



M Dream Inworld Limited

聯夢活力世界有限公司

(Incorporated in the Cayman Islands with limited liability)

M Dream Inworld

2004 ANNUAL REPORT



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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 Enterprises 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 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

Koh Tat Lee, Michael (*Chairman*)
Chen, Domingo
Xu, Hanjie
Wong Shui Fun
Choong Ying Chuan

Non-executive Directors

Tay Yew Beng, Peter
Lee Siu Lung, James
Wong Kean Li
Ng Yat Cheung

Independent Non-executive Directors

Wong, Robert
Sung, Hilda
Yeung Chun Wai, Anthony

QUALIFIED ACCOUNTANT

Leung, Dennis

COMPANY SECRETARY

Leung, Dennis

COMPLIANCE OFFICER

Koh Tat Lee, Michael

AUTHORISED REPRESENTATIVES

Koh Tat Lee, Michael

AUDIT COMMITTEE

Yeung Chun Wai, Anthony
Wong, Robert
Ng Yat Cheung

REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

20th Floor, Beautiful Group Tower
77 Connaught Road Central
Central, Hong Kong

PRINCIPAL BANKERS

Liu Chong Hing Bank Limited
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

LEGAL ADVISER

As to Hong Kong Law:
Mallesons Stephen Jaques

As to Cayman Island Law:
Maples and Calder Asia

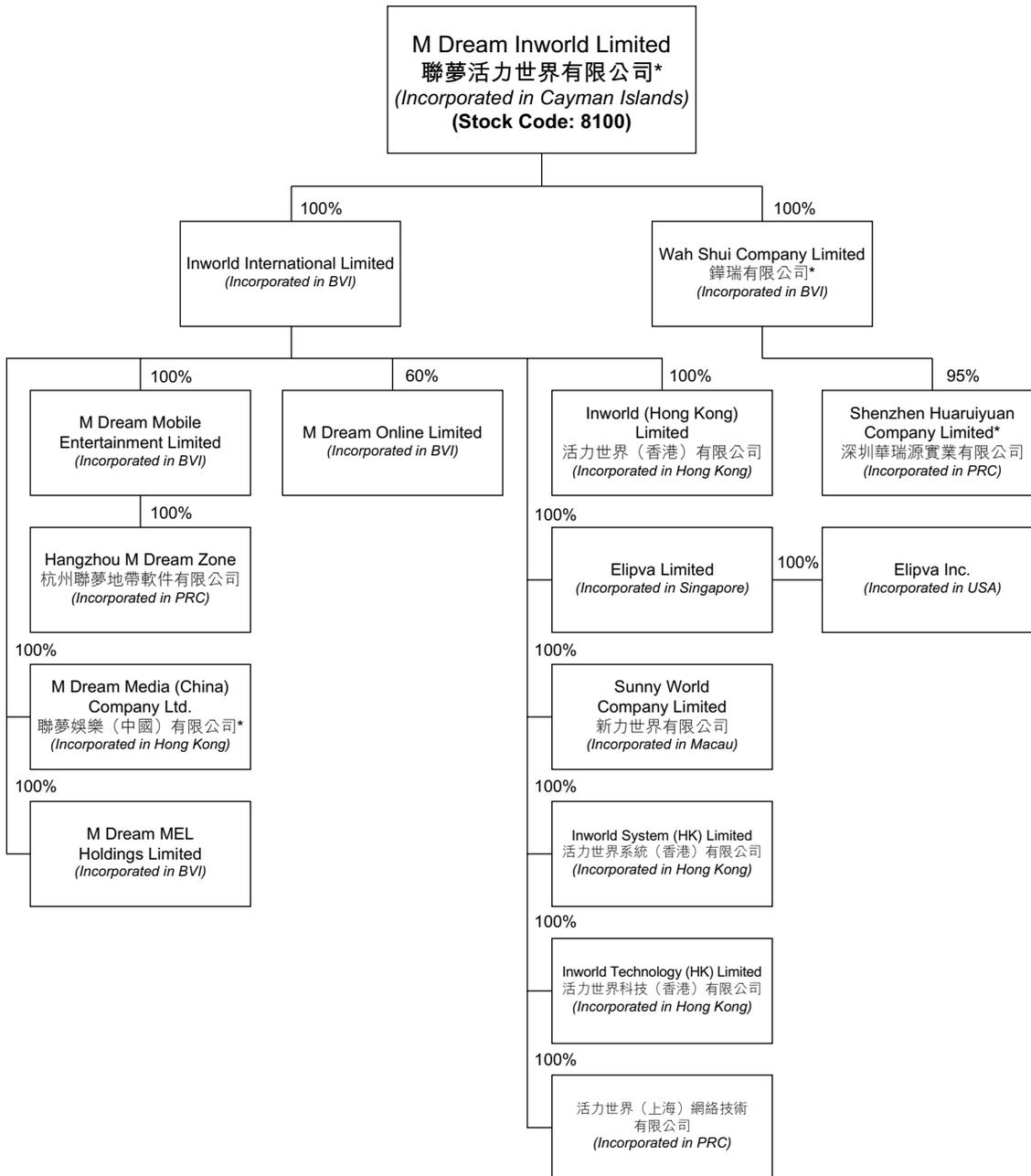
WEBSITE

www.mdreaminworld.com

STOCK CODE

8100

Group Organization Chart



* For identification purpose only

Chairman Statement

To all shareholders of M Dream Inworld Limited,

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 year ended 31 December 2004.

This has been a remarkable year for the Company. The turnover of the Group for the year was approximately HK\$32 million, which is a 53 times multiple of the last audited turnover of HK\$614,000 for the six months ended 31 December 2003.

The Group is constantly exploring new business opportunities in order to achieve better returns for our shareholders. The operation of subsidiaries of the Group expanded from solely system solution provision to online and mobile game operation and mobile value-added services.

Since mid 2004, the Group's activities in Mainland China and the Asia Pacific region have been pursued with increasing emphasis. In reviewing the financial results for 2004, the Board and the Group was particularly encouraged by the progress made by each of the Group's three major business streams:

- the mobile and online games business in China ;
- the mobile value added service business in the China; and
- the system solution business in a number of countries in the Asia-Pacific region.

On 30 July 2004, the Group entered into the MDC Subscription Agreement; the STT Subscription Agreement; and the Elipva Share Swap Agreement. Through the MDC Subscription Agreement and the STT Subscription Agreement, the Company strengthened its 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 provided 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 business to foster a better business ties in South East Asia. In return, the Group will bring Elipva to the North Asia market to create 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. The above transactions were completed on 29 October 2004.

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

Chairman Statement

We are delighted to say that the Group had expanded rapidly in revenue as well as in size. By the end of December 2004, the Group has a total strength of over 170 staffs versus 70 in December 2003. The Group had new offices in major cities of China as well as Singapore.

I believe our involvement in the mobile and online game business will further improve our revenue in the years to come.

I am also pleased to announce the Group had fulfilled the 2 years post-listing supervision of GEM Board. As a Group, we are looking forwards to 2005 with great anticipation and excitement.

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, 22 March 2005

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

The turnover of the Group was approximately HK\$32,437,000 for the year ended 31 December 2004 (six months ended 31 December 2003: HK\$614,000). This represented a 53 times improvement compared with the six months ended 31 December 2003. The significant growth reflected the positive results from the Group's expansion into the mobile and online gaming operation, mobile value-added service and continuous effort in improving its information technology service business.

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, Singapore and Hong Kong, the headcount of the Group grew from 70 people as of 31 December 2003 to over 170 people during the year. The addition of new offices and significant increase of staff number increased the operating expenses to HK\$21,220,000 (six months ended 31 December 2003: HK\$5,607,000).

Loss for the period

The consolidated loss of the Group for the year ended 31 December 2004 was approximately HK\$17,149,000 (six months ended 31 December 2003: loss of HK\$5,569,000). Despite the growth of over 29 times in gross profit to HK\$12,347,000, the current year loss was mainly attributed to an unrealized holding loss on investment of HK\$5,072,000 and increase of expenses due to the investing phase of various subsidiaries in year 2004.

Liquidity, financial resources, gearing and capital commitments

As at 31 December 2004, shareholders' funds of the Group amounted to approximately HK\$88,785,000 (31 December 2003: HK\$29,349,000). 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 31 December 2004, the gearing ratio of the Group was 14% (2003: Nil).

The Group's capital expenditure commitments as at the date of this announcement, mainly in respect of the acquisition agreement dated 4 February 2005, amounted to US\$450,000 (equivalent to approximately HK\$3,510,000). The Group has adequate financial resources to fund its commitments on capital expenditure.

As at 31 December 2004, 100 per cent (2003: 100 per cent) 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 Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Management Discussion and Analysis

The capital structure, funding and treasury policies of the Group

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

On 25 February 2004, the Company completed a placement of 150,000,000 new shares of the Company at a placing price of HK\$0.063. The net proceeds was approximately HK\$8,426,000.

On 20 May 2004, the Company allotted and issued as fully paid a total of 298,000,000 new shares of the Company at HK\$0.09 per share as consideration of HK\$26,820,000 for the acquisition of M Dream Mobile Entertainment Limited ("M Dream MEL").

On 29 October 2004, the Company completed the subscription by M Dream China (Holdings) Limited and stt Venture Limited for an aggregate of 305,882,352 new shares of the Company at HK\$0.051 per share for a total consideration of US\$2,000,000 (equivalent to approximately HK\$15,600,000).

