



M Dream Inworld Limited  
聯夢活力世界有限公司



Interim Report  
2004

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

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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. Xu Hanjie and Mr. Wong Shui Fun; the non-executive directors of the Company are Mr. Wong Kean Li and Mr. Ng Yat Cheung; the independent non-executive directors of the Company are Mr. Domingo Chen and Mr. Robert Wong.*

## Highlights

- The company name was changed from Inworld Group Limited to M Dream Inworld Limited (聯夢活力世界有限公司\*).
- The Group recorded a turnover of approximately HK\$12,124,000 for the six months ended 30 June 2004, representing almost a 20 times increase over the six months ended 31 December 2003.
- Gross profit amounted to HK\$5,103,000 for the six months ended 30 June 2004, marking a 12 times increase over prior period.
- The Group penetrated the mobile value-added services and online gaming market in the PRC through the acquisition of M Dream Mobile Entertainment Limited and establishment of M Dream Online Limited in May 2004.

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 six months ended 30 June 2004 together with comparative figures for the three months and six months ended 31 December in 2003 as follows:

## CONSOLIDATED INCOME STATEMENT

		3 months ended 30 June 2004	3 months ended 31 December 2003	6 months ended 30 June 2004	6 months ended 31 December 2003
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	11,798	–	12,124	614
Cost of Sales		(6,921)	–	(7,021)	(184)
Gross Profit/(Loss)		4,877	–	5,103	430
Other Revenue		53	320	53	325
Selling and Distribution Costs		(1,215)	(1,053)	(1,227)	(1,204)
Administrative Expenses		(2,849)	(2,280)	(4,386)	(4,064)
Unrealised holding loss on investment		(4,948)	–	(4,948)	–
Amortisation of Goodwill		(408)	(680)	(816)	(680)
Amortisation of Intangible Assets		–	(141)	–	(141)
Depreciation		(110)	(218)	(271)	(339)
Loss from Operations		(4,600)	(4,052)	(6,492)	(5,673)
Finance Costs		–	–	–	–
Loss before Tax		(4,600)	(4,052)	(6,492)	(5,673)
Taxation	4	–	–	–	–
Loss before Minority Interests		(4,600)	(4,052)	(6,492)	(5,673)
Minority Interests		23	93	32	104
Net Loss from Ordinary Activities Attributable to Shareholders		(4,577)	(3,959)	(6,460)	(5,569)
Loss Per Share	6				
Basic, HK cents		(0.300)	(0.319)	(0.458)	(0.593)
Diluted, HK cents		N/A	N/A	N/A	N/A

## CONSOLIDATED BALANCE SHEET

		<b>30 June 2004 (unaudited) HK\$'000</b>	<b>31 December 2003 (audited) HK\$'000</b>
	<i>Note</i>		
Non-Current Assets			
Goodwill		44,479	15,646
Property, plant and equipment	7	2,207	2,156
Intangible assets		2,689	2,689
		<hr/> 49,375	<hr/> 20,491
Current Assets			
Other investments	8	6,931	7,976
Trade receivables	9	11,254	12
Deposits, prepayments and other receivables		1,891	905
Inventories		2,601	2,497
Cash and bank balances		3,471	166
		<hr/> 26,148	<hr/> 11,556
Current Liabilities			
Trade payables		7,186	2
Amount due to a director		–	217
Other payables and accrued expenses		3,532	2,242
Short term loan		7,800	–
		<hr/> 18,518	<hr/> 2,461
Net Current Assets		<hr/> 7,630	<hr/> 9,095
Total Assets Less Current Liabilities		<hr/> 57,005	<hr/> 29,586
Minority Interests		<hr/> 205	<hr/> 237
Net Assets		<hr/> <b>56,800</b>	<hr/> <b>29,349</b>
Representing:			
Share Capital	11	16,906	12,426
Reserves	12	39,894	16,923
Shareholders' Funds		<hr/> <b>56,800</b>	<hr/> <b>29,349</b>

