



**M DREAM INWORLD LIMITED**

**聯夢活力世界有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8100

**ANNUAL REPORT 2007**

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the this report.*

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

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# CORPORATE INFORMATION

M Dream Inworld Limited

## **DIRECTORS**

### **Executive Directors**

Ha Shu Tong (*Chairman*)  
Yu Shu Kuen  
Tham Ming Yong

### **Non-executive Director**

Koh Tat Lee, Michael

### **Independent Non-executive Directors**

Cheung Wai Shing  
Chu Ray  
Tsang Kwok Wai

### **COMPLIANCE OFFICER**

Yu Shu Kuen

### **AUTHORIZED REPRESENTATIVES**

Yu Shu Kuen  
Ng Kay Kwok

### **QUALIFIED ACCOUNTANT**

Ng Kay Kwok

### **AUDIT COMMITTEE**

Cheung Wai Shing  
Chu Ray  
Tsang Kwok Wai

### **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**

8 Floor, Wyndham Place,  
44 Wyndham Street,  
Central, Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Butterfield  
International (Cayman) Limited  
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**

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

### **PRINCIPAL BANKER**

Wing Hang Bank Limited

### **AUDITORS**

Baker Tilly Hong Kong Limited  
*Certified Public Accountants*

### **STOCK CODE**

8100

# BOARD OF DIRECTORS

## M Dream Inworld Limited

### Executive Directors

**Mr. Ha Shu Tong**, aged 59, was appointed executive director and chairman on 13 April 2007. He has been involved in the financial industry for many years. Mr. Ha has acted as director for several listed companies in Hong Kong and has substantial experience in corporate finance and corporate development.

**Mr. Yu Shu Kuen**, aged 39, was appointed executive director on 30 January 2007. Mr. Yu has worked in the investment banking field in Hong Kong and has his own financial services business.

**Mr. Tham Ming Yong**, aged 46, was appointed executive director on 8 March 2007. Mr. Tham is an associate member of the Association of International Accountants and has close to 20 years working experience in accounting, taxation and corporate finance with an international accounting firm and listed companies in Hong Kong and Malaysia. Mr. Tham has been employed by the Company as a senior accountant since 1 August 2006 and he also serves as director for certain subsidiaries of the Company.

### Non-executive Director

**Mr. Koh Tat Lee, Michael**, aged 41, has been re-designated from being executive director and chairman of the Company to become a non-executive director on 13 April 2007. Mr. Koh has 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. Mr. Koh holds a master degree in electrical engineering and a master degree in industrial engineering from Columbia University in the United States.

### Independent Non-executive Directors

**Mr. Cheung Wai Shing**, aged 37, obtained a Master Degree of Science in Finance from the University of Michigan-Dearborn. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has more than thirteen years of experience in accounting and finance in various esteemed companies in Hong Kong.

**Mr. Tsang Kwok Wai**, aged 38, obtained a Bachelor Degree of Business Administration and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Tsang has fifteen years of progressive experience in financial management and corporate development. At present Mr. Tsang runs his own firm and practices public accounting.

**Mr. Chu Ray**, aged 46, obtained a Bachelor Degree of Science in Building Science of Civil Engineering from the University of Southern California. Mr. Chu has approximately twenty years of experience in engineering and project management in the USA, Hong Kong and China.

# CHAIRMAN'S STATEMENT

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M Dream Inworld Limited

To the shareholders of M Dream Inworld Limited ("the Company"),

After close to two years of suspension, the trading of shares of the Company was finally resumed on 15 October 2007! As Chairman I would undoubtedly give full credit to the new board of directors, senior officers and all staff of the Company in achieving this. However, I believe this only marks the delightful beginning of a good story. There is always a duty imposed on us to act for the benefit of, and to create value to the shareholders. We are committed to this and we believe we can accomplish this goal in coming years.

A new issue of shares generating a net cash amount of approximately HK\$57 million during 2007 has not only solved the liquidity problem of the Company but also has changed the net deficit position into net surplus. With these new resources we will put effort to further develop the existing system solution services business and we will look for good business opportunities with good market potential. Nevertheless, we certainly will use the funding from shareholders with extreme caution!

The global economy is getting uncertain recently and the business environment might become quite harsh in the year. But, with the support of shareholders, we are confident that we can produce remarkable results in the year of 2008.

**Ha Shu Tong**

*Chairman*

4 February 2008

# REPORT OF THE DIRECTORS

## M Dream Inworld Limited

The Directors are pleased to present the annual report (“the Report”) together with the audited financial statements of the Company and its subsidiaries (together “the Group”) for the year ended 31 December 2007 (“the Year”).

### **BASIS OF PRESENTATION**

The Company was incorporated in the Cayman Islands on 30 July 2001 as an exempted company with limited liability under the Companies Laws of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (“the Stock Exchange”) since 31 December 2001.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) published by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”).

The basis of preparation of the financial statements is set out in Note 2(b) to the financial statements.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its subsidiaries are detailed in Note 20 to the financial statements.

### **SEGMENT INFORMATION**

An analysis of the principal activities and geographical locations of operations of the Group for the Year is set out in Note 5 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

Details of the Group’s results for the Year are set out in the consolidated income statement on pages 20 and 21 of the Report.

The Directors do not recommend the payment of a final dividend for the Year and propose that the profit for the Year be retained.

### **SHARE CAPITAL**

Details of the Company’s share capital are set out in Note 24 to the financial statements.

# REPORT OF THE DIRECTORS

M Dream Inworld Limited

## **RESERVES**

Movements in reserves of the Group and the Company during the Year are set out in Note 25 to the financial statements.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's shares during the Year.

## **PRE-EMPTIVE RIGHTS**

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

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group and the Company during the Year are set out in Note 18 to the financial statements.

## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 72 of the Report.

## **CONVERTIBLE BONDS**

Details of the new issue of convertible bonds of the Company during the Year are set out in Note 26 to the financial statements. On 15 October 2007, all the convertible bonds were converted into ordinary shares of the Company. Details of the conversion are also set out in Note 26.

## **CONNECTED TRANSACTIONS**

Details of the connected transactions of the Group are set out in Note 32 to the financial statements.

## **MANAGEMENT CONTRACTS**

No director of the Company 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) during the Year.

# REPORT OF THE DIRECTORS

M Dream Inworld Limited

## COMPETING INTEREST

None of the Directors or the management shareholders of the Company has any interest in a business which competes or may compete with the business of the Group during the Year.

## DIRECTORS

The directors who held office during the Year and up to the date of the Report were:

	Appointed on	Resigned on
<b>Executive Directors</b>		
Mr. Yu Shu Kuen	30 January 2007	
Mr. Tham Ming Yong	8 March 2007	
Mr. Ha Shu Tong	13 April 2007	
Mr. Chen Domingo		31 December 2007
Dr. Choong Ying Chuan		15 January 2007
<b>Non-executive Directors</b>		
Mr. Koh Tat Lee, Michael	Re-designated on 13 April 2007, formerly was Executive Director	
Mr. Wong Kean Li		17 January 2007
<b>Independent Non-executive Directors</b>		
Mr. Cheung Wai Shing		
Mr. Tsang Kwok Wai		
Mr. Chu Ray		

In accordance with the Company's Articles of Association, Mr. Ha Shu Tong, Mr. Koh Tat Lee, Michael, Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu Ray shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' INTERESTS IN CONTRACT

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, and which subsisted at the end of the Year or at any time during the Year.

# REPORT OF THE DIRECTORS

M Dream Inworld Limited

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

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long position in the shares and underlying shares of the Company

Name of director	Personal interest	Corporate interest	Total interest	Percentage interest
Mr. Koh Tat Lee, Michael	–	2,216,320	2,216,320 (Note 1)	0.28%
Mr. Yu Shu Kuen	–	360,000,000	360,000,000 (Note 2)	44.96%
Dr. Choong Ying Chuan (resigned on 15 January 2007)	256,393	4,608,970 (Note 3)	4,865,363	0.61%

#### Notes:

1. These shares are held by Dynamate Limited, in which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited.
2. These shares are held by Ample Field Limited of which the entire issued capital is beneficially owned by Mr. Yu Shu Kuen. Accordingly, Mr. Yu is deemed to be interested in the shares beneficially owned by Ample Field Limited.
3. These shares are held by eMatrix Pte Limited of which 83.33% of the entire issued capital is beneficially owned by Dr. Choong Ying Chuan and he is deemed to be interested in the shares beneficially owned by eMatrix Pte Limited.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

# REPORT OF THE DIRECTORS

M Dream Inworld Limited

## **DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Apart from 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 and chief executives, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## **SHARE OPTION SCHEME**

### **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 recognize 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 as at 31 December 2007. This Pre-IPO Share Option Scheme expired after the listing of the shares of the Company.