On 29 October 2004, the Company completed the share swap with Elipva Limited. The entire consideration for the issued share capital of Elipva Limited was S\$6,875,000 (equivalent to approximately HK\$31,133,438) which was settled through allotment and issue of 610,459,559 new shares of the Company as fully-paid.

On 11 November 2004, the Company entered into a subscription agreement with Dynamic View Limited in relation to the subscription of the convertible notes in units of HK\$500,000 for a total consideration of HK\$10,500,000. The conversion price is HK\$0.038 per share.

Details of the placement of 150,000,000 new shares; the acquisition of M Dream MEL; the subscription by M Dream China (Holdings) Limited and stt Venture Limited, the acquisition of Elipva Limited were set out in the circulars of the Company dated 8 March 2004, 20 April 2004 and 8 October 2004 respectively. The details of the subscription of convertible notes were set out in the announcement of the Company dated 15 November 2004.

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.

Management Discussion and Analysis

Investment

As at 31 December 2004, the Group held shares of two companies which shares are listed on GEM. During the year, 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 66%. Due to this significant drop in share price, the Group suffered an unrealized holding loss on investment of HK\$5,072,000 in the year ended 31 December 2004.

Details of material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year 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 new shares of the Company as fully-paid, and HK\$ 4,500,000 in cash.

On 29 October 2004, the Company completed the share swap with the shareholders of Elipva (including STT Communication Limited, Allwin Asia, Inc., eMatrix Pte Ltd., Dr. Choong Ying Chuan, Mr. Chang Sau Sheong) and Elipva Limited. The consideration for the entire issued share capital of Elipva Limited was S\$6,875,000 (equivalent to approximately HK\$31,133,438) which was settled through allotment and issue of 610,459,559 new shares of the Company as fully-paid .

Directors' Service Contracts

No Director, except Dr. Choong Ying Chuan, has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)). Dr. Choong is employed as the Chief Executive Officer of Elipva Limited, a wholly owned subsidiary of the Company, whose contract is on a two year term commencing 29 October 2004.

Employees and remuneration policies

As at 31 December 2004, the Group had over 170 employees (2003: 70), including directors of the Company. For the year ended 31 December 2004, the remuneration of the Group amounted to approximately HK\$6,937,000 (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.

Management Discussion and Analysis

Details of charges on Group assets

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

Contingent liabilities

As at 31 December 2004, the Group had no contingent liabilities (2003: Nil).

On 4 March 2005, the Company has received a High Court Writ filed by Cheang Weng Kei against the Company claiming for a sum of HK\$3.5 million for two cheques drawn in favour of Cheang Weng Kei. The said cheques were dishonoured for the reasons of "invalid signature" and "payment countermanded by the drawer." The Directors are currently seeking legal advice regarding this proceedings and considering the appropriate course of action to be taken, including but not limited to filing a defence and a counter-claim against Cheang Weng Kei. The Directors are of the view that additional information is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The Directors are of the opinion that the claim can be successfully resisted by the Company.

Segmental Results

The Group mainly operated in the online gaming business, mobile gaming and value added service business and system solution provision business for the year ended 31 December 2004. 67% of the Group's turnover resulted from online gaming business. 16% of the Group's turnover was from mobile gaming and value added service business and system solution provision accounted for the rest of the turnover.

The Group presented its geographical segment reporting based on the geographical location of our customers. During the year ended 31 December 2004, the Group expanded its business from Mainland China, Hong Kong to Singapore, the Philippines and other countries. Mainland China remains the largest market of the Group and accounted for 85% of the turnover of the Group. Revenue from Singapore and the Philippines customers accounted for 14% and 0.6% of the turnover of the Group for the year ended 31 December 2004 respectively.

Management Discussion and Analysis

BUSINESS REVIEW

The Company is an investment holding company. When the Company offered its initial public offering in December 2001, its subsidiaries focused on the provision of system solutions in the Asian region with a primary focus in Hong Kong, Mainland China and Singapore. Since then, through acquisitions and establishment of subsidiaries, the Group expanded its information technology consultation and infrastructure services from system solutions to mobile and online game operations and mobile value added business in the year ended 31 December 2004.

On 20 May 2004, Inworld International Limited, a wholly-owned subsidiary of the Company, completed the acquisition of the entire issued share of M Dream Mobile Entertainment Limited ("M Dream MEL"). M Dream MEL is principally engaged in the research, development and after-sale services of entertainment gaming software. It focuses on the provision of application services in relation to value added services in the wireless mobile games and entertainment market in Mainland China, a large and rapidly growing market, 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 Mainland China.

The Group also established M Dream Online Limited ("MDO") in May 2004. The principal activities of MDO are the online game development, operation and distribution. In October 2004, MDO participated in the second China Digital Entertainment Expo & Conference ("China Joy") in Shanghai to exhibit some of the massively multi-user online role play games ("MMORPG"), virtual community games and casual games that will be launched in the first half of Year 2005.

Through M Dream MEL and MDO, the Group successfully entered into the mobile and online gaming and mobile value added business operations. It is expected that these two business segments would contribute significantly to the Group's turnover in future. The turnover of the Group was HK\$32,437,000 for the year 2004, which increased by 53 times over the last audited period and affirmed that the Group is heading in the right business direction.

On 29 October 2004, the Company issued and allotted shares to M Dream China (Holdings) Limited and stt Venture Limited for a subscription proceed of US\$2,000,000 (equivalent to approximately HK\$15,600,000) in accordance with the subscription agreements signed. Through these subscriptions, the capital base of the Company was enhanced and the financial position of the Group strengthened. The proceeds from the subscriptions would also facilitate the investment strategy of the Group for 2005.

Management Discussion and Analysis

On the same day, the Company completed the share swap with Elipva Limited ("Elipva") and acquired the entire issued share capital of Elipva. Elipva is engaged in the provision of system solutions, including e-services/consulting, Internet application software and enterprise software/services such as e-business applications, identity and access management, security infrastructure, human capital and financial management, system and enterprise applications integration. The major customers of Elipva include various financial institutions, multinational companies as well as government agencies in Singapore. The share swap enables the Group to have a readily available platform through Elipva to enter into the South East Asian market, such as Singapore and Indonesia.

With the addition of Elipva to the system solution business of the Group, the overall performance of the system solution business improved. The turnover of this segment increased 9 times over the last audited period to HK\$5,196,000. By the end of 2004, the Group had expanded its system solution business from Mainland China and Hong Kong to Singapore, the Philippines, Thailand and Malaysia.

Prospects

Year 2004 was a rapid expansion year for the Group. The Group's business grew from system solutions to mobile and online gaming and mobile value added business. The Group will continue to grow organically 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.

On 4 February 2005, the Group entered into a subscription agreement to subscribe 2,527 shares of M Dream China (Holdings) Limited and entered into an acquisition agreement to acquire 5,531 shares of Vasina Limited. Through this subscription and acquisition, the Company will collectively own 41% equity interest in MDC (PRC), a mobile gaming operation company, and will expand further into the k-Java mobile gaming industry in Mainland China. MDC (PRC) is currently one of the top 3 mobile game providers to China Mobile and China Unicom. The major revenue streams include monthly subscription fee of WAP and one time download fee for K-Java mobile games, plus other income from mobile ring tone and other value added services. Several k-Java mobile games offered by MDC (PRC), such as King of Fighters and Metalslugs, are ranked among top k-Java games in Mainland China. With the expertise in gaming acquired through the subscription and acquisition, the Company will improve its research and development capacity and develop more advanced games in Year 2005.

In the year ended 31 December 2004, the Group had invested significant resources into the development and deployment strategies of online games in Mainland China. The Group will commercially launch some of these MMOPRG games in Mainland China in 2005. Contribution to revenue and operating profit from the online game operation will benefit the Group's 2005 performance.

Management Discussion and Analysis

Resulting from the acquisition of Elipva, the Group had received a healthy contribution of revenue from Elipva. With the offering of Elipva's system solution in Mainland China, the revenue contribution by Elipva will continue to propel the Group's system solution business. With Elipva's reputation in the Southeast Asian region, the Group plans to role out its other system solutions products to the region and broaden the customer base of the Group.

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 forming strategic and business alliances with leading information technology companies and business partners in order to maximize returns to our shareholders.

Comparison of Business Objectives with Actual Business Progress

As disclosed in the Statement of Business Objectives section of the prospectus of the Company dated 18 December 2001, the Company outlined its implementation plans for the period from 14 December 2001 to 30 June 2004. The implementation plan period has ended on 30 June 2004. As disclosed in the interim report of the Company for the six months ended 30 June 2004, the actual business progress during the six months ended 30 June 2004 was as follows:

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

- | | |
|---|--|
| <ul style="list-style-type: none"> • To continue the business development activities from the previous period • To maintain the main income stream from the Group's services provided in the PRC • To expand revenue derived from the 3G-enabled application which has been developed in the previous period | <ul style="list-style-type: none"> • The Group continued to strengthen its business operation. • 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 • 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

- | | |
|---|--|
| <ul style="list-style-type: none"> • To continue the product and services development activities from the previous period • To continue to develop value-added features on the CRM applications • To review the existing product portfolio, and withdraw from the market any obsolete products | <ul style="list-style-type: none"> • The Group continued the development activities from the previous period. • 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. • The Group consolidated various products during the period and strengthened its continuing business lines. |
|---|--|

Comparison of Business Objectives with Actual Business Progress

Marketing

- To implement a marketing program for the Group's system solution and IT outsourcing services
- To implement a marketing program for the new CRM application
- To implement a marketing program for the Group's 3G-enabled application products
- The Group scaled back its marketing program during the period as the Group consolidated its various products.
- The marketing program for CRM application was slowed down in line with the slowdown of the CRM applications development.
- 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
- To explore and identify investment and acquisition opportunities for expanding the Group's investment opportunities in the Internet market
- The recruitment of new staff for ASP and portal services was suspended as the Group realigned its product offering.
- 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

Comparison of Business Objectives with Actual Business Progress

Use of proceeds

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

	Originally planned up to 30 June 2004	Actual amount used up to 30 June 2004
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	<u>17.00</u>	<u>42.80</u>

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.

