THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in M Dream Inworld Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

M DREAM INWORLD LIMITED
聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8100

CONNECTED TRANSACTIONS, VERY SUBSTANTIAL ACQUISITION, ISSUE OF NEW SHARES AND PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL

Financial adviser to the Company

KIM ENG

Kim Eng Corporate Finance (Hong Kong) Limited

Independent financial adviser to the Independent Board Committee

Shenyin Wanguo Capital (H.K.) Limited

A notice convening the Extraordinary General Meeting of M Dream Inworld Limited (the "Company") to be held at Gloucester Room, 2/F, Mandarin Oriental, 5 Connaught Road Central, Hong Kong on 25 October, 2004 at 10:30 a.m. is set out on pages 152 to 154 of this circular.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the Head Office and Principal Place of Business in Hong Kong of the Company at 3/F, Chinese Club Building, 21-22 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting.

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

8 October, 2004

* *for identification purpose only*

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid 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.

CONTENTS

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

"Associates"	shall have the same meaning as defined in the GEM Listing Rules
"Business Days"	a day on which banks are generally open for business in Hong Kong and Singapore, but excluding a Saturday and a Sunday
"Company" or "Inworld"	M Dream Inworld Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on GEM
"Completion Date"	the eighth Business Day after all the conditions precedent to the MDC Subscription Agreement, the Share Swap Agreement or the STT Subscription Agreement (as the case may be) have been fulfilled or waived in accordance with the terms of the relevant agreement or such other date as the parties to such agreement may mutually agree in writing
"Consideration Shares"	a maximum of 610,459,559 new Shares
"Director(s)"	director(s) of the Company
"Dynamate"	Dynamate Limited, a company wholly-owed by Mr. Koh Tat Lee, Michael, the Chairman of the Company and an executive Director
"EGM"	an extraordinary general meeting of the Company convened to be held at Gloucester Room, 2/F, Mandarin Oriental, 5 Connaught Road Central, Hong Kong on 25 October, 2004 at 10:30 a.m. to approve, amongst other things, the MDC Subscription Agreement, the Share Swap Agreement, the STT Subscription Agreement and the proposed increase in the authorized share capital of the Company.
"Elipva"	Elipva Limited, a company incorporated under the laws of Singapore with limited liability
"Elipva Capitalization"	the implementation of certain transactions by Elipva, which include, amongst other things, the subscription of new Elipva shares by Allwin Asia Inc. and STTC and the capitalization of net payables and shareholder's loans, due and owing by Elipva to STTC prior to completion of the Share Swap, details of which are set out in the Share Swap Agreement
"Elipva Group"	Elipva and its subsidiaries

"Elipva Latest Accounts"	the management accounts of Elipva as at the Month End Date consisting of an unaudited consolidated balance sheet of Elipva Group as at the Month End Date and an unaudited consolidated profit and loss statement for the period from 1 January, 2004 to the Month End Date, taking into account completion of the Elipva Capitalization
"Elipva Shareholders"	STTC, Allwin Asia Inc., eMatrix Pte Ltd., Mr. Choong Ying Chuan and Mr. Chang Sau Sheong
"Enlarged Group"	the Group together with the Elipva Group
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee appointed by the board of Directors comprising Mr. Domingo Chen and Mr. Robert Wong, independent non-executive directors of the Company to advise the Independent Shareholders in respect of the MDC Subscription, the Share Swap and the STT Subscription
"Independent Shareholders"	Shareholders other than M Dream China and its associates, and where applicable, Elipva Shareholders and/or their respective associates
"Issue Price"	HK$0.051 per Consideration Share
"Latest Practicable Date"	30 September, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Committee"	the listing committee of GEM
"Long Stop Date"	18 November, 2004, or such other date as parties to the MDC Subscription Agreement, the Share Swap Agreement or the STT Subscription Agreement (as the case may be) may subsequently agree in writing.
"Mainland China"	the PRC excluding Hong Kong and the Macau Special Administrative Region of the PRC

"MDC Subscription"	the conditional subscription by M Dream China of the MDC Subscription Shares pursuant to the MDC Subscription Agreement
"MDC Subscription Agreement"	the conditional subscription agreement dated 30 July, 2004 between M Dream China and the Company
"MDC Subscription Shares"	152,941,176 new Shares
"M Dream China"	M Dream China (Holdings) Limited, a substantial shareholder of the Company
"Month End Date"	30 September, 2004 or such other date as the Company and the Elipva Shareholders may subsequently agree in writing after the date of the Share Swap Agreement
"Net Asset Value of Elipva"	the difference between the value of total assets less the value of total liabilities as shown in the Elipva Latest Accounts and taking into account the Elipva Capitalization as if the same has been completed
"PRC"	the People's Republic of China
"S$"	Singapore dollars, the lawful currency of Singapore and for the purpose of the Share Swap Agreement, S$1.00 = HK$4.5285
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Singapore"	the Republic of Singapore
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Share Swap"	the conditional acquisition of the entire issued share capital of Elipva by the Company in consideration of the issue and allotment of the Consideration Shares pursuant to the Share Swap Agreement

"Share Swap Agreement"	the conditional share swap agreement dated 30 July, 2004 between the Elipva Shareholders, the Company and Elipva
"Shenyin Wanguo" or "Independent Financial Adviser"	Shenyin Wanguo Capital (H.K.) Limited, a licensed corporation to carry on business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"STT"	stt Ventures Ltd., a wholly-owned subsidiary of STTC
"STTC"	STT Communications Limited, a company incorporated under the laws of Singapore with limited liability
"STT Subscription"	the conditional subscription by STT of the STT Subscription Shares pursuant to the STT Subscription Agreement
"STT Subscription Agreement"	the conditional subscription agreement dated 30 July, 2004 between STT and the Company
"STT Subscription Shares"	152,941,176 new Shares
"STT Subscription Price"	HK$0.051 per Share
"Substantial shareholder"	shall have the same meaning as defined in the GEM Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Three Agreements"	the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement
"Transaction Consideration"	the consideration to be paid by the Company for the Share Swap

For the purpose of this circular, unless stated otherwise, the translation of amounts in Singaporean dollars into Hong Kong dollars is at a rate of S$1.00:HK$4.5285

M DREAM INWORLD LIMITED
聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8100

Directors:
Koh Tat Lee, Michael *(Chairman)*
Xu Hanjie
Wong Shui Fun
Wong Kean Li#
Ng Yat Cheung#
Domingo Chen*
Robert Wong*

\# *Non-executive Director*
* *Independent non-executive Director*

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

Head Office and Principal Place of Business in Hong Kong:
3/F, Chinese Club Building
21-22 Connaught Road Central
Hong Kong

8 October, 2004

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS,
VERY SUBSTANTIAL ACQUISITION,
ISSUE OF NEW SHARES
AND
PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL**

INTRODUCTION

The Board announced on 19 August, 2004 that (i) M Dream China proposed to subscribe for additional Shares; (ii) the Elipva Shareholders proposed to swap shares with the Company; and (iii) STT proposed to subscribe for Shares.

* *for identification purpose only*

The purpose of this circular is to provide you with information regarding, amongst other things, the MDC Subscription, the Share Swap, the STT Subscription and the proposed increase in the authorized share capital of the Company, the recommendation from the Independent Board Committee in respect of the MDC Subscription, the Share Swap and the STT Subscription and the advice of Shenyin Wanguo, the Independent Financial Adviser to the Independent Board Committee, and to provide you with the notice convening the EGM.

MDC SUBSCRIPTION AGREEMENT

Parties

(a) M Dream China; and

(b) the Company

The MDC Subscription Shares

152,941,176 new Shares, representing (a) approximately 9.05% of the issued share capital of the Company as at the Latest Practicable Date; (b) approximately 8.27% of the issued share capital of the Company as enlarged by new Shares to be issued under the MDC Subscription Agreement; and (c) approximately 5.87% of the issued share capital of the Company as enlarged by the new Shares to be issued under MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement.

Subscription Price

The Subscription Price is HK$0.051 per MDC Subscription Share.

Ranking

The MDC Subscription Shares, when issued and fully paid, will rank equally with the existing Shares in issue as at the date of issue of the MDC Subscription Shares.