### **2001 Share Option Scheme**

The Company adopted a further share option scheme on 14 December 2001 ("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 2001 Share Option Scheme. No options granted under the 2001 Share Option Scheme were outstanding as at 31 December 2007. This 2001 Share Option Scheme was terminated upon the adoption of the new share option scheme ("2007 New Share Option Scheme") approved by shareholders of the Company in the extraordinary general meeting held on 24 December 2007.

### **2007 New Share Option Scheme**

The purpose of the 2007 New Share Option Scheme is to enable the Company to grant options to either Directors or employees of the Group in order to recognise and motivate their contribution, to provide incentives and to help the Group in retaining its existing employees and recruiting additional quality employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. No options were granted under this 2007 New Share Option Scheme as at 31 December 2007.

# REPORT OF THE DIRECTORS

M Dream Inworld Limited

Particulars and movements during the Year of the share options granted under the 2001 Share Option Scheme were as follows:

Name or Category of participant	As at 1 January, 2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December, 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Chen Domingo	22,000,000	-	-	(22,000,000)	-	-	24 November, 2004	24 November, 2004 to 23 November 2014	HKD\$0.034
Total	22,000,000	-	-	(22,000,000)	-	-			

## SUBSTANTIAL SHAREHOLDERS

As 31 December 2007, the following persons had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would require to be disclosed to the Company and the Stock Exchange under the provision of Divisions 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, or substantial shareholder details required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholders	Number of shares held	Percentage of the Company's share capital
Temasek Holdings (Private) Limited ( <i>Note 1</i> )	50,786,236	6.34%
Singapore Technologies Telemedia Pte Ltd ( <i>Note 1</i> )	50,786,236	6.34%
STT Communications Ltd ( <i>Note 1</i> )	50,786,236	6.34%
stt Ventures Ltd ( <i>Note 1</i> )	50,786,236	6.34%
Ample Field Limited ( <i>Note 2</i> )	360,000,000	44.96%
Yu Shu Kuen ( <i>Note 2</i> )	360,000,000	44.96%

# REPORT OF THE DIRECTORS

## M Dream Inworld Limited

### Notes :

1. These shares are held by stt Ventures Limited, which is a wholly-owned subsidiary of STT Communications Limited ("STTC"). 99.99% of the interest of STTC is in turn held by Singapore Technologies Telemedia Pte Ltd, which is in turn a wholly-owned indirect subsidiary of Temasek Holdings (Private) Limited. Accordingly, Temasek Holdings (Private) Limited, Singapore Technologies Telemedia Pte Ltd and STTC are deemed to be interested in the shares beneficially owned by stt Ventures Limited.
2. These shares are held by Ample Field Limited of which the entire issued capital is beneficially owned by Mr. Yu Shu Kuen. Accordingly, Mr. Yu is deemed to be interested in the shares beneficially owned by Ample Field Limited.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rules 5.34 to 5.45 of the GEM Listing Rules. The composition of the audit committee members meets the requirements of Rule 5.28 of the GEM Listing Rules. At the date of this Report it comprises three Independent Non-executive Directors, Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu Ray. The audit committee's 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.

The Company's financial statements for the year ended 31 December 2007 have been reviewed and discussed by the audit committee before any disclosure and release of information.

## 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 during the Year.

## AUDITORS

HLB Hodgson Impey Cheng acted as auditors of the Company for the year ended 31 December 2005 and resigned on 13 March 2007. The Directors appointed Baker Tilly Hong Kong Limited to fill the casual vacancy. Baker Tilly Hong Kong Limited audited the Company's financial statements for the two years ended 31 December 2006 and 2007 respectively. Baker Tilly Hong Kong Limited shall retire and offer themselves for re-appointment by the approval of the Company shareholders in the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Ha Shu Tong**

*Chairman*

4 February 2008

# CORPORATE GOVERNANCE REPORT

M Dream Inworld Limited

The Board of Directors would like to present this Corporate Governance Report for the year ended 31 December 2007.

In November 2004, The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) promulgated the Code on Corporate Governance Practices contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“the GEM Listing Rules”) which sets out corporate governance principles (“the Principles”) and code provisions (“the Code Provisions”) with which listed issuers are expected to follow and comply.

During the Year the Company has applied the Principles and, on a best effort basis complied with the Code Provisions. Code Provision A2.1 requires the separation of the roles of Chairman and Chief Executive Officer. The Chairman should be responsible for the management of the board of directors, whereas the daily management of business operations should rest on the Chief Executive Officer.

The Company has appointed Mr. Yu Shu Kuen as Managing Director of the Company on 30 January 2007 and his role is the same as the Chief Executive Officer. On 13 April 2007 Mr. Ha Shu Tong was appointed as Chairman of the Company. Since then, the Company has complied with this provision.

Other key corporate governance principles and practices of the Company are summarized as follows:

## THE BOARD

### (1) Responsibilities

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company. All Directors should take decisions objectively, in the interests of the Company.

The Board should meet regularly, and at least four times a year, at approximately quarterly intervals. Reasonable notice should be given to all Directors before each meeting. During the Year there were 26 board meetings conducted. The attendance of Directors is summarized as follows:

Mr. Chen Domingo	(resigned on 31 December 2007)	21 meetings
Mr. Ha Shu Tong	(appointed on 13 April 2007)	14 meetings
Mr. Yu Shu Kuen	(appointed on 30 January 2007)	21 meetings
Mr. Tham Ming Yong	(appointed on 8 March 2007)	15 meetings
Mr. Koh Tat Lee, Michael	(re-designated as Non-executive Director on 13 April 2007)	12 meetings
Mr. Cheung Wai Shing		18 meetings
Mr. Tsang Kwok Wai		20 meetings
Mr. Chu Ray		23 meetings

# CORPORATE GOVERNANCE REPORT

## M Dream Inworld Limited

The Board should agree procedures to enable Directors, upon reasonable request, to seek independent professional advice at the Company's expense.

All Directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules are followed.

### **(2) Composition**

The composition of the Board reflects the balance of skills and experience appropriate for the requirements of the Company's business and for the exercise of independent decisions.

The Company has three Independent Non-executive Directors which is more than one-third of the Board. They are professionals in different areas and provide independent opinions based on their expertise.

### **(3) Appointments, re-election & removal of directors**

The Company has established formal, considered and transparent procedures for the appointment of new directors. Although the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and retirement of directors and assessing the independence of independent non-executive directors.

The Company's Articles of Association have been amended recently with the approval of shareholders. According to the present Articles of Association all non-executive directors retire at each annual general meeting and are subject to re-election by shareholders in the same meeting. Other relevant Articles state that all directors appointed to fill a casual vacancy should be subject to re-election by shareholders at the first annual general meeting after appointment. All directors should retire by rotation at least once every three years including those appointed for a specific term.

Any director resigning or being removed should give explanations and reasons to the Board.

### **Training for directors**

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so to ensure that he/she has appropriate understanding of the business and operations of the Company, and he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

## BOARD COMMITTEES

### (1) Remuneration Committee

Code Provision B1.1 stipulates that an issuer should establish a Remuneration Committee with specific written terms of reference and a majority of the members of the Remuneration Committee should be independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on, and approving the remuneration policy and structure and remuneration packages of, the executive directors and senior management.

The Company established its Remuneration Committee on 1 February 2007 with all the present Independent Non-executive Directors as committee members. The committee will conduct meetings to discuss the remuneration policy when appropriate.