Board of Directors and Senior Management

Executive Directors

Mr. Koh Tat Lee, Michael, aged 38, has been an executive director since 23 April 2003. Mr. Koh is responsible for overseeing the general management and formulating strategic plans for the Group. In addition, he is in charge of product development and sales and marketing strategies. Mr. Koh possess more than ten years of experience in the telecommunications industry and has worked at Bell South and AT&T in the United States and was promoted to technical director before he left AT&T. During his tenure as vice-president at First Pacific Company Limited from 1994 to 1997, Mr. Koh founded a private company called Tuntex Telecom in Taiwan and assumed the post of president for the period from 1995 to 1997. Mr. Koh holds a master degree in electrical engineering and a master degree in industrial engineering from Columbia University in the United States.

Mr. Chen, Domingo, aged 49, is the Chief Operating Officer of the Company. Mr. Chen joined the Company as an independent non-executive director on 20 July 2004. He was appointed executive director on 11 November 2004. He has over 25 years of experience in the fields of information technology, marketing and financial management. Mr. Chen received master degree in business administration from Northwestern University, Chicago, USA and The Hong Kong University of Science and Technology. Mr. Chen has previously worked for CLP Power Hong Kong Group, Littauer Technologies Co., Ltd. (a public company listed on KOSDAQ in the Republic of Korea), Peoples Telephone Company Limited and Pacific Link Communications Limited.

Mr. Xu Hanjie, aged 37, has been an executive director since 20 May 2004. Mr. Xu has over 12 years of experience in the information technology and telecommunications industries in the PRC. Mr. Xu received a master degree in Business Administration from Zhejiang University, the PRC. Mr. Xu was the Chief Executive Officer of Zhejiang University Maikang Computer Limited, a computer company in the PRC. Mr. Xu is the Chief Executive Officer of Hangzhou M Dream Co., Ltd. Mr. Xu is responsible for the mobile game operation and mobile value added service of the Group.

Mr. Wong Shui Fun, aged 40, possesses more than eight years of experience of trade finance from the Hongkong and Shanghai Banking Corporation, and was head of the small medium business department responsible for implementing the sales and marketing strategy in the Hong Kong region. Mr. Wong joined the Company on 23 April 2003 as an independent non-executive director. He was appointed executive director on 24 March 2004. Mr. Wong is responsible for the online game operation of the Group. Mr. Wong holds a bachelor of arts degree in international marketing from San Francisco State University in the United States.

Dr. Choong Ying Chuan, aged 49, has over 25 years of experience in the field of information technology with some of the largest global multinationals. Dr. Choong joined the Company on 1 November 2004. Dr. Choong received his Doctor of Philosophy degree in 1982 from the University of Bath, UK. Dr. Choong is currently the Chief Executive Office and a director of Elipva Limited, a subsidiary of the Company.

Board of Directors and Senior Management

Non-executive Directors

Mr. Tay Yew Beng, Peter, aged 52, has been a non-executive director since 1 November 2004. He has over 26 years of experience in the fields of corporate secretarial, investment and financial management. Mr. Tay is a Licensed Chartered Secretary with the Singapore Association of the Institute of Chartered Secretaries and Administrators and received his Bachelor of Business Administration (Hons) for the University of Singapore and Masters in Business Administration from The National University of Singapore. Mr. Tay holds director posts in a number of private companies which are principally engaged in the investment, fund and asset management, real estate development, shipping and distribution industries. Mr. Tay is an independent director of L&M Group Investments Limited, a publicly listed company on the Singapore Stock Exchange.

Dr. Lee Siu Lung, James, aged 35, has over 8 years of experience in the field of international business and engineering. Dr. Lee joined the Company on 1 March 2005. Dr. Lee received his Ph.D. degree in engineering in 1998 from the University of Hong Kong. Dr. Lee has been a consultant and advisor with many large international corporations in Hong Kong and overseas, and presently holds position of chairman in Systech Telecom Limited, assistant to managing director of Lippo China Resources Limited and directorship in a number of technology firms.

Mr. Wong Kean Li, aged 33, has been a non-executive director since 20 May 2004. He is the president and executive director of Softbank Investment International (Strategic) Limited, a company incorporated in Hong Kong and the shares of which are listed on the main board of the Stock Exchange. Mr. Wong holds an MA in Law from Cambridge University, England. He was formerly the vice-president and senior counsel for business development of hongkong.com Corporation and chinadotcom Corporation respectively, as well as an associate lawyer with international law firm Clifford Chance, specializing in China law and corporate and Internet/technology matters.

Mr. Ng Yat Cheung, JP, aged 49, has been a non-executive director since 18 June 2003. Mr. Ng received an associate degree in arts in business data processing from Chabot College in the United States in 1984. He holds director's offices with a number of private companies which are principally engaged in technology, property development, insurance, finance and property holding. Mr. Ng is a member of the Audit Committee of the Company.

Independent non-executive Directors

Mr. Wong, Robert, aged 35, has over 12 years of experience in the fields of information technology, advertisement and logistics. He joined the Company on 18 June 2004. Mr. Wong received a bachelor of science in business administration from San Francisco State University in the United States in 1992. He holds director's offices with a number of private companies, which are principally engaged in technology, logistics, distribution, advertisement and investments. Mr. Wong has previously worked for Sina.com in their marketing and sales division. Mr. Wong is a member of the Audit Committee of the Company.

Board of Directors and Senior Management

Ms. Sung, Hilda, aged 39, has over 12 years of experience in the fields of investment and financial management. Ms. Sung joined the Company on 11 October 2004. She received her master degree in business administration from University of South Australia. Ms. Sung has previously worked for YF Investment (China) Limited, Everbright Securities Company Limited and China Southern Securities Limited. Ms. Sung is currently the vice-president of the Hong Kong Society of Economists and the managing director of China High Growth Fund Limited.

Mr. Yeung Chun Wai, Anthony, aged 28, has been an independent non-executive director since 11 November 2004. Mr. Yeung has over 6 years of experience in the field of finance. Mr. Yeung received his Bachelor of Business Administration (Accounting & Finance) degree in 1998 from the University of Hong Kong. Mr. Yeung is a member of The Association of Chartered Certified Accountants, Hong Kong. Mr. Yeung is the Chairman of the Audit Committee of the Company.

Senior management

Mr. Leung, Dennis, aged 38, is the company secretary, qualified accountant and chief financial officer controller of the Group. Mr. Leung started his career in North America and later joined an international Big Four accounting firm in Hong Kong. He had served clients in various industries including information technology, banking, securities dealing, manufacturing and insurance industry. Mr. Leung is an associate member of the Hong Kong Society of Accountants and a member of the America Institute of Certified Public Accountants.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements of M Dream Inworld Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the special general meeting of the Company held on 17 May 2004 and approved by the Registrars of Companies in the Cayman Islands and Hong Kong, the name of the Company was changed from Inworld Group Limited to M Dream Inworld Limited with effect from 20 May 2004.

The Chinese name of the Company for identification purpose was changed from 活力世界控股有限公司 to 聯夢活力世界有限公司.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries are set out in note 16 to the financial statements. The Group's principal activities were expanded from system solutions to include mobile and online gaming and mobile value added service during the year.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 30.

The state of affairs of the Group and the Company as at 31 December 2004 are set out in the balance sheets on pages 31 and 32 respectively.

The Directors do not recommend the payment of dividend for the year ended 31 December 2004 (2003: Nil).

SEGMENT INFORMATION

Details of segment information are set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for each of the three years ended 30 June 2003, 6 months ended 31 December 2003 and the year ended 31 December 2004 is set out on page 70.

PROPERTY, PLANT AND EQUIPMENT

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

Directors' Report

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2004 are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

CONVERTIBLE NOTES

During the year, the Company issued convertible notes of approximately HK\$10,500,000 for the purpose of general working capital and future investments of the Group.

Details of the convertible notes of the Group and the Company in issue during the year are set out in note 25 to the financial statements. The convertible notes were not exercised in full or in part during the year, or up to the date of this report.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 13(a) to the financial statements.

SHARE OPTION SCHEME

Particulars of the share option schemes of the Group are set out in note 13(b) to the financial statements.