Conditions of the MDC Subscription Agreement

Completion of the MDC Subscription Agreement will be conditional upon the fulfillment of the following conditions on or before the Long Stop Date:

(a) all conditions precedent of the Share Swap Agreement and the STT Subscription Agreement (save and except the condition that the MDC Subscription Agreement having become unconditional) having become fulfilled or waived in accordance with the terms thereof;

(b) Shareholders approving at the EGM in accordance with the GEM Listing Rules the increase in the authorized share capital of the Company from HK$30,000,000 to HK$60,000,000 by the creation of an additional 3,000,000,000 Shares, the issue and allotment of the Consideration Shares to the Elipva Shareholders pursuant to the terms of the Share Swap Agreement, the issue and allotment of the STT Subscription Shares to STT pursuant to the terms of the STT Subscription Agreement, and the issue and allotment of the MDC Subscription Shares to M Dream China pursuant to the terms of the MDC Subscription Agreement;

(c) the Share Swap and all the transactions contemplated under the Share Swap Agreement and/or under the STT Subscription Agreement and/or under the MDC Subscription Agreement will not be considered by the Stock Exchange as constituting a “reverse takeover” under the GEM Listing Rules; and

(d) the Stock Exchange having granted the listing of, and permission to deal in, all of the Consideration Shares, the STT Subscription Shares and the MDC Subscription Shares (and such permission and listing not subsequently being revoked prior to delivery of definitive share certificate(s) representing the MDC Subscription Shares).

These conditions will not be waived.

Completion of the MDC Subscription

Subject to fulfillment of the above conditions, completion of the MDC Subscription will take place simultaneously with completion of the Share Swap and the STT Subscription on the Completion Date.

SHARE SWAP AGREEMENT

Parties

(a) Elipva Shareholders;
(b) Elipva; and
(c) the Company

The Sale Shares to be acquired

211,299,760 shares of S$0.05 each, representing the entire issued share capital of Elipva after completion of the Elipva Capitalization (which is expected to take place on or before the Month End Date but in any event before the Completion Date) and as at completion of the Share Swap.

Transaction Consideration

The Transaction Consideration shall be settled by way of the issue and allotment of the Consideration Shares at the Issue Price.

The Transaction Consideration shall be the lower of (a) 2.75 times the Net Asset Value of Elipva (as shown in the Elipva Latest Accounts); and (b) a maximum of S$6,875,000 (approximately HK$31,133,437.50). Based on the audited financial information of Elipva for the five months ended 31 May, 2004 as set out in the "Accountants' report on Elipva Group" in Appendix I to the Circular, and taking into consideration the effect of the Elipva Capitalization, the net asset value of Elipva would be approximately HK$12,739,000 and the Transaction Consideration would be fixed at the maximum amount of approximately HK$31,133,437.5, and a resultant total of 610,459,559 new Shares (representing approximately 36.11% of the issued share capital of the Company as at the Latest Practicable Date and approximately 23.41% of the issued share capital of the Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement) would be issued to Elipva Shareholders as Consideration Shares.

Taking into account the nature of the business of Elipva, its potential growth, secured contracts on hand of approximately S$2.2 million as of August, 2004 and client base, the synergy of Elipva's business with that of the Group and the benefits (business and otherwise) the acquisition of the Elipva's business may bring to the Group, the Directors consider that the formula used in determining the Transaction Consideration is fair and reasonable.

Conditions of the Share Swap Agreement

Completion of the Share Swap Agreement will be conditional upon the fulfillment of the following conditions on or before the Long Stop Date:

(a) the completion of the Elipva Capitalization;

(b) none of the Elipva Shareholders (individually or together with other parties) shall be required under the Takeovers Code to extend a general offer for the issued securities of the Company in connection with or as a result of the transactions and/or matters contemplated in the Share Swap Agreement and/or the STT Subscription Agreement;

(c) Shareholders approving at the EGM in accordance with the GEM Listing Rules the increase in the authorized share capital of the Company from HK$30,000,000 to HK$60,000,000 by the creation of an additional 3,000,000,000 new Shares, the Share Swap Agreement, the STT Subscription Agreement, the MDC Subscription Agreement, and the issue and allotment of the new Shares pursuant to the terms of the Share Swap Agreement and the transactions contemplated under the Share Swap Agreement, the STT Subscription Agreement and the MDC Subscription Agreement;

(d) the approval of the Stock Exchange for the issue and listing of, and permission to deal in, the new Shares to be issued as consideration under the Share Swap Agreement on GEM having been obtained;

(e) the Share Swap and all the transactions contemplated under the Share Swap Agreement and/or under the STT Subscription Agreement will not be considered by the Stock Exchange and/or the Securities and Futures Commission as constituting a "reverse takeover" under the GEM Listing Rules;

(f) completion of due diligence review on the Elipva Group to the satisfaction of the Company;

(g) completion of due diligence review on the Group to the satisfaction of the Elipva Shareholders;

(h) the warranties, representations and undertakings given by the Elipva Shareholders and Elipva under the Share Swap Agreement remaining true and accurate in all material respects as at the date of the Share Swap Agreement and at all times up to and including the Completion Date save as disclosed in the disclosure letter dated the date of the Share Swap Agreement and provided by Elipva and the Elipva Shareholders to the Company, the audited accounts of Elipva for the year ended 31 December, 2003 and the management accounts of Elipva for the five months ended 31 May, 2004;

(i) all the conditions precedent of the MDC Subscription Agreement and the STT Subscription Agreement (save and except the condition that the Share Swap Agreement having become unconditional) having become fulfilled or waived in accordance with the terms thereof; and

(j) the representations, warranties, undertakings or indemnities made or given by the Company to the Elipva Shareholders under the Share Swap Agreement remaining true and accurate in all material respects as at the date of the Share Swap Agreement and at all times up to and including the Completion Date save as disclosed in the disclosure letter dated the date of the Share Swap Agreement and provided by the Company to the Elipva Shareholders, the audited accounts of the Company for the year ended 31 December, 2003 and the unaudited consolidated accounts of the Company for the six months ended 30 June, 2004.

The Elipva Shareholders may at any time waive the fulfillment of conditions (g) and (j) in whole or in part and the Company may at any time waive the fulfillment of conditions (f) and (h) in whole or in part.

If any of the above conditions (which have not been previously been waived by the Elipva Shareholders or the Company (as the case may be)) has not been fulfilled on or before the Long Stop Date, then the Elipva Shareholders or the Company may, thereafter at their respective option, by notice in writing to the other parties, rescind the Share Swap Agreement.

Completion of the Share Swap

Subject to fulfillment of all of the above conditions (if not waived as mentioned above), completion of the Share Swap Agreement will take place simultaneously with completion of the MDC Subscription Agreement and the STT Subscription Agreement on the Completion Date.

Independence of the Elipva Shareholders

The Directors confirm, to the best of their knowledge, information and belief having made all reasonable enquiries, that each of the Elipva Shareholders and their respective ultimate beneficial owners are third parties to, and independent of, the Company and its connected persons (as defined under the GEM Listing Rules).

The Elipva Shareholders have confirmed the following, in each case on the assumption of (a) the Company having 2,606,949,911 Shares in issue upon completion of the Three Agreements; (b) the Transaction Consideration being the maximum sum of S$6,875,000:

(i) STTC, based upon its best knowledge and belief, and after making all due and reasonable enquiries and reasonable steps, has confirmed that it, together with its subsidiaries (including, without limitation, STT) and parties acting in concert with them shall hold an aggregate of 507,862,364 Shares upon completion of the Three Agreements (representing approximately 19.48% of the enlarged issued share capital of the Company as at such completion);

(ii) Allwin Asia Inc. has confirmed that it together with its subsidiaries and parties acting in concert with them shall hold an aggregate of 204,870,228 Shares upon completion of the Three Agreements (representing approximately 7.86% of the enlarged issued share capital of the Company as at such completion);

(iii) eMatrix Pte Ltd. and its controlling shareholders, Mr. Choong Ying Chuan have confirmed that they, together with the subsidiaries of eMatrix Pte Ltd. and parties acting in concert with any of aforesaid entities, shall hold an aggregate of 48,653,626 Shares upon completion of the Three Agreements (representing approximately 1.87% of the enlarged issued share capital of the Company as at such completion); and

(iv) Mr. Chang Sau Sheong has confirmed that he, together with parties acting in concert with him, shall hold an aggregate of 2,014,516 Shares upon completion of the Three Agreements (representing approximately 0.07% of the enlarged issued share capital of the Company as at such completion).

Based on the above confirmations, STTC and the other Elipva Shareholders and their respective parties acting in concert with them respectively will in aggregate hold less than 30% of the voting rights of the Company immediately upon completion of the Agreements.