### (2) Audit Committee

The main duties of the Audit Committee include the following:

- (a) To monitor the control procedures and the disclosures on the reporting of the Company's financial statements, and to review and discuss with the external auditors any significant financial reporting standards and guidelines applied to the financial statements.
- (b) To consider any significant or unusual items that are, or may need to be, reflected in financial reports and accounts, and to give due consideration to matters raised by the Company's qualified accountant, compliance officer or external auditors.
- (c) To review the relationship with the external auditors by reference to the work performed by them, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of auditors.
- (d) To review the Company's financial controls, internal control and risk management systems.

The Audit Committee held four meetings during the year ended 31 December 2007 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of external auditors. All the present Independent Non-executive Directors who are members of the Committee attended all the meetings.

The Audit Committee also held a meeting to review the annual results and the related reporting for the year ended 31 December 2007.

# CORPORATE GOVERNANCE REPORT

M Dream Inworld Limited

## DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has relied on Rules 5.48 to 5.67 of the GEM Listing Rules as the required standard of dealings in respect to any dealings in the Company's securities by the Company's Directors.

General and specific enquiries have been made of all Directors and they all confirmed they have complied with said GEM Listing Rules during the year ended 31 December 2007.

The Company has established written guidelines to further govern Directors when dealing in the Company's securities.

## SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of a meeting. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results of any voting conducted by poll will be posted on the website of the Stock Exchange by way of an announcement on the business day following the shareholders' meeting.

The general meetings of the company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the board committees or, in their absence, other members of the respective committees and, where applicable, the independent board committee members, are normally available to answer questions at the shareholders' meetings.

# MANAGEMENT DISCUSSION AND ANALYSIS

M Dream Inworld Limited

## **BUSINESS REVIEW**

During the Year the Group has focused on its major business which is providing system solution services to different types of clients. The Singapore subsidiary, Elipva which contributed more than 75% of the Group turnover for the Year, has successfully engaged some prestigious clients including the Airport Authority of Singapore. In Hong Kong a subsidiary company, which concentrates on procuring small contracts recorded turnover of approximately HK\$1.5 million. As the financial resources of the Company has greatly improved recently by completing a placement exercise in December 2007, more money and other support will be offered by the Company to these two subsidiaries to help them further develop their businesses, especially in the huge PRC market.

## **FINANCIAL REVIEW**

### **Turnover**

The turnover of the Group was approximately HK\$15 million for the Year, representing an increase of 8% compared to the turnover for the year ended 31 December 2006 of approximately HK\$14 million.

### **Profit for the year**

The consolidated profit of the Group for the Year was approximately HK\$11 million compared to the profit of approximately HK\$15 million for the year ended 31 December 2006. The slight decrease is mainly due to larger amounts of liabilities written back to the profit and loss account as income in 2006.

### **Liquidity and financial resources**

During the Year the Group reduced its total liabilities to approximately HK\$24 million from a beginning balance of approximately HK\$37 million. The conversion of the convertible bonds of HK\$14.04 million and the placement exercise amounting to HK\$45 million has improved the cash position of the Company significantly. As at the date of the Report the bank balance of the Company is more than HK\$35 million and no liquidity problems are expected in the near future.

### **Capital structure**

During the Year there was a share consolidation and capital reduction exercise completed. 2,606,949,911 old shares were consolidated into 260,694,991 new shares. There were 360,000,000 new shares issued upon the conversion of the convertible bonds, and 180,000,000 new shares issued upon the completion of a placement at year end 2007. As at 31 December 2007 the number of shares issued was 800,694,991. More details of the changes in the number of issued shares is set out in Note 24 to the financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## M Dream Inworld Limited

### Foreign exchange exposure

During the Year the business activities of the Group were mainly denominated in Hong Kong dollars and Singapore dollars. The directors do not consider that the Group was significantly exposed to any foreign currency exchange risk.

### Significant investments

The Group had no significant investments during the Year.

### Material acquisitions and disposals

The Group made no material acquisition during the Year. A disposal of a small subsidiary was carried out during the Year and the details are set out in Note 15 to the financial statements.

### Gearing ratio

There was a remarkable improvement in gearing ratio of the Group. As at 31 December 2007 the gearing ratio of the Group was 41%. (2006:1,000%)

### Employee information

The Group currently has approximately 25 employees (2006:30) working in Hong Kong and Singapore. The Group remunerates its employees based on their experience, performance and values, which they contribute to the Group.

### Contingent liabilities

As at 31 December 2007 the Directors did not consider the Group had any contingent liabilities (2006: nil).

## OUTLOOK

With sufficient financial resources the Group will try to further develop its system solution services business by stepping into the PRC to procure high value contracts and significant clients. The subsidiary in Beijing has completed an IT market search and consultancy project valued at about HK\$0.7 million during the Year. The management believes this subsidiary has the potential to grow and contribute more to the Group in the coming year as Beijing will enjoy significant economic benefits from staging the 2008 Olympics.

The Company understands that its scale of operation remains relatively small as a listed company. It will keep looking for good business and market opportunities as to create long term and steady growth.

# INDEPENDENT AUDITOR'S REPORT

M Dream Inworld Limited



BAKER TILLY  
HONG KONG LIMITED

Certified Public Accountants

香港天華會計師事務所有限公司

12th Floor, China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF M DREAM INWORLD LIMITED**

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

We have audited the financial statements of M Dream Inworld Limited set out on pages 20 to 71, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

# INDEPENDENT AUDITOR'S REPORT

M Dream Inworld Limited

## **Auditor's responsibility**

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **BAKER TILLY HONG KONG LIMITED**

*Certified Public Accountants*

Hong Kong, 4 February 2008

## **Andrew David Ross**

Practising Certificate number P01183

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

M Dream Inworld Limited

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Turnover</b>	6	<b>15,112</b>	13,931
Cost of sales		<b>(5,831)</b>	(9,058)
Gross profit		<b>9,281</b>	4,873
Other revenue and income	6	<b>595</b>	303
Selling and administrative expenses		<b>(15,257)</b>	(11,803)
Gain on settlement of convertible notes		–	9,804
Reversal of impairment loss recognised in respect of deposits paid		–	2,151
Waiver of unsecured loans		<b>13,265</b>	–
Waiver of interest expense on unsecured loans		<b>2,871</b>	–
<b>Profit from operations</b>	7	<b>10,755</b>	5,328
Finance costs	8	<b>(174)</b>	(2,209)
<b>Profit before taxation</b>		<b>10,581</b>	3,119
Taxation	9	<b>(18)</b>	–
<b>Profit after taxation from continuing operations</b>		<b>10,563</b>	3,119
<b>Profit after taxation from discontinued operations</b>	16	–	12,402
<b>Net profit attributable to equity holders of the Company</b>	10	<b>10,563</b>	15,521

# CONSOLIDATED INCOME STATEMENT (CONTINUED)

M Dream Inworld Limited

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Earnings per share</b>			
<b>From continuing and discontinued operations</b>			
			(Restated)
Basic	11	<b>HK3.12 cents</b>	HK5.95 cents
Diluted	11	<b>N/A</b>	N/A
<b>Earnings per share</b>			
<b>From continuing operations</b>			
			(Restated)
Basic	11	<b>HK3.12 cents</b>	HK1.20 cents
Diluted	11	<b>N/A</b>	N/A

The notes on pages 27 to 71 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

31 December 2007

M Dream Inworld Limited

	Notes	2007 HK\$'000	2006 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	18	1,837	415
Goodwill	19	–	–
		<u>1,837</u>	<u>415</u>
<b>Current assets</b>			
Work in progress	21	598	–
Trade receivables	22	2,526	1,870
Prepayments, deposits and other receivables	23	44,808	755
Time deposit		6,222	62
Cash and cash equivalents		2,956	617
		<u>57,110</u>	<u>3,304</u>
<b>Total assets</b>		<u><b>58,947</b></u>	<u><b>3,719</b></u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	24	8,007	26,069
Reserves	25	26,811	(59,547)
<b>Total equity attributable to equity holders of the Company</b>		<u><b>34,818</b></u>	<u><b>(33,478)</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	27	2,107	1,998
Other payables and accruals		3,562	8,925
Unearned revenue		241	–
Unsecured loans	28	4,290	26,274
Amounts due to related parties	29	13,929	–
<b>Total liabilities</b>		<u><b>24,129</b></u>	<u><b>37,197</b></u>
<b>Total equity and liabilities</b>		<u><b>58,947</b></u>	<u><b>3,719</b></u>
<b>Net current assets/(liabilities)</b>		<u><b>32,981</b></u>	<u><b>(33,893)</b></u>
<b>Total assets less total liabilities</b>		<u><b>34,818</b></u>	<u><b>(33,478)</b></u>

Approved and authorised for issue by the Board of Directors on 4 February 2008

**Yu Shu Kuen**  
Director

**Ha Shu Tong**  
Director

The notes on pages 27 to 71 form part of these financial statements.