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Koh Tat Lee, Michael	
Mr. Wong Shui Fun	(appointed on 24 March 2004)
Mr. Xu Hanjie	(appointed on 20 May 2004)
Dr. Choong Ying Chuan	(appointed on 1 November 2004)
Mr. Chen, Domingo	(appointed on 11 November 2004)
Mr. Chu Siu Wah	(resigned on 9 February 2004)

Non-executive Directors

Mr. Ng Yat Cheung	
Mr. Wong Kean Li	(appointed on 20 May 2004)
Mr. Tay Yew Beng, Peter	(appointed on 1 November 2004)
Dr. Lee Siu Lung, James	(appointed on 1 March 2005)

Independent Non-executive Directors

Mr. Wong, Robert	(appointed on 18 June 2004)
Ms. Sung, Hilda	(appointed on 11 October 2004)
Mr. Yeung Chun Wai, Anthony	(appointed on 11 November 2004)
Mr. Leung Chun Cheng	(resigned on 20 July 2004)
Mr. Wong Shui Fun	(resigned on 24 March 2004)
Mr. Cheong Mun Hong	(appointed on 24 March 2004 and resigned on 18 June 2004)
Mr. Chen, Domingo	(appointed on 20 July 2004 and resigned on 11 November 2004)

In accordance with Article 99 of the Company's Articles of Association, all present Directors shall hold office until the next annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had any interests in any contracts of significance in relation to the Group's business to which the Company or any of its 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' Report

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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 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	Personal interests	Number of shares in the Company			Percentage of interests
		Family interests	Corporate interests	Total interests	
Mr. Koh Tat Lee, Michael (<i>Note 1</i>)	–	–	170,163,200	170,163,200	6.53%
Dr. Choong Ying Chuan (<i>Note 2</i>)	2,563,930	–	46,089,697	48,653,627	1.87%

Notes:

- 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.
- 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 year 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.

Directors' Report

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. An aggregate of 174,960,000 options were outstanding under the share option scheme up to the date of approval of the financial statements.

Particulars and movements during the year ended 31 December 2004 of the outstanding share options granted under the Share Option Scheme were as follows:

Name or 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 31 December, 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. 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	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
Employees	-	12,000,000	-	(2,940,000)	-	9,060,000	24 November, 2004	1 July, 2005 to 23 November, 2014 (Note 1)	HK\$0.034
Employees	-	10,000,000	-	-	-	10,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Total	32,000,000	160,900,000	-	(2,940,000)	(15,000,000)	174,960,000			

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 year ended 31 December, 2004.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, 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
M Dream China (Holdings) Limited (<i>Note 1</i>)	512,941,176	19.67%
Vasina Limited (<i>Note 1</i>)	512,941,176	19.67%
Temasek Holdings (Private) Limited (<i>Note 2</i>)	507,862,364	19.48%
Singapore Technologies Telemedia Pte Ltd (<i>Note 2</i>)	507,862,364	19.48%
STT Communications Ltd (<i>Note 2</i>)	507,862,364	19.48%
stt Ventures Ltd (<i>Note 2</i>)	507,862,364	19.48%
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%
Dynamate Limited (<i>Note 4</i>)	170,163,200	6.53%
Koh Tat Lee, Michael (<i>Note 4</i>)	170,163,200	6.53%
Shenzhen Ingen Technology Company Limited	147,440,000	5.66%

Notes:

- 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.
- 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.

Directors' Report

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.

Accordingly, 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.

4. 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.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of aggregate turnover attributable to the Group's five largest customers is as follows:

	%
The largest customer	36
Five largest customers combined	88

The percentage of aggregate purchase attributable to the Group's five largest suppliers is as follows:

	%
The largest supplier	43
Five largest suppliers combined	82

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or five largest suppliers.

Directors' Report

CONNECTED TRANSACTIONS

1. On 16 February 2004, Dynamate Limited ("Dynamate") entered into a placing and underwriting agreement with a placing agent, pursuant to which the placing agent agreed to place, on a fully underwritten basis, 150,000,000 existing shares at the placing price on behalf of Dynamate. Dynamate is a company incorporated in the BVI and a substantial shareholder (as defined under the GEM Listing Rules) of the Company which is wholly owned by Mr. Koh Tat Lee, Michael. On the same date, Dynamate entered into the subscription agreement with the Company for the subscription of the subscription shares at the subscription price. Immediately before the Placing and the Subscription, Dynamate held 370,163,200 shares, representing approximately 26.58% of the enlarged issued share capital of the Company as at 16 February 2004. Completion of the placing took place on 19 February 2004 and completion of the Subscription took place on 25 February 2004.

Details of placing existing shares and subscription of new shares were set in the circular of the Company dated 8 March 2004.

2. On 30 July 2004, M Dream China (Holdings) Limited, a substantial shareholder of the Company, entered into a conditional subscription agreement with the Company to subscribe for 152,941,176 new Shares of the Company at a subscription price of HK\$0.051 per share. The completion of this subscription agreements took place on 27 October 2004.

Details of the subscription agreement were set out in the circular of the Company dated 8 October 2004.

COMPETING INTEREST

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 year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors' Report

MANAGEMENT CONTRACTS

No Director, except Dr. Choong Ying Chuan, has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)). Dr. Choong is employed as the Chief Executive Officer of Elipva Limited, a wholly owned subsidiary of the Company, whose contract is on a two year term commencing 29 October 2004.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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 year ended 31 December 2004.

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 – Yeung Chun Wai, Anthony (independent non-executive director), Robert Wong (independent non-executive director) and Ng Yat Cheung (non-executive director). Its principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2004.

The Company's financial statements for the year ended 31 December 2004 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.

Directors' Report

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 34 to the financial statements.

AUDITORS

HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Koh Tat Lee, Michael

Chairman

Hong Kong, 22 March 2005

Auditors' Report

TO THE SHAREHOLDERS OF M DREAM INWORLD LIMITED

(FORMERLY KNOWN AS INWORLD GROUP LIMITED)
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 30 to 69 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 responsibilities towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 2004 and of the Group's loss 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.

HLB Hodgson Impey Cheng

*Chartered Accountants
Certified Public Accountants*

Hong Kong, 22 March 2005

Consolidated Income Statement

For the year ended 31 December 2004 (in HK Dollars)

	Notes	Year ended 31 December 2004 HK\$'000	Six months ended 31 December 2003 HK\$'000
Turnover	3	32,437	614
Cost of Sales		(20,090)	(184)
Gross Profit		12,347	430
Other Revenue	3	413	325
Gain on Liquidation of a Subsidiary		1,027	–
Selling and Distribution Costs		(3,634)	(1,204)
Administrative Expenses		(17,586)	(4,403)
Unrealised Loss on Other Investment		(5,072)	–
Loss on Disposal of Property, Plant and Equipment		(1,059)	–
Amortisation of Goodwill		(2,709)	(680)
Amortisation of Intangible Assets		(142)	(141)
Loss from Operations	5	(16,415)	(5,673)
Finance Costs	6	(313)	–
Loss before Tax		(16,728)	(5,673)
Taxation	7	(564)	–
Loss before Minority Interests		(17,292)	(5,673)
Minority Interests		143	104
Net Loss from Ordinary Activities Attributable to Shareholders		(17,149)	(5,569)
Loss Per Share			
Basic, HK cents	9	(0.998)	(0.593)
Diluted, HK cents	9	N/A	N/A

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2004 (in HK Dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Non-Current Assets			
Goodwill	14	62,224	15,646
Property, plant and equipment	15	1,486	2,156
Intangible assets	17	1,180	2,689
		<u>64,890</u>	<u>20,491</u>
Current Assets			
Investments in securities	18	2,904	7,976
Trade receivables	19	28,525	12
Deposits, prepayments and other receivables		9,140	905
Inventories	20	16,162	2,497
Time deposits		6,941	–
Cash and bank balances		2,562	166
		<u>66,234</u>	<u>11,556</u>
Current Liabilities			
Trade payables	21	13,377	2
Amount due to a director	22	–	217
Other payables and accrued expenses		10,538	2,242
Short-term unsecured interest bearing loan	24	7,800	–
		<u>31,715</u>	<u>2,461</u>
Net Current Assets		<u>34,519</u>	<u>9,095</u>
Total Assets Less Current Liabilities		<u>99,409</u>	<u>29,586</u>
Non-current liabilities			
Convertible notes	25	10,500	–
Minority Interests		<u>124</u>	<u>237</u>
Net Assets		<u>88,785</u>	<u>29,349</u>
Representing:			
Share Capital	26	26,069	12,426
Reserves	27	62,716	16,923
Shareholders' Funds		<u>88,785</u>	<u>29,349</u>

Approved by the Board of Directors on 22 March 2005 and signed on its behalf by:

Koh Tat Lee, Michael
Director

Wong Shui Fun
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

At 31 December 2004 (in HK Dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Non-Current Assets			
Investment in subsidiaries	16	104,786	36,203
Current Assets			
Investments in securities	18	69	101
Deposits, prepayments and other receivables		4,072	705
Cash and bank balances		1,016	41
		5,157	847
Current Liabilities			
Accrued expenses		1,618	1,022
Amount due to a director	22	–	217
Amounts due to subsidiaries	23	1,416	105
Short-term unsecured interest bearing loan	24	7,800	–
		10,834	1,344
Net Current Liabilities		(5,677)	(497)
Total Assets Less Current Liabilities		99,109	35,706
Non Current Liabilities			
Convertible notes	25	10,500	–
Net Assets		88,609	35,706
Representing:			
Share Capital	26	26,069	12,426
Reserves	27	62,540	23,280
Shareholders' Funds		88,609	35,706

Approved by the Board of Directors on 22 March 2005 and signed on its behalf by:

Koh Tat Lee, Michael
Director

Wong Shui Fun
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004 (in HK Dollars)

	Note	1 January 2004 to 31 December 2004 HK\$'000	1 July 2003 to 31 December 2003 HK\$'000
Total equity at 1 January 2004/ 1 July 2003		29,349	8,130
Net loss for the year/period	27	(17,149)	(5,569)
Issue of shares	26	13,643	6,636
Share issue expenses		(5,448)	(810)
Share premium arising from placing and issuance of shares		69,360	20,962
Liquidation of a subsidiary		(970)	—
Total equity at 31 December 2004/ 31 December 2003		88,785	29,349

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2004 (in HK Dollars)