## CONSOLIDATED CONDENSED CASH FLOW STATEMENT

	6 months ended	
	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	3,406	(4,549)
Tax refund	–	286
Net cash outflow from investing activities	<u>(7,192)</u>	<u>(11,031)</u>
Net cash outflow before financing	(3,786)	(15,294)
Net cash inflow from financing	<u>7,091</u>	<u>15,190</u>
Increase/(decrease) in cash and cash equivalents		
– at beginning of the period	3,305	(104)
– at end of the period	<u>166</u>	<u>270</u>
	<u><b>3,471</b></u>	<u><b>166</b></u>
Analysis of balance of cash and cash equivalents		
– cash and bank balances	<u><b>3,471</b></u>	<u><b>166</b></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>6 months ended 30 June 2004 <i>HK\$'000</i></b>	<b>6 months ended 31 December 2003 <i>HK\$'000</i></b>
Total equity at 1 January 2004/1 July 2003	29,349	8,130
Net loss for the period	(6,460)	(5,569)
Issue of shares	4,480	6,636
Share issue expenses	(2,359)	(810)
Share premium arising from placing of shares	<u>31,790</u>	<u>20,962</u>
Total equity at 30 June 2004/ 31 December 2003	<u><u>56,800</u></u>	<u><u>29,349</u></u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of presentation

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

	6 months ended	
	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Turnover		
System solutions services income		
– Consultation	313	–
– Infrastructure	366	552
Mobile value added service	1,636	–
Online game operation	9,750	–
Cyber café income	59	62
	<u>12,124</u>	<u>614</u>
Other revenue		
Sale of computer hardware and software	–	55
Less: Cost of good sold	–	(28)
	–	27
Exchange gain	–	12
Sundry income	53	242
Maintenance service income	–	44
	<u>53</u>	<u>325</u>
Total revenue	<u><u>12,177</u></u>	<u><u>939</u></u>

### 3. Segment information

#### Business segments

The Group is principally engaged in the business of information technology consultation and infrastructure services, mobile value added service, online game operation and cyber café operation.

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.

Segment assets to be allocated to business segments are as follows:

Group:

	<b>30 June 2004 HK\$'000</b>	<b>31 December 2003 HK\$'000</b>
Trade receivables		
Continuing operations		
IT consultation and infrastructure services	185	–
Mobile value added service	1,309	–
Online game operation	9,750	–
Cyber café operation	10	12
	<hr/>	<hr/>
	11,254	12
	<hr/> <hr/>	<hr/> <hr/>

#### Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

The Group's business is principally managed in Hong Kong and the People's Republic of China (the "PRC") and the Group's customers are mainly located in Hong Kong, Macau and the PRC.

	<b>6 months ended</b>	
	<b>30 June 2004</b>	<b>31 December 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers		
– the PRC	11,699	551
– Hong Kong	366	1
– Macau	59	62
	<hr/>	<hr/>
Total revenue from external customers	12,124	614
	<hr/>	<hr/>
Other revenue		
– Hong Kong	32	47
– others	21	278
	<hr/>	<hr/>
	53	325
	<hr/>	<hr/>
Total operating revenue	12,177	939
	<hr/> <hr/>	<hr/> <hr/>
Segment results		
– the PRC	3,313	(2,528)
– Hong Kong	(9,756)	(3,040)
– Macau	(49)	(104)
– Singapore	–	(1)
	<hr/>	<hr/>
Loss from operations	(6,492)	(5,673)
Finance costs	–	–
Taxation	–	–
Minority interests	32	104
	<hr/>	<hr/>
Loss attributable to shareholders	(6,460)	(5,569)
	<hr/> <hr/>	<hr/> <hr/>
Depreciation		
– the PRC	64	115
– Hong Kong	176	172
– Macau	31	52
	<hr/>	<hr/>
	271	339
	<hr/> <hr/>	<hr/> <hr/>

More than 90% of segment assets and capital expenditure are in the PRC and Hong Kong at 30 June 2004 and 31 December 2003.

#### **4. 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 (six months ended 31 December 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 financial statements as the subsidiaries operating outside Hong Kong have no assessable profits for the period (six months ended 31 December 2003: 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 (six months ended 31 December 2003: Nil).

#### **5. Interim dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: nil)

#### **6. 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\$6,460,000 (31 December 2003: HK\$5,569,000) and the weighted average of 1,411,926,681 (31 December 2003: 939,660,174) 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 six months ended 30 June 2004.

#### **7. Property, plant and equipment**

During the six months ended 30 June 2004, the Group had additions to office equipment and computer hardware and software in the amounts of HK\$325,000.

