THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

If you are in any doubt *as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.*

If you have sold or transferred *all your shares in the Company, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.*

Inworld Group Limited
活力世界控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8100)

MAJOR TRANSACTION,
PROPOSED INCREASE OF AUTHORIZED SHARE CAPITAL,
PROPOSED CHANGE OF NAME TO M DREAM INWORLD LIMITED
(聯夢活力世界有限公司*)

Financial adviser to the Company

SBI E2-Capital (Hong Kong) Limited

A notice convening an extraordinary general meeting of the Company to be held at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong at 11:00 a.m. on 17 May 2004 is set out on pages 92 to 93 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

20 April, 2004

* *for identification purposes only*

CHARACTERISTICS OF GEM

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 made 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 the main board of the Stock Exchange 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 announcements 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.

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"%"	per cent.
"Airlong"	means 杭州龍在天信息科技有限公司 (Hangzhou Airlong Information Technology Co., Ltd.), a domestic joint venture company established in the PRC
"Board"	means the board of directors of the Company
"Business"	mean the business carried or to be carried on by M Dream Zone
"BVI"	means the British Virgin Islands
"Company"	means Inworld Group Limited, an exempted company incorporated in the Cayman Islands and whose shares are listed on GEM
"Completion"	means the completion of the MEL Acquisition
"Concert party"	has the same meaning as party acting in concert as defined in the Hong Kong Code on Takeovers and Mergers
"Consideration Shares"	means 298,000,000 new Shares credited as fully paid at the issue price of HK$0.090 per Share to be allotted and issued to M Dream China as part of the Consideration
"Consideration"	means the aggregate consideration in the amount of HK$31,320,000 payable by Inworld International for the MEL Acquisition
"Director(s)"	means the director(s) of the Company

"EGM"	means the extraordinary general meeting of the Company to be held at 11:00 a.m., on 17 May 2004 at Macau Jockey Club Golden Restaurant First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong to consider and, if thought fit, to approve, among other things, the terms of the MEL Agreement, the increase of authorized share capital of the Company from HK$15,000,000 to HK$30,000,000, the grant of a specific mandate to the Directors for the allotment and issue of the Consideration Shares to M Dream China pursuant to the terms of the MEL Agreement and the proposed change of name of the Company, the notice of which is set out on pages 92 to 93 of this circular
"Enlarged Capital"	means 1,690,608,000 Shares in issue in the share capital of the Company upon the Completion assuming that there are no further issue of the Shares from the date of the MEL Agreement up to the Completion other than the Consideration Shares
"Enlarged Group"	means the Group as enlarged immediately after Completion
"Eolith"	means Eolith Company Limited (Eolith 株式會社), a company incorporated in the Republic of Korea which is independent of and not connected with the Directors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules)
"Existing Capital"	means 1,392,608,000 Shares in issue in the share capital of the Company as at the Latest Practicable Date
"GEM Listing Rules"	means the Rules Governing the Listing of Securities on the GEM of the Stock Exchange
"GEM"	means the Growth Enterprise Market of the Stock Exchange
"Group"	means the Company and all of its subsidiaries
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC
"Inworld International"	means Inworld International Limited, a limited liability company incorporated under the laws of the British Virgin Islands, being a wholly-owned subsidiary of the Company

"Latest Practicable Date"	16 April, 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Licensed Mobile Games"	means the six wireless mobile games being the subject of the Mobile Game Licence Provision Agreements
"Longstop Date"	means 31 July 2004 (or such later date(s) as may be agreed between M Dream China and Inworld International)
"M Dream China"	means M Dream China (Holdings) Limited, a company incorporated under the laws of the Cayman Islands and is controlled as to approximately 50.44% by Vasina Limited and is independent of the Directors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules)
"M Dream Co"	means 杭州聯夢娛樂軟件有限公司 (Hangzhou M Dream Co. Ltd.), a PRC wholly foreign-owned enterprise, the sole shareholder of which is M Dream China
"M Dream Korea"	means M Dream Co., Ltd., a company incorporated in the Republic of Korea which is independent of the Directors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules)
"M Dream MEL"	means M Dream Mobile Entertainment Limited, a limited liability company incorporated under the laws of the British Virgin Islands, being a wholly-owned subsidiary of M Dream China at the date of the MEL Agreement
"M Dream Zone"	means 杭州聯夢地帶軟件有限公司 (Hangzhou M Dream Zone Co., Ltd.), a wholly foreign-owned enterprise established in the PRC by M Dream China on 17 February 2004 which is principally engaged in the development, distribution, provision and supply of gaming services and various downloadable applications for wireless mobile games

"MEL Acquisition"	means the acquisition by Inworld International of the entire issued share capital in M Dream MEL from M Dream China as contemplated under the MEL Agreement
"MEL Agreement"	means the agreement dated 17 March 2004 entered into between M Dream China and Inworld International in respect of the MEL Acquisition
"Mobile Game Licence Provision Agreements"	means two wireless mobile game licence provision agreements with Eolith on 29 February 2004 which terms shall be effective as from 1 February 2004 for, among other things, the grant of a licence to M Dream Zone to use, distribute, sub-license or otherwise exploit the six respective wireless mobile games and to provide services through mobile telecommunication operators in relation thereto in the PRC
"Mr. Xu"	means Mr. Xu Hanjie, one of the founders of M Dream Co and a proposed director of the Company upon completion of the MEL Agreement
"PRC"	means the People's Republic of China, excluding Hong Kong
"Prospectus"	means the prospectus of the Company dated 18 December 2001
"Share(s)"	means the share(s) of par value of HK$0.01 each in the capital of the Company
"Shareholder(s)"	means shareholder(s) of the Company
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"wireless mobile games"	means games and entertainment related applications which can be downloaded to and operated by wireless mobile phone handsets
"Wuxian"	means 杭州聯夢無限娛樂軟件有限公司 (Hangzhou M Dream Wuxian Entertainment Software Co., Ltd.), a domestic joint venture company established in the PRC

Inworld Group Limited
活力世界控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Koh Tat Lee, Michael *(Chairman)*
Mr. Wong Shui Fun

Non-executive Directors:
Mr. Ng Yat Cheung

Independent non-executive Directors:
Mr. Leung Chun Cheung
Mr. Cheong Mun Hong

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

Principal place of business in Hong Kong:
3/F, Chinese Club Building,
21-22 Connaught Road Central,
Hong Kong

20 April 2004

To the Shareholders,

**MAJOR TRANSACTION,
PROPOSED INCREASE OF AUTHORIZED SHARE CAPITAL,
PROPOSED CHANGE OF NAME TO M DREAM INWORLD LIMITED
(聯夢活力世界有限公司*)**

1. INTRODUCTION

On 17 March 2004 it was announced that Inworld International entered into the MEL Agreement with M Dream China under which and subject to the terms and conditions thereof, Inworld International has agreed to acquire the entire issued share capital of M Dream MEL for an aggregate consideration of HK$31,320,000.

* *for identification purposes only*

Of the HK$31,320,000 consideration, HK$4,500,000 will be satisfied in cash; and HK$26,820,000 will be satisfied by way of the allotment and issue of 298,000,000 new Shares at HK$0.090 per Share (representing approximately 21.40% of the Existing Capital and 17.63% of the Enlarged Capital) to M Dream China credited as fully paid. The Consideration represents approximately 22.8 times of the unaudited net tangible assets value of M Dream MEL as of 29 February 2004. The issue and allotment of the Consideration Shares will not result in a change of control of the Company.

The issue price per Consideration Share represents a premium of approximately 13.92% to the closing price of HK$0.079 per Share as quoted on the Stock Exchange on 9 March 2004 (i.e. the date immediately preceding the suspension of trading of the Shares on the Stock Exchange on 10 March 2004 pending the release of the announcement dated 17 March 2004 in respect of the MEL Acquisition) and a premium of approximately 20.16% to the average closing price of HK$0.0749 per Share of 10 consecutive trading days ended on 9 March 2004.

Mr. Xu and Mr. Wong Kean Li, representatives of M Dream China, will be appointed as the directors of the Company at Completion.

As the Consideration for the MEL Acquisition exceeds 50% of the latest adjusted net tangible asset value of the Company of approximately HK$41,058,400 as published in the circular to the Shareholders dated 8 March 2004, the MEL Acquisition constitutes a major transaction of the Company under the GEM Listing Rules prior to 31 March 2004 and hence is subject to reporting, announcement and shareholders' approval requirement under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, the authorized share capital of the Company was HK$15,000,000 divided into 1,500,000,000 Shares and the total issued share capital of the Company was HK$13,926,080 divided into 1,392,608,000 Shares.

Pursuant to the MEL Agreement, the Company shall allot and issue a total of 298,000,000 Shares (i.e. the Consideration Shares) to M Dream China upon Completion. However, based on the existing authorized share capital and the issued share capital of the Company, the Company would not have sufficient unissued shares available for allotment and issue to M Dream China.

In this connection, an ordinary resolution will be proposed to the Shareholders at the EGM to increase the authorized share capital of the Company from HK$15,000,000 to HK$30,000,000 by the creation of an additional 1,500,000,000 Shares to facilitate the allotment and issue of the Consideration Shares. As the allotment and issue of the Consideration Shares will also exceed the general mandate given to the Directors pursuant to the resolution passed at the annual general meeting of the Company on 29 October 2003, an ordinary resolution will be proposed at the EGM to grant a specific mandate to the Directors for the allotment and issue of the Consideration Shares to M Dream China pursuant to the terms of the MEL Agreement.

It is also proposed by the Directors that the name of the Company be changed to M Dream Inworld Limited (聯夢活力世界有限公司*) upon Completion. The proposed change of name is subject to the approval of the Shareholders by way of a special resolution at the EGM and the approval of the Registrar of Companies in the Cayman Islands.

The purpose of this circular is to provide you with further information in relation to the MEL Acquisition, the increase in the authorised share capital of the Company, the proposed change of name of the Company to M Dream Inworld Limited (聯夢活力世界有限公司*) and the notice of the EGM.

2. THE MEL AGREEMENT

Date: 17 March 2004

Parties

Vendor: M Dream China

Purchaser: Inworld International

Assets to be acquired

Inworld International has conditionally agreed to acquire the entire issued share capital in M Dream MEL from M Dream China free from any encumbrance on and subject to the terms and conditions of the MEL Agreement.

Further details of M Dream MEL are disclosed in the paragraph headed "Information on M Dream China, M Dream MEL and M Dream Zone" below.

Consideration

The aggregate consideration for the MEL Acquisition is HK$31,320,000, of which:

(a) HK$4,500,000, being approximately 14.37% of the Consideration, will be satisfied in cash and paid to M Dream China at Completion. The cash consideration comprises HK$4,000,000 from the proceeds of the subscription of new shares completed on 25 February 2004 allocated for potential future acquisition and HK$500,000 from the Group's internal resources; and

(b) HK$26,820,000, being approximately 85.63% of the Consideration, will be satisfied by way of the allotment and issue of 298,000,000 new Shares (representing approximately 21.40% of the Existing Capital and approximately

* *for identification purposes only*

17.63% of the Enlarged Capital) to M Dream China credited as fully paid at the issue price of HK$0.090 per Share to M Dream China at Completion. The Consideration Shares shall rank pari passu in all respects with the existing issued Shares immediately prior to the allotment.

All Consideration Shares will be allotted and issued pursuant to the specific mandate proposed to be granted to the Directors by the Shareholders at the EGM.

The issue price per Consideration Share represents a premium of approximately 13.92% to the closing price of HK$0.079 per Share as quoted on the Stock Exchange on 9 March 2004 (i.e. the date immediately preceding the suspension of trading of the Shares on the Stock Exchange on 10 March 2004 pending the release of the announcement dated 17 March 2004 is respect of the MEL Acquisition) and a premium of approximately 20.16% to the average closing price of HK$0.0749 per Share of 10 consecutive trading days ended on 9 March 2004.

The issue price per Consideration Share represents a premium of approximately 87.50% to the closing price of HK$0.048 per Share as quoted on the Stock Exchange on the Latest Practicable Date and a premium of approximately 68.86% to the average closing price of HK$0.0533 per Share of 10 consecutive trading days ended on the Latest Practicable Date.