# BALANCE SHEET

M Dream Inworld Limited

31 December 2007

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	18	–	202
Investments in subsidiary companies	20	–	–
		<u>–</u>	<u>202</u>
<b>Current assets</b>			
Amounts due from subsidiary companies	20	<b>5,035</b>	302
Prepayments, deposits and other receivables	23	<b>43,941</b>	313
Cash and cash equivalents		<b>7,873</b>	14
		<u>56,849</u>	<u>629</u>
<b>Total assets</b>		<b><u>56,849</u></b>	<b><u>831</u></b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	24	<b>8,007</b>	26,069
Reserves	25	<b>27,181</b>	(62,029)
<b>Total equity attributable to equity holders of the Company</b>		<b><u>35,188</u></b>	<b><u>(35,960)</u></b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accruals		<b>617</b>	4,506
Unsecured loans	28	<b>1,368</b>	26,274
Amounts due to subsidiary companies	20	<b>6,011</b>	6,011
Amounts due to related parties	29	<b>13,665</b>	–
<b>Total liabilities</b>		<b><u>21,661</u></b>	<b><u>36,791</u></b>
<b>Total equity and liabilities</b>		<b><u>56,849</u></b>	<b><u>831</u></b>
<b>Net current assets/(liabilities)</b>		<b><u>35,188</u></b>	<b><u>(36,162)</u></b>
<b>Total assets less total liabilities</b>		<b><u>35,188</u></b>	<b><u>(35,960)</u></b>

Approved and authorised for issue by the Board of Directors on 4 February 2008

**Yu Shu Kuen**  
*Director*

**Ha Shu Tong**  
*Director*

The notes on pages 27 to 71 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

M Dream Inworld Limited

	Attributable to equity holders of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Convertible		
					bond reserve HK\$'000	Accumulated losses HK\$'000	
At 1 January 2006	26,069	106,730	6,426	(279)	1,099	(187,917)	(47,872)
Exchange realignment	-	-	-	(28)	-	-	(28)
Net profit for the year	-	-	-	-	(1,099)	15,521	14,422
At 31 December 2006 and 1 January 2007,	26,069	106,730	6,426	(307)	-	(172,396)	(33,478)
Conversion of convertible bonds upon its issuance	3,600	10,440	-	-	-	-	14,040
Share consolidation and capital reduction	(23,462)	-	-	-	-	23,462	-
Placement of new shares	1,800	43,200	-	-	-	-	45,000
Professional expenses incurred in placement of new shares	-	(1,131)	-	-	-	-	(1,131)
Exchange realignment	-	-	-	(176)	-	-	(176)
Net profit for the year	-	-	-	-	-	10,563	10,563
At 31 December 2007	<u>8,007</u>	<u>159,239</u>	<u>6,426</u>	<u>(483)</u>	<u>-</u>	<u>(138,371)</u>	<u>34,818</u>

# CONSOLIDATED CASH FLOW STATEMENT

M Dream Inworld Limited

Year ended 31 December 2007

	Notes	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>Cash flows from operating activities</b>			
Profit before taxation			
continuing operations		<b>10,581</b>	3,119
discontinued operations	16	–	12,402
		<b>10,581</b>	15,521
Adjustments for:			
Finance costs			
continuing operations		<b>174</b>	2,209
discontinued operations		–	6
Interest income		<b>(102)</b>	(1)
Depreciation		<b>416</b>	263
Gain on settlement of convertible notes		–	(9,804)
Loss/(gain) on disposal of subsidiary companies	15	<b>154</b>	(13,217)
Reversal of impairment recognised in respect of deposits paid		–	(2,151)
		<b>11,223</b>	(7,174)
<b>Operating profit/(loss) before working capital changes</b>		<b>11,223</b>	(7,174)
Work in progress		<b>(598)</b>	–
Trade receivables		<b>(656)</b>	3,065
Prepayments, deposits and other receivables		<b>(334)</b>	2,183
Trade payables		<b>109</b>	2,312
Other payables and accruals		<b>(5,399)</b>	(2,581)
Unearned revenue		<b>241</b>	
Amounts due to directors		–	(2,596)
Amounts due to related parties		<b>13,929</b>	2,362
		<b>18,515</b>	(2,429)
<b>Net cash generated from/(used in) operating activities</b>		<b>18,515</b>	(2,429)
<b>Cash flows from investing activities</b>			
Interest received		<b>102</b>	1
Purchases of fixed assets		<b>(1,819)</b>	(422)
Cash effect on disposal of subsidiary companies	15	<b>(4)</b>	(78)
		<b>(1,721)</b>	(499)
<b>Net cash used in investing activities</b>		<b>(1,721)</b>	(499)

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

M Dream Inworld Limited

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
<b>Cash flows from financing activities</b>			
Interest paid		(174)	(2,215)
Proceeds from issue of convertible bonds		14,040	–
Unsecured loans		–	13,137
Repayment of unsecured loans		(21,985)	(7,040)
Repayment of convertible notes		–	(1,200)
		<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>		<b>(8,119)</b>	2,682
		<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8,675</b>	(246)
<b>Cash and cash equivalents at beginning of the year</b>		<b>679</b>	953
<b>Effect of foreign exchange rate changes</b>		<b>(176)</b>	(28)
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>		<b>9,178</b>	679
		<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances		2,956	617
Time deposit		6,222	62
		<hr/>	<hr/>
		<b>9,178</b>	679
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 27 to 71 form part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 1. CORPORATE INFORMATION

M Dream Inworld Limited (the “Company”) was incorporated and domiciled 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, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business in Hong Kong is located at 8th Floor, Wyndham Place, 40–44 Wyndham Street, Central, Hong Kong.

The Company has its primary listing on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiary companies are set out in note 20 to the financial statements.

These financial statements are presented in thousands of units of HK dollar (HK\$’000) unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

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

### (b) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements included expanded disclosures about the significance of the Company's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in Note 3.

The amendment to HKAS 1 introduces additional disclosures requirements to provide information about the level of capital and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in Note 25.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements.

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

# NOTES TO FINANCIAL STATEMENTS

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

### (b) Basis of preparation (*Continued*)

The Company is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application. So far it has been concluded that the adoption is unlikely to have a significant impact on the Company's results of operations and financial position.

### (c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year. All significant intercompany transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect only external transactions and balances.

The results of subsidiary companies acquired or disposed of during the financial year are included or excluded from the consolidated income statement from the effective date in which control is transferred to the Group, or in which control ceases, respectively.

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

### (d) Subsidiary companies

Subsidiary companies are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Investments in subsidiary companies are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

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

### (e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation. Such assets are tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### (f) Fixed assets

Fixed assets 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 fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the 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 fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated 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, at the following annual rates:

Leasehold improvements	:	20% or over the lease term, if shorter
Office equipment	:	20% – 33%
Furniture and fixtures	:	20%
Computer hardware and software	:	20% – 50%

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

# NOTES TO FINANCIAL STATEMENTS

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

### (g) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

### (h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### (i) Cash and cash equivalents

Cash and 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.

### (j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are expensed in the income statement on a straight-line basis over the period of the lease.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

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

### (k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

### (l) Convertible bonds

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible bond is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest rate method. The equity component is recognised in the convertible bonds reserve until either the bond are converted or redeemed.

If the notes are converted, the convertible notes reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible bonds reserve is released directly to accumulated losses.