STT SUBSCRIPTION AGREEMENT

Parties

(a) STT; and

(b) the Company

The STT Subscription Shares

152,941,176 new Shares, representing (a) approximately 9.05% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 5.87% of the issued share capital of the Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement.

Subscription Price

The Subscription Price is equivalent to the Issue Price of HK$0.051 per STT Subscription Share.

Ranking

The STT Subscription Shares, when issued and fully paid, will rank equally with the existing Shares of the Company in issue as at the date of issue of the STT Subscription Shares.

Conditions of the STT Subscription Agreement

Completion of the STT Subscription Agreement will be conditional upon the fulfillment of the following conditions on or before the Long Stop Date:

(a) all conditions precedent of the Share Swap Agreement and the MDC Subscription Agreement (save and except the condition that the STT Subscription Agreement having become unconditional) having become fulfilled or waived in accordance with the terms thereof;

(b) Shareholders approving at the EGM in accordance with the GEM Listing Rules the increase in the authorized share capital of the Company from HK$30,000,000 to HK$60,000,000 by the creation of an additional 3,000,000,000 new Shares, the STT Subscription, the MDC Subscription, the Share Swap, the issue and allotment of the MDC Subscription Shares pursuant to the terms of the MDC Subscription Agreement, the issue and allotment of the STT Subscription Shares pursuant to the terms of the STT Subscription Agreement and the issue and allotment of the Consideration Shares pursuant to the terms of the Share Swap Agreement;

(c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the STT Subscription Shares to be issued and allotted by the Company pursuant to the STT Subscription Agreement, the MDC Subscription Shares to be issued and allotted by the Company pursuant to the MDC Subscription Agreement and the Consideration Shares to be allotted and issued by the Company pursuant to the Share Swap Agreement (and such permission and listing not subsequently being revoked prior to the delivery of definitive share certificate(s) representing the STT Subscription Shares and/or the MDC Subscription Shares and/or the new Shares to be allotted and issued by the Company pursuant to the Share Swap Agreement); and

(d) the Shares remaining listed on GEM and are not suspended for a period exceeding 10 consecutive trading days, other than for the purpose of clearance of the announcement relating to the MDC Subscription, the Share Swap and the STT Subscription.

These conditions will not be waived.

Completion of the STT Subscription

Subject to fulfillment of the above conditions, completion of the STT Subscription Agreement will take place simultaneously with completion of the Share Swap Agreement and the MDC Subscription Agreement on the Completion Date.

Independence of STT

The Directors confirm, to the best of their knowledge, information and belief having made all reasonable enquiries, that STT and its ultimate beneficial owners are third parties to, and independent of, the Company and its connected persons (as defined under the GEM Listing Rules).

APPLICATION FOR LISTING

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the MDC Subscription Shares, the Consideration Shares and the STT Subscription Shares.

INFORMATION ON ELIPVA

Elipva is a Singaporean company engaged in the business of providing e-business applications, identity and access management, security infrastructure, human capital and financial management, system and enterprise applications integration.

For the past five months ended 31 May, 2004, the unaudited consolidated net deficit of Elipva amounted to approximately S$3.98 million (representing approximately HK18.02 million) and recorded a net loss of S$170,000 (representing approximately HK$769,845). The audited consolidated net deficit of Elipva for the two years ended 31 December, 2002 and 2003 amounted to approximately S$2.96 million (representing approximately HK$13.40 million) and S$3.81 million (representing approximately HK$17.25 million) respectively. The audited consolidated total asset of Elipva for the two years ended 31 December, 2002 and 2003 amounted to approximately S$2.95 million (representing approximately HK$13.37 million) and S$2.33 million (representing approximately HK$ 10.55 million) respectively. The audited consolidated net loss for the two years ended 2002 and 2003 amounted to approximately S$1.49 million (representing approximately HK$6.75 million) and S$830,000 (representing approximately HK$3.76 million) respectively.

Elipva is not a connected person of the Company as defined under the GEM Listing Rules. As at the date of the Share Swap Agreement, Elipva is owned as to approximately 56.48%, 34.88%, 7.85%, 0.44% and 0.35% by STTC, Allwin Asia Inc. (a subsidiary of Hongkong Chinese Limited, which is a company listed on the main board of the Stock Exchange), eMatrix Pte Ltd., Mr. Choong Ying Chuan and Mr. Chang Sau Sheong respectively. Further information on STTC is set out in the paragraph beaded "Information on STTC" below.

Upon completion of the Elipva Capitalization Elipva will be owned as to approximately 58.14%, 33.56%, 7.55%, 0.42% and 0.33% respectively by STTC, Allwin Asia Inc., eMatrix Pte Ltd., Mr. Choong Ying Chuan and Mr. Chang Sau Sheong respectively. Under the Elipva Capitalization, one of the existing shareholders, Allwin Asia Inc. will inject about S$1.71 million in cash into Elipva to subscribe for 34,200,000 new shares in Elipva, whilst STTC, the major shareholder will apply its loans of S$4.752 million and payables of S$0.402 million due from Elipva to subscribe for 63,427,760 new shares in Elipva.

To the best knowledge, information and belief of the Directors after making reasonable enquiries, (a) the subscription prices per Elipva share paid by Allwin Asia Inc. and STTC under the Elipva Capitalization were negotiated amongst and agreed upon by the Elipva Shareholders after taking into account the nature and amount of the assets given as consideration for the issue of the new Elipva shares; and (b) save as disclosed herein, there is no other understanding or arrangement between the Company, its connected persons, the Elipva Shareholders and their respective associates as at the Latest Practicable Date.

The Directors confirm, to their best knowledge, information and belief after making reasonable enquiries, that none of the Elipva Group and/or its respective subsidiaries is listed on any stock exchange.

REASONS FOR THE SHARE SWAP

As was stated in the Company's prospectus dated 18 December, 2001, the Company intended to become a leading system integration solution provider in the Mainland China and other Asian region, and Singapore was specified as one of the targeted markets.

Taking into consideration the existing business scope and coverage of Elipva, the Directors consider that the entering into of the Share Swap Agreement (a) provides the Company with the opportunity to gain business access into the South East Asian market, particularly Singapore and Indonesia, which is in line with the business direction and expansion policy of the Group; (b) offers a further extension to the Group's system integration business, in particular, the area relating to information technology solution providing; and (c) enriches the Group's customer base by Elipva's customer list which includes various government authorities, financial institutions and multinational companies in Singapore. In addition, the Share Swap (and the STT Subscription) will also enable the Company to bring in two reputable partners namely, STTC and Allwin Asia Inc., both of which are Elipva Shareholders, to become Shareholders holding approximately 19.48% and 7.86% respectively of the issued share capital of the Company as enlarged by the issue of new Shares under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement. On the above bases, the Directors are of the view that the entering into of the Share Swap Agreement is in the best interests of the Company and its shareholders.

INFORMATION ON STTC

STTC is an investment holding company of info-communications companies. Headquartered in Singapore, STTC has operations and investments in Asia-Pacific, United States of America and Europe. STTC's group of companies offer a wide array of communications and information services, including fixed and mobile communications, global IP (Internet Protocol) network and services, Internet Business Exchange™ (IBX®) data centres and services, satellite and cable TV. STTC is a wholly-owned subsidiary of Singapore Technologies Pte Ltd, the largest technology-based multinational group in Singapore, with businesses in engineering, technology, infrastructure & logistics, property and financial services. STT is a wholly-owned subsidiary of STTC.

REASONS FOR THE MDC SUBSCRIPTION AND THE STT SUBSCRIPTION, AND USE OF PROCEEDS

Having considered the prevailing and anticipated market conditions, the business outlook, as well as the current financial position of the Group (reference is made to the interim report of the Company for the six months ended 30 June, 2004), the Directors consider that it is in the best interests of the Company to raise further capital from the equity market by way of the MDC Subscription and the STT Subscription in order to place the Company in a stronger position to capture any business opportunities. The Directors further consider that the MDC Subscription and the STT Subscription will enhance the capital base of the Company, strengthen the Group's financial position, and facilitate the investment strategy of the Group in the coming year.

The Directors estimate that the net proceeds (after taking into account all relevant expenses incurred/to be incurred for the completion of the Three Agreements) derived from the MDC Subscription and the STT Subscription will be approximately HK$13.34 million (or approximately HK$0.044 per new Share). It is the intention of the Directors that out of such net proceeds:

(a) approximately HK$12 million will be used for the development of the Group's mobile value added service business in the Mainland China; and

(b) the remaining balance of approximately HK$1.34 will be used as general working capital of the Group in respect of its business operations.