The price per Consideration Share of HK$0.090 was arrived at after arm's length negotiation between the parties, which had taken into account the then prevailing prices of the Share during the negotiation period, and being a price acceptable to the Group and M Dream China.

The Consideration, representing approximately 22.8 times of the unaudited net tangible assets value of M Dream MEL, was arrived at after arm's length negotiations between the parties based on the Company's internal review and analysis of the current revenue base and subscriber number in relation to the applications provided by M Dream Zone. In particular, it was based on the Company's internal evaluation, which has taken into account of existing popularity of wireless mobile gaming in the PRC, significant growth in the number of mobile phone users as well as the potential synergy to be created with the user base, distribution channels and the information technology knowledge of M Dream MEL, the current number of subscribers of the two applications provided by M Dream Zone to two Internet content providers, namely, Wuxian and Airlong, in the PRC (See the paragraph headed "Information on M Dream China, M Dream MEL and M Dream Zone" below for further details), the historical growth rate of these two applications and the four applications currently under development and proposed to be provided by M Dream Zone. Upon completion of MEL Acquisition, the net tangible assets value of the Combined Group will decrease from HK$0.0135 to HK$0.0090 approximately 31%. The Consideration also represents approximately 13 times the annualized amount of the February 2004 revenue of M Dream MEL. The Directors have also been informed by M Dream MEL that the revenue of M Dream MEL for March 2004 (up to 15 March 2004) is approximately HK$245,000 which will translate to a price per revenue ratio of only 10.7 times. The directors believe that this ratio only reflects the state of affairs in the previous month.

The two applications launched and currently provided by M Dream Zone to Wuxian and Airlong were adapted from Korea applications. Based on the information provided by M Dream Zone, one of these Korean applications, which was launched in Korea in December 2001, has a subscriber base of approximately 500,000 users in Korea over a mobile phone subscriber base of approximately 28 million people, which represents a penetration rate of 1.79% in the Korean market. The other Korean application was launched in May 2002 and currently has a subscriber base of 200,000 people in Korea. The current mobile phone subscriber population in the PRC is over 250 million. The Directors believe that a similar penetration rate may be reached in the PRC which will translate to a potential subscriber number of 4.48 million people. This is approximately 112 times of the current subscriber number of M Dream and represents a healthy potential growth of M Dream revenue. Based on the information provided by M Dream Zone, for one of the applications to be launched and provided by M Dream Zone in the next six month, the current number of users of that application over the Internet platform (i.e. online games using Internet platform) is over 30 million people and according to M Dream Zone, approximately 5% of these Internet platform users are interested in running the applications over the mobile platform (i.e. playing the games on mobile platform). Based on the information provided by M Dream Zone, there were currently approximately 40,000 subscribers for the two applications provided by M Dream Zone in February 2004.

The Directors believe that the total revenue will increase because M Dream MEL has currently launched only 2 applications, another 2 applications are planned for launch within the next quarter and another 2 applications within the year. Based on the increase in number of applications and in turn, an increase in number of subscribers, the revenue of M Dream MEL will increase. Further, the Directors believe that the penetration of application service provision over the mobile platform in the PRC may approximate other countries, such as Korea, and thus, with the increase in penetration rate, the revenue of M Dream MEL will also increase.

Lock-up period

Pursuant to the MEL Agreement, the Consideration Shares to be allotted and issued to M Dream China as part of the Consideration may not be sold, pledged, encumbered or otherwise disposed of during a period of 6 months after the date of issuance of the same unless with the prior written consent of the Company.

Conditions precedent

Completion of the MEL Agreement is conditional on, inter alia, the following conditions having been fulfilled:

(a) the passing by each of the board of directors of Inworld International and M Dream China in a board meeting of a resolution approving the terms of the MEL Agreement and the implementation thereof;

(b) the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;

(c) the passing of all necessary resolutions by the Shareholders at the EGM to approve, among other things, the terms of the MEL Agreement, the increase of the authorized share capital of the Company to HK$30,000,000 divided into 3,000,000,000 shares of HK$0.01 each, the grant of a specific mandate to the Directors for the allotment and issue of the Consideration Shares to M Dream China and to enable Inworld International to complete and implement the terms of the MEL Agreement;

(d) the obtaining of legal opinions (in form and substance satisfactory to Inworld International) issued by a firm of PRC lawyers confirming that (i) M Dream Zone has been duly incorporated and in good standing; (ii) the business agreements entered into by M Dream Zone prior to Completion constitute binding obligations of M Dream Zone and are valid and legally enforceable by M Dream Zone and (iii) such other relevant matters of PRC law as Inworld International may require;

(e) all necessary consents being granted by third parties; and

(f) the results of a due diligence investigation on M Dream MEL to the reasonable satisfaction of Inworld International.

Completion

Completion shall take place on the third business day after all the conditions precedent described in the MEL Agreement are fulfilled and/or waived by Inworld International or on such later date as the parties may otherwise agree. If the conditions shall not have been fulfilled or waived by Inworld International by the Longstop Date, the MEL Agreement and everything therein contained shall, subject to the liability of any party to the others in respect of any breaches of the terms of the MEL Agreement, be null and void and of no effect.

3. APPOINTMENT OF DIRECTORS

Pursuant to the MEL Agreement, Mr. Xu and Mr. Wong Kean Li, representatives of M Dream China, will be appointed as directors of the Company at Completion.

Mr. Xu, age 37, is the Chief Executive Officer of M Dream Co. As the main co-founder of M Dream Co, Mr. Xu was responsible for developing the company's mobile entertainment business, including through negotiations with leading game developers in Japan and Korea, and mobile telecommunications service providers China Mobile and China Unicom. Previously the Chief Executive Officer of Zhejiang University Maikang Computer Limited, a computer company in the PRC, Mr. Xu also possesses 12 years of experience in the information technology and telecommunications industries, including selling IT and telecoms equipment and software to and for China Mobile and China Unicom. Mr. Xu holds a Master of Business Administration from Zhejiang University, the PRC. Mr, Xu will also be appointed as general manager of M Dream Zone.

Mr. Wong Kean Li, age 33, is the President and Executive Director of Softbank Investment International (Strategic) Ltd. He was formerly the Vice President for Business Development of Hongkong.com Corporation and Chinadotcom Corporation, as well as an associate lawyer with international law firm Clifford Chance specialising in China law and corporate and Internet/technology matters. Mr. Wong holds an MA in Law from Cambridge University, England. Mr. Wong will also be appointed as a director of M Dream Zond and M Dream China.

It is currently proposed that both Mr. Xu and Mr. Wong do not have a fixed term of contract and are not connected with any directors, senior management, the substantial shareholder or controlling shareholder of the Company. Their emoluments will be determined with reference to the Group's human resources policies and in compliance with the articles of association of the Company. Both Mr. Xu and Mr. Wong do not have any interests in the Shares of the Company with the meaning of Part XV of the Securities and Futures Ordinance. The proposed appointment of Mr. Xu and Mr. Wong does not have any other matters that need to be brought to the attention of Shareholders of the Company.

4. INFORMATION ON M DREAM CHINA, M DREAM MEL AND M DREAM ZONE

M Dream China is an exempted company incorporated in the Cayman Islands for the purpose of investing in the wireless mobile games and entertainment industry. It was formed on 8 January 2004 initially by Softbank. The other parties acquired their respective interests in M Dream China from Softbank on 16 January 2004 pursuant to the reorganisation of M Dream Co. As at the Latest Practicable Date, the voting rights in general meetings of M Dream China were controlled as to 50.44%, 8.4%, 4.21%, 1.95%, 17.5% and 17.5% by Vasina Limited, M Dream Korea, Joyluck Ventures Inc., Aurelia International Limited, SIIS Investment (No. 1) Limited and Softbank Asia Net Trans (No. 1) Limited respectively, all of such shareholders are independent of and not connected with the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). All of the aforesaid shareholders are also not acting in concert with Shenzhen Ingen

Technology Company Limited, City Lion Worldwide Limited, the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). To the best knowledge of the Directors, no concert party of M Dream China is currently interested in the shares of the Company. To the best knowledge of the Directors, M Dream China and its associates are not acting in concert with any of the shareholders of the Company.

As at the Latest Practicable Date, the principal assets of M Dream China were (1) the 100% equity interests in M Dream Co and (2) the entire issued share capital of M Dream MEL, which is an investment holding company formed in the BVI and has no business other than the holding of the entire interest in M Dream Zone, a wholly foreign-owned enterprise established in the PRC.

M Dream Zone was established in February 2004 with M Dream MEL as the sole shareholder. As disclosed in the business licence of M Dream Zone, M Dream Zone is principally engaged in the research, development and after-sales services of entertainment gaming software. M Dream Zone currently focuses on the provision of application services in relation to valued added services in the wireless mobile games and entertainment market in the PRC, including the provision of information technology solutions to Internet content providers for distribution of wireless mobile games and downloadable applications via the Internet and mobile networks in the PRC in return for service fees paid by Internet content providers. M Dream Zone currently employs 12 persons, of which 1 is the Chief Executive Officer, 6 are responsible for research and development, 3 are for customer service and technical support and 2 are responsible for administration and accounting matters.

In the course of providing such services, M Dream Zone enters into licence agreements with the copyright owners or licence holders of various gaming software and applications in order to obtain the right to further development and exploit the gaming software. Pursuant to the required configuration of its customers and business partners, M Dream Zone then adapts the games and applications into a version which is capable of being downloaded and used under wireless mobile platforms. Through its own research and development, M Dream Zone will also provide gaming software and applications from time to time which are developed by it to facilitate its solutions for wireless mobile games and entertainment. Upon adaptation of the games and applications, the Internet content providers will be able to make available the wireless mobile games and applications for downloads by subscribers of PRC telecommunication operators with which they form business partnership. As at the Latest Practicable Date, M Dream Zone has already launched its services in respect of two wireless mobile games, namely, "Heavy Armored Soldier K（機甲爭霸）" and "Golden Continent（黃金大陸）". It currently provides services to two principal business partners: (1) Wuxian which is partnering with China Mobile and (2) Airlong which is partnering with China Unicom in respect of the applications.

Apart from the aforesaid, M Dream Zone also provides solutions regarding other mobile entertainment products such as ring tones, wallpapers and screensavers for mobile devices and after-sales services in relation to all its solutions.

The unaudited value of the net tangible assets of M Dream MEL was approximately HK$1,371,000 as of 29 February 2004. The unaudited value of the net tangible assets of M Dream Zone was approximately HK$199,000 as of 29 February 2004. By virtue of the entering into of the Mobile Game Licence Provision Agreements, M Dream Zone effectively obtains the intellectual property rights to exploit the Licensed Mobile Games. Such rights are intangible assets and are not reflected in the management accounts as they have been expensed off prior to the reorganisation of M Dream Co.

5. FURTHER INFORMATION ON M DREAM CO, WUXIAN AND AIRLONG

As at the Latest Practicable Date, M Dream Co. was wholly owned by M Dream China. To the best knowledge of the Directors, M Dream Co was established in November 2002. The initial shareholders of M Dream Co were owned as to 20% by M Dream Korea, as to 14% by Mr. Xu and as to the rest by six other individuals, all of whom are independent of and not connected with the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). The scope of business of M Dream Co is research, development and after sales technical services for entertainment gaming software.

Prior to the establishment of M Dream Zone, the Business was conducted through M Dream Co where M Dream Co had entered into mobile game licence provision agreements between September 2002 and February 2004 in respect of certain wireless mobile games including the Licensed Mobile Games with Eolith and M Dream Korea and technical services agreements with various Internet content providers, namely E-Sky Company Limited (which is independent of and not connected with the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules)), Wuxian and Airlong, for, among other things, the provision of information technology solutions by M Dream Co. Between January and March 2004, the business of M Dream Co was reorganized such that such business in relation to the Licensed Mobile Games was effectively taken up by M Dream Zone. This was done through the formation of M Dream MEL (a company incorporated under the British Virgin Islands and 100% owned by M Dream China), and the incorporation of M Dream Zone as a PRC wholly foreign-owned enterprise 100% owned by M Dream MEL, with M Dream Zone thereafter effectively acquiring from M Dream Co the relevant parts of the business relating to the operation of the Licensed Mobile Games through various reorganization methods such as rental allocation, employee secondment, and effective transfer of the relevant licences. To the best knowledge of the Directors, the business remaining in M Dream Co after the reorganisation relates to high level gaming software research and development, including research and development on network topology such as max min flow control and super Nth dimension hypercube, to improve accessibility and controllability to multiple users under simultaneous multi-user game environment on the mobile platform. The Company has no intention to acquire such type of business.