	Note	1 January 2004 to 31 December 2004 HK\$'000	1 July 2003 to 31 December 2003 HK\$'000
Cash Flows from Operating Activities			
Loss before taxation		(16,728)	(5,673)
Adjustments for:			
Finance cost		313	–
Interest income		(9)	–
Depreciation		549	339
Amortisation of intangible assets		142	141
Unrealised holding loss on other investments		5,072	243
Loss on disposal of investment securities		–	5
Amortisation of goodwill		2,709	680
Provision for doubtful debt		1,528	4
Impairment loss of intangible assets		1,367	–
Loss on disposals of property, plant and equipment		1,059	37
Gain on liquidation of subsidiary		(1,027)	–
Operating loss before working capital changes		(5,025)	(4,224)
Increase in deferred expense		(24)	–
(Increase)/decrease in trade receivables		(25,148)	2
Increase in prepayments, deposits and other receivables		(6,088)	(613)
Increase/(decrease) in trade payables		10,710	(67)
Increase in other payables and accrued expenses		4,479	1,211
Decrease in amount due to a director		(217)	(643)
Decrease in trade deposits received		–	(215)
Increase in inventories		(13,665)	–
Cash consumed from operations		(34,978)	(4,549)
Profits tax in The People's Republic of China (paid)/ Hong Kong profits tax refund		(564)	286
Net cash outflow from operating activities		(35,542)	(4,263)
Cash Flows from Investing Activities			
Interest received		9	–
Purchases of property, plant and equipment		(537)	(156)
Sales proceeds on disposals of property, plant and equipment		–	11
Cash effect on acquisition of a subsidiary	28	7,787	(10,888)
Net proceeds on disposal of investment securities		–	2
Cash effect on formation of a subsidiary		31	–
Net cash outflow from investing activities		7,290	(11,031)

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2004 (in HK Dollars)

Note	1 January 2004 to 31 December 2004 <i>HK\$'000</i>	1 July 2003 to 31 December 2003 <i>HK\$'000</i>
Cash Flows from Financing Activities		
Interest paid	(313)	–
Proceeds from placing of shares	25,050	16,000
Proceeds from issue of convertible bond	10,500	–
Short term unsecured interest bearing loan	7,800	–
Share issue expenses	(5,448)	(810)
	<hr/>	<hr/>
Net cash inflow from financing activities	37,589	15,190
	<hr/>	<hr/>
Net Decrease in Cash and Cash Equivalents	9,337	(104)
Cash and cash equivalents at beginning of year/period	166	270
	<hr/>	<hr/>
Cash and cash equivalents at end of year/period	9,503	166
	<hr/>	<hr/>
Analysis of Balances of Cash and Cash Equivalents		
Cash and bank balances	2,562	166
Time deposit	6,941	–
	<hr/>	<hr/>
	9,503	166
	<hr/>	<hr/>

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

31 December 2004 (in HK Dollars)

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 30 July 2001 under the Companies Law (2001 Revision) of the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 16 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as the "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). A Summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company's balance sheet, the investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Investment in securities

Security is a bond or share or other negotiable instrument evidencing debts or ownership which is distinguished between equity and debt securities, is classified as held-to-maturity securities, investment securities and other investments.

Investments in other than held-to-maturity debt securities are accounted for using the benchmark treatment. Long-term investment securities are stated at cost less any provision for impairment losses. Investments in other than held-to-maturity debt securities and long-term investment securities are accounted for as other investments and are stated at fair values with unrealised gains or losses included in the income statement.

The transfer of a security between categories of investments are accounted for at fair value. At the date of the transfer, the security's unrealised holding gain or loss for a security transferred into the other investment category are recognised in net profit or loss immediately.

(e) Property, plant and equipment

i. Valuation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

ii. Depreciation

Depreciation is provided on the straight-line basis to write off the cost of each asset over its estimated useful life, and after taking into account their estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold improvements	:	20% or over the lease term, if shorter
Office equipment	:	20%-25%
Furniture and fixtures	:	20%
Computer hardware and software	:	20%-33%
Motor vehicles	:	25%

iii. Disposition

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the relevant asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(f) Goodwill

Goodwill, which represents the excess of purchase consideration cover the fair values ascribed to the separate net assets of subsidiaries, associates and jointly controlled entities acquired at the date of acquisition, is stated at cost less accumulated amortisation and impairment loss. Goodwill is amortised by equal annual instalment over its estimated useful economic life of 10 years. Negative goodwill is credited directly to reserves.

Unamortised goodwill is charged to the consolidated income statement upon disposal of the relevant subsidiaries, associate and jointly controlled entity.

(g) Intangible assets

Intangible assets, representing technical know-how and patents acquired, are stated at cost less accumulated amortisation and impairment loss. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Technical know-how	:	20 years
Patents	:	10 years
Membership database	:	1 year

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

Intangible assets are reviewed periodically for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use and net selling price.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(i) Current assets and current liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

(j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit is the profit for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(k) Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(l) Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- i. Revenues from system solutions and the mobile value added services are recognised when the services are rendered;
- ii. Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- iii. Interest income is recognised on a time-apportioned basis taking into account the principal outstanding and the effective interest rates applicable.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the period in which the costs are incurred.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(o) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(p) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the balance sheet items of overseas subsidiaries, and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income and expense items are translated at the average rates for that period. The resulting translation differences are dealt with in the exchange reserve.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

(r) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(t) Employee benefits

- i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.
- iii. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- iv. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

3. TURNOVER AND REVENUE

	Year ended 31 December 2004 <i>HK\$'000</i>	Six months ended 31 December 2003 <i>HK\$'000</i>
Turnover		
Online game operation	21,607	–
Mobile game and value added service	5,176	–
System solutions service income	5,045	552
Others	609	62
	<u>32,437</u>	<u>614</u>
Other revenue		
Sale of computer hardware and software	–	55
Less: Cost of good sold	–	(28)
	–	27
Exchange gain	–	12
Interest income	9	–
Sundry income	404	242
Maintenance service income	–	44
	<u>413</u>	<u>325</u>
Total revenue	<u>32,850</u>	<u>939</u>

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

4. SEGMENT INFORMATION

Business segments

The Group mainly operated in the online gaming business, mobile gaming and value added service business and system solution provision business for the year ended 31 December 2004.

	System solution services		Mobile game and value added services		Online game		Others		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue										
Sales to external customers	5,045	551	5,176	-	21,607	-	609	63	32,437	614
Segment results	805	(4,566)	2,157	-	(4,148)	-	(15,229)	(1,107)	(16,415)	(5,673)
Finance costs									(313)	-
Loss before tax									(16,728)	(5,673)
Tax									(564)	-
Loss before minority interests									(17,292)	(5,673)
Minority interests									143	104
Loss attributable to shareholders									(17,149)	(5,569)
Segment assets										
trade receivable	2,766	-	4,143	-	21,607	-	9	12	28,525	12

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

4. SEGMENT INFORMATION (Continued)

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 Mainland China, Singapore and Hong Kong. The Group's customers are mainly located in Mainland China, Singapore, Hong Kong and the Philippines.

	Year ended 31 December 2004 HK\$'000	Six months ended 31 December 2003 HK\$'000
Revenue from external customers		
– Mainland China	27,530	551
– Singapore	4,610	–
– Hong Kong	–	1
– Philippines	191	–
– Other countries	106	62
Total revenue from external customers	<u>32,437</u>	<u>614</u>
Other revenue		
– Mainland China	129	–
– Singapore	83	–
– Hong Kong	182	47
– Other countries	19	278
Total operating revenue	<u>32,850</u>	<u>939</u>
Segment results		
– Mainland China	(1,135)	(2,528)
– Singapore	(793)	(1)
– Hong Kong	(14,403)	(3,040)
– Others countries	(84)	(104)
Loss from operations	(16,415)	(5,673)
Finance costs	(313)	–
Taxation	(564)	–
Minority interests	143	104
Loss attributable to shareholders	<u>(17,149)</u>	<u>(5,569)</u>
Depreciation		
– Mainland China	322	115
– Singapore	25	–
– Hong Kong	163	172
– Other countries	39	52
	<u>549</u>	<u>339</u>

More than 90% of segment assets and capital expenditure are in the Mainland China, Singapore and Hong Kong at 31 December 2004 and 31 December 2003 respectively.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

5. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	Year ended 31 December 2004 HK\$'000	Six months ended 31 December 2003 HK\$'000
Auditors' remuneration	280	120
Staff costs (excluding Directors' remuneration):		
– Wages and salaries	3,789	1,201
– Retirement benefits contributions	200	16
Research expenses incurred	375	31
Exchange loss	24	–
Depreciation of owned fixed assets	549	339
Amortisation of intangible assets	142	141
Amortisation of goodwill	2,709	680
Operating lease rentals in respect of land and buildings	985	293
Provision for doubtful debt	1,528	4
Loss on disposal of property, plant and equipment	1,059	37
Stock written off	870	778
Unrealised loss on investment of securities	5,072	248
	5,072	248

6. FINANCE COSTS

	Year ended 31 December 2004 HK\$'000	Six months ended 31 December 2003 HK\$'000
Interest on short term bearing loan wholly repayable within five years	313	–
	313	–

7. 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 year (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. Overseas taxation of HK\$564,000 has been made in the financial statements for the subsidiaries operating outside Hong Kong for the year (six months ended 31 December 2003: Nil).