# NOTES TO FINANCIAL STATEMENTS

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

### (m) Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

#### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

#### (iii) *Transactions and balances*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; Available-for-sale financial assets;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- resulting exchange differences are recognised as a separate component of equity.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

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

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

#### (iii) Transactions and balances (*Continued*)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### (n) Provision

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### (o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- (i) Revenue from system solutions services is recognised when the services are rendered or under the stage of completion basis when the outcome of the transaction can be estimated reliably;
- (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

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

### (p) 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 year. Taxable profit is the profit for the year, 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiary companies and associates, except where the Group 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 year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### (q) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiary companies is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

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

### (r) 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 year 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.

### (s) Contingent liabilities and 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. A contingent asset is not recognised but is 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

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

### (t) Related party transactions

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control of, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is related party of the Group.
- (h) a transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 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 fixed assets. 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 intragroup 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.

# NOTES TO FINANCIAL STATEMENTS

## 3. FINANCIAL INSTRUMENTS

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The Company does not have written risk management policies and guidelines. However, the directors of the Company periodically analyse and formulate measures to manage its exposure to market risk (i.e. interest rate and foreign currency risk) and credit risk. Generally, the Group employs a conservative strategy regarding its risk management. As its exposure to market risk and credit risk are kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Group is exposed to are discussed below.

At the balance sheet date, the Group's financial instruments mainly consisted of trade receivables, other receivables, bank and cash balances, trade payables, accrued expenses, other payables and unsecured loans.

### (a) Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation which results in the Group suffering financial loss. The carrying amounts of cash and cash equivalents, trade receivables and other current assets except for deposits and prepayments included in the balance sheet represent its maximum exposure to credit risk in relation to its financial assets.

The Group has policies in place to ensure that sales of products or rendering of services are made to customers with an appropriate credit history. The Group allows a range of credit periods to its trade customers not exceeding 180 days, the historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements. The Group has no significant concentrations of credit risk. No amounts in relation to the trade receivables are past due.

No changes were made in the objectives, policies or processes during the two years ended 31 December 2006 and 2007.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 3. FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk

The Company's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	At 31 December 2007			
	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than one year less than two years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	2,107	2,107	2,107	-
Other payables and accruals	3,562	3,562	3,562	-
Unsecured loans	4,290	4,422	4,422	-
Amounts due to related parties	13,929	13,929	13,929	-
Total	23,888	24,020	24,020	-

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 3. FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk (Continued)

	At 31 December 2006			
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year less than two years HK\$'000
Trade payables	1,998	1,998	1,998	–
Other payables and accruals	8,925	8,925	8,925	–
Unsecured loans	26,274	26,274	26,274	–
<b>Total</b>	<b>37,197</b>	<b>37,197</b>	<b>37,197</b>	<b>–</b>

### (c) Interest rate risk

#### Risk profile

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest-rate risk mainly arises from unsecured loans as detailed in note 28. Unsecured loans were issued at fixed rates expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

#### Sensitivity analysis

At 31 December 2007, it is estimated that a general increase or decrease of one percentage point in interest rates, with all other variables held constant, would decrease or increase the Group's profit after tax and retained profits by approximately HK\$106,000 (2006: HK\$155,000).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 3. FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk (Continued)

#### Sensitivity analysis (Continued)

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2006.

### (d) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency.

### (e) Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

### (f) Estimation of fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31st December 2007 and 2006 except the unsecured loans.

	Carrying amount		Fair value	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Unsecured loans	<u>4,290</u>	<u>26,274</u>	<u>4,255</u>	<u>13,310</u>

The fair value of the unsecured loans has been calculated by discounting the expected future cash flows at prevailing interest rates.

# NOTES TO FINANCIAL STATEMENTS

## 4. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Estimated impairment of goodwill

The Group performs annual tests whether there has been impairment of goodwill in accordance with the accounting policy stated in note 2 to the financial statements. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value in use calculations.

### (ii) Trade and other receivables

The aged debt profile of trade and other receivables is reviewed on a regular basis to ensure that the debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of debtor balances is called into doubt, specific provisions for impairment losses are made based on credit status of the customers, the aged analysis of the trade and other receivable balances and their write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade and other receivables for which provisions are not made could affect the results of operations.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 4. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS *(Continued)*

### (iii) Useful lives of fixed assets

In accordance with HKAS 16, the Group estimates the useful lives of fixed assets in order to determine the amount of depreciation expense to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in market demand or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

### (iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 5. SEGMENT INFORMATION

### Business segments

The Group mainly operated in the system solution provision business for the year ended 31 December 2007.

(a)

	Continuing Operations					
	System solution				Consolidated	
	services		Others		2007	2006
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>						
Sales to external customers	<b>14,252</b>	13,931	<b>860</b>	–	<b>15,112</b>	13,931
Segment results	<b>11,770</b>	(3,041)	<b>(1,015)</b>	8,369	<b>10,755</b>	5,328
Finance costs					<b>(174)</b>	(2,209)
Profit before taxation					<b>10,581</b>	3,119
Taxation					<b>(18)</b>	–
Profit from continuing operations					<b>10,563</b>	3,119
Profit from discontinued operations					–	12,402
Profit for the year					<b>10,563</b>	15,521

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 5. SEGMENT INFORMATION (Continued)

(b)

	Continuing Operations					
	System solution				Consolidated	
	services		Others			
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Segment assets	<b>56,347</b>	2,865	<b>2,600</b>	854	<b>58,947</b>	3,719
Segment liabilities	<b>24,123</b>	6,357	<b>6</b>	30,840	<b>24,129</b>	37,197
Other segment information:						
Depreciation	<b>155</b>	244	<b>261</b>	19	<b>416</b>	263
Reversal of impairment loss recognised in respect of deposits paid	-	-	-	(2,151)	-	(2,151)

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 5. SEGMENT INFORMATION (Continued)

### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

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 and Hong Kong.

	Continuing Operations							
	Hong Kong		PRC		Singapore		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Sales to external customers	2,807	-	860	-	11,445	13,931	15,112	13,931
Other revenue and income	16,649	12,189	-	-	82	69	16,731	12,258
Unallocated expenses							(21,088)	(20,861)
Profit from operations							10,755	5,328
Finance costs							(174)	(2,209)
Profit before taxation							10,581	3,119
Taxation							(18)	-
Profit from continuing operations							10,563	3,119
Profit from discontinued operations							-	12,402
Profit for the year							10,563	15,521

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 6. TURNOVER AND REVENUE

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>Turnover</b>		
Sales of software and hardware	<b>1,923</b>	2,731
System solution services	<b>12,329</b>	11,200
Marketing service income	<b>860</b>	–
	<b>15,112</b>	13,931
<b>Other revenue and income</b>		
Interest income	<b>102</b>	1
Sundry income	<b>11</b>	302
Exchange gains	<b>82</b>	–
Forfeiture of deposit	<b>400</b>	–
	<b>595</b>	303

## 7. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging the following:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Auditors' remuneration	<b>279</b>	289
Depreciation	<b>416</b>	263
Loss on disposal of subsidiary company	<b>154</b>	–
Operating lease rentals in respect of land and buildings	<b>1,074</b>	473
Provision for impairment of trade receivables	–	177
Staff costs (excluding directors' remuneration):		
– Wages and salaries	<b>8,433</b>	6,655
– Retirement benefit contributions	<b>50</b>	804

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 8. FINANCE COSTS

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Interest expense on unsecured loans	<b>174</b>	2,209

## 9. TAXATION

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the subsidiary companies operate. No taxation has been provided in the financial statements of the subsidiary companies operating outside Hong Kong for the year (2006: HK\$Nil).

The reconciliation of taxation provision to accounting profit per the consolidated income statement is as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Profit before taxation	<b>10,581</b>	3,119
Tax at appropriate tax rates	<b>1,852</b>	464
Tax effect of expenses not deductible for tax purposes	<b>154</b>	127
Tax effect of income not taxable for tax purposes	<b>(2,968)</b>	(4,405)
Tax effect of recognised temporary differences	<b>(57)</b>	14
Tax effect of tax loss not recognised	<b>1,037</b>	3,800
Tax charge for the year	<b>18</b>	–

No provision for deferred tax liabilities has been made as the Group and the Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (2006: HK\$Nil).