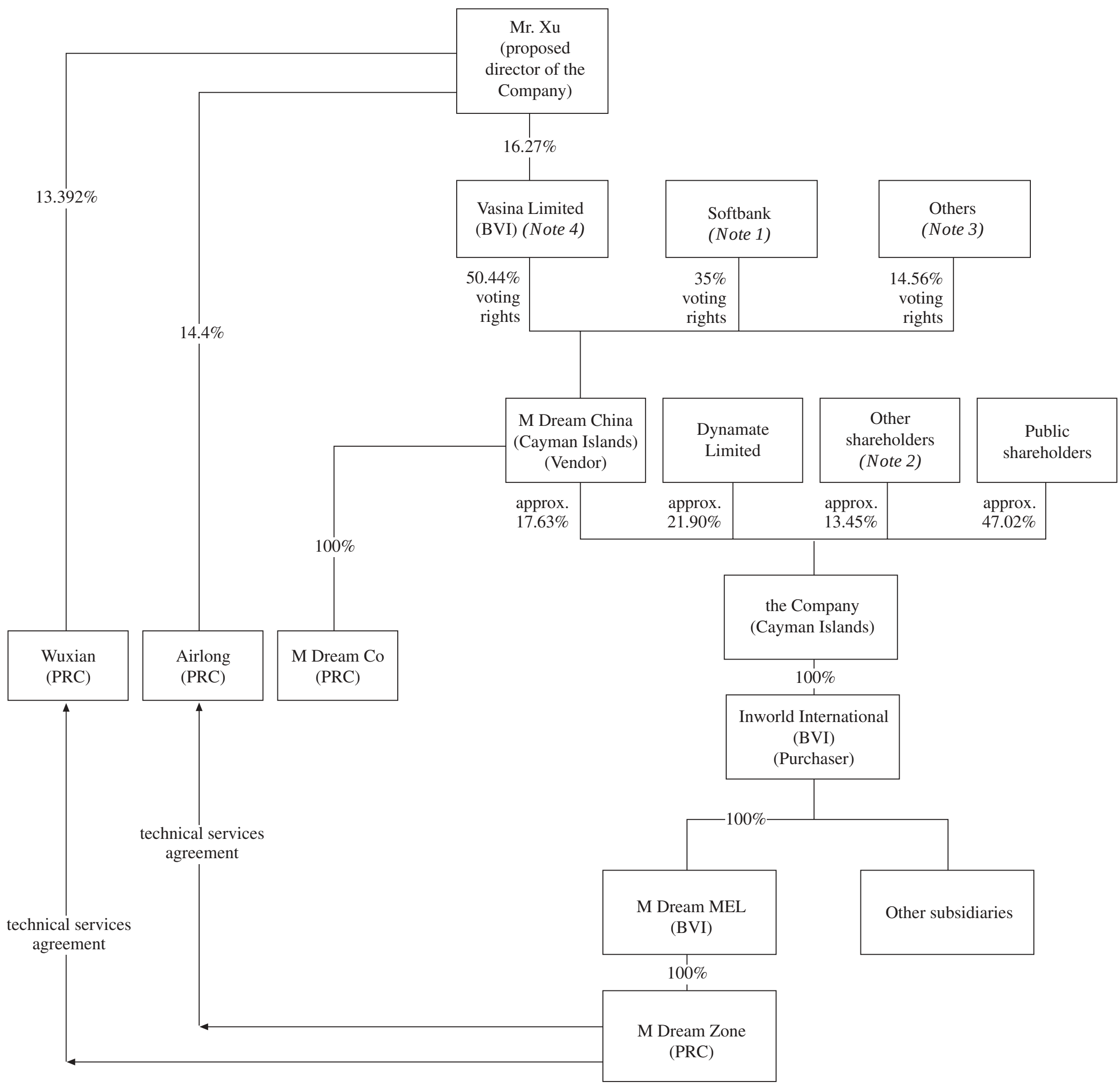
On 17 February 2004, M Dream Zone had entered into two technical services agreements with two Internet content providers, namely, Wuxian and Airlong respectively, which terms shall be effective as from 1 February 2004.

Both Wuxian and Airlong are Internet content providers which have obtained Licences for Operating Valued-added Telecommunication Services (增值電信服務經營許可證) from Zhejiang Communication Administrative Bureau (浙江通信管理局) on 27 October 2003 and 2 September 2003 respectively to operate information services business including provision of internet contents in the PRC. Wuxian and Airlong are currently partnering with telecommunication operators such as China Mobile and China Unicom to supply wireless mobile games and applications to subscribers for downloads and enjoyed on wireless mobile platforms. By entering into technical services agreements with Internet content providers such as Wuxian and Airlong, M Dream Zone will be able to provide information technology solutions to each of them in relation to their business in the PRC.

Wuxian is a domestic enterprise established in the PRC in October 2003. It is owned as to 13.392% by Mr. Xu and as to the rest by seven other individuals, all of whom are independent of and not connected with the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Such seven other individuals do not have any relationship with Mr. Xu apart from being the respective fellow shareholders of Wuxian, Airlong and Vasina Limited.

Airlong is a domestic enterprise established in the PRC in August 2003. It is owned as to 14.4% by Mr. Xu and as to the rest by six other individuals, all of whom are independent of and not connected with the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

The following diagram illustrates the structure of the Group and M Dream China prior to the MEL Acquisition:



Notes:

1. The voting rights are controlled by SIIS Investment (No. 1) Limited and Softbank Asia Net Trans (No. 1) Limited.

2. The other shareholders are Shenzhen Ingen Technology Company Limited and City Lion Worldwide Limited.

3. The voting rights in M Dream China were controlled as to 50.44%, 8.4%, 4.21%, 1.95%, 17.5% and 17.5% by Vasina Limited, M Dream Korea, Joyluck Ventures Inc., Aurelia International Limited, SIIS Investment (No. 1) Limited and Softbank Asia Net Trans (No. 1) Limited respectively.

4. Vasina Limited is owned as to 16.27% by Mr. Xu and as to the rest by seven other individuals, all of whom are independent of and not connected with the Company, the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

6. EFFECTS ON THE SHAREHOLDING STRUCTURE

To the best knowledge and belief of the Directors, the shareholding structure of the Company immediately before the MEL Acquisition and immediately after completion of the MEL Acquisition are as follows:

	Before the MEL Acquisition		**After the MEL Acquisition**	
	No. of shares held	**Approx. %**	**No. of shares held**	**Approx. %**
Dynamate Limited *(Note 1)*	370,163,200	26.58%	370,163,200	21.90%
Shenzhen Ingen Technology Company Limited	147,440,000	10.59%	147,440,000	8.72%
City Lion Worldwide Limited *(Note 2)*	80,000,000	5.74%	80,000,000	4.73%
M Dream China	–	–	298,000,000	17.63%
Public shareholders of the Company	795,004,800	57.09%	795,004,800	47.02%
Total:	1,392,608,000	100.00%	1,690,608,000	100.00%

Notes:

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

2. The entire issued share capital of City Lion Worldwide Limited is beneficially owned by Styland (Overseas) Limited, which entire issued share capital is in turn beneficially owned by Styland Holdings Limited. Accordingly, each of Styland (Overseas) Limited and Styland Holdings Limited is deemed to be interested in the 80,000,000 shares beneficially owned by City Lion Worldwide Limited.

7. REASONS FOR ENTERING INTO THE MEL AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in the business as a system solutions provider. The major system solutions services offered by the Group include information technology consultation and infrastructure services. By providing such services, the Group is engaged in, among other things, hardware and software design and installation, computer system integration, system programming, server collocation, server building, computer system building and computer network building.

The Directors are of the view that the acquisition of M Dream MEL and effectively M Dream Zone will benefit the Group for the following reasons:

- The Group can expand its information technology consultation and infrastructure services on to the mobile platform;

- The Group can participate in the provision of mobile value-added service in the PRC, a large and rapidly growing market;

- Synergy of M Dream MEL and the Group – the user base and distribution channels of M Dream MEL and the information technology knowledge of the Group are complementary to each other. The user base and distribution channels of M Dream Zone represent access to the internet content provider industry in the PRC, which is a restricted industry limited to Chinese enterprises. Through M Dream Zone current business relationship with PRC internet content providers, the Company can immediately tap into this segment of the market; and

- M Dream MEL will enhance the future revenue-generating and business prospects of the Group.

The Directors consider that the MEL Acquisition offers the Group a good business opportunity for expanding the Group's presence in related business with a growth potential. The Directors believe that the MEL Acquisition is in line with the statement of business objectives of the Company as disclosed in the Prospectus.

The Directors confirm that the Group will continue to provide its existing services and to carry on its existing business after the MEL Acquisition. The Directors confirm that the Group will not change its business nature as disclosed in the Prospectus after the MEL Acquisition. The Directors also confirm that M Dream China will not control the board of Directors upon Completion.

Since the preliminary negotiations with M Dream China which started in January 2004, the Company has conducted appropriate level of due diligence and review procedures on the business operation and statutory records of the acquired assets. The Directors had met with key personnel of M Dream MEL and visited their operations in Hangzhou, the PRC during which M Dream MEL demonstrated their applications and information technology services to the Company. The Company had also reviewed supporting documents for M Dream MEL's operating revenue and related agreements, including the Mobile Game Licence Provision Agreements, the technical service agreements entered into between M Dream Zone and Wuxian and Airlong respectively, the relevant tenancy agreement and employment contracts.

8. INCREASE OF AUTHORIZED SHARE CAPITAL AND SPECIFIC MANDATE TO ALLOT AND ISSUE SHARES TO M DREAM CHINA

As at the Latest Practicable Date, the authorised share capital of the Company was HK$15,000,000 divided into 1,500,000,000 Shares and the total issued share capital of the Company was HK$13,926,080 divided into 1,392,608,000 Shares.

Pursuant to the MEL Agreement, the Company shall allot and issue a total of 298,000,000 new Shares (i.e. the Consideration Shares) to M Dream China upon Completion. However, based on the existing authorized share capital and the issued share capital of the Company, the Company would not have sufficient unissued Shares available for allotment and issue to M Dream China.

In this connection, an ordinary resolution will be proposed to the Shareholders at the EGM to increase the authorized share capital of the Company from HK$15,000,000 to HK$30,000,000 by the creation of an additional 1,500,000,000 Shares to facilitate the allotment and issue of the Consideration Shares. As the allotment and issue of the Consideration Shares will also exceed the general mandate given to the Directors pursuant to the resolution passed at the annual general meeting of the Company on 29 October 2003, an ordinary resolution will be proposed at the EGM to grant a specific mandate to the Directors for the allotment and issue of the Consideration Shares to M Dream China pursuant to the terms of the MEL Agreement. No Shareholder will have to abstain from voting on these resolutions at the EGM.

9. APPLICATION FOR LISTING

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares to be issued pursuant to the terms of the MEL Agreement.

10. PROPOSED CHANGE OF NAME

It is proposed by the Directors that the name of the Company be changed to M Dream Inworld Limited (聯夢活力世界有限公司*) upon Completion to reflect the acquisition of M Dream MEL and effectively M Dream Zone. The proposed change of name is subject to the approval of the Shareholders by way of a special resolution at the EGM and the approval of the Registrar of Companies in the Cayman Islands.

* *for identification purposes only*

11. GENERAL

As the Consideration for the MEL Acquisition exceeds 50% of the latest adjusted net asset value of the Company of approximately HK$41,058,400 as published in the circular to the Shareholders dated 8 March 2004, the MEL Acquisition constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules prior to 31 March 2004 and is subject to reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

An ordinary resolution will be proposed at the EGM for the approval of the terms of the MEL Agreement by the Shareholders. The Directors confirm that they are not aware of any Shareholder who has interest in the MEL Acquisition other than being a shareholder of the Company. As such, the Directors believe that no Shareholder is required to abstain from voting on the resolution in relation to the MEL Acquisition at the EGM.