APPOINTMENT OF NEW DIRECTORS

The Share Swap Agreement provides that on completion, eMatrix Pte Ltd. (one of the Elipva Shareholders) and Allwin Asia Inc. will respectively be entitled to appoint Mr. Choong Ying Chuan and Mr. Peter Tay Yew Beng as additional Directors. Details with respect to the background and qualification of these persons as required under Rule 17.50(2) of the GEM Listing Rules will be set out in the announcement(s) of the Company at the time of their respective appointment as Directors.

PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY

The authorized share capital of the Company consists of 3,000,000,000 Shares, of which 1,690,608,000 Shares are in issue as at the Latest Practicable Date. At the EGM, an ordinary resolution will be proposed to increase the authorized share capital of the Company from HK$30,000,000 to HK$60,000,000 by the creation of an additional 3,000,000,000 Shares.

SHAREHOLDING EFFECT OF THE MDC SUBSCRIPTION, THE SHARE SWAP AND THE STT SUBSCRIPTION

Assuming that the Transaction Consideration is fixed at the maximum amount of S$6,875,000 (approximately HK$31,133,437.5), the shareholdings in the Company before and immediately after completion of the MDC Subscription, the Share Swap and the STT Subscription are summarised as follows:

	M Dream China	Dynamate	Shenzhen Ingen Technology Company Limited	STTC and STT	Hongkong Chinese Limited (through Allwin Asia Inc.)	Elipva Shareholders (other than STTC and Hongkong Chinese Limited)	Public	Total
Present shareholding	360,000,000 Shares (21.29%)	170,163,200 Shares (10.07%)	147,440,000 Shares (8.72%)	0%	0%	0%	1,013,004,800 Shares (59.92%)	1,690,608, 000 Shares (100%)
Immediately after completion of the MDC Subscription Agreement but without taking into account the completion of the Share Swap Agreement and the STT Subscription Agreement	512,941,176 Shares (27.82%)	170,163,200 Shares (9.23%)	147,440,000 Shares (8.00%)	0%	0%	0%	1,013,004,800 Shares (54.95%)	1,843,549,176 Shares (100%)
Immediately after completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement	512,941,176 Shares (19.68)	170,163,200 Shares (6.53%)	147,440,000 Shares (5.66%)	507,862,364 Shares (19.48%)	204,870,228 Shares (7.86%)	50,668,143 Shares (1.94%)	1,013,004,800 Shares (38.85%)	2,606,949,911 Shares (100%)

FINANCIAL EFFECTS OF THE MDC SUBSCRIPTION, THE SHARE SWAP AND THE STT SUBSCRIPTION

Unaudited pro forma consolidated income statement for the Enlarged Group

Based on the unaudited pro forma financial information of the Enlarged Group for the period ended 31 December, 2003 which has been prepared to illustrate the effect of the Company's proposed acquisition of the entire issued share capital in Elipva as shown in Appendix III of this circular, the Enlarged Group's turnover and gross profit for the period ended 31 December, 2003 amounted to approximately HK$11,199,000 and HK$4,758,000 respectively. The increase in turnover and gross profit of the Enlarged Group is due mainly to the consolidation of the Elipva Group's results based on the assumptions that the maximum amount of the Transaction Consideration is paid and that the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement have been simultaneously completed and taken place at the beginning of the period and the Elipva Group became a subsidiary of the Group. Taking into account the net loss of approximately HK$3,768 million for the Elipva Group, the net loss for the Enlarged Group for the period ended 31 December, 2003 was approximately HK$21,117,000.

The above pro forma financial information is for information purpose only and should not be taken as an indication of the future financial performance of the Enlarged Group. Upon completion of the Share Swap, management of the Group anticipates that the future financial performance of the Enlarged Group will be affected by possible integration effects brought by the acquisition of Elipva, details of which are discussed in the paragraph headed "Information on the Enlarged Group" below.

Unaudited pro forma consolidated balance sheet for the Enlarged Group

The unaudited pro forma consolidated balance sheet for the Enlarged Group is prepared after giving effects to the pro forma adjustments as set out in the notes to pro forma financial information on the Enlarged Group for the period ended 31 December, 2003 in Appendix III and these include the Elipva Capitalisation, the Share Swap, the STT Subscription, the MDC Subscription and the acquisition of M Dream Mobile Entertainment Limited, as disclosed in the Company's circular dated 20 April, 2004, which was completed on 20 May, 2004. The acquisition M Dream Mobile Entertainment Limited was completed on 20 May, 2004 and a goodwill of approximately HK$30 million was created as the difference between the consideration paid and the net assets value of M Dream Mobile Entertainment Limited. Assuming that the acquisition of the Elipva Group took place on 1 January, 2003, a goodwill of approximately HK$18,394,000 based on the difference between the net assets value of the Elipva Group and the maximum amount of the Transaction Consideration would be created. In accordance with the Company's accounting policies, goodwill is amortised by equal annual instalment over its estimated useful economic life of 10 years. As the amortization expense is non-cash in nature, it will not affect the Enlarged Group's cash flow position.

Taking into account the pro forma adjustments as mentioned above, the Enlarged Group would have the following unaudited pro forma balances as at 31 December, 2003 (Please refer to Appendix III to this circular for details of the pro forma financial information of the Enlarged Group):

	The Group	**The Enlarged Group**
	HK$'000	*HK$'000*
Cash and bank balances	166	28,386
Net current assets	9,095	38,929
Total assets less current liabilities	29,586	106,131
Net assets	29,349	105,894
Net tangible asset	11,014	41,009

Information on the Enlarged Group

The Group is principally engaged in the business as a system solutions provider. The major system solutions services offered by the Group include information technology consultation and information technology infrastructure services. By providing such services, the Group is engaged in, amongst 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 scope of business of Elipva is part of the Group's software design and installation, system programming and computer network building business. Elipva is more focused on the provision of such services to financial institutions, multinational companies and governmental agencies in Singapore. As mentioned in the Group's prospectus dated 18 December, 2001, Singapore is one of the target markets of the Group. Through the acquisition of Elipva, the Group will readily enter the Singapore market with a strong base of reputable customers. Beside the above scope of business, Elipva is also a certified consulting firm for Peoplesoft Inc., one of the world's largest providers of enterprise application software. This will increase the range of services that the Group can offer to our existing customers throughout Mainland China and Hong Kong.

On top of the wider range of services to offer, the combination of the Group and Elipva will bring along material cost saving. The staff costs in Singapore is significantly higher than in Mainland China. After the acquisition, certain portions of Elipva's work can be carried out by the Group's staff in Mainland China. The result will be significant saving of cost of service for Elipva and improvement of the gross profit margin of its consulting projects. In the meantime, the Group will also leverage on the skills, technology and expertise provided by Elipva. Through the transfer of skills from Elipva to the Group's staff in Mainland China, the sophistication level of the Group's staff in Mainland China will improve and in turn, be able to command a higher consultancy rate in Mainland China and improve the gross revenue of the Group.

Futhermore, through the acquisition of M Dream Mobile Entertainment Limited in May, 2004, the Group has expanded into the provision of mobile value added business in Mainland China. The shareholders of Elipva include Singapore Technologies Telemedia Pte Ltd and Lippo Group, which individually are interested in mobile network operators in Singapore, Indonesia and other countries. After the Share Swap, the Company will have STT and Lippo Group as its Shareholders thereby lining up the Group with overseas network operators and speeding up the export of the Group's mobile value added business from Mainland China to other countries in South East Asia. This will greatly expand the geographic coverage of the Group's business.

GENERAL

The Group is principally engaged in the provision of system solutions. The major system solutions offered by the Group include information technology consultation, information technology infrastructure services, mobile value added services and online game operation. Mobile value added services include mobile game operation, mobile phone ring tones, wall paper download and other services provided via mobile platform in the PRC.

Set out below is a description of the fund raising exercises of the Company within the past 12 months prior to the Latest Practicable Date:

1. Reference is made to the announcement of the Company dated 23 September, 2003. The Company completed a placement of 400 million new Shares on 23 September, 2003, the net proceeds of which amounted to approximately HK$15,300,000, of which approximately HK$11,201,600 was used for the acquisition of Shenzhen Huaruiyuan Company Limited, a company engaged in the provision of system integration services in the PRC and specializes in the field of tax declaring software and total solution for the PRC taxation system, approximately HK$2,898,400 was used for the working capital of the Group and approximately HK$1,200,000 was used for the overseas marketing expenses.