## 8. Other Investment

	Group	
	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Other investments, at market value:		
Listed in Hong Kong	3,028	7,976
	<u>3,028</u>	<u>7,976</u>
Debt securities		
Unlisted	3,903	–
	<u>3,903</u>	<u>–</u>
Market value of listed securities	3,028	7,976
	<u>3,028</u>	<u>7,976</u>

## 9. Trade receivables

An ageing analysis of trade receivables (net of provisions for bad and doubtful debts) at the balance sheet date is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
0 – 30 days	11,069	12
31 – 60 days	185	–
61 – 90 days	–	–
Over 90 days	–	–
	<u>11,254</u>	<u>12</u>

Customers are usually offered a credit period ranging from 7 days to 90 days.

## 10. Trade payables

An ageing analysis of trade payables at the balance sheet date is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
0 – 30 days	7,186	2
31 – 60 days	–	–
61 – 90 days	–	–
Over 90 days	–	–
	<u>7,186</u>	<u>2</u>

## 11. Share capital

	Number of shares		Amount	
	30 June 2004	31 December 2003	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Authorised (ordinary shares of HK\$0.01 each):	<u>3,000,000,000</u>	<u>1,500,000,000</u>	<u>30,000</u>	<u>15,000</u>
Issued and fully paid (ordinary shares of HK\$0.01 each):	<u>1,690,608,000</u>	<u>1,242,608,000</u>	<u>16,906</u>	<u>12,426</u>

## 12. 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 July 2003	22,666	7,396	(27,722)	2,340
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(5,569)	(5,569)
At 31 December 2003 and 1 January 2004	<u>42,818</u>	<u>7,396</u>	<u>(33,291)</u>	<u>16,923</u>
Placing of shares	31,790	–	–	31,790
Issuing expenses	(2,359)	–	–	(2,359)
Net loss for the period	–	–	(6,460)	(6,460)
At 30 June 2004	<u>72,249</u>	<u>7,396</u>	<u>(39,751)</u>	<u>39,894</u>

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004.

## **PROFIT AND TURNOVER**

The Group recorded turnover of HK\$12,124,000 for the six months ended 30 June 2004, compared with HK\$614,000 for the six months ended 31 December 2003. This represents an increase of almost 20 times. The Group's loss attributable to shareholders for the six months ended 30 June 2004 was HK\$6,460,000, compared with a loss of HK\$5,569,000 for the six months ended 31 December 2003. The current period loss was mainly attributed to an unrealized holding loss on investment of HK\$4,935,000.

Gross profit for the six months ended 30 June 2004 amounted to HK\$5,103,000 compared with merely HK\$430,000 for the prior period. This marked an improvement of over 12 times.

## **BUSINESS REVIEW**

The Group's overall business objective is to become a leading system solutions provider in the Asian Region with a primary focus in Hong Kong, the PRC and Singapore. The Group continues to pursue its overall objective in the current period ended 30 June 2004.

In February 2004, the Company completed a placement of 150,000,000 new shares to provide a stronger foundation for the Group's further operation and expansion.

During the period under review, the Group completed the acquisition of M Dream Mobile Entertainment Limited ("M Dream MEL") and effectively Hangzhou M Dream Zone Co., Ltd. ("M Dream Zone"). M Dream Zone is principally engaged in the research, development and after-sale services of entertainment gaming software. M Dream Zone currently focuses on the provision of application services in relation to value added services in the wireless mobile games and entertainment market in the PRC, including the provision of information technology solutions to Internet content providers for distribution of wireless mobile games and downloadable applications via the Internet and mobile networks in the PRC.

Currently, over 20 WAP and K-Java games are launched in the mobile value-added services market of PRC; the most popular games are MU (奇蹟), King of Fighters (拳皇), 3 Kingdoms (三國誌), Heavy Armored Soldiers K (機甲爭霸) and Golden Continent (黃金大陸). The games have a monthly increase on subscriber by 30% to 40%. Revenue of approximately HK\$1,636,000 was contributed from the mobile value-added service segment.

Pursuant to the expansion into the mobile value-added service in the PRC, the Group also established M Dream Online Limited (“MDO”) in May 2004. The principal activities of MDO are the online game development and distribution. The initial business scope of M Dream Online will comprise operating casual games online, massively multi-user online role play games (“MMORPG”) games and RPG games. During the period, MDO sub-licensed one of the gaming licenses for an amount of US\$1.25 million.

The operation of other subsidiaries of the Group continued to grow in the period and all recorded a steady growth in revenue.

