.5423)</u></b>
Diluted, HK cents		<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of presentation

The accounts have been prepared in accordance with all applicable Statements of Hong Kong Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure provisions of Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that certain investment securities are stated at fair value.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“New HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the New HKFRSs had no material impact on the Group’s operating results and financial position.

## 2. Turnover

	9 months ended	
	30 September 2005 HK\$’000	30 September 2004 HK\$’000
Turnover		
Mobile game and value added services	12,994	4,527
System solutions services income	12,560	1,119
Online game operation	–	21,607
Others	44	86
	<u>25,598</u>	<u>27,339</u>

## 3. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group and its subsidiaries operating in Hong Kong have no assessable profits for the period (2004: 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 financial statements as the subsidiaries operating outside Hong Kong have no assessable profits for the period (2004: Nil).

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (2004: Nil).

#### 4. Dividend

The Directors do not recommend the payment of an dividend for the nine months ended 30 September 2005 (2004: Nil)

#### 5. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$34,284,000 (2004: HK\$8,165,000) and the weighted average of 2,606,949,911 (2004: 1,505,498,511) ordinary share in issue during the period.

The exercise of share options granted by the Company would have an anti-dilutive effect on the loss per share for the nine months ended 30 September 2005.

#### 6. 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 2004	42,818	7,396	(33,291)	16,923
Placing of shares	31,790	–	–	31,790
Issuing expenses	(2,438)	–	–	(2,438)
Net 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				
At 1 January 2005	106,730	6,426	(50,440)	62,716
Issuing expenses	(347)	–	–	(347)
Net loss for the period	–	–	(34,284)	(34,284)
	<u>106,383</u>	<u>6,426</u>	<u>(84,724)</u>	<u>28,085</u>
At 30 September 2005				

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Company is an investment holding company. Since its initial public offering in December 2001, the Group has expanded its information technology consultation and infrastructure services from system solutions to mobile and online game operations and mobile value added business. In the first nine months of Year 2005, the Group continued to advance in these business segments.

For the nine months ended 30 September 2005, the turnover of the Group amounted to approximately HK\$25,598,000, which is comparable to the turnover of the corresponding period last year. Turnover from system solutions accounted for approximately 49.1% of total turnover and a value of approximately HK\$12,560,000, which represented an increase of approximately 10 times as compared with the corresponding period last year.

The system integration business was challenging in the period under review due to the fierce competition among system solutions providers in markets including Singapore, Mainland China and the Philippines, which are the principal markets of the Group.

The online gaming operation of the Group still had not reached its normal operation mode during the current quarter due to further delay in the commercial launch of the Group's online games.

## **Prospects**

The Group will continue to grow internally by strengthening its technical edge and bringing ingenious offerings to the market. Some of the games to be offered by the Group are eagerly anticipated by end users in Mainland China.

The Group planned to place its emphasis on the online gaming business segment in the remaining months of Year 2005 due to the great potential in the online gaming market. After the investment of significant resources into the development and deployment strategies of online games in Mainland China, the Group will continue to work diligently to commercially launch some of these MMOPRG games in Mainland China in 2005.

On top of the generic growth of present operations, the Group also intends to look for new investment and acquisition opportunities and to expand its geographical presence by exploring co-operation opportunities with companies in different industries. The Company is dedicated to strive for the best return and to uplift the shareholders' value in the long run.

## **Financial Review**

The Group recorded turnover of HK\$25,598,000 for the nine months ended 30 September 2005, which is comparable to the same period in 2004.

Gross profit for the nine months ended 30 September 2005 amounted to HK\$11,221,000 compared with a gross profit of HK\$9,892,000 for the same period in 2004. This represents an improvement of 13.4% over the previous corresponding period and a continual growth for the Group's current operation. The improvement in gross profit was a result of the Group's current operation of information technology services with higher gross profit margin.