2. Reference is made to the announcement of the Company dated 19 February, 2004. The Company issued 150 million new Shares on 19 February, 2004, the net proceeds of which amounted to approximately HK$8,426,000, of which approximately HK$4,500,000 was used for the acquisition of M Dream Mobile Entertainment Limited, a company engaged in the provision of mobile value added services in the PRC, approximately HK$1,876,000 was used for the working capital of the Group and approximately HK$2,050,000 was used for the overseas marketing expenses.

Save as the aforesaid, the Company has undertaken no other fund raising exercise during the 12 months immediately preceding the Latest Practicable Date. The Company will continue to identify and consider any other possible fund raising exercises. Such fund raising exercises (which may or may not materialise) will be made in strict compliance with the GEM Listing Rules. Further announcement(s) will be made in accordance with the GEM Listing Rules.

EGM

Set out on pages 152 and 154 of this circular is a notice convening the EGM which will be held at 10:30 a.m. on 25 October, 2004 at Gloucester Room, 2/F, Mandarin Oriental, 5 Connaught Road Central, Hong Kong to consider and, where appropriate, to approve ordinary resolutions relating to the MDC Subscription, the Share Swap, the STT Subscription and the increase in the authorized share capital of the Company.

The Share Swap constitutes a very substantial acquisition under the GEM Listing Rules. Given that completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement are inter-conditional, the Elipva Shareholders are deemed as connected persons by the Stock Exchange and therefore the Share Swap and the STT Subscription are also treated as connected transactions under the GEM Listing Rules. Completion of each of the Share Swap Agreement and the STT Subscription Agreement is therefore subject to, amongst other things, Independent Shareholders' approval at the EGM.

M Dream China is a substantial shareholder of the Company and thus is treated as a connected person of the Company under the GEM Listing Rules. The MDC Subscription constitutes a connected transaction for the Company under the GEM Listing Rules and requires Independent Shareholders' approval at the EGM, and where Elipva Shareholders and/or their respective associates have shareholding in the Company then, they will abstain from voting at the EGM.

The voting of the Independent Shareholders to approve the MDC Subscription, the Share Swap and the STT Subscription will be taken on a poll at the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the head office and principal place of business in Hong Kong of the Company at 3/F Chinese Club Building, 21-22 Connaught Road Central, Hong Kong, and in any event not later than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

RECOMMENDATION

The Directors believe that the resolution approving the proposed increase in the authorized share capital of the Company is in the interests of the Company and the Shareholders. Accordingly, the Board recommends that the Shareholders should vote in favour of such resolution to be proposed at the EGM.

The Independent Board Committee, having considered the respective terms and conditions of the Three Agreements and the advice given by Shenyin Wanguo, is of the opinion that the MDC Subscription, the Share Swap and the STT Subscription are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the MDC Subscription, the Share Swap and the STT Subscription.

FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this circular.

By order of the Board
Koh Tat Lee, Michael
Chairman

M DREAM INWORLD LIMITED
聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8100

8 October, 2004

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS,
VERY SUBSTANTIAL ACQUISITION
AND
ISSUE OF NEW SHARES

We refer to the circular issued by the Company dated 8 October, 2004, of which this letter forms part. Terms used in the circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider and advise the Independent Shareholders in respect of the terms and conditions of the MDC Subscription, the Share Swap and the STT Subscription, details of which are set out in the letter from the Board contained in this circular. Shenyin Wanguo has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect.

Having considered the terms and conditions of the MDC Subscription, the Share Swap and and the STT Subscription and the advice and the recommendation of Shenyin Wanguo as set out on pages 23 to 40 of this circular, we consider that the terms and conditions of the MDC Subscription, the Share Swap and the STT Subscription are in the interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the MDC Subscription, the Share Swap and the STT Subscription.

Yours faithfully,
Independent Board Committee

Domingo Chen	**Robert Wong**
Independent non-executive director	*Independent non-executive director*

* *for identification purpose only*

Shenyin Wanguo Capital (H.K.) Limited
28th Floor
Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

8 October, 2004

M Dream Inworld Limited
3/F., Chinese Club Building
21-22 Connaught Road Central
Hong Kong

To the Independent Board Committee
and the Independent Shareholders

CONNECTED TRANSACTIONS,
VERY SUBSTANTIAL ACQUISITION
AND
ISSUE OF NEW SHARES

INTRODUCTION

We refer to our engagement by the Company as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the MDC Subscription, the Share Swap and the STT Subscription, details of which are contained in the letter from the Board (the "Board Letter") set out in the circular of the Company dated 8 October, 2004 to the Shareholders (the "Circular") of which this letter forms part. Terms used in this letter shall bear the same meanings as defined in the Circular unless the context otherwise requires. This letter contains our advice to the Independent Board Committee and the Independent Shareholders.

On 30 July, 2004, the Company entered into the MDC Subscription Agreement with M Dream China, pursuant to which M Dream China conditionally agreed to subscribe for an aggregate of 152,941,176 new Shares (representing approximately 9.05% of the issued share capital of the Company as at the Latest Practicable Date, approximately 8.27% of the issued share capital of the

Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement and approximately 5.87% of the issued share capital of the Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement) at the Subscription Price.

On 30 July, 2004, the Company also entered into the STT Subscription Agreement with STT, pursuant to which STT conditionally agreed to subscribe for an aggregate of 152,941,176 new Shares (representing approximately 9.05% of the issued share capital of the Company as at the Latest Practicable Date, approximately 8.27% of the issued share capital of the Company as enlarged by the new Shares to be issued under the STT Subscription Agreement and approximately 5.87% of the issued share capital of the Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement) at the Subscription Price.

On 30 July, 2004, the Company further entered into the Share Swap Agreement with the Elipva Shareholders and Elipva, pursuant to which the Elipva Shareholders conditionally agreed to sell, and the Company conditionally agreed to purchase, the entire issued share capital of Elipva held by the Elipva Shareholders as at the Completion Date at the Transaction Consideration, which is to be satisfied by the issue and allotment of the Consideration Shares by the Company at the Issue Price. The Transaction Consideration will be the lower of (a) 2.75 times the Net Asset Value of Elipva (as shown in the Elipva Latest Accounts); and (b) a maximum of S$6,875,000 (equivalent to approximately HK$31,133,437.50). Based on the audited financial information of Elipva for the five months ended 31 May, 2004 as set out in the "Accountants' report on Elipva Group" in Appendix I to the Circular and taking into consideration the effect of the Elipva Capitalisation, the net asset value of Elipva would be approximately HK$12,739,000 and the Transaction Consideration would be fixed at the maximum amount of approximately HK$31,133,437.50. As a result, a total of 610,459,559 new Shares (representing approximately 36.11% of the issued share capital of the Company as at the Latest Practicable Date and approximately 23.41% of the issued share capital of the Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement) would be issued to the Elipva Shareholders as Consideration Shares at the Issue Price, which is equal to the Subscription Price.

Given that completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement are inter-conditional and shall take place simultaneously, the Elipva Shareholders are deemed to be connected persons by the Stock Exchange and, therefore, the Share Swap and the STT Subscription are treated as connected transactions under the GEM Listing Rules. Completion of each of the Share Swap Agreement and the STT Subscription Agreement is therefore subject to the Independent Shareholders' approval at the EGM by way of poll. In addition, the Share Swap also constitutes a very substantial acquisition under the GEM Listing Rules.

By virtue of the fact that M Dream China, being the substantial shareholder of the Company, is a connected person of the Company under the GEM Listing Rules, the MDC Subscription thus constitutes a connected transaction for the Company under the GEM Listing Rules and requires approval by the Independent Shareholders at the EGM by way of poll.

BASIS OF OUR RECOMMENDATION

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Circular, which have been provided by the Directors, and have assumed that all information and representations made or referred to in the Circular were true and correct in all respects at the time when they were made and continued to be true and correct in all respects as at the date of despatch of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular are reasonably made after due and careful enquiry and are based on honestly held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information and representations provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular which provides a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs or the future prospects of the Group.