## **Prospects**

Through the acquisition of M Dream MEL, the Group expanded its information technology consultation and infrastructure services on to the mobile platform. The Group participated in the provision of mobile value-added service in the PRC, a large and rapidly growing market. The Group combined the user base and distribution channels of M Dream Zone and the information technology knowledge of the Group to create synergy and in turn, enhance shareholders value. Through M Dream Zone’s current business relationship with PRC Internet content providers, the Company had tapped into this segment of the market.

MDO own rights to various MMORPG games for future online and mobile platform deployment. MDO will also deploy other strategies to explore the online gaming arena and the virtual world.

MDO’s deployment strategy is unique due to the Group’s extensive capabilities in the mobile arena. Beside the distribution of games online, MDO will be able to reach the mobile gaming population through the unique bridge provided by M Dream Zone. M Dream Zone’s vast experience in mobile game operation will allow the online game players to utilize their time on the road or away from their computer to continue with their online game via mobile handsets. This will greatly improve the playability of MMORPG games as players will no longer restricted by locations. Further, the graphic limitation and transfer speed issue of mobile games will be solved with the online continuation of the same game as distributed by M Dream Online.

With a sound foundation built up through acquisitions and placements of new shares, the Group has recovered from the business downturn in 2003. The significant improve in turnover and gross profit has proved that the Group is embarking in the right direction to bring improved shareholders value.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

The Group generally finances its operation with generated cash flow and remaining portion of the net proceeds from fund raising activities. As at 30 June 2004, shareholders' funds of the Group amounted to approximately HK\$56,800,000 (31 December 2003: HK\$29,349,000). Current assets amount to approximately HK\$26,148,000 of which approximately HK\$3,471,000 were cash and bank balances. Current liabilities of approximately HK\$18,518,000 mainly comprised accounts payable, short term loan and other payables and accrued expenses. The Group expresses its gearing ratio (if any) as a percentage of bank borrowing, short term loan and long-term debts over total assets. As at 30 June 2004 and to the date of this report, the gearing ratio of the Group was 0.103 (31 December 2003: Not applicable).

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 principally finance its operation with its internal resources and net proceeds from fund raising activities. During the six months ended 30 June 2004, the Company allotted and issued as fully paid a total of 298,000,000 new shares of the Company as consideration of HK\$26,820,000 for the acquisition of M Dream MEL. The Company also placed 150,000,000 new shares at the placing price of HK\$0.063 per placing share for a net proceeds of approximately HK\$8,426,000. Details of the acquisition of M Dream MEL and the placement were set out in the circulars of the Company dated 20 April 2004 and 8 March 2004 respectively.

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

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

On 20 May 2004, Inworld International Limited, a wholly-owned subsidiary of the Company, completed its acquisition of the entire issued share capital of M Dream MEL. The acquisition was settled through allotment and issue of 298,000,000 shares of the Company as fully paid, and HK\$4,500,000 in cash.

### **Investment**

As at 30 June 2004, the Group held shares of two companies which shares are listed on GEM. During the six months under review, the Group did not receive any dividend from these listed securities (six months ended 31 December 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. Upon the resumption of trading, the share price decreased by 43% and eventually closed at 63% lower on 30 June 2004. Due to this significant drop in share price, the Group suffered an unrealized holding loss on investment of HK\$4,935,000 for the six months ended 30 June 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.

### **Segmental information**

The Group mainly operated as a system solution provider during the period. Pursuant to the acquisition of M Dream Zone and establishment of MDO, the Group expanded its business into mobile value-added services and online gaming provision.

Both of the new business segments recorded encouraging operating results for the Group. The mobile value-added services brought in a revenue of HK\$1,636,000. The online gaming provision contributed a revenue of HK\$9,750,000 through the re-sale of a gaming license during June 2004.

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

## **Employees and remuneration policies**

As at 30 June 2004, the Group had 90 employees (31 December 2003: 60), including directors of the Company. For the period under review, the remuneration of the Group amounted to approximately HK\$2,070,000 (six months ended 31 December 2003: HK\$1,217,000). 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 (six months ended 31 December 2003: Nil).

## **Contingent liabilities**

As at 30 June 2004, the Group had no contingent liabilities (six months ended 31 December 2003: Nil).