The operating expenses of the Group increased significantly despite the tight control exercised by management. With the expansion of operation in Shanghai, Hangzhou, Shenzhen, Singapore and Hong Kong, the headcount of the Group grew from 120 people as of 30 September 2004 to over 170 people as of 30 September 2005. The addition of new offices and significant growth in staff number augmented the distribution costs and administrative expenses from HK\$10,530,000 in 2004 to HK\$27,958,000. Nevertheless, the Group's budget control was able to successfully reduce the quarterly distribution costs and administrative expenses by 39.1% to HK\$7,490,000 (3 months ended 30 June 2005: HK\$12,465,000)

The higher operating expenses offset the growth of the Group's gross profit and led to a consolidated loss attributable to shareholders for the nine months ended 30 September 2005 of HK\$34,284,000 (2004: HK\$8,165,000). Beside the increase in operating expenses, the current period loss was caused by non-cash transactions of one time write off of goodwill of HK\$17,197,000 in the first quarter of 2005 resulting from the disposal of certain equity interests in M Dream Mobile Entertainment Limited.

On a quarterly basis, the Group had continued to narrow its losses. The Group's net loss for the three months ended 30 September 2005 was HK\$5,460,000, which was 7.7% lower than second quarter of 2005 and a significant 76.2% improvement from first quarter of 2005.

### **Dividend**

The Directors do not recommend the payment of an dividend for the period ended 30 September 2005 (2004: Nil).

### **Liquidity, financial resources, gearing and capital commitments**

As at 30 September 2005, shareholders' funds of the Group amounted to approximately HK\$54,458,000 (2004: HK\$55,015,000). 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 2005, the gearing ratio of the Group was 20.3% (2004: 13%).

The Group's capital expenditure commitments during the period, mainly in respect of the acquisition agreement dated 4 February 2005, amounted to US\$450,000 (equivalent to approximately HK\$3,510,000). Due to the delay in settlement of the said amount, as disclosed in the announcement of the Company dated 29 July 2005, the vendors have approached the Company to explore the possibility of terminating the acquisition agreement. The Company is considering the proposed termination.

As at 30 September 2005, 34.8%, 37.7% and 27.5% (2004: 23.8%, 76.2% and 0%) of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in Hong Kong dollars, Renminbi or Singapore dollars.

### **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.

During the period under review, the business activities of the Group were mainly denominated in Hong Kong dollars, Renminbi and Singapore dollars. 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.

## DISCLOSURE OF INTERESTS

### Directors' Interests in Shares and Underlying Shares

At 30 September 2005, the interests 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 Division 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 5.46 of the Rules Governing The Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transaction by Directors, were as follows:

#### *Long position in the ordinary shares of the Company*

Name of Directors	Number of shares in the Company			Total interests	Percentage of interests
	Personal interests	Family interests	Corporate interests		
Mr. Koh Tat Lee, Michael ( <i>Note 1</i> )	–	–	323,104,376	323,104,376	12.39%
Dr. Choong Ying Chuan ( <i>Note 2</i> )	2,563,930	–	46,089,697	48,653,627	1.87%

#### *Notes:*

1. 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.
2. These shares are held by eMatrix Pte Ltd. of which 83.33% of the entire issued capital is beneficially owned by Dr. Choong Ying Chuan.

Save as disclosed above, none of the Directors nor the chief executive of the Company had or was deemed to have any interests 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 5.46 of the GEM Listing Rules relating to securities transaction by directors.

### **Directors' Rights to Acquire Shares or Debentures**

Apart from those as disclosed under the heading "Share options" below, at no time during the nine months ended 30 September 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

### **Share Options**

#### *Pre-IPO share option scheme*

On 14 December 2001, the Pre-IPO Share Option Scheme was approved and adopted by a written resolution of all the Shareholders. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or the listing of the Shares on GEM.

No options granted under the Pre-IPO Share Option Scheme were outstanding up to the date of the approval of the financial statements.

#### *Share option scheme*

The Company has also adopted a share option scheme on 14 December 2001 ("Share Option Scheme") under which the Directors may at their discretion grant options to employees (whether under full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme.

Particulars and movements as at 30 September 2005 of the outstanding share options granted under the Share Option Scheme were as follows:

Name or Category of participant	As at 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 September 2005	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
Mr. Chen Domingo	22,000,000	-	-	-	-	22,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Dr. Chung Ying Chuan, Thomas	16,000,000	-	-	-	-	16,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Employees	17,000,000	-	-	-	-	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	-	-	(1,500,000)	-	14,500,000	30 June, 2004	30 June, 2004 to 29 June, 2014	HK\$0.047
Employees	9,060,000	-	-	(2,240,000)	-	6,820,000	24 November, 2004	1 July, 2005 to 23 November, 2014 <i>(Note 1)</i>	HK\$0.034
Employees	10,000,000	-	-	-	-	10,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
<b>Total</b>	<b>174,960,000</b>	<b>-</b>	<b>-</b>	<b>(3,740,000)</b>	<b>-</b>	<b>171,220,000</b>			

*Note 1:* Options granted to these grantees are entitled to exercise (i) half of the options granted to them after 30 June, 2005; (ii) the remaining options after 31 December, 2005.