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

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 10. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The net profit attributable to equity holders dealt with in the financial statements of the Company for the year ended 31 December 2007 was HK\$13,239,000 (2006: HK\$5,880,000).

## 11. EARNINGS PER SHARE

### (a) Basic earnings per share

	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<b>10,563</b>	15,521
Attributable to:		
Continuing operations	<b>10,563</b>	3,119
Discontinued operations ( <i>Note 16</i> )	–	12,402
	<b>10,563</b>	15,521
	<b>2007</b>	2006
Weighted average number of ordinary shares in issue	<b>338,119,649</b>	(Restated) 260,694,991
<b>Basic earnings per share</b>		(Restated)
– for profit for the year	<b>HK3.12 cents</b>	HK5.95 cents
– for earnings from continuing operations	<b>HK3.12 cents</b>	(Restated) HK1.20 cents
– for earnings from discontinued operations	<b>N/A</b>	(Restated) HK4.75 cents

The calculation of basic earnings per share is based on the net profit attributable to equity holders for the year of HK\$10,563,000 (2006: HK\$15,521,000) and the weighted average number of 338,119,649 (2006: restated 260,694,991) ordinary shares in issue during the year.

The weighted average number of ordinary shares and earnings per share for 2006 have been restated for the impact of the share consolidation and capital reduction exercise, undertaken on 15 October 2007. (*Note 24*)

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 11. EARNINGS PER SHARE (Continued)

### (b) Diluted earnings per share

No diluted earnings per share has been presented as there were no dilutive events during the two years ended 31 December 2006 and 2007.

## 12. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2007 (2006: HK\$Nil).

## 13. 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:

NAME OF DIRECTORS	Fee		Salaries and bonus		Provident fund		Total	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>Executive directors</b>								
Mr. Ha Shu Tong	-	-	-	-	-	-	-	-
Mr. Yu Shu Kuen	-	-	-	-	-	-	-	-
Mr. Tham Ming Yong	-	-	120	-	6	-	126	-
<b>Non-executive directors</b>								
Mr. Koh Tat Lee, Michael	-	-	-	43	-	-	-	43
<b>Independent non-executive directors</b>								
Mr. Cheung Wai Shing	-	-	60	19	-	-	60	19
Mr. Tsang Kwok Wai	-	-	60	19	-	-	60	19
Mr. Chu Ray	-	-	12	4	-	-	12	4
<b>Former directors</b>								
Mr. Chen Domingo	-	-	-	582	-	-	-	582
Dr. Choong Ying Chuan	-	-	-	665	-	14	-	679
Mr. Wong Kean Li	-	-	-	-	-	-	-	-
	-	-	252	1,332	6	14	258	1,346

During the Year, there were no bonuses paid or payable to the Directors (2006: HK\$Nil). Chen Domingo waived his remuneration of HK\$160,000 in 2007 and Koh Tat Lee, Michael waived his remuneration of HK\$1,860,000 in 2006. In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or after joining the Group as compensation for loss of office (2006: HK\$Nil).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the Year included none of the Directors (2006: two), details of whose remuneration is set out in note 13 above. Details of the remuneration of the five highest paid individuals, which each fell within the nil to HK\$1,000,000 band, are as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<b>2,267</b>	2,875
Contributions to defined contribution plan	<b>191</b>	130
	<b>2,458</b>	3,005

During the Year, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (2006: HK\$Nil). Chen Domingo waived his remuneration of HK\$160,000 in 2007 and Koh Tat Lee, Michael waived his remuneration of HK\$1,860,000 in 2006. In addition no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or after joining the Group, or as compensation for loss of office (2006: HK\$Nil).

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 15. DISPOSAL OF SUBSIDIARY COMPANIES

During the year, the Group disposed of its subsidiary company, Good Growth Limited for HK\$1 consideration. A summary of the effects of the disposal of the subsidiary company is as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>Net assets/(liabilities) disposed of:</b>		
Trade receivables	–	3
Prepayments, deposits and other receivables	<b>150</b>	60
Cash and cash equivalents	<b>4</b>	78
Trade and other payables	–	(11,718)
Accruals	–	(1,640)
	<hr/>	<hr/>
	<b>154</b>	(13,217)
(Loss)/gain on disposal of subsidiary companies	<b>(154)</b>	13,217
	<hr/>	<hr/>
	–	–
	<hr/> <hr/>	<hr/> <hr/>
<b>Satisfied by:</b>		
Cash consideration	–	–
	<hr/> <hr/>	<hr/> <hr/>
<b>Net cash outflow arising on disposal:</b>		
Cash consideration	–	–
Cash and bank balances disposed of	<b>(4)</b>	(78)
	<hr/>	<hr/>
	<b>(4)</b>	(78)
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 15. DISPOSAL OF SUBSIDIARY COMPANIES (Continued)

The results of the disposed subsidiary's operations for the period from 12 January 2007 to 31 December 2007, included in the consolidated income statement, were as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Turnover	–	–
Other revenue	<b>400</b>	1
Administrative expenses	<b>(6)</b>	(810)
	<hr/>	<hr/>
Profit/(loss) from operations	<b>394</b>	(809)
Finance costs	–	(6)
	<hr/>	<hr/>
Profit/(loss) before taxation	<b>394</b>	(815)
Taxation	–	–
	<hr/>	<hr/>
Profit/(loss) after taxation	<b>394</b>	(815)
	<hr/> <hr/>	<hr/> <hr/>

## 16. DISCONTINUED OPERATIONS

In addition to Note 15 to the financial statements, the results for the period from the discontinued operations, included in the consolidated income statement are analysed as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Loss on system solution services operations	–	(815)
Gain on disposal of system solution services operations	–	13,217
	<hr/>	<hr/>
	<b>–</b>	12,402
	<hr/> <hr/>	<hr/> <hr/>
		(Restated)
Basic earnings per share from discontinued operations	<b>N/A</b>	HK4.75 cents
	<hr/> <hr/>	<hr/> <hr/>
Diluted earnings per share from discontinued operations	<b>N/A</b>	N/A
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 16. DISCONTINUED OPERATIONS (Continued)

The net cash flow of the discontinued operations was as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Net operating cash outflow	–	(3)
Net investing cash flow	–	–
Net financing cash flow	–	–
	<hr/>	<hr/>
Total net cash outflow	–	(3)
	<hr/> <hr/>	<hr/> <hr/>

## 17. 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 subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is 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 13% (2006: 13%) of the staff’s relevant income and the contribution is charged to the income statement.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 17. EMPLOYEE BENEFITS *(Continued)*

### (a) Retirement benefits scheme *(Continued)*

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 2007.

The Group does not have any other pension schemes for its employees in respect of its subsidiary companies outside Hong Kong, Singapore and the PRC. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2007 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 as at 31 December 2007. This Pre-IPO Share Option Scheme expired after the listing of the shares of the Company.

#### 2001 Share Option Scheme

Pursuant to the share option scheme adopted by the Company, on 14 December 2001 ("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 2001 Share Option Scheme. The purpose of the 2001 Share Option Scheme is to provide incentive and to recognise the contribution of the employees.

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 17. EMPLOYEE BENEFITS (Continued)

### (b) Equity compensation benefits (Continued)

#### 2001 Share Option Scheme (Continued)

Movements in the share options granted under the 2001 Share Option Scheme during the Year are as follows:

	<b>Number of options</b>	
	<b>2007</b>	2006
Option outstanding at 1 January	<b>22,000,000</b>	129,220,000
Cancelled/Lapsed	<b>(22,000,000)</b>	(107,220,000)
	<hr/>	<hr/>
Option outstanding at 31 December	<b>–</b>	22,000,000
	<hr/> <hr/>	<hr/> <hr/>

None of the Directors and employees of the Group had exercised their share options during the two years ended 31 December 2006 and 2007.

Pursuant to an ordinary resolution passed by the shareholders on 24 December 2007, the 2001 Share Option Scheme of the Company was terminated, replaced by the new share option scheme (“2007 New Share Option Scheme”).

#### 2007 New Share Option Scheme

The purpose of the 2007 New Share Option Scheme is to enable the Company to grant options to either Directors or employees of the Group in order to recognise and motivate the contribution of them, and to provide incentives and to help the Group in retaining its existing employees and recruiting additional quality employees, providing them with direct economic interest in attaining the long term business objectives of the Group.