Based on the analysis of current revenue of M Dream MEL and the analysis of the potential of application service provision over the mobile platform, the Directors, including the independent non-executive Directors, consider that the MEL Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties to the MEL Agreement and that the terms of the MEL Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

12. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

During the period ended 31st December 2003, the Directors have implemented various measures to improve the internal management and formulated new business strategies with the view to improving the Group's operations and competitiveness in the information technology solutions businesses in the long run.

During the period, the Group changed its financial year end date from 30th June 2003 to 31st December. As such, the period covers the six months period from 1st July 2003 to 31st December 2003. Despite the acquisition of Shenzhen Huaruiyuan Company Limited ("Huaruiyuan"), which facilitated the Group's expansion into the PRC tax declaring business, the turnover of the Group declined by 21% from the year ended 30th June 2003 on an annualized basis. The decline in revenue, especially consultation service income, was resulted from the setbacks experienced by the Group regarding the unfortunate saga of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003 and the consequential slowdown of business activities in various countries that the Group operated in. Nonetheless, the turnover in the current period represents a turnaround from the negative turnover in the first six months of 2003. In view of the turnover situation, the Group continued to tightly control its operating expenses. Despite the additional operating expenses incurred due to the Huaruiyuan acquisition, the operating expenses decreased by 65%.

Apart from the above business strategies, the Directors have considered that the proposed MEL Acquisition will facilitate the Group in the process of developing its information technology solutions business and infrastructure services on to the mobile platform. The Group will also be able to participate in the provision of mobile value-added service in the PRC, a large and rapidly growing market.

Looking forward, the Enlarged Group will continue to develop itself as one of the leading information technology solutions providers on the internet platform as well as on the mobile platform.

13. MANAGEMENT DISCUSSION AND ANALYSIS OF M DREAM MEL

Since its date of incorporation (3 December 2003), M Dream MEL, through M Dream Zone, have been principally engaged in the research, development and after-sales services of entertainment gaming software. M Dream Zone currently focuses on the provision of application services in relation to valued added services in the wireless mobile games and entertainment market in the PRC, including the provision of information technology solutions to Internet content providers for distribution of wireless mobile games and downloadable applications via the Internet and mobile networks in the PRC in return for service fees paid by Internet content providers.

At the Latest Practicable Date, M Dream Zone had already launched its services in respect of two wireless mobil games, namely, "Heavy Armored Soldier K（機甲爭霸）" and "Golden Continent（黃金大陸）". The audited consolidated net tangible assets value of M Dream MEL was approximately HK$1,325,000 as of 29 February 2004. The audited consolidated profit for the period from 3 December 2003 (date of incorporation) to 29 February 2004 was approximately HK$158,000.

14. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 11:00 a.m. on 17 May 2004 at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong is set out on pages 92 to 93 of this circular at which resolutions will be proposed to consider and approve and ratify, inter alia,

(i) the entering into of the MEL Agreement;

(ii) the proposed increase of the authorized share capital of the Company from HK$15,000,000 to HK$30,000,000 by the creation of an additional 1,500,000,000 Shares;

(iii) the allotment and issue of the Consideration Shares to M Dream China pursuant to the terms of the MEL Agreement; and

(iv) the change of name of the Company to M Dream Inworld Limited (聯夢活力世界有限公司*).

15. RECOMMENDATION

The Directors (including the Independent non-executive Directors) consider that the terms of the MEL Acquisition are fair and reasonable so far as the Company and the Shareholders are concerned and the entry into the MEL Agreement and the MEL Acquisition are in the interests of the Company. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

16. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully
For and on behalf of the Board of
Inworld Group Limited
Koh Tat Lee, Michael
Chairman

* *for identification purposes only*

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after the increase in authorised share capital and the allotment and issue of the Consideration Shares were and will be as follow:

Authorised:

Number of shares		**Amount** *HK$*
1,500,000,000	Shares at the Latest Practicable Date	15,000,000
1,500,000,000	Increase in authorised share capital	15,000,000
3,000,000,000		30,000,000

Issued and to be issued credited as fully paid:

1,392,608,000	Shares in issue at the Latest Practicable Date	13,926,080
298,000,000	Consideration Shares to be issued	2,980,000
1,690,608,000		16,906,080

As at the Latest Practicable Date, all existing Shares ranked pari passu in all respects including as to dividends, voting and interests in capital. The Consideration Shares, when allotted and issued, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares, including as to dividends, voting and interests in capital.

There was no alteration in the capital of any member of the Group since 31 December 2003, the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

Share Options

Pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 14 December 2001, the Directors may at their discretion grant options to employees (whether in full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. As at the Latest Practicable Date, 40,500,000 share options granted by the Company under the Share Option Scheme were outstanding.

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 14 December 2001, 2 executive Directors, a director of a subsidiary of the Company in Singapore and 15 full-time employees of the Group were granted options to subscribe for an aggregate of 57,600,000 Shares (representing 10% of the issued share capital of the Company as at the date on which dealings in the Shares commenced on GEM) at the nominal value of the Share.

As at the Latest Practicable Date, no options granted under the Pre-IPO Share Option Scheme were outstanding.

The following is a summary of the published results of the Group for the four years ended 30th June 2003 and the period ended 31st December 2003 prepared on the basis set out in the note below. An unqualified opinion was given by the auditors of the Group for the abovementioned published results.

	For the period ended 31 December 2003	Year ended 30 June 2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	614	1,558	6,746	6,498	209
(Loss)/profit from operations	(5,673)	(19,185)	(4,584)	83	(4,210)
Finance costs	–	–	–	(32)	(6)
(Loss)/profit before taxation	(5,673)	(19,185)	(4,584)	51	(4,216)
Taxation		–	–	–	–
(Loss)/profit before minority interests	(5,673)	(19,185)	(4,584)	51	(4,216)
Minority interests	104	72	142	–	–
Net (loss)/profit from ordinary activities attributable to shareholders	(5,569)	(19,113)	(4,442)	51	(4,216)

2. SUMMARY OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 JUNE 2003 AND THE PERIOD ENDED 31 DECEMBER 2003

Set out below is a summary of the audited consolidated financial statements of the Group for the year ended 30 June 2003 and the period ended 31 December together with the relevant notes to financial statements extracted from the audited financial statements of the Group for the period ended 31 December 2003.

CONSOLIDATED INCOME STATEMENT

For the period ended 31 December 2003 (in HK Dollars)

	Notes	Period ended 31 December 2003 HK$'000	Year ended 30 June 2003 HK$'000
Turnover	4	614	1,558
Cost of Sales		(184)	(3,963)
Gross Profit/(Loss)		430	(2,405)
Other Revenue	4	325	5,979
Selling and Distribution Costs		(1,204)	(2,322)
Administrative Expenses		(4,403)	(13,817)
Impairment of Product Development Costs		–	(6,620)
Amortisation of Goodwill	14	(680)	–
Amortisation of Intangible Assets	18	(141)	–
Loss from Operations	6	(5,673)	(19,185)
Finance Costs		–	–
Loss before Tax		(5,673)	(19,185)
Taxation	7	–	–
Loss before Minority Interests		(5,673)	(19,185)
Minority Interests		104	72
Net Loss from Ordinary Activities Attributable to Shareholders	8, 27	(5,569)	(19,113)
Loss Per Share			
Basic, HK cents	9	(0.593)	(3.303)
Diluted, HK cents	9	N/A	N/A

CONSOLIDATED BALANCE SHEET
At 31 December 2003 (in HK Dollars)

	Note	31 December 2003 HK$'000	30 June 2003 HK$'000
Non-Current Assets			
Goodwill	14	15,646	–
Property, plant and equipment	15	2,156	853
Interests in an associate	17	–	–
Intangible assets	18	2,689	–
		20,491	853
Current Assets			
Other investments	19	7,976	8,227
Product development costs	20	–	–
Trade receivables	21	12	14
Deposits, prepayments and other receivables		905	292
Inventories	22	2,497	–
Tax recoverable		–	286
Cash and bank balances		166	270
		11,556	9,089
Current Liabilities			
Trade deposits received		–	215
Trade payables	23	2	69
Amount due to a director	24	217	860
Other payables and accrued expenses		2,242	668
		2,461	1,812
Net Current Assets		9,095	7,277
Total Assets Less Current Liabilities		29,586	8,130
Minority Interests		237	–
Net Assets		29,349	8,130
Representing:			
Share Capital	26	12,426	5,790
Reserves	27	16,923	2,340
Shareholders' Funds		29,349	8,130

BALANCE SHEET

At 31 December 2003 (in HK Dollars)

	Note	31 December 2003 HK$'000	30 June 2003 HK$'000
Non-Current Assets			
Property, plant and equipment	15	–	2
Investment in subsidiaries	16	36,203	28,082
		36,203	28,084
Current Assets			
Other investments	19	101	352
Deposits, prepayments and other receivables		705	81
Cash and bank balances		41	182
		847	615
Current Liabilities			
Accrued expenses		1,022	416
Amount due to a director	24	217	860
Amounts due to subsidiaries	25	105	–
		1,344	1,276
Net Current Liabilities		(497)	(661)
Net Assets		35,706	27,423
Representing:			
Share Capital	26	12,426	5,790
Reserves	27	23,280	21,633
Shareholders' Funds		35,706	27,423

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2003 (in HK Dollars)

	Note	**Period ended 31 December 2003** *HK$'000*	**Year ended 30 June 2003** *HK$'000*
Total equity at 1 July 2003/2002		8,130	27,213
Net loss for the period/year	*27*	(5,569)	(19,113)
Issue of shares		6,636	30
Share issue expenses		(810)	–
Share premium arising from placing of shares		20,962	–
Total equity at 31 December 2003/30 June 2003		29,349	8,130

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31st December 2003 (in HK Dollars)

	Note	Period ended 31 December 2003 HK$'000	Year ended 30 June 2003 HK$'000
Cash Flows from Operating Activities			
Loss before taxation		(5,673)	(19,185)
Adjustments for:			
Interest income		–	(42)
Depreciation		339	828
Amortisation of			
– intangible assets		141	1,590
– product development costs		–	2,271
Unrealised holding loss/(gain) on other investments		243	(5,740)
Loss on disposal of investment securities		5	–
Amortisation of goodwill		680	–
Provision for doubtful debt		4	79
Impairment of current assets of overseas subsidiaries		–	1,151
Impairment of product development costs		–	6,620
Loss on disposals of property, plant and equipment		37	508
Operating loss before working capital changes		(4,224)	(11,920)
Increase in product development costs		–	(6,620)
Decrease in trade receivables		2	3,297
(Increase)/decrease in prepayments, deposits and other receivables		(613)	163
(Decrease)/increase in trade payables		(67)	46
Increase/(decrease) in other payables and accrued expenses		1,211	(1,167)
(Decrease)/increase in amount due to a director		(643)	860
(Decrease)/increase in trade deposits received		(215)	215
Cash consumed from operations		(4,549)	(15,126)
Interest and bank charges paid		–	–
Hong Kong profits tax refund/(paid)		286	(286)
Net cash outflow from operating activities		(4,263)	(15,412)

	Note	Period ended 31 December 2003 HK$'000	Year ended 30 June 2003 HK$'000
Cash Flows from Investing Activities			
Interest received		–	42
Purchases of property, plant and equipment		(156)	(296)
Sales proceeds on disposals of property, plant and equipment		11	176
Cash effect on acquisition of a subsidiary	*28*	(10,888)	–
Acquisition of other investments		–	(685)
Net proceeds on disposal of investment securities		2	–
Net cash outflow from investing activities		(11,031)	(763)
Cash Flows from Financing Activities			
Proceeds from placing of shares		16,000	–
Proceeds from issue of share capital upon exercise of share options	*26*	–	30
Share issue expenses		(810)	–
Net cash inflow from financing activities		15,190	30
Net Decrease in Cash and Cash Equivalents		(104)	(16,145)
Cash and cash equivalents at beginning of period/year		270	16,415
Cash and cash equivalents at end of period/year		166	270
Analysis of Balances of Cash and Cash Equivalents			
Cash and bank balances		166	270

NOTES TO FINANCIAL STATEMENTS

31 December 2003 (in HK Dollars)

1. Corporate Information

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

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

2. Adoption of New and Revised Statements of Standard Accounting Practice ("SSAPs")

In the current year, the Group adopted the following revised SSAPs issued by the Hong Kong Society of Accountants ("HKSA") which are effective for the first time for the accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised) : Income taxes

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (revised) has no material impact on the Group's financial statements in prior years and comparative figures have not been restated.

3. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of preparation

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

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period ended 31 December 2003. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

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

(c) Subsidiaries

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

(d) Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement did not include the Group's share of the post-acquisition results of its associate for the period as the associate has not carried out any business since its acquisition. In the consolidated balance sheet, investment in an associate is stated at cost plus the premium paid on acquisition in so far as it has not already been written off/amortised/released to income, less any identified impairment loss.

(e) Investment in securities

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

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

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

(f) Property, plant and equipment

i. Valuation

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

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

ii. Depreciation

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

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

iii. Disposition

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

(g) Goodwill

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

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

(h) Intangible assets

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

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

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

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

(i) Research and development costs

Expenditure on research and development is charged as an expense in the period in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that the development costs will be recovered through future commercial activity. Each research and development costs are deferred and amortised over the period in which the related benefits were expected to be realised.

The product development costs represent internet-based applications acquired from the third parties. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Internet-based applications : 1 year

Research and development costs is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the income statement in the year of determination.

(j) Current assets and current liabilities

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

(k) Taxation

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

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

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

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

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

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

(l) Cash equivalents

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

(m) Recognition of revenue

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

i. Revenues from system solutions services are recognsied when the services are rendered;

ii. Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

iii. Interest income is recognised on a time-apportioned basis taking into account the principal outstanding and the effective interest rates applicable.

(n) Borrowing costs

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

(o) Operating leases

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

(p) Provisions

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

(q) Foreign currencies

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

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

(r) Impairment of assets

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

i. Calculation of recoverable amount

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

ii. Reversals of impairment losses

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

(s) Contingent liabilities and contingent assets

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

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

(t) Related parties transactions

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

(u) Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.

iii. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

iv. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(v) Segment reporting

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

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

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

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

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

4. Turnover and Revenue

	Period ended 31 December 2003 *HK$'000*	**Year ended 30 June 2003** *HK$'000*
Turnover		
System solutions services income		
– Consultation	–	733
– Infrastructure	552	579
Web hosting income	–	66
Online room reservation income	–	44
Cyber cafè income	62	136
	614	1,558
Other revenue		
Sale of computer hardware and software	55	368
Less: Cost of good sold	(28)	(322)
	27	46
Exchange gain	12	–
Interest income	–	42
Rental income	–	3
Sundry income	242	148
Unrealised holding gain on other investments	–	5,740
Maintenance service income	44	–
	325	5,979
Total revenue	939	7,537

5. Segment Information

Business segments

The Group is principally engaged in the business as a system solution provider. As per note 4 to the financial statements, the system solutions services offered by the Group consist of information technology consultation and infrastructure services and cyber cafè income.

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

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

Group:

	31 December 2003	**30 June 2003**
	HK$'000	*HK$'000*
Trade receivables		
Continuing operations		
IT consultation and infrastructure services	–	4
Cyber cafè income	12	10
	12	14

Geographical segment

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

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

	Period ended 31 December 2003	Year ended 30 June 2003
	HK$'000	*HK$'000*
Revenue from external customers		
– Hong Kong	1	1,317
– Singapore	–	13
– Macau	62	184
– the PRC	551	44
Total revenue from external customers	614	1,558
Other revenue		
– Hong Kong	47	5,927
– others	278	52
	325	5,979
Total operating revenue	939	7,537
Segment results		
– Hong Kong	(3,040)	(11,785)
– Singapore	(1)	(2,233)
– Macau	(104)	(2,880)
– the PRC	(2,528)	(2,287)
Loss from operations	(5,673)	(19,185)
Finance costs	–	–
Taxation	–	–
Minority interests	104	72
Loss attributable to shareholders	(5,569)	(19,113)
Depreciation		
– Hong Kong	172	563
– Singapore	–	87
– Macau	52	165
– the PRC	115	13
	339	828

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

6. Loss from Operations

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

	Period ended 31 December 2003	Year ended 30 June 2003
	HK$'000	*HK$'000*
Auditors' remuneration	120	120
Staff costs (excluding Directors' remuneration):		
– Wages and salaries	1,201	3,279
– Retirement benefits contributions	16	80
Research expenses incurred	31	290
Exchange loss	–	7
Depreciation of owned fixed assets	339	828
Amortisation of intangible assets	141	1,590
Amortisation of product development costs	–	2,271
Operating lease rentals in respect of land and buildings	293	1,125
Provision for doubtful debt	4	79
Loss on disposal of property, plant and equipment	37	508
Impairment of product development costs	–	6,620
Stock written off	778	–
Unrealised loss on investment of securities	248	–

7. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group and its subsidiaries operating in Hong Kong have no assessable profits for the period (year ended 30 June 2003: Nil).

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

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

	Group	
	Period ended 31 December 2003	**Year ended 30 June 2003**
	HK$'000	*HK$'000*
Loss before taxation	5,673	19,185
Tax at the domestic income tax rate of 17.5% (2003:16%)	(993)	(3,070)
Tax effect of expenses that are not deductible in determining taxable profit	1,164	4,768
Tax effect of income that is not taxable in determining taxable profit	–	(42)
Tax effect of unrecognised deferred tax assets in respect of tax losses	(171)	(1,656)
Taxation charge for the period/year	–	–

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (year ended 30 June 2003: Nil).

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

8. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period ended 31 December 2003 was HK$18,505,000 (year ended 30 June 2003: HK$3,663,000).

9. Loss per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$5,569,000 (30 June 2003: HK$19,113,000) and the weighted average of 939,660,174 (30 June 2003: 578,667,024) ordinary share in issue during the period.

There were no potential dilutive shares in existence for the year ended 30 June 2003 and, accordingly, no diluted loss per share has been presented.

No diluted loss per share has been presented because the exercise price of the Company's share options was higher than the average market price per share for the period ended 31 December 2003.

10. Dividends

The directors do not recommend the payment of any dividend in respect of the period ended 31 December 2003 (30 June 2003: Nil).

11. Directors' Remuneration

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

	Group	
	Period ended 31 December 2003	**Year ended 30 June 2003**
	HK$'000	*HK$'000*
Fees	77	113
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	784	1,052
Mandatory provident fund scheme contribution	6	54
	867	1,219

Included in the Directors' remuneration were fees of HK$77,000 (year ended 30 June 2003: HK$113,000) paid to independent non-executive Directors during the period.

The executive and non-executive directors received individual emoluments for the period ended 31 December 2003 of approximately HK$ Nil (30 June 2003: HK$388,000), HK$ Nil (30 June 2003: HK$257,000), HK$ Nil (30 June 2003: HK$157,000), HK$ Nil (30 June 2003: HK$57,000), HK$240,000 (30 June 2003: HK$98,000), HK$550,000 (30 June 2003: HK$ Nil), HK$ Nil (30 June 2003: HK$50,000), HK$50,000 (30 June 2003: HK$50,000) and HK$27,000 (30 June 2003: HK$12,000) respectively.

During the period, there were no bonuses paid or payable to the Directors (30 June 2003: Nil). No Director waived or agreed to waive any remuneration during the period (30 June 2003: Nil). In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group as a compensation for loss of office (30 June 2003: Nil).

12. Five Highest Paid Individuals

The five highest paid employees during the period included two (30 June 2003: two) Directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining three (30 June 2003: three) non-director, highest paid individuals, which each fell within the nil to HK$1,000,000 band, are as follows:

	Group	
	Period ended 31 December 2003	**Year ended 30 June 2003**
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	1,140	637
Mandatory provident fund scheme contribution	17	41
	1,157	678

During the period, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (30 June 2003: Nil). No Director waived or agreed to waive any remuneration during the period (30 June 2003: Nil). In addition no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (30 June 2003: Nil).

13. Employee Benefits

(a) Retirement benefits scheme

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

The employees of the Company's 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 16% of staff's relevant income and the contribution is charged to the income statement.

Under the MPF Scheme and CPF, there is no forfeited contribution which could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 31 December 2003.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries 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 2003 in respect of the retirement of its employees.

(b) Equity compensation benefits

Pre-IPO share option scheme

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

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

Share Option Scheme

Pursuant to the share option scheme adopted by the Company, on 14 December 2001 ("Share Option Scheme"), the Directors may at their discretion grant options to employees (whether in full-time or part-time employment) and Directors (whether executive, non-executive or independent non-executive) of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. The purpose of the Share Option Scheme is to provide incentive and to recognise the contribution of the employees.

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

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

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

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

An aggregate of 32,000,000 options were granted by the Company during the period up to the date of approval of these financial statements which consists of 1 former executive director and 4 employees.

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

	Period ended 31 December 2003	**Year ended 30 June 2003**
	Number	*Number*
Option outstanding at 31 July 2003/2002	–	–
Issued	32,000,000	–
Exercised	–	–
Cancelled/Lapsed	–	–
Option outstanding at 31 December 2003/30 June 2003	32,000,000	–

None of the Directors and employees of the Group had exercised their share options during the period ended 31 December 2003.

14. Goodwill

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Cost		
At 1 July 2003/2002	4,449	4,449
Additions during the period/year	16,326	–
At 31 December 2003/30 June 2003	20,775	4,449
Accumulated amortisation and impairment loss		
At 1 July 2003/2002	4,449	4,449
Charge for the period/year	680	–
At 31 December 2003/30 June 2003	5,129	4,449
Carrying amount at 31 December 2003/30 June 2003	15,646	–

15. Property, Plant and Equipment

Group

	Leasehold Improvements	Office equipment	Furniture and fixtures	Computer hardware and software	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:						
At 1 July 2003	619	53	30	1,653	–	2,355
Additions	–	502	4	310	874	1,690
Disposals	–	(2)	–	(151)	–	(153)
At 31 December 2003	619	553	34	1,812	874	3,892
Depreciation and Impairment losses:						
At 1 July 2003	165	24	17	1,296	–	1,502
Charge for the year	62	45	3	162	67	339
Written back on disposal	–	–	–	(105)	–	(105)
At 31 December 2003	227	69	20	1,353	67	1,736
Net book value:						
At 31 December 2003	392	484	14	459	807	2,156
At 30 June 2003	454	29	13	357	–	853

Company

	Office equipment
	HK$'000
At cost:	
At 1 July 2003	2
Additions	–
Disposals	(2)
At 31 December 2003	–
Depreciation:	
At 1 July 2003 and at 31 December 2003	–
Net book value:	
At 31 December 2003	–
At 30 June 2003	2

16. Investments in Subsidiaries

	Company	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	7,785	7,785
Due from subsidiaries	44,829	20,297
Less: Provision for amount due from subsidiaries	(16,411)	–
	36,203	28,082

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

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

Name of company	Place of Incorporation/ Establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Inworld International Limited	British Virgin Islands	Ordinary US$328	100%	–	Investment holding
Wai Shui Company Limited	British Virgin Islands	Ordinary US$2	100%	–	Investment holding
Inworld (Hong Kong) Limited	Hong Kong	Ordinary HK$3	–	100%	Provision of ASP solutions service
Inworld System (HK) Limited	Hong Kong	Ordinary HK$3	–	100%	Provision of system solution service
Inworld Technology (HK) Limited	Hong Kong	Ordinary HK$2	–	100%	Provision of system solution service
Inworld Internet Singapore Pte. Ltd	Singapore	Ordinary SGD101	–	100%	Provision of system solutions, ASP and ISP services
Sunny World Company Limited#	Macau	Ordinary MOP 25,000	–	100%	Operations of cyber cafè
活力世界(上海)網絡技術有限公司*	The People's Republic of China	Registered capital US$200,000	–	100%	Development and sale of internet application solution services
深圳華瑞源實業有限公司	The People's Republic of China	Registered capital RMB10,000,000	–	95%	Provision of system solutions services

\# During the period, the Group acquired the remaining 28% interests of Sunny World Company Limited. After the transaction, Sunny World Company Limited became the wholly owned subsidiary of the Company as at 31 December 2003.