1. The MDC Subscription and the STT Subscription

1.1 PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the terms of the MDC Subscription and the STT Subscription, we have taken into account the following principal factors and reasons:

1.1.1 Reasons for the MDC Subscription and the STT Subscription

The Group is principally engaged in the provision of system solutions services including information technology consultation and infrastructure services, mobile value added services and online game operations.

As advised by the Directors, the Group's mobile value added service business in Mainland China includes a wide spectrum of value added services for the major mobile operators in Mainland China, namely China Mobile and China Unicom. These services include the supply of mobile games, mobile phone ring tones, wall paper download and other services to mobile subscribers, while the online game operations include the provision of online game development and distribution.

We noted from the unaudited interim report of the Company for the six months ended 30 June, 2004 that the Group's mobile value added services and online game operations in Mainland China, both being new business segments of the Group since the completion of acquisition of M Dream Mobile Entertainment Limited on 20 May, 2004, generated revenue of approximately HK$11,386,000, representing approximately 93.9% of the Group's unaudited turnover of HK$12,124,000 for the six months ended 30 June, 2004. During the same period, the Group recorded a segmental operating profit of approximately HK$3,313,000 from Mainland China, which was mainly contributed by such services and operations in Mainland China. However, the Group recorded unaudited net loss attributable to the Shareholders of approximately HK$6,460,000 which was mainly attributed to unrealized loss on investment of HK$4,948,000.

According to the statistics issued by National Bureau of Statistics of China, there were approximately 269 million and 305 million mobile phone subscribers in Mainland China as of December, 2003 and May, 2004 respectively, representing a growth of 13.4% in such period. Given the growth potential of the mobile value added service market in Mainland China, the Directors will continue to expand the Group's mobile value-added business platform and to strengthen its participation in the provision of mobile value added services in Mainland China. In that regard, the Company has proposed to raise net proceeds of approximately HK$13.34 million in aggregate by (1) the MDC Subscription for 152,941,176 new Shares; and (2) the STT Subscription for 152,941,176 new Shares respectively, at a price of HK$0.051 per new Share. As set out in the Board Letter, the net proceeds will be allocated as to (a) approximately HK$12 million for the development of the Group's mobile value added service business in Mainland China; and (b) the remaining balance of approximately HK$1.34 million as general working capital of the Group in respect of its business operations.

We were given to understand that apart from equity placement, the Directors have considered other means of financing such as debt financing or issue of convertible bonds to fund the operations of its mobile value added service business. The Directors consider that such means of financing will increase the finance costs of the Group when compared to equity placement. In addition to savings in finance costs, the Directors further consider that equity placement will enlarge the capital base of the Company. As such, the Directors consider that the MDC Subscription and the STT Subscription are in the interests of the Group.

In addition, through the MDC Subscription, M Dream China will be able to maintain approximately its present shareholding percentage in the Company and to continue to support the operations and future development of the Group. Regarding the STT Subscription, the Directors are of the view that the introduction of STTC as a substantial shareholder of the Company would strengthen the shareholder base of the Company.

Having considered the above, we are of the view that the MDC Subscription and the STT Subscription are in the interests of the Company.

1.1.2 Subscription Price

Under the MDC Subscription and the STT Subscription, the Subscription Price of both the MDC Subscription and the STT Subscription was determined at HK$0.051 per new Share.

The Subscription Price of HK$0.051 per new Share represents:

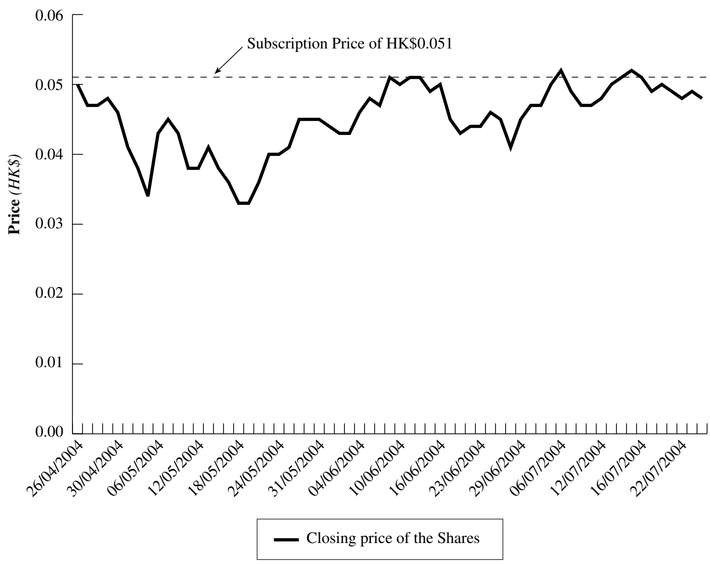
- a premium of approximately 6.25% to the closing price of HK$0.0480 per Share as quoted on the Stock Exchange on 26 July, 2004, being the last trading day prior to the suspension of trading in Shares on 27 July, 2004;

- a premium of approximately 2.62% to the average closing price of approximately HK$0.0497 per Share as quoted on the Stock Exchange for the preceding 10 trading days up to and including 26 July, 2004;

- a premium of approximately 4.08% to the average closing price of approximately HK$0.0490 per Share as quoted on the Stock Exchange for the preceding 5 trading days up to and including 26 July, 2004; and

- a premium of approximately 51.79% to the unaudited consolidated net assets value per Share of approximately HK$0.0336 as at 30 June, 2004, being the date of the latest unaudited interim report of the Company.

The diagram below sets out the daily closing price of Shares traded for the period from 26 April, 2004 to 26 July, 2004:



Source: Stock Exchange website

As set out in the above diagram, the closing prices of Shares as quoted on the Stock Exchange for the period of three months prior to the suspension of trading in Shares on 27 July, 2004 were in a range from HK$0.033 to HK$0.052, with an average price of approximately HK$0.045.

The Subscription Price is above all the respective closing prices per Share as quoted on the Stock Exchange for the 63 trading days within that three month period except for two trading days on which the closing prices were both of HK$0.052.

In view of the share price performance of the Shares for the period of three months prior to the suspension of trading in Shares on 27 July, 2004 and the significant premium of the Subscription Price over the unaudited consolidated net assets value per Share as at 30 June, 2004, we consider that the Subscription Price is fair and reasonable in so far as the Independent Shareholders are concerned.

2. The Share Swap

2.1 PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the terms of the Share Swap, we have taken into consideration the following principal factors and reasons:

2.1.1 Background of Elipva

Elipva was incorporated in Singapore in December, 1999 and is engaged in the provision of system solutions, including e-services/consulting, Internet application software and enterprise software/services such as e-business applications, identity and access management, security infrastructure, human capital and financial management, system and enterprise applications integration. Research and development work of Elipva Group is carried out in Singapore. The major customers of Elipva include various financial institutions, multinational companies as well as government agencies in Singapore.

As stated in the Board Letter, as at the date of the Share Swap Agreement, Elipva was owned as to approximately 56.48%, 34.88%, 7.85%, 0.44% and 0.35% by STTC, Allwin Asia Inc. (a subsidiary of Hongkong Chinese Limited, being a company listed on the main board of the Stock Exchange), eMatrix Pte Ltd., Mr. Choong Ying Chuan and Mr. Chang Sau Sheong respectively. Upon completion of the Elipva Capitalisation, Elipva will be owned as to approximately 58.14%, 33.56%, 7.55%, 0.42% and 0.33% respectively by STTC, Allwin Asia Inc., eMatrix Pte Ltd., Mr. Choong Ying Chuan and Mr. Chang Sau Sheong respectively.

As stated in the Board Letter, STTC is an investment holding company of a number of info-communications companies. Headquartered in Singapore, STTC has operations and investments in Asia-Pacific, the United States of America and Europe. STTC's group of companies offers a wide array of communications and information services, including fixed and mobile communications, global IP (Internet Protocol) network and services, Internet Business Exchange™ (IBX®) data centres and services, satellite and cable TV. STTC is a wholly-owned subsidiary of Singapore Technologies Pte Ltd, the largest technology-based multinational group in Singapore, with businesses in engineering, technology, infrastructure and logistics, property and financial services.

According to the "Accountants' report on Elipva Group" set out in Appendix I to the Circular, Elipva recorded an audited consolidated turnover of approximately HK$7,878,000 and an audited consolidated net loss of approximately HK$1,195,000 for the five months ended 31 May, 2004. As at 31 May, 2004, the audited consolidated net deficit of Elipva was approximately HK$18,667,000.