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

7. TAXATION (Continued)

The reconciliation of taxation provision to the loss per income statement is as follows:

	Group	
	1 January 2004 to 31 December 2004 HK\$'000	1 July 2003 to 31 December 2003 HK\$'000
Loss before taxation	16,728	5,673
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	(2,927)	(993)
Effect on difference in tax rate	672	–
Tax effect of expenses that are not deductible in determining taxable profit	2,570	1,164
Tax effect of unrecognised temporary difference	118	–
Tax effect of unrecognised tax losses	131	(171)
Taxation charge for the year/period	<u>564</u>	<u>–</u>

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).

The Group has not recognised deferred tax assets in respect of losses due to the unpredictability of the future profit streams. The tax losses do not expire under current tax legislation.

8. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2004 was HK\$24,652,000 (six months ended 31 December 2003: HK\$18,505,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$17,149,000 (31 December 2003: HK\$5,569,000) and the weighted average of 1,719,319,929 (2003: 939,660,174) ordinary share in issue during the year.

No diluted loss per share has been presented because the exercise price of the Company's share options was higher than the average market price per share for the year and other potential ordinary shares are anti-dilutive.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004 (2003: Nil).

11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	1 January 2004 to 31 December 2004 HK\$'000	1 July 2003 to 31 December 2003 HK\$'000
Fees	411	77
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	2,782	784
Mandatory provident fund scheme contribution	11	6
	3,204	867

Included in the Directors' remuneration were fees of HK\$210,000 (six months ended 31 December 2003: HK\$77,000) paid to independent non-executive Directors during the year approximately HK\$28,000 (31 December 2003: HK\$50,000), HK\$14,000 (31 December 2003: HK\$27,000), HK\$ 51,000 (31 December 2003: HK\$Nil), HK\$21,000 (31 December 2003: HK\$Nil), HK\$13,000 (31 December 2003: HK\$Nil), HK\$60,000 (31 December 2003: HK\$Nil) and HK\$23,000 (31 December 2003: HK\$Nil) respectively.

The non-executive directors received individual emoluments for the year ended 31 December 2004 of approximately HK\$185,000 (31 December 2003: HK\$Nil) and HK\$16,000 (31 December 2003: HK\$Nil) respectively.

The executive directors received individual emoluments for the year ended 31 December 2004 of approximately HK\$1,835,000 (31 December 2003: HK\$550,000), HK\$123,000 (31 December 2003: HK\$240,000), HK\$284,000 (31 December 2003: HK\$Nil), HK\$169,000 (31 December 2003: HK\$Nil), HK\$324,000 (31 December 2003: HK\$Nil) and HK\$58,000 (31 December 2003: HK\$Nil) respectively.

During the year, there were no bonuses paid or payable to the Directors (31 December 2003: Nil). No Director waived or agreed to waive any remuneration during the year (31 December 2003: Nil). In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group as a compensation for loss of office (31 December 2003: Nil).

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three (31 December 2003: two) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining two (31 December 2003: three) non-director, highest paid individuals, which each fell within the nil to HK\$1,000,000 band, are as follows:

	Group	
	1 January 2004	1 July 2003
	to	to
	31 December 2004	31 December 2003
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	556	1,140
Mandatory provident fund scheme contribution	18	17
	574	1,157

During the year, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (31 December 2003: Nil). No Director waived or agreed to waive any remuneration during the period (31 December 2003: Nil). In addition no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (31 December 2003: Nil).

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

13. EMPLOYEE BENEFITS

(a) Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

The employees of the Company's subsidiaries in Mainland China are members of the state-sponsored retirement benefit scheme organised by the relevant local government authorities in the Mainland China. The subsidiaries are required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

Under the Central Provident Fund (the "CPF") of Singapore, the Group contributed 16% of staff's relevant income and the contribution is charged to the income statement.

Under the MPF Scheme and CPF, there is no forfeited contribution which could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 31 December 2004.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong, Singapore and Mainland China. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2004 in respect of the retirement of its employees.

(b) Equity compensation benefits

Pre-IPO share option scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on 14 December 2001 ("Pre-IPO Share Option Scheme") for the purpose of recognition of the contribution of certain Directors and employees of the Group to the growth of the Group and/or to 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.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

13. EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

Share Option Scheme

Pursuant to the share option scheme adopted by the Company, on 14 December 2001 ("Share Option Scheme"), the Directors may at their discretion grant options to employees (whether in 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. The purpose of the Share Option Scheme is to provide incentive and to recognise the contribution of the employees.

The total number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company as at the date of this annual report. The number of Shares in respect of which options may be granted to any individual in any 12-month period up to the date of the grant is not permitted to exceed 1% of the issued share capital of the Company as at the date of the grant, unless approved by the shareholders of the Company in accordance with the Share Option Scheme.

Options may be exercised at any time from the date of the grant of the options to the date of expiry of the option as may be determined by the Directors which shall not exceed ten years from the date of the grant. The exercise price of the options is determined by the Directors, save that such price shall not be less than the highest of (i) the closing price of the Shares on the date of the grant; (ii) the average of the closing price per Share on the GEM for the five business days immediately preceding the date of grant and (iii) the nominal value of the Shares. Upon acceptance of the offer, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

There is no general requirement on the minimum period for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, at the time of granting any option, the board of Directors may make such grant subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the board of Directors may determine at its absolute discretion.

Subject to earlier termination by shareholders' resolution in the general meeting, the Share Option Scheme shall be valid and effective for a period of ten years commencing from 14 December 2001.

An aggregate of 160,900,000 (2003: 32,000,000) options were granted by the Company during the period up to the date of approval of these financial statements which consists of 4 executive directors, 1 non-executive director and 20 employees (2003: 1 executive director and 4 employees).

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

13. EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

Share Option Scheme (Continued)

Movements in the share options during the year/period are as follows:

	1 January 2004 to 31 December 2004	1 July 2003 to 31 December 2003
	Number of Options	Number of Options
Option outstanding at 1 January 2004/1 July 2003	32,000,000	–
Issued	160,900,000	32,000,000
Exercised	–	–
Cancelled/Lapsed	(17,940,000)	–
	<hr/>	<hr/>
Option outstanding at 31 December 2004/ 31 December 2003	174,960,000	32,000,000

None of the Directors and employees of the Group had exercised their share options during the year ended 31 December 2004.

14. GOODWILL

	Group HK\$'000
Cost	
At 1 January 2004	20,775
Additions during the year	49,287
	<hr/>
At 31 December 2004	70,062
	<hr/>
Accumulated amortisation and impairment loss	
At 1 January 2004	5,129
Charge for the year	2,709
	<hr/>
At 31 December 2004	7,838
	<hr/>
Carrying amount	
At 31 December 2004	62,224
	<hr/>
At 31 December 2003	15,646
	<hr/>

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold Improvements <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Computer hardware and software <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:						
At 1 January 2004	619	553	34	1,812	874	3,892
Acquisition of subsidiaries (note 28)	45	114	80	2,957	–	3,196
Additions	5	155	6	371	–	537
Disposals	(623)	–	–	(416)	(874)	(1,913)
At 31 December 2004	46	822	120	4,724	–	5,712
Depreciation and Impairment losses:						
At 1 January 2004	227	69	20	1,353	67	1,736
Acquisition of subsidiaries (note 28)	17	77	16	2,685	–	2,795
Charge for the year	116	75	15	311	32	549
Written back on disposal	(340)	–	–	(415)	(99)	(854)
At 31 December 2004	20	221	51	3,934	–	4,226
Net book value:						
At 31 December 2004	26	601	69	790	–	1,486
At 31 December 2003	392	484	14	459	807	2,156

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	7,785	7,785
Due from subsidiaries	131,818	44,829
Less: Provision for amount due from subsidiaries	(34,817)	(16,411)
	104,786	36,203

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries of the Company are as follows:

Name of company	Place of Incorporation/ Establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Inworld International Limited	British Virgin Islands	Ordinary US\$328	100%	–	Investment holding
Wai Shui Company Limited	British Virgin Islands	Ordinary US\$2	100%	–	Investment holding
M Dream Online Limited	British Virgin Islands	Ordinary US\$10,000	–	60%	Provision of online game services
Hangzhou M Dream Zone Co. Limited #	The People's Republic of China	Registered capital RMB993,252	–	100%	Provision of mobile game and value added services
M Dream Media (China) Co., Ltd	Hong Kong	Ordinary HK\$1	–	100%	Provision of media services
M Dream Mobile Entertainment Limited #	British Virgin Islands	Ordinary US\$200	–	100%	Investment holding
M Dream MEL Holdings Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Elipva Limited #	Singapore	Ordinary S\$10,614,988	–	100%	Provision of system integration services
Elipva Inc. #	United States of America	Ordinary US\$100	–	100%	Dormant
深圳華瑞源實業有限公司	The People's Republic of China	Registered capital RMB10,000,000	–	95%	Provision of system solutions services

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries of the Company are as follows:

Name of company	Place of Incorporation/ Establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Inworld (Hong Kong) Limited	Hong Kong	Ordinary HK\$3	–	100%	Provision of System solutions service
Inworld System (HK) Limited	Hong Kong	Ordinary HK\$3	–	100%	Provision of system solution service
Inworld Technology (HK) Limited	Hong Kong	Ordinary HK\$2	–	100%	Provision of system solution service
Sunny World Company Limited	Macau	Registered capital MOP 25,000	–	100%	Operations of cyber café
活力世界(上海)網絡技術有限公司*	The People's Republic of China	Registered capital US\$200,000	–	100%	Development and sale of internet application solution services

During the year, the Group acquired 100% interest of Elipva Limited and M Dream Mobile Entertainment Limited. Further details of these acquisitions are disclosed in note 28 to the financial statements.