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

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

17. Interests in an Associate

	Group 31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Investment, at cost		
Unlisted shares	–	4
Impairment loss		
At 1 July 2002/2003	–	4
Provision for the period/year	–	–
At 31 December 2003/30 June 2003	–	4
Carrying amount at 31 December 2003/30 June 2003	–	–

Particulars of the associate are as follows:

Name of company	Business structure	Place of establishment/ registration and operation	Percentage of equity interest attributable to the Group	Class of shares	Principal activities
Styland Datareach Computer Technology Limited	Corporate	Hong Kong	40%	Ordinary	Inactive

The associate was acquired on 25th August 2000. Since its acquisition, the associate has not carried out any business. In the opinion of the directors of the Company, the associate has no value to the Group. The associate has been deregistered on 20 September 2002, as a result, the cost of investments in an associate has been written off during the period.

18. Intangible Assets

Group	Technical know-how HK$'000	Patents HK$'000	Membership database HKS$'000	Total HK$'000
At cost:				
At 1 July 2003	–	–	1,590	1,590
Additions	1,415	1,415	–	2,830
At 31 December 2003	1,415	1,415	1,590	4,420
Amortisation:				
At 1 July 2003	–	–	1,590	1,590
Charge for the year	47	94	–	141
At 31 December 2003	47	94	1,590	1,731
Carrying value:				
At 31 December 2003	1,368	1,321	–	2,689
At 30 June 2003	–	–	–	–

19. Investments in Securities

	Group		Company	
	31 December 2003 HK$'000	30 June 2003 HK$'000	31 December 2003 HK$'000	30 June 2003 HK$'000
Current assets				
Other investments, at market value:				
Listed in Hong Kong	7,976	8,227	101	352

At 31 December 2003, the carrying amount of other investments in equity securities exceeds 10% of the total assets of the Group is as follow:

Name of equity security	Country of incorporation	Class of shares	Number of shares held	Percentage of equity interest
Rainbow International Holdings Limited	The Cayman Islands	Ordinary	104,999,999	4.29%

* *On 13 February 2004, Rainbow International Holdings Limited proposed to change the name to B.A.L. Holdings Limited and to adopt a chinese name of 變靚D控股有限公司.*

20. Product Development Costs

Group

	Ticketing System *HK$'000*	Intranet system *HK$'000*	Human Resources and administration system *HK$'000*	Hotel reservation system *HK$'000*	MAP Technologies software *HK$'000*	Action Networking services *HK$'000*	3S platform *HK$'000*	Web cache *HK$'000*	Total *HK$'000*
At Cost:									
At 1 July 2003 and At 31 December 2003	450	140	1,116	1,280	710	1,610	1,200	3,100	9,606
Amortisation and Impairment losses:									
At 1 July 2003 and At 31 December 2003	450	140	1,116	1,280	710	1,610	1,200	3,100	9,606
Carrying amount:									
At 31 December 2003	–	–	–	–	–	–	–	–	–
At 30 June 2003	–	–	–	–	–	–	–	–	–

21. Trade Receivables

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

	Group 31 December 2003 *HK$'000*	30 June 2003 *HK$'000*
0 – 30 days	12	10
31 – 60 days	–	–
61 – 90 days	–	4
Over 90 days	–	–
	12	14

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

22. Inventories

	Group	
	31 December 2003	**30 June 2003**
	HK$'000	*HK$'000*
Finished goods	3,275	–
Stock written off	(778)	–
	2,497	–

23. Trade Payables

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

	Group	
	31 December 2003	**30 June 2003**
	HK$'000	*HK$'000*
0 – 30 days	2	18
31 – 60 days	–	5
61 – 90 days	–	2
Over 90 days	–	44
	2	69

24. Amount due to a Director

The amount due to a director was unsecured, interest-free and had no fixed term of repayment.

25. Amount due to Subsidiaries

The amount due to subsidiaries was unsecured, interest free and had no fixed term of repayment.

26. Share Capital

	Notes	**Number of shares**	**Amount** *HK$'000*
Authorised (ordinary shares of HK$0.01 each):			
At 30 June 2003 and 31 December 2003		1,500,000,000	15,000
Issued and fully paid (ordinary shares of HK$0.01 each):			
At 1 July 2002		576,000,000	5,760
Share issued upon exercise of share options	*(a)*	3,008,000	30
At 30 June 2003		579,008,000	5,790
Share issued pursuant to the Placing	*(b)*	400,000,000	4,000
Shares issued as consideration for the share transfer agreement	*(c)*	263,600,000	2,636
At 31 December 2003		1,242,608,000	12,426

(a) During the year ended 30 June 2003, 9 grantees, including 8 employees and one employee who was appointed as the Director on 31 January 2003 but resigned on 13 May 2003, have exercised a total of 3,008,000 share options granted to them under the Pre-IPO Share Option Scheme at the subscription price of HK$0.01, resulting in the issue of 3,008,000 share of HK$0.01 each for a total cash consideration, before expenses, of approximately HK$30,000.

(b) On 4 July 2003, the Company entered into subscription agreements with nine placees of which seven are investors, one is the company secretary and qualified accountant of the Company and the remaining one is a connected person of the Company under the GEM Listing Rules, pursuant to which the Company has agreed to place an aggregate of 400,000,000 placing shares of HK$0.01 each to such placees at the placing price of HK$0.04 each.

(c) On 15 July 2003, the Directors announced that Wah Shui Company Limited, a wholly-owned subsidiary of the Company, entered into the Share Transfer Agreement on 25 June 2003 to acquire an aggregate of 95% of the equity interests in Shenzhen Huaruiyuan Company Limited for an aggregate consideration of HK$22,800,000, of which HK$11,201,600 (representing approximately 49% of the Consideration) was satisfied by cash and the remaining balance of HK$11,598,400 (representing approximately 51% of the Consideration) was satisfied by the allotment and issue of 263,600,000 consideration shares at an issue price of HK$0.044 per consideration share.

Share option scheme

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

27. Reserves

Group

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2002	22,666	7,396	(8,609)	21,453
Net loss for the year	–	–	(19,113)	(19,113)
At 30 June 2003 and 1 July 2003	22,666	7,396	(27,722)	2,340
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(5,569)	(5,569)
At 31 December 2003	42,818	7,396	(33,291)	16,923

Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 July 2002	22,666	2,985	(355)	25,296
Net loss for the year	–	–	(3,663)	(3,663)
At 30 June 2003 and 1 July 2003	22,666	2,985	(4,018)	21,633
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(18,505)	(18,505)
At 31 December 2003	42,818	2,985	(22,523)	23,280

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the reorganization scheme (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 18 December 2001, over the nominal value of the shares of the Company issued in exchange thereof.

(b) The contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange thereof.

(c) Under the Companies Law (2001 Second Revision) of the Cayman Islands, a company may make distributions to its members out of the contributed surplus account under certain circumstances. In addition, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At 31 December 2003, in the opinion of the Directors, the Company have reserves of approximately HK$21,936,000 available for cash distribution and/or distribution in specie in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands.

28. Acquisition of a Subsidiary

During the period, the Group acquired 95% interest in Shenzhen Huaruiyuan Company Limited. The effect of the acquisition to the financial statements were as follows:

Net assets acquired:

	HK$'000
Fixed assets	1,503
Patents and technical know-how	2,830
Inventories	3,015
Cash and cash equivalents	314
Accruals and other payables	(847)
Minority interest	(341)
	6,474
Goodwill	16,326
	22,800
Satisfied by:	
Cash consideration	11,202
Shares	11,598
	22,800

The subsidiary acquired during the period contributed approximately HK$551,000 to the Group's turnover and contributed to the Group a loss of approximately HK$2,082,000 for the period. The subsidiary acquired contributed approximately HK$2,482,000 to the Group's net operating cash flows and gave rise to cash outflows in respect of investing activities of HK$1,534,000. There is no significant impact in respect of the Group's cash flows for financing and payment for tax.

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

Cash consideration paid	(11,202)
Bank balances and cash acquired	314
Net cash outflow in respect of the purchase of subsidiary	(10,888)

29. Related Party Transaction

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

Name of the Related party	Relationship	Nature transactions	*Note*	1 July 2003 to 31 December 2003 *HK$'000*	1 July 2002 to 30 June 2003 *HK$'000*
Mr. Koh Tat Lee, Michael	Executive director	Advance – payable	24	217	860
深圳市中包威誼投資有限公司	Common director in the subsidiary of Huaruiyuan	Sales – received	(i)	534	–

Note:

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

30. Operating Lease Arrangements

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

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follow:

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Within one year	1,115	377
In the second to fifth years, inclusive	365	232
	1,480	609

31. Commitments and contingent liabilities

At 31 December 2003, the Group does not have any significant commitments and contingent liabilities.

32. Subsequent Events

Placing of existing shares and subscription of new shares

On 16 February 2004, Dynamate Limited entered into a placing and underwriting agreement to place, on a fully underwritten basis, 150,000,000 existing shares of HK$0.01 each at the placing price of HK$0.063 each. Dynamate Limited is a company incorporated in the BVI and a substantial shareholder (as defined under the GEM Listing Rules) of the Company which is wholly owned by Mr. Koh Tat Lee, Michael. On the same date, Dynamate Limited entered into a subscription agreement with the Company for the subscription of 150,000,000 shares of HK$0.01 each at the subscription price of HK$0.063 each at the placing price of HK$0.063 each. Completion of the placing took place on 19 February 2004 and completion of the subscription took place on 25 February 2004. The net proceeds of the subscription is estimated to be approximately HK$7.75 million, out of which approximately HK$4.2 million will be used for developing current businesses in information technology consultation and information technology infrastructure related services and potential future acquisitions. The remaining proceeds of approximately HK$3.55 million will be used to fund the business activities for the period ending 30 June 2004 as disclosed in the paragraph headed "Schedule of Use of Proceed" on page 143 of the prospectus; and as the group's general working capital.

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

At the Latest Practicable Date, approximately HK$1.5 million out of the proceeds has been used to fund the Group's operation in Hong Kong and China, namely the maintenance of the income stream from services provided in the PRC, the development of value-added features and implementation of marketing program or the Group's information technology services as disclosed in the paragraph headed "Schedule of Use of Proceed" on page 143 of the prospectus and for general working capital; and approximately HK$6.3 million has been deposited with financial institutions.

Acquisition of Subsidiaries

On 17 March 2004, the Directors announced that Inworld International Limited ("Inworld International"), a wholly owned subsidiaries of the Company, entered into an agreement under which and subject to the terms and conditions thereof, to acquire the entire share capital of M Dream Mobile Entertainment Limited for an aggregate consideration of HK$31,320,000.

Pursuant to the agreement, HK$4,500,000 will be satisfied in cash and the Company will allot and issue a total of 298,000,000 new shares of HK$0.01 each at HK$ 0.090 per shares upon completion. However, based on the existing authorised share capital and the issued share capital of the Company, the Company would not have sufficient unissued shares available for allotment and issue. In this connection, an ordinary resolution will be proposed to the shareholders at the extraordinary general meeting to increase the authorised share capital of the Company from HK$15,000,000 to HK$30,000,000 by the creation of an additional 1,500,000,000 shares of HK$0.01 each.

Details of the acquisition of M Dream Mobile Entertainment Limited were set out in the announcement of major transaction of the Company dated 17 March 2004.

Change of Company Name

With reference to the announcement dated on 17 March 2004, the Director of the Company also proposed that the name of the Company be changed to M Dream Inworld Limited upon completion of the M Dream Mobile Entertainment Limited acquisition. The proposed change of Company name is subject to the approval of the shareholders by way of a special resolution at the extraordinary general meeting and the approval of the Registrar of Companies in the Cayman Islands.

33. Authorisation for Issue of Financial Statements

The financial statements were approved and authorised for issue by the board of Directors on 30 March 2004.

The following is the text of a report, prepared for the purpose of incorporation in this circular, from the reporting accountants of M Dream Mobile Entertainment Limited, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

6/F, Wheelock House
20 Pedder Street
Central
Hong Kong

20 April, 2004

The Directors
Inworld Group Limited

Dear Sirs,

We set out below our report on the financial information relating to M Dream Mobile Entertainment Limited ("M Dream MEL") for the period from 3 December 2003 (its date of incorporation) to 29 February 2004 (the "Relevant Period"), prepared on the basis as set out in Note 1 below, for inclusion in the circular of Inworld Group Limited (the "Company") dated 20 April 2004 (the "Circular").