For the two years ended 31 December, 2002 and 2003, the audited consolidated turnover of Elipva amounted to approximately HK$6,505,000 and HK$10,647,000 respectively and the audited consolidated net losses of Elipva amounted to approximately HK$6,482,000 and HK$3,768,000 respectively. As at 31 December, 2002 and 2003, the audited consolidated net deficits of Elipva were approximately HK$13,270,000 and HK$17,393,000 respectively.

2.1.2 Reasons for entering into the Share Swap Agreement

As discussed in the section headed "The MDC Subscription and the STT Subscription" of this letter, the Group's mobile value-added services and online game operations in aggregate accounted for approximately 93.9% of the Group's unaudited turnover for the six months ended 30 June, 2004. Contribution from the provision of information technology consultation and infrastructure services accounted for approximately 5.6% of the Group's turnover during the same period.

The Group generates its turnover primarily in Mainland China, Hong Kong and Macau. According to the unaudited consolidated results for the six months ended 30 June, 2004 of the Group, revenue generated in Mainland China accounted for approximately 96.5% of the Group's turnover for that period.

The Directors are of the view that the Share Swap would enable the Group to have a readily available platform through Elipva to enter into the South East Asian market, such as Singapore and Indonesia, and such expansion strategy is in line with the business objective of the Group as stated in the Company's prospectus dated 18 December, 2001. In addition, the Directors consider that the Share Swap would enrich the Group's customer base by capitalizing on Elipva's current business relationships with its clients which include various multinational companies, financial institutions as well as government agencies in Singapore. As advised by the Directors, the staff cost in Singapore is significantly higher than that in Mainland China. After the Share

Swap, the Directors intend to relocate certain development phases of Elipva's projects such as network design and mobile platform application development to the Group's subsidiaries in Mainland China in order to achieve savings in overall operating costs.

As stated in the Board Letter, the Share Swap (and the STT Subscription) will bring in two new Shareholders, namely STTC and Allwin Asia Inc., both of which are Elipva's existing shareholders and will hold approximately 19.48% and 7.86% respectively of the issued share capital of the Company as enlarged by the issue of new Shares under the MDC Subscription, the Share Swap and the STT Subscription. As the parents of STTC and Allwin Asia Inc. have business coverage in mobile network operations in Singapore and Indonesia, the Directors are of the view that the Share Swap (and the STT Subscription) would provide an opportunity for the Group to explore alliances with STTC and Allwin Asia Inc. to expand its business in Mainland China as well as other South East Asian markets. We were advised by the Directors that the Group had not entered into any such arrangements with STTC and Allwin Asia Inc. as at the Latest Practicable Date. As such, we would like to remind the Independent Shareholders that such business alliances may or may not materialise in the future.

Taking into consideration the above factors, we concur with the Directors that the entering into of the Share Swap Agreement (a) provides the Company with an opportunity to gain business access into the South East Asian markets; (b) offers a further extension to the Group's existing businesses in the provision of system solutions services, mobile value added services and online game operations; and (c) enriches the Group's customer base through Elipva's current business relationships with various multinational companies, financial institutions and government agencies in Singapore.

Having regard to the above principal reasons, we are of the view that the Share Swap is in the interests of the Company and the Shareholders as a whole.

2.2 TRANSACTION CONSIDERATION

As stated in the Board Letter, the Transaction Consideration under the Share Swap Agreement was arrived at after considering the nature of business of Elipva, its potential growth, secured contracts on hand of approximately S$2.2 million as of August, 2004, its client base as well as the synergy of Elipva's business with that of the Group such as cost savings in operation through the relocation of certain development phases of Elipva's projects to the Group's subsidiaries in Mainland China. The Transaction Consideration shall be determined at the lower of (a) 2.75 times the

Net Asset Value of Elipva (as shown in the Elipva Latest Accounts); and (b) a maximum of S$6,875,000 (equivalent to approximately HK$31,133,437.50). Assuming that the Transaction Consideration would be fixed at a maximum amount of approximately HK$31,133,437.50, which has been arrived at after considering the net asset value of Elipva of approximately HK$12,739,000 based on the audited financial information of Elipva for the five months ended 31 May, 2004 as set out in the "Accountants' report on Elipva Group" in Appendix I to the Circular and taking into account the effect of the Elipva Capitalisation (the "Relevant Net Asset Value"), a maximum of 610,459,559 new Shares would be issued to the Elipva Shareholders at the Issue Price as settlement of the Transaction Consideration in respect of the Share Swap.

As we noted from the Board Letter, it is to the best knowledge, information and belief of the Directors after making reasonable enquiries that the subscription prices per Elipva share paid by Allwin Asia Inc. and STTC under the Elipva Capitalisation were negotiated amongst and agreed upon by the Elipva Shareholders after taking into account the nature and amount of the assets given as consideration for the issue of the new Elipva shares. It should be noted that the Elipva Capitalisation was agreed upon as a transaction independent of the Share Swap and hence does not contribute a relevant factor in forming our opinion regarding the fairness and reasonableness of the Transaction Consideration.

2.2.1 Valuation Methodology

In assessing the fairness and reasonableness of the Transaction Consideration in respect of the Share Swap, we have considered the valuation methodologies of discounted cash flow (the "DCF"), price to earnings ratio ("P/E") and price to book value ratio ("P/BV") which are commonly used to value equity interest in a company. Given that no cash flow forecasts on Elipva have been prepared by the Company, the DCF method could not be applied in the case of Elipva. In applying the P/E and P/BV valuation methodologies, we consider it appropriate to compare such ratios of Elipva with companies that are of a comparable size of operation and similar business nature to Elipva, since both of the P/E and P/BV ratios are valuation methods commonly adopted by market practitioners with reference to the net profit attributable to shareholders and the book value of shareholders' equity respectively. In addition, both the P/E and P/BV ratios could be derived based on audited financial information. However, a comparison of the P/E ratios is not applicable since Elipva recorded an audited consolidated net loss in its financial year ended 31 December, 2003 and no earnings forecast on Elipva has been prepared by the Company. As a result, we have applied the P/BV valuation method in assessing the fairness and reasonableness of the Transaction Consideration in respect of the Share Swap.

2.2.2 P/BV ratio

We have identified nine comparable companies listed in the Asia Pacific region based on the selection criteria that those companies (1) are principally engaged in the business of system solutions, including e-services/consulting, Internet application software and enterprise software/services that are similar to the principal businesses of Elipva; and (2) have book values falling between HK$10 million and HK$20 million, a range which is comparable to that of Elipva whose Relevant Net Asset Value was approximately HK$12,739,000 (the "Comparable Companies").

Set out below are the respective calculated P/BV ratios of the Comparable Companies as at the date of the Share Swap Agreement on 30 July, 2004 for the purposes of comparison:

Company Name	**Listing Country**	**Latest financial year-end date**	**Book value as at the latest financial year-end date**(1) *(approximately HK$ million)*	**P/BV**(2) **(times)**
EPRO Ltd.	Hong Kong	30 June, 2003	19.13	1.17
Intelligent Edge Technologies Berhad	Malaysia	31 December, 2003	18.35	2.34
Connect Technologies	Japan	31 August, 2003	17.95	138.43
Alpha Trend Corp	Japan	30 June, 2003	17.80	4.15
Cyber Village Holdings Ltd.	Singapore	31 December, 2003	18.88	10.08
Digitalhongkong.com	Hong Kong	30 June, 2004	16.33	5.14
Dark Blue Sea Ltd.	Australia	30 June, 2004	18.87	3.47
SD Holdings Co. Ltd.	Japan	31 March, 2004	12.97	41.50
WebSpy Ltd.	Australia	30 June, 2003	10.58	1.67
Range				1.17 – 138.43
Average				23.11
Elipva	N/A		12.74	2.75

Source: Bloomberg (except for Elipva)

Notes:

(1) The book value of Elipva refers to the Relevant Net Asset Value, whereas the respective book values of the Comparable Companies refer to their latest publicly available full year financial information according to Bloomberg.

(2) The P/BV ratios are calculated based on the Comparable Companies' respective closing prices as at the date of the Share Swap Agreement on 30 July, 2004 and their respective book values per share as at the latest financial year-end dates.

As shown above, the P/BV ratios of the Comparable Companies range between 1.17 times and 138.43 times with an average P/BV ratio of approximately 23.11 times. The P/BV ratio of 2.75 times of Elipva represented by the Transaction Consideration falls within the range of the P/BV ratios of the Comparable Companies and is below the average P/BV ratio of the Comparable Companies.