No options were granted under the 2007 New Share Option Scheme as at 31 December 2007.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 18. FIXED ASSETS

### The Group

	<b>Leasehold improvements</b>	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Computer hardware and software</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>					
At 1 January 2006	55	98	22	2,377	2,552
Additions	111	69	98	144	422
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	166	167	120	2,521	2,974
Exchange realignment	39	15	(22)	304	336
Additions	827	303	473	216	1,819
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	1,032	485	571	3,041	5,129
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2006	29	88	21	2,158	2,296
Charge for the year	15	11	9	228	263
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	44	99	30	2,386	2,559
Exchange realignment	26	15	(21)	297	317
Charge for the year	171	66	57	122	416
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	241	180	66	2,805	3,292
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
At 31 December 2007	791	305	505	236	1,837
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2006	122	68	90	135	415
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 18. FIXED ASSETS (Continued)

### The Company

	<b>Office equipment</b> <i>HK\$'000</i>	<b>Furniture and fixtures</b> <i>HK\$'000</i>	<b>Computer hardware and software</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Cost</b>				
Additions	69	98	54	221
At 31 December 2006	69	98	54	221
Additions	32	401	39	472
Transfer to a subsidiary company	(101)	(499)	(93)	(693)
At 31 December 2007	-	-	-	-
<b>Accumulated depreciation and impairment</b>				
Charge for the year	6	9	4	19
At 31 December 2006	6	9	4	19
Charge for the year	12	27	12	51
Transfer to a subsidiary company	(18)	(36)	(16)	(70)
At 31 December 2007	-	-	-	-
<b>Net book value</b>				
At 31 December 2007	-	-	-	-
At 31 December 2006	63	89	50	202

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 19. GOODWILL

HK\$'000

### The Group

#### Cost

At 1 January 2006	32,347
Disposal of subsidiary companies	(14,013)
	<hr/>
At 31 December 2006 and 2007	18,334
	<hr/>

#### Accumulated amortisation and impairment

At 1 January 2006	32,347
Elimination on disposal of subsidiary companies	(14,013)
	<hr/>
At 31 December 2006 and 2007	18,334
	<hr/>

#### Carrying amount

At 31 December 2007	–
	<hr/> <hr/>
At 31 December 2006	–
	<hr/> <hr/>

In prior years, Goodwill was amortised over a period of 10 to 20 years. Following the adoption of HKFRS 3, amortisation of goodwill has ceased since 1 January 2005. The accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date. Annual impairment review was performed.

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 20. INVESTMENTS IN SUBSIDIARY COMPANIES

	<b>The Company</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Unlisted shares, at cost	<b>7,785</b>	7,785
Less: Provision for impairment loss	<b>(7,785)</b>	(7,785)
	<b>—</b>	—
Amounts due from subsidiary companies	<b>97,110</b>	92,377
Less: Provision for impairment loss	<b>(92,075)</b>	(92,075)
	<b>5,035</b>	302
Amounts due to subsidiary companies	<b>6,011</b>	6,011

The amounts due to or from subsidiary companies are unsecured, interest-free and have no fixed terms of repayment.

Details of the subsidiary companies of the Company at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation and operations	Particulars of issued and fully paid up share capital/registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Inworld International Limited	British Virgin Islands	Ordinary US\$328	100%	—	Investment holding <sup>1</sup>
iBar International Holdings Limited	British Virgin Islands	Ordinary US\$1	100%	—	Investment holding <sup>1</sup>
Upway (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100%	—	Dormant <sup>1</sup>
Elipva Limited	Singapore	Ordinary S\$10,614,988	—	100%	Provision of system integration services <sup>2</sup>
Elipva Inc.	United States of America	Ordinary US\$100	—	100%	Dormant <sup>2</sup>

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 20. INVESTMENTS IN SUBSIDIARY COMPANIES (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued and fully paid up share capital/registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
iBar (Greater China) Holdings Limited	Hong Kong	Ordinary HK\$1	-	100%	Investment holding <sup>1</sup>
北京聯夢活力世界諮詢服務有限公司*	The People's Republic of China ("PRC")	Registered capital HK\$300,000	-	100%	Provision of IT marketing and consultancy services <sup>3</sup>
NewTrend MDI Limited	Hong Kong	Ordinary HK\$1	-	100%	Provision of IT solution and consultancy services <sup>1</sup>

<sup>1</sup> Audited by Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, for statutory or consolidation purposes.

<sup>2</sup> Audited by Richard Ho & Co. Certified Public Accountants, Singapore, for statutory purposes.

<sup>3</sup> 北京聯夢活力世界諮詢服務有限公司 was formed as a wholly-owned foreign enterprise in the PRC.

## 21. WORK IN PROGRESS

	The Group	
	2007 HK\$'000	2006 HK\$'000
Direct costs	1,425	-
Add: attributable profits	448	-
	<b>1,873</b>	-
Recognised as revenue using the stage of completion method	(1,275)	-
	<b>598</b>	-

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 22. TRADE RECEIVABLES

Trade receivables, with credit terms ranging from 30 to 180 days, are recognised and carried at the original invoiced amount less provision for impairment loss. An aging analysis of trade receivables at the balance sheet date is as follows:

	<b>The Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
0 – 90 days	<b>2,251</b>	1,470
91 – 180 days	<b>645</b>	743
	<b>2,896</b>	2,213
Less: Provision for impairment of trade receivables	<b>(370)</b>	(343)
	<b>2,526</b>	1,870

Movements in the provision for impairment of trade receivables are as follows:

At 1 January	<b>343</b>	166
Exchange realignment	<b>27</b>	–
Provision for receivable impairment	–	177
At 31 December	<b>370</b>	343

In the opinion of the Directors of the Company, the carrying amounts of trade receivables approximate their fair values and impairment loss of trade receivables had been made after considering the recoverability of trade receivables.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 22. TRADE RECEIVABLES (Continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	<b>The Group</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Hong Kong dollars	<b>42</b>	–
Singapore dollars	<b>2,310</b>	1,870
United States dollars	<b>174</b>	–
	<b>2,526</b>	1,870

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Prepayments	<b>217</b>	149	<b>5</b>	12
Deposits paid	<b>659</b>	86	<b>4</b>	5
Amount due from placing agent	<b>43,869</b>	–	<b>43,869</b>	–
Other receivables	<b>63</b>	520	<b>63</b>	296
	<b>44,808</b>	755	<b>43,941</b>	313

The amount due from the placing agent represents the net proceeds from the placement of 180,000,000 new shares in December 2007, which has been received on 3 January 2008.

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 24. SHARE CAPITAL

	<b>The Company</b>	
	<b>Number of ordinary shares</b>	<b>Nominal value</b>
	<i>'000</i>	<i>HK\$'000</i>
Authorised:		
Shares of HK\$0.01 each at 1 January 2007 and 31 December 2007	6,000,000	60,000
Issued and fully paid:		
Shares of HK\$0.01 each at 1 January 2007	2,606,949	26,069
Share consolidation and capital reduction	(2,346,255)	(23,462)
Issuance of shares for conversion of convertible bonds	360,000	3,600
Placement of shares	180,000	1,800
Shares of HK\$0.01 each at 31 December 2007	800,694	8,007

*Note:*

Pursuant to a special resolution passed by the shareholders on 29 December 2006, every 10 ordinary shares of the Company of HK\$0.01 each were consolidated into one new ordinary share of HK\$0.10 each, then the par value of each consolidated share was reduced to the extent of HK\$0.09 per consolidated share was cancelled against the accumulated losses account. The share consolidation and capital reduction exercise was completed on 15 October 2007, details of which are set out in the Company's announcement dated 12 October 2007.

Pursuant to a subscription agreement entered into on 12 October 2007, the Company agreed to issue HK\$14,040,000 convertible bonds to a subscriber. On 15 October 2007, the convertible bonds were converted to 360,000,000 new shares to the subscriber at a conversion price of HK\$0.039 per conversion share. Details of conversion of convertible bonds and allotment and issue of new shares are set out in the Company's announcement dated 15 October 2007.