M Dream MEL was incorporated in the British Virgin Islands on 3 December 2003 with limited liability under the laws of the British Virgin Islands, which is, as at the date of this report, being a wholly-owned subsidiary of M Dream China (Holdings) Limited ("M Dream China"), a company incorporated under the laws of the Cayman Islands. As at the date of this report, M Dream MEL has a wholly-owned subsidiary, Hangzhou M Dream Zone Co., Limited ("M Dream Zone"), which was established in the People's Republic of China on 17 February 2004.

On 17 March 2004, Inworld International Limited ("Inworld International"), a wholly owned subsidiary of the Company, entered into a share transfer agreement (the "MEL Agreement") with M Dream China, pursuant to and subject to the terms and conditions thereof, Inworld International agreed to acquire the entire equity interests in M Dream MEL. Upon completion of the acquisition pursuant to the MEL Agreement, Inworld International will have the entire equity interests in M Dream MEL and M Dream MEL will become a subsidiary of the Company.

Up to the date of this report, no audited financial statements have been prepared for M Dream MEL since its date of establishment on 3 December 2003. However, for the purpose of this report, we have examined, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants, the management accounts of M Dream MEL for the Relevant Period which have been prepared in accordance with the accounting principles generally accepted in Hong Kong.

The financial information of M Dream MEL for the Relevant Period as set out below (the "Financial Information") has been prepared based on the management accounts of M Dream MEL for the Relevant Period and is presented on the basis as set out in Note 1 below. The directors of M Dream MEL are responsible for preparing the underlying management accounts of M Dream MEL for the Relevant Period. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion on the Financial Information.

In our opinion, the Financial Information, for the purposes of this report and prepared on the basis as set out in Note 1 below, gives a true and fair view of the results and cash flows of M Dream MEL for the Relevant Period and of the state of affairs of M Dream MEL as at 29 February 2004.

A. CONSOLIDATED INCOME STATEMENT

For the period from 3 December 2003 (date of incorporation) to 29 February 2004

	Notes	*HK$'000*
Turnover	*2*	198
Cost of services		–
Gross profit		198
Selling expenses		–
Administrative expenses		(28)
Profit from operations	*4*	170
Finance costs		–
Profit before taxation		170
Taxation	*5*	(12)
Profit for the period		158

All of M Dream MEL's operations are classed as continuing.

CONSOLIDATED BALANCE SHEET

As at 29 February 2004

	Notes	*HK$'000*
Current assets		
Trade receivables	*7*	198
Cash and bank balances		1,167
		1,365
Less: **Current liabilities**		
Trade and other payables	*8*	28
Taxation payable		12
		40
Net current assets		1,325
Net assets		1,325
Representing:		
Share capital	*9*	2
Share premium		1,165
Retained profits		158
Shareholders' funds		1,325

BALANCE SHEET
As at 29 February 2004

	Notes	*HK$'000*
Non-current assets		
Investment in subsidiary	*3*	933
Current assets		
Cash and bank balances		1,167
Less: **Current liabilities**		
Subscription payable	*3*	933
Net current assets		234
Net assets		1,167
Representing:		
Share capital	*9*	2
Share premium		1,165
Shareholders' funds		1,167

CONSOLIDATED CASH FLOW STATEMENT

For the period from 3 December 2003 (date of incorporation) to 29 February 2004

	HK$'000
Cash flows from operating activities	
Profit before taxation	170
Operating profit before working capital changes	170
Increase in trade and other receivables	(198)
Increase in trade and other payables	28
Net cash from operating activities	–
Cash flows from financing activities	
Proceeds from issuance of share capital	1,167
Net cash from financing activities	1,167
Net increase in cash and cash equivalents	1,167
Cash and cash equivalents as at 29 February 2004	1,167
Analysis of balances of cash and cash equivalents	
Cash and bank balances	1,167

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 3 December 2003 (date of incorporation) to 29 February 2004

	Share capital	**Share premium**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total equity at 3 December 2003	–	–	–	–
Issue of share capital	2	1,165	–	1,167
Net profit for the period	–	–	158	158
Total equity at 29 February 2004	2	1,165	158	1,325

NOTES TO FINANCIAL INFORMATION

1. Accounting policies

The Financial Information has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Listing Rules as applicable to Accountants' Reports included in listing documents or circulars. The Financial Information is prepared under the historical cost convention. A summary of the significant accounting policies adopted in the preparation of the Financial Information is set out below:

(a) Basis of consolidation

The consolidated financial statements include the financial statements of M Dream MEL and its subsidiary, M Dream Zone for the period ended 29 February 2004. The result of subsidiary acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the M Dream MEL and M Dream Zone are eliminated on consolidation.

(b) Subsidiary

A subsidiary is an enterprise controlled by the M Dream MEL. Control exists when M Dream MEL has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the financial statements of M Dream MEL investment in subsidiary is stated at cost less provision for impairment losses. The results of subsidiary is accounted for by M Dream MEL on the basis of dividends received or receivable during the period.

(c) Recognition of revenue

Provided it is probable that the economic benefits will flow to M Dream MEL and M Dream Zone and the revenue can be measured reliably, revenue is recognised in the income statement as follow:

i. Revenue derived from the provision of information technology solutions services is recognised when services are performed.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

(d) Foreign currencies

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

(e) Current assets and liabilities

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

(f) Cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits, and 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, which were within three months of maturity at acquisition. Bank overdrafts that are repayable on demand are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

(g) Contingent liabilities and contingent assets

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

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Provisions

Provisions are recognised when M Dream MEL and M Dream Zone have a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provision are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(j) Related parties

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

(k) Recognition of License fee

License fee, which represents 20% of revenue arising from the provision of information technology solution services, payable to suppliers of the information technical solutions services is recognized. When an increase of a liability has arisen that can be measured reliably.

2. Turnover

The principal activities of M Dream MEL, through its wholly owned subsidiary, M Dream Zone, is engaged in the research, development and after-sales services of entertainment gaming software, including the provision of information technology solutions to Internet content providers for distribution of wireless mobile games and downloadable applications via the Internet and mobile networks in the PRC in return for services fees paid by Internet content providers. Turnover recognised during the Relevant Period is as follows:

	3 December 2003 to 29 February 2004
	HK$'000
Information technology solutions services	198

3. Investment in subsidiary

	3 December 2003 to 29 February 2004
	HK$'000
Unlisted shares, at cost	933

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

Name of company	Place of incorporation/ establishment and operation	Particulars of registered capital	Percentage of equity attributable to M Dream MEL Direct	Indirect	Principal activities
Hangzhou M Dream Zone Co, Ltd.	People's Republic of China	US$120,000	100%	–	research, development and after sales of entertainment gaming software

M Dream MEL has subscribed the registered capital of US$120,000 of the subsidiary, M Dream Zone. As at 29 February 2004, such amount is recorded as subscription payable and is subsequently settled as disclosed in Note 12 to the financial information.

4. Profit from operations

		3 December 2003 to 29 February 2004 *HK$'000*
Profit from operations is stated after charging:		
Auditors' remuneration		–
Directors' remuneration	– fees	–
	– other emoluments	–
Total staff costs, excluding directors' remuneration		28

(i) The emoluments of the five highest paid individuals are as follows:

	3 December 2003 to 29 February 2004 *HK$'000*
Salaries and other emoluments	17
Performance related/discretionary bonuses	–
Staff retirement scheme contributions	–
	17

The emoluments of each of the above employees fall within the emolument band of nil to HK$1,000,000 during the Relevant Period.

(ii) The number of directors and employees whose remuneration fell into the band of nil to HK$1,000,000 is as follows:

	Number of individuals
Directors	–
Employees	5
	5

(iii) No directors nor the five highest paid employees have waived any emoluments during the Relevant Period. No emoluments were paid or payable by M Dream MEL and M Dream Zone to the directors, or the five highest paid individuals, as an inducement to join or upon joining M Dream MEL and M Dream Zone, or as compensation for loss of office during the Relevant Period.

5. Taxation

No provision for Hong Kong profits tax has been made as there was no assessable profits derived in Hong Kong during the Relevant Period. Taxation on PRC profits has been calculated on the estimated assessable profits or income for the Relevant Period at the rates of taxation prevailing in the PRC.

	3 December 2003 to 29 February 2004 *HK$'000*
Current Taxation:	
Provision for the period	
– PRC	12

There are no material unprovided deferred taxation as at 29 February 2004.

6. Earnings per share

No information on earnings per share is presented as its inclusion is not considered meaningful for the purpose of this report.

7. Trade receivables

Customers are usually offered a credit period ranging from 0 to 90 days. An ageing analysis of trade receivables is as follows:

	As at 29 February 2004 *HK$'000*
Current – 1 month	198

Note: The trade receivables has been subsequently settled.

8. Trade and other payables

	As at 29 February 2004
	HK$'000
Staff costs	28

9. Share capital

	As at 29 February 2004
	HK$'000
Authorised:	
50,000 ordinary shares of US$1 each, equivalent to	390
Issued and fully paid:	
200 ordinary shares of US$1 each, equivalent to	2

M Dream MEL was incorporated with an initial authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each. In December 2003, M Dream MEL issued 200 ordinary shares of US$1 each at a premium of US$749 per share.

10. Operating lease arrangements

As Lessee

As at 29 February 2004, the Group had total future minimum lease payment under non-cancellable operating leases falling due as follows:

	As at 29 February 2004
	HK$'000
Within one year	205

The Group leases office properties under operating lease arrangement which is negotiated for terms of 1 year. The lease payments are fixed and pre-determined.

11. Commitments and contingent liabilities

M Dream MEL and M Dream Zone have no material commitments and contingent liabilities as at 29 February 2004.

12. Subsequent events

On 9 March 2004, M Dream MEL settled the subscription payable of US$120,000 (equivalent to approximately HK$933,000) as referred to note 3 to the financial information.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for M Dream MEL and M Dream Zone in respect of any period subsequent to 29 February 2004 and no dividends or other distributions have been declared by M Dream MEL and M Dream Zone in respect of any period subsequent to 29 February 2004.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is an unaudited pro forma statement of the adjusted combined net tangible assets of the Enlarged Group following completion of the MEL Acquisition. It is based on the audited consolidated financial statements of the Group as at 31 December 2003 and adjusted to reflect the effect of the MEL Acquisition.

	HK'000
Audited consolidated net assets as at 31 December 2003	29,349
Less: Intangible assets of the Group as at 31 December 2003	(18,335)
Audited consolidated net tangible assets of the Group as at 31 December 2003	11,014
Proceeds from Shares issued on subscription *(Note 5)*	7,750
	18,764
Consideration *(Note 3)*	31,320
Consideration payable for the MEL Acquisition *(Note 3)*	(4,500)
Less: Goodwill arising from the MEL Acquisition *(Note 4)*	(29,995)
Unaudited pro forma adjusted combined net tangible assets of the Enlarged Group upon completion of the MEL Acquisition	15,589
Unaudited adjusted combined net tangible asset value per Share of the Group before the MEL Acquisition *(Note 1)*	HK$0.0135
Unaudited pro forma adjusted combined net tangible asset value per Share of the Enlarged Group upon the completion of the MEL Acquisition *(Note 2)*	HK$0.0092

Notes:

1. The audited consolidated net tangible asset value per Share of the Group before the MEL Acquisition is calculated based on the audited adjusted net tangible assets of the Group as at 31 December 2003 of approximately HK$18,764,000 and 1,392,608,000 Shares, being the number of Shares in issue as at the Latest Practicable Date as set out in section 1 of Appendix I to this circular.

2. The unaudited pro forma adjusted combined net tangible asset value per Share of the Enlarged Group upon the completion of the MEL Acquisition is calculated on the basis of 1,690,608,000 Shares, being the number of Shares in issue as the Latest Practicable Date of 1,392,608,000 plus the 298,000,000 Consideration

Shares assuming that no share option was exercised under the share option scheme of the Company during the period from the Latest Practicable Date to the completion of the MEL Acquisition.

3. The Consideration shall be HK$31,320,000, of which HK$4,500,000 will be satisfied by cash and the remaining balance of HK$26,820,000 in Consideration Shares.