None of the Directors and employees of the Group had exercised their share options during the nine months ended 30 September 2005.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the following persons (not being Directors or chief executive of the Company whose interest are disclosed above) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Division 2 and 3 or Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholders	Number of shares held	Percentage of the Company's share capital
Temasek Holdings (Private) Limited ( <i>Note 1</i> )	507,862,364	19.48%
Singapore Technologies Telemedia Pte Ltd ( <i>Note 1</i> )	507,862,364	19.48%
STT Communications Ltd ( <i>Note 1</i> )	507,862,364	19.48%
stt Ventures Ltd ( <i>Note 1</i> )	507,862,364	19.48%
Dynamate Limited ( <i>Note 2</i> )	323,104,376	12.39%
Koh Tat Lee, Michael ( <i>Note 2</i> )	323,104,376	12.39%
Yu Chung Choi, Chaucer	307,000,000	11.78%
Madam Lidya Suryawaty ( <i>Note 3</i> )	204,870,228	7.86%
Dr. Mochtar Riady ( <i>Note 3</i> )	204,870,228	7.86%
Lanius Limited ( <i>Note 3</i> )	204,870,228	7.86%
Lippo Cayman Limited ( <i>Note 3</i> )	204,870,228	7.86%
Lippo Limited ( <i>Note 3</i> )	204,870,228	7.86%
Lippo China Resources Limited ( <i>Note 3</i> )	204,870,228	7.86%
HKCL Holdings Limited ( <i>Note 3</i> )	204,870,228	7.86%
Hongkong Chinese Limited ( <i>Note 3</i> )	204,870,228	7.86%
Allwin Asia Inc. ( <i>Note 3</i> )	204,870,228	7.86%
Shenzhen Ingen Technology Company Limited	147,440,000	5.66%

### Notes:

- These shares are held by stt Ventures Limited, which is a wholly-owned subsidiary of STT Communications Limited ("STTC"). 99.99% of the interest of STTC is in turn held by Singapore Technologies Telemedia Pte Ltd, which is in turn a wholly-owned indirect subsidiary of Temasek Holdings (Private) Limited. Accordingly, Temasek Holdings (Private) Limited, Singapore Technologies Telemedia Pte Ltd and STTC are deemed to be interested in the shares beneficially owned by stt Ventures 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.
3. These shares are held by Allwin Asia Inc., which is a wholly-owned indirect subsidiary of Hongkong Chinese Limited. 60.97% of the interest of Hongkong Chinese Limited is in turn held by HKCL Holdings Limited, which is in turn a wholly-owned indirect subsidiary of Lippo China Resources Limited. 71.13% of the interest of Lippo Chinese Resources Limited is in turn indirectly held by Lippo Limited.

Lippo Cayman Limited is the holding company of Lippo Limited through direct holding and through wholly-owned subsidiaries, one of which is Lippo Capital Limited which control an approximate 50.47% interest in Lippo Limited.

Lanius Limited is the registered shareholder of the entire issued share capital of Lippo Cayman Limited and is the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius Limited is accustomed to act. The beneficiaries of the trust include Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady is not the registered holder of any shares in issued share capital of Lanius Limited.

According, Madam Lidya Suryawaty, Dr. Mochtar Riady, Lanius Limited, Lippo Cayman Limited, Lippo Limited, Lippo China Resources Limited, HKCL Holdings Limited and Hongkong Chinese Limited are deemed to be interested in the shares beneficially owned by Allwin Asia Inc.

## **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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the quarter.

## **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members – Leigh Man Sung, Camballaw (independent non-executive director), Sung, Hilda (independent non-executive director) and Ng Wing Hang, Patrick (independent non-executive director). Its principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The Company's financial statements for the nine months ended 30 September 2005 have been reviewed by the audit committee. The audit committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosures have been fully made.

## **CORPORATE GOVERNANCE**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the period ended 30 September 2005.

By order of the Board  
**Koh Tat Lee, Michael**  
*Chairman*

Hong Kong, 10 November 2005

*This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least seven days from the day of its posting.*