* 活力世界(上海)網絡技術有限公司 was formed as a wholly-owned foreign enterprise in the People's Republic of China.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

17. INTANGIBLE ASSETS

Group

	Technical know-how	Patents	Membership database	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:				
At 1 January 2004	1,415	1,415	1,590	4,420
At 31 December 2004	1,415	1,415	1,590	4,420
Amortisation:				
At 1 January 2004	47	94	1,590	1,731
Charge for the year	142	–	–	142
Impairment loss	46	1,321	–	1,367
At 31 December 2004	235	1,415	1,590	3,240
Carrying value:				
At 31 December 2004	1,180	–	–	1,180
At 31 December 2003	1,368	1,321	–	2,689

18. INVESTMENTS IN SECURITIES

	Group		Company	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets				
Other investments, at market value:				
Listed in Hong Kong	2,904	7,976	69	101

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

19. TRADE RECEIVABLES

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	3,669	12
90– 180 days	13,785	–
Over 180 days	11,071	–
	<u>28,525</u>	<u>12</u>

Customers are usually offered a credit period ranging from 30 days to 120 days.

20. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	3,127	3,275
Work in progress	13,905	–
Stock written off	(870)	(778)
	<u>16,162</u>	<u>2,497</u>

21. TRADE PAYABLES

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	1,616	2
90 – 180 days	11,192	–
Over 180 days	569	–
	<u>13,377</u>	<u>2</u>

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

22. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, interest-free and was repaid during the year.

23. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries were unsecured, interest free and have no fixed term of repayment.

24. SHORT-TERM UNSECURED INTEREST BEARING LOAN

The amount due is unsecured, bears interest at 5% p.a. and is repayable on demand.

25. CONVERTIBLE NOTES

On 11 November 2004, the Company issued HK\$10,500,000 4% convertible note due on 12 November 2007 (the "Notes"). The notes carry a right to convert either in whole or in part at any time on or after the date of issue of the Notes and prior to the close of business day on the fourteenth business day immediately preceding the maturity date in whole or any integral multiple of HK\$100,000 (save for in respect of any Notes not issued in the denomination of HK\$500,000 in which case in the full amount of such Notes) into fully paid shares of the Company having a par value of HK\$0.01 at an initial conversion price of HK\$0.038 per share (subject to adjustment) at any time on or after the date of issue of the Notes and prior to the close of business day on fourteenth business day immediately preceding the maturity date.

The shares issued upon conversion of the Notes shall rank *pari passu* in all respects with the fully paid shares in issue at the date of the conversion and be entitled to all dividends and other distributions to be paid or made if the record date of which fall on a day on or after the date of conversion.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

26. SHARE CAPITAL

Authorised (ordinary share of HK\$0.01 each):

	Notes	Number of shares	Amount HK\$'000
At 1 July 2003 and 31 December 2003		1,500,000,000	15,000
Increased during the year	(a)	1,500,000,000	15,000
Increased during the year	(b)	3,000,000,000	30,000
At 31 December 2004		6,000,000,000	60,000
Issued and fully paid (ordinary shares of HK\$0.01 each):			
At 1 July 2003		579,008,000	5,790
Share issued pursuant to the placing	(c)	400,000,000	4,000
Shares issued as consideration for the share transfer agreement	(d)	263,600,000	2,636
At 31 December 2003 and 1 January 2004		1,242,608,000	12,426
Shares issued pursuant to the Placing	(e)	150,000,000	1,500
Share issued as consideration for acquisition	(f)	298,000,000	2,980
Share issued as consideration for share swap agreement	(g)	610,459,559	6,105
Share issued pursuant to MDC subscription agreement	(h)	152,941,176	1,529
Share issued pursuant to STT subscription agreement	(i)	152,941,176	1,529
At 31 December 2004		2,606,949,911	26,069

Notes:

- (a) Pursuant to a special resolution passed on 17 May 2004, the authorised share capital of the Company was increased from HK\$15,000,000 to HK\$30,000,000, by the creation of additional 1,500,000,000 shares of HK\$0.01 each. Such new shares were rank pari passu in all respects with the existing shares.
- (b) Pursuant to an ordinary resolution passed on 25 October 2004, the authorised share capital of the Company was increased from HK\$30,000,000 shares to HK\$60,000,000 by the creation of additional 3,000,000,000 shares of HK\$0.01 each. Such new shares were rank pari passu in all respects with the existing shares.
- (c) On 4 July 2003, the Company entered into subscription agreements with nine placees of which seven are investors, one is the company secretary and qualified accountant of the Company and the remaining one is a connected person of the Company under the GEM Listing Rules, pursuant to which the Company has agreed to place an aggregate of 400,000,000 placing shares of HK\$0.01 each to such placees at the placing price of HK\$0.04 each.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

26. SHARE CAPITAL (Continued)

- (d) On 15 July 2003, the Directors announced that Wah Shui Company Limited, a wholly-owned subsidiary of the Company, entered into the Share Transfer Agreement on 25 June 2003 to acquire an aggregate of 95% of the equity interests in Shenzhen Huaruiyuan Company Limited for an aggregate consideration of HK\$22,800,000, of which HK\$11,201,600 (representing approximately 49% of the Consideration) was satisfied by cash and the remaining balance of HK\$11,598,400 (representing approximately 51% of the Consideration) was satisfied by the allotment and issue of 263,600,000 consideration shares at an issue price of HK\$0.044 per consideration share.
- (e) On 16 February 2004, Dynamate Limited, a substantial shareholder of the Company, has entered into a placing and underwriting agreement for the placing of 150,000,000 existing share of HK\$0.01 each in the capital of the Company at a placing price of HK\$0.063 per share. The completion date of this agreement took place on 25 February 2004.
- (f) On 20 May 2004, 298,000,000 new Shares of the Company were issued as part of the consideration for the acquisition of M Dream Mobile Entertainment Limited at HK\$0.09 per share.
- (g) On 30 July 2004, the Company entered into the Share Swap Agreement with certain shareholders of Elipva Limited in which they conditionally agreed to sell their shares in Elipva Limited by receiving 610,459,559 new Shares of the Company at HK\$0.051 per share as the consideration for the acquisition of Elipva Limited. The completion date of this agreement was on 27 October 2004.
- (h) On 30 July 2004, the Company entered into the MDC Subscription Agreement with M Dream China (Holdings) Limited in which M Dream China (Holdings) Limited conditionally agreed to subscribe for an aggregate of 152,941,176 new Shares of HK\$0.051 each. The completion date of this agreement was on 27 October 2004.
- (i) On 30 July 2004, the Company entered into the STT Subscription Agreement with stt Ventures Limited ("STT"), pursuant to which STT conditionally agreed to subscribe for an aggregate of 152,941,176 new Shares of the Company at HK\$0.051 per share. The completion date of this agreement was on 27 October 2004.

Share option scheme

The Company has two share option schemes, and details of which are set out under the heading 'Equity compensation benefits' in note 13 to the financial statements.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

27. RESERVES

Group

	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	42,818	7,396	(33,291)	16,923
Placing of shares	20,491	–	–	20,491
Issuance of shares as purchase consideration	48,869	–	–	48,869
Issuing expenses	(5,448)	–	–	(5,448)
Liquidation of a subsidiary	–	(970)	–	(970)
Net loss for the year	–	–	(17,149)	(17,149)
At 31 December 2004	106,730	6,426	(50,440)	62,716

Company

	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 2004	22,666	2,985	(4,018)	21,633
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(18,505)	(18,505)
At 31 December 2003 and 1 January 2004	42,818	2,985	(22,523)	23,280
Placing of shares	20,491	–	–	20,491
Issuance of shares as purchase consideration	48,869	–	–	48,869
Issuing expenses	(5,448)	–	–	(5,448)
Net loss for the period	–	–	(24,652)	(24,652)
At 31 December 2004	106,730	2,985	(47,175)	62,540

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

27. RESERVES (Continued)

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the reorganization scheme (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 18 December 2001, over the nominal value of the shares of the Company issued in exchange thereof.
- (b) The contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange thereof.
- (c) Under the Companies Law (2001 Second Revision) of the Cayman Islands, a company may make distributions to its members out of the contributed surplus account under certain circumstances. In addition, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At 31 December 2004, in the opinion of the Directors, the Company have reserves of approximately HK\$51,706,000 (2003: HK\$21,936,000) available for cash distribution and/or distribution in specie in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

28. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100% interests in (i) M Dream Mobile Entertainment Limited and its subsidiary, Hangzhou M Dream Zone Company Limited (hereinafter referred to as the "M Dream MEL Group") and (ii) Elipva Limited and its subsidiary, Elipva Inc (hereinafter referred to as the "Elipva Group"). The effect of the acquisitions to the financial statements were as follows:

Net assets acquired:

	M Dream MEL Group	Elipva Group	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	242	159	401	1,503
Patents and technical know-how	–	–	–	2,830
Trade receivables	471	2,894	3,365	–
Deposits, prepayment and other receivables	130	3,521	3,651	–
Inventories	–	–	–	3,015
Cash and bank balances	761	9,351	10,112	314
Time deposits	–	2,175	2,175	–
Trade payables	(805)	(1,917)	(2,722)	–
Accruals and other payables	(121)	(3,695)	(3,816)	(847)
Minority interest	–	–	–	(341)
	678	12,488	13,166	6,474
Goodwill	30,642	18,645	49,287	16,326
	31,320	31,133	62,453	22,800
Satisfied by:				
Cash consideration	4,500	–	4,500	11,202
Shares	26,820	31,133	57,953	11,598
	31,320	31,133	62,453	22,800

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

28. ACQUISITION OF SUBSIDIARIES (Continued)

Analysis of the net inflow in respect of the purchase of the subsidiaries:

	<i>HK\$'000</i>
Cash consideration paid	(4,500)
Bank balances and cash acquired	10,112
Time deposits acquired	2,175
	<hr/>
Net cash inflow in respect of the purchase of the subsidiaries	<u>7,787</u>

The subsidiaries acquired during the year contributed approximately HK\$9,786,000 to the Group's turnover and contributed to the Group a gain of approximately HK\$734,000 for the year. The subsidiaries acquired contributed approximately HK\$3,807,000 to the Group's net operating cash out flows and gave rise to cash outflows in respect of investing activities of HK\$306,000. There is no significant impact in respect of the Group's cash flows for financing and payment for tax.