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

**According to the business objectives as stated in the prospectus of the Company dated 18 December 2001 for the six months ended 30 June 2004**

**Actual business progress during the six months ended 30 June 2004**

### **Revenue and business development**

- |   |   |
|---|---|
| – To continue the business development activities from the previous period                                  | – The Group continued to strengthen its business operation.   |
| – To maintain the main income stream from the Group's services provided in the PRC                          | – The Group established further income stream in the PRC market by acquiring M Dream Zone during the period and expanded its operation into the mobile value added service market in the PRC              |
| – To expand revenue derived from the 3G-enabled application which has been developed in the previous period | – The 3G-enabled application development was deferred due to the global delay of the launch of 3G systems. The Group will delay our 3G strategies until the timetable for 3G infrastructure is finalised. |

### **Product and services development**

- |  |   |
|--|---|
| – To continue the product and services development activities from the previous period | – The Group continued the development activities from the previous period.  |
| – To continue to develop value-added features on the CRM applications                  | – The CRM applications development was slowed down due to market reception of the Group's previous products. The Group had expanded other revenue streams to compensate for the slowdown in this segment. |

- To review the existing product portfolio, and withdraw from the market any obsolete products
- The Group consolidated various products during the period and strengthened its continuing business lines.

## **Marketing**

- To implement a marketing program for the Group's system solution and IT outsourcing services
- The Group scaled back its marketing program during the period as the Group consolidated its various products.
- To implement a marketing program for the new CRM application
- The marketing program for CRM application was slowed down in line with the slowdown of the CRM applications development.
- To implement a marketing program for the Group's 3G-enabled application products
- The marketing program for 3G-enabled application was slowed down in line with the slowdown of the 3G-enabled applications development.

## **Expansion and business alliance**

- To recruit new staff for the expansion of the Group's ASP and portal services
- The recruitment of new staff for ASP and portal services was suspended as the Group realigned its product offering.
- To explore and identify investment and acquisition opportunities for expanding the Group's investment opportunities in the Internet market
- The Group acquired M Dream Zone to expand its system integration service on to the mobile platform as well as the online platform. The Group will continue to look for opportunities for expanding the Group's presence in related businesses with a growth potential

## USE OF PROCEEDS OF IPO

The net proceeds from the public listing had been applied in the following areas:

	<b>Originally planned up to 30 June 2004</b>	<b>Actual amount used up to 30 June 2004</b>
Research and development of new applications and system solution	1.50	2.80
Development of ASP business	2.00	2.40
Enhancement of e-commerce platform	1.00	1.30
Development of new and enhancement of existing Internet based applications	2.50	2.50
Marketing and promotion activities	1.50	2.50
Enhancement of the Internet infrastructure of the Group	1.00	1.40
Formation of strategic and business alliance	3.00	23.20
Development of cyber café	1.50	1.90
Working capital	3.00	4.80
	<hr/>	<hr/>
Total	17.00	42.80
	<hr/> <hr/>	<hr/> <hr/>

Due to the contraction of business activities caused by the SARS saga and the subsequent slowdown of economy in 2003, the net proceeds from the initial public offering was fully utilized in the previous years. During the six months ended 30 June 2004, the Group raised additional funds by placement of 150,000,000 shares to support the operation of the Group. Though the actual amount of the use of proceeds varied from the original plan, the business plan as disclosed in the prospectus of the Company dated 18 December 2001 was implemented. The variances in the usage were mainly due to timing difference in the fund application.

## DISCLOSURE OF INTERESTS

### Directors' Interests in Shares

At 30 June 2004, 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 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, 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 5.40 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 June 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 June 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
Mr. Chu Siu Wah	12,000,000	-	-	-	(12,000,000)	-	9 October 2003	9 October 2003 to 8 October 2013	HK\$0.076
Employees	20,000,000	-	-	-	(3,000,000)	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	<u>32,000,000</u>	<u>100,900,000</u>	<u>-</u>	<u>-</u>	<u>(15,000,000)</u>	<u>117,900,000</u>			

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

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

*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 under Part XV of the SFO.

## **SPONSOR'S INTEREST**

None of the Company's sponsor, Sun Hung Kai International Limited, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 June 2004.

Pursuant to the agreement dated 17 December 2001 entered into between the Company and Sun Hung Kai International Limited, Sun Hung Kai International Limited has been retained to act as the Company's sponsor for the period from 31 December 2001 to 30 June 2004 in return for a monthly advisory fee.

## **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 six months ended 30 June 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 Interim Report for the six months ended 30 June 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.

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

Hong Kong, 21 July 2004