On 27 November 2007, the Company entered into a placing agreement with CCB International Capital Limited, an independent placing agent, for placing of 180,000,000 new shares of the Company of HK\$0.01 each for an amount of HK\$45,000,000. On 31 December 2007, the shares were issued and allotted. The details of the share placement are set out in the Company's circular dated 5 December 2007.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 25. RESERVES

### The Group

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Exchange reserve</b>	<b>Convertible bond reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006,	106,730	6,426	(279)	1,099	(187,917)	(73,941)
Exchange realignment	-	-	(28)	-	-	(28)
Net profit for the year	-	-	-	(1,099)	15,521	14,422
	<u>106,730</u>	<u>6,426</u>	<u>(279)</u>	<u>1,099</u>	<u>(187,917)</u>	<u>(73,941)</u>
At 31 December 2006 and 1 January 2007	106,730	6,426	(307)	-	(172,396)	(59,547)
Conversion of convertible bonds upon its issuance	10,440	-	-	-	-	10,440
Share consolidation and capital reduction	-	-	-	-	23,462	23,462
Placement of new shares	43,200	-	-	-	-	43,200
Professional expenses incurred in placement of new shares	(1,131)	-	-	-	-	(1,131)
Exchange realignment	-	-	(176)	-	-	(176)
Net profit for the year	-	-	-	-	10,563	10,563
	<u>159,239</u>	<u>6,426</u>	<u>(483)</u>	<u>-</u>	<u>(138,371)</u>	<u>26,811</u>
At 31 December 2007	<b>159,239</b>	<b>6,426</b>	<b>(483)</b>	<b>-</b>	<b>(138,371)</b>	<b>26,811</b>

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 25. RESERVES (Continued)

### The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Convertible bond reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	106,730	2,985	1,099	(177,624)	(66,810)
Net profit for the year	-	-	(1,099)	5,880	4,781
At 31 December 2006 and 1 January 2007	106,730	2,985	-	(171,744)	(62,029)
Conversion of convertible bonds upon its issuance	10,440	-	-	-	10,440
Share consolidation and capital reduction	-	-	-	23,462	23,462
Placement of new shares	43,200	-	-	-	43,200
Professional expenses incurred in placement of new shares	(1,131)	-	-	-	(1,131)
Net profit for the year	-	-	-	13,239	13,239
At 31 December 2007	<b>159,239</b>	<b>2,985</b>	<b>-</b>	<b>(135,043)</b>	<b>27,181</b>

#### *Nature and purpose of reserves*

(a) Share premium reserve

The share premium account of the Group and the Company represents the premium arising from the new issue of shares.

(b) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiary companies acquired pursuant to the reorganisation scheme (the "Group Reorganisation") to rationalise 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.

The contributed surplus of the Company represents the excess of the fair value of the subsidiary companies acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange thereof.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 25. RESERVES (Continued)

### *Nature and purpose of reserves (Continued)*

#### (c) Exchange reserve

The exchange reserve of the group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(m).

#### (d) Distributability of reserves

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 2007, in the opinion of the Directors, the Company had reserves of HK\$26,812,000 available for cash distribution and/or distribution in specie in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands (2006: HK\$Nil).

### Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgements to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Company monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Company defines net debt as total debt which includes interest-bearing unsecured loans, trade and other payables plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2007, the Group's strategy, was to maintain the net debt-to-adjusted capital ratio at the lower end of the range 10% to 30%. In order to maintain or adjust the ratio, the company may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 December 2007 was 23%.

The Group is not subject to externally imposed capital requirements.

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## 26. CONVERTIBLE BONDS

On 15 October 2007, the Company issued convertible bonds with a principal value of HK\$14,040,000 at the conversion price of HK\$0.039 per conversion share and on the same day, the convertible bonds were converted into 360,000,000 ordinary shares of the Company of HK\$0.01 each.

## 27. TRADE PAYABLES

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

	<b>The Group</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
0 – 90 days	<b>1,210</b>	1,154
91 – 180 days	<b>897</b>	844
	<b>2,107</b>	1,998

The carrying amounts of the group's trade payables are denominated in the following currency:

	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Singapore dollars	<b>2,107</b>	1,998

## 28. UNSECURED LOANS

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Interest bearing loans ( <i>note</i> )	<b>2,646</b>	23,674	–	23,674
Interest free loan	<b>1,644</b>	2,600	<b>1,368</b>	2,600
	<b>4,290</b>	26,274	<b>1,368</b>	26,274

*Note:*

The loans carry interest at a rate of 5% (2006: 5% to 9%) and are repayable on demand.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

M Dream Inworld Limited

## 29. AMOUNTS DUE TO RELATED PARTIES

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

## 30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non cancellable operating leases falling due as follows:

	<b>The Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,450</b>	230
In the second to fifth years, inclusive	<b>1,216</b>	–
	<hr/>	<hr/>
	<b>2,666</b>	230
	<hr/> <hr/>	<hr/> <hr/>

The Group leases office properties under operating commitments, which are negotiated for an average term of two to five years.

At the balance sheet date, the Company did not have any operating lease arrangements.

## 31. MAJOR NON-CASH TRANSACTIONS

During the year, the Group had convertible bonds with a principal value of HK\$14,040,000 converted into 360,000,000 ordinary shares of the Company of HK\$0.01 each.

## 32. CONNECTED TRANSACTIONS

Except as disclosed in the financial statements, 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, during the year:

### Key management personnel

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Salaries and allowances	–	1,407
Mandatory provident fund	–	14
	<hr/>	<hr/>
	–	1,421
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

M Dream Inworld Limited

Year ended 31 December 2007

## **33. CAPITAL COMMITMENTS**

At the balance sheet date, the Group and the Company did not have any significant commitments.

## **34. CONTINGENT LIABILITIES**

At the balance sheet date, the Group and the Company had no significant contingent liabilities.

## **35. SUBSEQUENT EVENTS**

On 15 January 2008, the Company entered into a conditional Loan Capitalisation Agreement to settle the loan owed by the Company to an unsecured creditor of HK\$1,368,000 by issuance of 2,338,460 ordinary shares at the Loan Capitalisation Price of HK\$0.585 per share.

## **36. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 4 February 2008.

# FIVE-YEAR FINANCIAL INFORMATION

Year ended 31 December 2007

M Dream Inworld Limited

The following is a summary of the published results and of the assets and liabilities of the Group for the six months period ended 31 December 2003 and the four years ended 31 December 2004, 2005, 2006 and 2007:

## RESULTS

	<b>31 December 2007 HK\$'000</b>	<b>Year ended</b>			Six months ended
		31 December 2006 HK\$'000	31 December 2005 HK\$'000	31 December 2004 HK\$'000	31 December 2003 HK\$'000
Turnover	<b>15,112</b>	13,931	14,432	27,261	614
Profit/(loss) from operations	<b>10,755</b>	5,328	(107,783)	(18,165)	(5,673)
Finance costs	<b>(174)</b>	(2,209)	(2,136)	(418)	–
Profit/(loss) before taxation	<b>10,581</b>	3,119	(109,919)	(18,583)	(5,673)
Taxation	<b>(18)</b>	–	–	–	–
Profit/(loss) after taxation from continuing operations	<b>10,563</b>	3,119	(109,919)	(18,583)	(5,673)
Profit/(loss) after taxation from discontinued operations	–	12,402	(27,977)	1,586	–
Profit/(loss) for the year	<b>10,563</b>	15,521	(137,896)	(16,997)	(5,673)
Net profit/(loss) attributable to					
– Equity holders of the Company	<b>10,563</b>	15,521	(137,772)	(16,854)	(5,569)
– Minority interest	–	–	(124)	(143)	(104)
	<b>10,563</b>	15,521	(137,896)	(16,997)	(5,673)

## Assets and liabilities

	<b>2007 HK\$'000</b>	<b>As at 31 December</b>			
		2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Total assets	<b>58,947</b>	3,719	6,994	131,124	32,047
Total liabilities	<b>(24,129)</b>	(37,197)	(54,866)	(40,821)	(2,461)
Minority interest	–	–	–	(124)	(237)
Shareholders' fund	<b>34,818</b>	(33,478)	(47,872)	90,179	29,349