Further details of the acquisition of M Dream MEL Group and Elipva Group are set out in the Company's circular dated 20 April 2004 and 8 October 2004 respectively.

29. GAIN ON LIQUIDATION OF A SUBSIDIARY

Net liabilities disposed of:

	<i>HK\$'000</i>
Cash and cash equivalents	9
Trade and other payables	(66)
	<hr/>
Net liabilities	(57)
Contributed surplus released on liquidation	(970)
	<hr/>
Gain on liquidation of a subsidiary	<u>(1,027)</u>

The subsidiary liquidated during the year did not have any significant impact on the Group's cash outflows, turnover and operating result.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

30. MATERIAL RELATED PARTY TRANSACTION

During the year, the Group had entered into transactions with related parties which, in the opinion of the Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

Name of the related party	Relationship	Nature of transactions	Note	1 January 2004	1 July 2003
				to 31 December 2004	to 31 December 2003
				HK\$'000	HK\$'000
Mr. Koh Tat Lee, Michael	Executive director	Advance – payable	22	–	217
深圳市中包威誼投資有限公司	Common director in the subsidiary of Huaruiyuan	Sales – received	(i)	–	534
				–	534

Note:

(i) The director in Shenzhen Huaruiyuan Company Limited has beneficial interests in the above company.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

31. OPERATING LEASE ARRANGEMENTS

The Group leases office properties under operating arrangement which is negotiated for terms of one to four years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follow:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,291	1,115
In the second to fifth years, inclusive	1,806	365
	<hr/>	<hr/>
	3,097	1,480
	<hr/>	<hr/>

32. CONTINGENT LIABILITIES

Subsequent to the balance sheet date, the Company received a writ filing with High Court from Mr Cheang Weng Kei against the Company claiming for a sum of HK\$3,500,000 for two cheques drawn in favour of Mr Cheang Weng Kei plus interest and costs. The cheques were dishonoured for the reasons of "invalid signature" and "payment countermanded by the drawer". The Directors of the Company is instructing its legal advisor to prepare the defense. Up to the date of approval of the financial statements, no defense has been filed.

In the opinion of the Directors, the Group has valid grounds to defense the action and it is unlikely that there would be any material contingent liabilities, and as such, no provision has been made in the financial statements for the Group's exposure to the above action.

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2004, the Group acquired a subsidiary, M Dream Mobile Entertainment Limited, through the issue of 298,000,000 shares of HK\$0.01 each at a price of HK\$0.09 per share, valued at HK\$ 26,820,000 as the consideration.

During the year ended 31 December 2004, the Group acquired a subsidiary, Elipva Limited, through the issue of 610,459,559 shares of HK\$0.01 each at a price of HK\$0.051 per share, valued at HK\$31,133,000 as the consideration.

Notes to Financial Statements (Continued)

31 December 2004 (in HK Dollars)

34. SUBSEQUENT EVENTS

Subscription Agreement and Acquisition Agreement

On 4 February 2005, Inworld International Limited ("Inworld International"), a wholly owned subsidiary of the Company and M Dream China Holdings Limited ("M Dream China") entered into a subscription agreement, pursuant to which Inworld International has subscribed for M Dream China shares at the total subscription price of HK\$5,000,000. The subscription price paid, was satisfied by way of the transfer of 200 shares of US\$1.00 each in the capital of M Dream Mobile Entertainment Limited, an indirect wholly owned subsidiary, from Inworld International to M Dream China. Upon completion of the subscription, M Dream MEL ceased to be a subsidiary of the Company.

On the same day, the Company and the vendors whose names are Gao Zheng, Ye Jianding, Shen Beilun, Yang Chongyu, Lu Wenxiong and Wang Zhiyong, entered into an acquisition agreement, pursuant to which the Company has acquired from the vendors the shares of Vasina Limited ("Vasina"), representing approximately 55.31% of the issued share capital of Vasina. The acquisition price payable by the Company to the vendors for Vasina shares shall be US\$700,000, (approximately HK\$5,460,000 in cash).

Please refer to announcement dated on 22 February 2005 for details of these agreements.

35. COMPARATIVE FIGURES

The comparative figures for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes are not comparable as the Group changed its year end from 30 June to 31 December. As such, the comparative figures cover the six months ended 31 December 2003.

36. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 22 March 2005.

Summary of Financial Information

The following is a summary of the published results and of the assets and liabilities of the Group for each of three years ended 30 June 2003, the six months period ended 31 December 2003 and the year ended 31 December 2004 prepared on the basis set out in the note below.

RESULTS

	For the	Six months	Year ended 30 June		
	year ended	ended			
	31 December	31 December	Year ended 30 June		
	2004	2003	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	32,437	614	1,558	6,746	6,498
(Loss)/profit from operations	(16,415)	(5,673)	(19,185)	(4,584)	83
Finance costs	(313)	–	–	–	(32)
(Loss)/profit before taxation	(16,728)	(5,673)	(19,185)	(4,584)	51
Taxation	(564)	–	–	–	–
(Loss)/profit before minority interests	(17,292)	(5,673)	(19,185)	(4,584)	51
Minority interests	143	104	72	142	–
Net (loss)/profit from ordinary activities attributable to shareholders	(17,149)	(5,569)	(19,113)	(4,442)	51

Assets and Liabilities

	As at	As at	As at 30 June		
	31 December	31 December			
	2004	2003	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	131,124	32,047	9,942	29,143	8,485
Total liabilities	(42,215)	(2,461)	(1,812)	(1,858)	(456)
Minority interests	(124)	(237)	–	(72)	–
Shareholders' funds	88,785	29,349	8,130	27,213	8,029

Note:

The summary of the published combined results of the Group for the two years ended 30 June 2000 and 2001, and of the assets and liabilities of the Group as at 30 June 2000 and 2001 have been extracted from the Company's prospectus dated 18th December 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the financial year.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of M Dream Inworld Limited (the “Company”) will be held at 11:00 a.m. on 28 April 2005 at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the following purpose of considering and, if thought fit, passing the following resolution as ordinary resolutions of the Company:

1. To receive and consider the audited consolidated financial statements and the reports of the Directors and auditors for the year ended 31 December 2004;
2. To re-elect the retiring Directors of the Company, namely Mr. Xu Hanjie, Mr. Wong Shui Fun, Mr. Wong Kean Li and Mr. Ng Yat Cheung and to authorize the board of Directors to fix their remuneration;
3. To re-appoint Messrs. HLB Hodgson Impey Cheng as the auditors of the Company and to authorize the board of Directors to fix their remuneration;
4. By way of special business, to consider and, if thought fit, pass with or without alternations, the following resolutions (“Resolutions”) as ordinary resolutions:

(A) **THAT:**

- (i) subject to paragraph (iii) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company, securities convertible into such shares in the capital of the Company or securities convertible into such shares options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (i) above, otherwise than pursuant to (a) a Right Issue, or (b) the grant or exercise of any option under the share option schemes of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of the subsidiaries of shares or rights to acquire Shares; or (c) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the memorandum and

Notice of Annual General Meeting

articles of association of the Company in force from time to time; or (d) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:

(aa) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution; and

(bb) (if the Directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution) and the authority pursuant to paragraph (i) of this Resolution shall be limited accordingly;

(iv) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever if the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2003 Revision) of the Cayman Islands to be held; and

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for share open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expenses or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements or, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange, in any territory outside Hong Kong).

Notice of Annual General Meeting

(B) **THAT:**

- (i) the exercise of the Directors during the Relevant Period of all powers of the Company to purchase its shares on The Growth Enterprises Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law (2003 Revision) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
 - (ii) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (i) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (i) of this Resolution shall be limited accordingly; and
 - (iii) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2003 Revision) of the Cayman Islands to be held; and
 - (c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.
- (C) **THAT** the Directors of the Company be and they are hereby authorized to exercise the authority referred to in paragraph (i) of Resolution no. 4(B) above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (iii) of such Resolution.

By Order of the Board
Koh Tat Lee, Michael
Chairman

Hong Kong, 22 March 2005

Notice of Annual General Meeting

Head office and principal place of business:

20th Floor Beautiful Group Tower
77 Connaught Road Central
Hong Kong

Register office:

P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Notes:

1. A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint a person or persons (if he holds two or more Shares) as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's Branch Registrar in Hong Kong, Tengis Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than forty-eight hours before the time fixed for holding of the meeting and adjourned meeting and in default thereof the form of proxy shall not be treated as valid. No instrument appointing shall be valid after the expiry of 12 months from the date of its execution.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting if the shareholder so desires and in such event the instrument appointing a proxy shall be deemed to be revoked.



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