4. The goodwill represents the excess of the Consideration amounted to HK$31,320,000 over the Group's share of the net assets of M Dream Mobile Entertainment Limited as at 29 February 2004 amounting to HK$1,325,000.

5. On 16 February 2004, Dynamate Limited entered into a subscription agreement with the Company for the subscription of 150,000,000 Shares of HK$0.01 each at the subscription price of HK$0.063 per Share. The net proceeds of the subscription is approximately HK$7,750,000.

2. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of adjusted combined assets and liabilities of the Enlarged Group immediately following completion of the MEL Acquisition. It is based on the audited consolidated net assets of the Group as at 31 December 2003, as set out in Appendix I to this circular and the net assets of M Dream MEL as at 29 February 2004, as extracted from the accountants' report on M Dream MEL as set out in Appendix II to this circular, assuming the MEL acquisitions of M Dream MEL had been completed.

	The Group	**M Dream MEL**	**Adjustments**		**Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Intangible assets	2,689	–			2,689
Goodwill	15,646	–	29,995	*1*	45,641
Fixed assets	2,156	–			2,156
Current assets	11,556	1,365	3,250	2	16,171
Current liabilities	(2,461)	(40)			(2,501)
Net current assets	9,095	1,325			13,670
Total assets less current liabilities	29,586	1,325			64,156
Minority interests	(237)	–			(237)
Net assets	29,349	1,325			63,919

Notes:

1. The goodwill represents the excess of the Consideration amounted to HK$31,320,000 over the Group's share of the net assets of M Dream MEL as at 29 February 2004 amounting to HK$1,325,000.

2. Adjustment to current assets represents the net proceeds of approximately HK$7,750,000 from the subscription of 150,000,000 Shares of HK$0.01 each at the subscription price of HK$0.063 each less each consideration of the MEL Acquisition of M Dream MEL amounting to HK$4,500,000.

3. WORKING CAPITAL

Taking into account the financial resources available to the Enlarged Group including internally generated funds and the present available banking facilities of the Enlarged Group, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements.

HLB Hodgson Impey Cheng, the auditors of the Company, have confirmed that the statement was made by the Directors after due and careful enquiry.

4. INDEBTEDNESS

Borrowing

At the close of business on 29 February 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had not obtained any bank facilities.

Debt securities

As at 29 February 2004, the Enlarged Group had no debt securities.

Commitment and Contingent liabilities

As at 29 February 2004, the Enlarged Group had no material commitment and contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 29 February 2004, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, changes, obligations under hire purchases or finance leases, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 29 February 2004.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 29 February 2004 and up to the Latest Practicable Date.

5. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest published annual report of the Group was made up.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after the increase in authorized share capital and the allotment and issue of the Consideration Shares were and will be as follows:

Authorised		*HK$*
1,500,000,000	Shares	15,000,000
1,500,000,000	Increase in authorized share capital	15,000,000
3,000,000,000		30,000,000

Issued and to be issued, fully paid or credited as fully paid

1,392,608,000	Shares in issue as at the Latest Practicable Date	13,926,080
298,000,000	Consideration Shares to be issued pursuant to the MEL Agreement	2,980,000
1,690,608,000	Shares	16,906,080

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations in share capital

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follow:

	Number or attributable number of Shares held and natures of interests			Approximate Percentage or attributable percentage of
Name of Director	**Personal**	**Corporate**	**Family**	**shareholding** *(%)*
Mr. Koh Tat Lee, Michael *(Note)*	–	370,163,200	–	26.58

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

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of the Company

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of the share capital carrying to vote in all circumstances at general meetings of any member of the Group:

Name	Number of Shares	Capacity and Type of Interest	Approximate Percentage of shareholding *(%)*
Dynamate Limited	370,163,200 *(note 1)*	Beneficial owner	26.58
Shenzhen Ingen Technology Company Limited	147,440,000	Beneficial owner	10.59
City Lion Worldwide Limited	80,000,000 *(note 2)*	Beneficial owner	5.74

Notes:

1. These shares were held by Dynamate Limited of which the entire issued share capital was beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate under Part XV of the SFO.

2. The entire issued share capital of City Lion Worldwide Limited ("City Lion") was beneficially owned by Styland (Overseas) Limited, which entire issued share capital was in turn beneficially owned by Styland Holdings Limited. Accordingly, each of Styland (Overseas) Limited and Styland Holdings Limited was deemed to be interested in the 80,000,000 shares beneficially owned by City Lion Worldwide Limited under Part XV of the SFO.

4. OUTSTANDING SHARE OPTIONS

(a) 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.

As at the Latest Practicable Date, no options granted under the Pre-IPO Share Option Scheme were outstanding.

(b) Share Option Scheme

On 14 December 2001, the Share Option Scheme was approved and adopted by a written resolution of all the Shareholders. The purpose of the Share Option Scheme is to provide incentive and to recognize the contribution of the employees (whether in full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Company and/or its subsidiaries.

As at the Latest Practicable Date, 40,500,000 share options had been granted under the Share Option Scheme and remained outstanding.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this circular and are or may be material:

(a) the share transfer agreement dated 25 June 2003 and the supplemental agreement dated 15 July 2003 entered into between Shenzhen Ingen Technology Company Limited, Huang Shuying and Chen Hong and Wah Shui Company Limited agreed to purchase an aggregate of 95% of the equity interests in Shenzhen Huaruiyuan Company Limited for an aggregate consideration of HK$22,800,000;

(b) nine subscription agreements all dated 4 July 2003 and entered into between the Company and Dynamate Limited Mr. Leung, Dennis and seven independent investors pursuant to which the Company agreed to place an aggregate of 400,000,000 new Shares at HK$0.04 per new Share;

(c) the subscription agreement between the Company and Dynamate Limited dated 16 February 2004 in relation to the subscription of 150 million Shares; and

(d) the MEL Agreement.

6. SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated 17 December 2001 and entered into between Sun Hung Kai International Limited ("Sun Hung Kai") and the Company, Sun Hung Kai has received, and will continue to receive, fees for acting as the Company's retained sponsor for the period from 31 December 2001 to 30 June 2004.

As at the Latest Practicable Date, neither Sun Hung Kai nor its directors, employees or associates had any interests in the Shares, including options or rights to subscribe for any Shares.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, the management shareholders (as defined in the GEM Listing Rules) of the Company nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had 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)).

There is no variation of the aggregate of the remuneration payable to and benefits in kind receivable by the Directors in consequence of the MEL Acquisition.

10. EXPERTS

(a) The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	**Qualification**
HLB Hodgson Impey Cheng	certified public accountants

(b) As at the Latest Practicable Date, HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, which has been prepared for inclusion in this circular and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, HLB Hodgson Impey Cheng do not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. GENERAL

(a) The registered office of the Company is at P. O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The head office and principal place of business of the Company in Hong Kong is at 3rd Floor, Chinese Club Building, 21-22 Connaught Road Central, Hong Kong.

(c) The Company's branch share registrar and transfer office in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Mr. Leung, Dennis. Mr. Leung is an associate member of the Hong Kong Society of Accountants and a member of the American Institute of Certified Public Accountants.

(e) The compliance officer of the Company is Mr. Koh Tat Lee, Michael.

(f) The Company's audit committee (the "Audit Committee") was established on 13 December 2001 with written terms of reference based on the guidelines set out in "a guide for the formation of an audit committee" of the Hong Kong Society of Accountants. The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereto to the Board. The Audit Committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The Audit Committee comprises the two independent non-executive Directors, namely Mr. Leung Chun Cheng and Mr. Cheong Mun Hong and the non-executive Director, Mr. Ng Yat Cheung. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges.

Mr. Leung Chun Cheng, aged 39, has extensive experience in the fields of electronics and telecommunication while working as an engineer in Companhia de Telecomunicacoes de Macau S.A.R.L., a private company engaging in telecommunication business in the Macau Special Administrative Region of the PRC. Mr. Leung obtained the Professional Certificate in E-Commerce from The Open University of Hong Kong and Higher National Diploma in Electronics & Communication Engineering from Business & Technician Education Council, the United Kingdom. Mr. Leung is a director of various private companies. Mr. Leung was appointed as an independent non-executive Director on 31 January 2002.

Mr. Cheong Mun Hong, aged 38, is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Singapore ("ICPAS"). Mr. Cheong is a partner of MHC & Associates, DFK, which is a member firm of a major worldwide group of independent accounting firms. He had served as an ICPAS committee member in the Members' Welfare Committee and is currently appointed as a member to the Panel of Inquiry Committee of the Public Accountants Board in Singapore. Mr. Cheong has vast working experience in Singapore and the PRC. Mr. Cheong was appointed as an independent non-executive Director on 24 March 2004.

Mr. Ng Yat Cheung, aged 48, received an associate degree in arts in business data processing from Chabot College in the United States in 1984. He holds director's offices with a number of private companies which are principally engaged in technology, property development, insurance, finance and property holding.

(g) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest published audited consolidated financial statements of the Group were made up.

(h) Save as disclosed in this circular, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

(i) Save as disclosed in this circular, none of the Directors has as at the Latest Practicable Date any direct or indirect interest in any assets which have been since the 30 June 2003, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired, disposed of by or leased to, any member of the Group, or are proposed to be acquired, disposed of by or leased to, any member of the Group.

(j) Dealings in the Shares may be settled through the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited, and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangement will affect their rights and interests.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Kwok & Yih at 37/F, Gloucester Tower, the Landmark, Central, Hong Kong from the date of this circular up to and including 13 May 2004 and at the EGM:

(a) the memorandum and articles of association of the Company;

(b) the prospectus of the Company dated 18 December 2001;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(d) the annual report of the Company for the financial period ended 31 December 2003;

(e) the accounts' report prepared by HLB Hodgson Impey Cheng, the text of which is set out in appendix II to this circular;

(f) the circular of the Company dated 5 August 2003 in relation to the acquisition of Shenzhen Huamiyuan Company Limited;

(g) the circular of the Company dated 8 March 2004 in relation to Placing and Subscription of 150,000,000 Shares of the Company; and

(h) the written consent of HLB Hodgson Impey Cheng referred to in the paragraph headed "Experts" in this appendix.

Inworld Group Limited
活力世界控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("Meeting") of Inworld Group Limited (the "Company") will be held on 17 May 2004 at 11:00 a.m. at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, pass the following resolutions, numbered 1 to 4 as ordinary resolutions and numbered 5 as special resolution, as set out below:

ORDINARY RESOLUTIONS

1. "**THAT** the terms and conditions of and the execution of the agreement dated 17 March 2004 entered into between M Dream China (Holdings) Limited as vendor and Inworld International Limited, a wholly-owned subsidiary of the Company, as the purchaser in relation to the acquisition of 100% equity interests in M Dream Mobile Entertainment Limited for a consideration of HK$31,200,000 (the "MEL Agreement"), a copy of which has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for identification purposes, be and are hereby approved, confirmed and ratified."

2. "**THAT**, conditional upon the approval of resolution numbered 1 set out in this notice, the authorized share capital of the Company be increased from HK$15,000,000 to HK$30,000,000 by the creation of a further 1,500,000,000 shares of HK$0.01 each."

3. "**THAT**, conditional upon the approval of resolutions numbered 1 and 2 set out in this notice, the allotment and issue of 298,000,000 new shares of HK$0.01 each in the Company (the "Consideration Shares") to M Dream China (Holdings) Limited in accordance with the terms of the MEL Agreement be and are hereby approved."

4. "**THAT** the directors of the Company be and are hereby authorized generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing the MEL Agreement or any of the matters contemplated thereby including, without limitation, the allotment and issue of the Consideration Shares."

SPECIAL RESOLUTION

5. "**THAT**, conditional upon (i) the completion of the MEL Agreement and (ii) the approval of the Registrar of Companies in the Cayman Islands being obtained, the name of the Company be changed from "Inworld Group Limited" to "M Dream Inworld Limited" and the Chinese name of "聯夢活力世界有限公司" be adopted for identification purpose."

By Order of the Board of
Inworld Group Limited
Koh Tat Lee, Michael
Chairman and Executive Director

Hong Kong, 20 April, 2004

Registered office:
P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indie

Head office and principal place of business in Hong Kong:
3rd Floor
Chinese Club Building
21-22 Connaught Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.

3. In the case of joint holders of Shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.