Taking into account all factors set out under the above section headed "Transaction Consideration", we are of the view that the Transaction Consideration in respect of the Share Swap is fair and reasonable in so far as the Independent Shareholders are concerned.

3. Financial effects

3.1 Earnings

The Group recorded audited net losses of approximately HK$19,113,000 and HK$5,569,000 for the year ended 30 June, 2003 and the six months ended 31 December, 2003 respectively. For the six months ended 30 June, 2004, the unaudited net loss of the Group was approximately HK$6,460,000. As advised by the Directors, upon completion of the Three Agreements, Elipva will become a wholly-owned subsidiary of the Group and the financial results of Elipva Group will be consolidated into the Group's consolidated financial statements. As stated in the "Accountants' report on Elipva Group" set out in Appendix I to the Circular, Elipva recorded audited consolidated net loss of approximately HK$3,768,000 and approximately HK$1,195,000 for the year ended 31 December, 2003 and the five months ended 31 May, 2004 respectively.

According to the "Pro forma financial information of the Enlarged Group" set out in Appendix III to the Circular, the amount of goodwill arising from the Share Swap is estimated to be approximately HK$18,394,000. As advised by the Directors, the estimated goodwill arising from the Share Swap is to be amortised by equal annual instalment over its estimated useful economic life of 10 years under the Company's accounting policy. As a result, a goodwill amount of approximately HK$1,839,400 will be charged against the profit and loss account of the Group on an annual basis after completion of the Share Swap.

Although Elipva recorded audited consolidated net losses for the year ended 31 December, 2003 and the five months ended 31 May, 2004, there was a significant increase in the audited consolidated turnover of Elipva from approximately HK$6,505,000 in the year ended 31 December, 2002 to approximately HK$10,647,000 in the year ended 31 December, 2003. Elipva further recorded an audited consolidated turnover of approximately HK$7,878,000 in the five months ended 31 May, 2004, which showed an increase from approximately HK$3,825,000 recorded in the five months ended 31 May, 2003. In addition, the audited consolidated net loss of Elipva was reduced from approximately HK$6,482,000 in the year ended 31 December, 2002 to approximately HK$3,768,000 in the year ended 31 December, 2003. The audited consolidated net loss of Elipva decreased further from approximately HK$2,007,000 in the five months ended 31 May, 2003 to approximately HK$1,195,000 in the five months ended 31 May, 2004. As such, the Directors are optimistic about the future business performance of Elipva. The Directors consider that the entering into of the Share Swap Agreement could provide the Company with an opportunity to gain business access into the South East Asian market, which is in line with the business direction and expansion policy of the Group, offer a further extension to the Group's system integration business, and enrich the Group's customer base through Elipva's current business relationships with various multinational companies, financial institutions and government agencies in Singapore. In addition, the Share Swap would provide an additional revenue stream to the Group and lead to cost savings in operation through the relocation of certain development phases of Elipva's projects to the Group's subsidiaries in Mainland China. Taking into consideration the above, we are of the view that the Share Swap would strengthen the Group's business performance in the future.

3.2 Net assets

As at 31 December, 2003, the audited consolidated net assets of the Group was approximately HK$29,349,000. According to the "Pro forma financial information of the Enlarged Group" set out in Appendix III to the Circular, the unaudited adjusted consolidated net assets of the Group, after taking into account the effects of (a) the agreement entered into between the Group and Dynamate for the subscription of 150,000,000 shares of the Company on 16 February, 2004 (the "Dynamate Subscription"); and (b) the issue and allotment of 298,000,000 shares of the Company to M Dream China as part of the consideration of acquisition of M Dream Mobile Entertainment Limited (the "M Dream MEL Acquisition") as if they had been consummated on 31 December, 2003, would be approximately HK$63,260,000 (the "Adjusted Original Net Assets"). According to the "Pro forma financial information of the Enlarged Group" set out in Appendix III to the Circular, the pro forma unaudited adjusted consolidated net assets of the Group would be approximately HK$105,894,000 as at 31 December, 2003 after taking into account the effects of the Dynamate Subscription, the M Dream MEL Acquisition, the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement as if they had been consummated on 31 December, 2003, representing an increase of approximately 67.4% from the Group's Adjusted Original Net Assets.

The Adjusted Original Net Assets per Share would be approximately HK$0.0374 (based on 1,690,608,000 Shares in issue as at the Latest Practicable Date which had taken into account the effects of the Dynamate Subscription and the M Dream MEL Acquisition but before taking into account the effects of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement). The pro forma unaudited adjusted net assets per Share of the Group would be approximately HK$0.0406 (based on 2,606,949,911 Shares in issue as a result of the completion of the Dynamate Subscription, the M Dream MEL Acquisition, the MDC Subscription, the Share Swap and the STT Subscription), representing an increase of approximately 8.6% from the Adjusted Original Net Assets per Share. Based on the above, we consider that the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement would enhance both the net assets and the net assets per Share of the Group.

	Audited figure as at 31 December, 2003	After taking into account the effects of the Dynamate Subscription and the M Dream MEL Acquisition but before taking into account the effects of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement	After taking into account the effects of the Dynamate Subscription and the M Dream MEL Acquisition as well as the effects of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement
Consolidated net assets of the Group *(HK$)*	29,349,000	63,260,000	105,894,000
No. of Shares in issue	1,242,608,000	1,690,608,000	2,606,949,911
Net assets per Share of the Group *(HK$)*	0.0236	0.0374	0.0406

3.3 Gearing

As at 31 December, 2003, the audited consolidated total assets of the Group were approximately HK$32,047,000 and the audited consolidated total liabilities of the Group amounted to approximately HK$2,461,000. According to the "Pro forma financial information of the Enlarged Group" set out in Appendix III to the Circular, the unaudited adjusted consolidated total assets and total liabilities of the Group, after taking into account the effects of the Dynamate Subscription and the M Dream MEL Acquisition as if they had been consummated on 31 December, 2003 but before taking into account the effects of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement, would be approximately HK$65,998,000 and HK$2,501,000 respectively. On such basis, the Group's gearing ratio (defined as the amount of total liabilities divided by total assets) would be approximately 3.8%. According to the "Pro forma financial information of the Enlarged Group" set out in Appendix III to the Circular, the pro forma unaudited adjusted consolidated total assets and total liabilities of the Group after taking into account the effects of the Dynamate Subscription, the M Dream MEL Acquisition, the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement as if they had been consummated on 31 December, 2003 would be approximately HK$111,900,000 and HK$5,769,000 respectively, representing a gearing ratio of approximately 5.2%. We consider such slight increase in the gearing ratio of the Group would not have a material effect on the Group's financial position.

3.4 Working capital

As stated in the Board Letter, there will be no cash outlays involved in the acquisition of Elipva since the Transaction Consideration will be fully settled by way of the issue and allotment of the Consideration Shares. Hence, it will neither impose any immediate cashflow burden nor have any adverse impact on the working capital position of the Group. In addition, as at 30 June, 2004, the Group had cash and bank balances of approximately HK$3,471,000. The Group's cash position would be strengthened as a result of the MDC Subscription and the STT Subscription with the net proceeds of approximately HK$13.34 million in cash. As stated in the Board Letter, approximately HK$12 million out of the net proceeds of approximately HK$13.34 million derived from the MDC Subscription and the STT Subscription will be allocated for the development of the Group's mobile value added service business in Mainland China and the remaining balance of approximately HK$1.34 million will be used as general working capital of the Group. As set out in Appendix III of the Circular, the Directors are of the opinion that after taking into account the Group's present internal resources and available credit facilities, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of the Circular.

4. Shareholding dilution

The table below sets out the aggregate shareholding of each of the following parties in the Company immediately before and after the completion of the MDC Subscription, the Share Swap and the STT Subscription.

Shareholder	Number of Shares held as at the Latest Practicable Date	Number of Shares held immediately after completion of the MDC Subscription Agreement but without taking into account the completion of the Share Swap Agreement and the STT Subscription Agreement	Number of Shares held immediately after completion of the MDC Subscription Agreement and the STT Subscription Agreement but without taking into account the completion of the Share Swap Agreement	Number of Shares held immediately after completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement
M Dream China	360,000,000 Shares (21.29%)	512,941,176 Shares (27.82%)	512,941,176 Shares (25.69%)	512,941,176 Shares (19.68%)
Dynamate	170,163,200 Shares (10.07%)	170,163,200 Shares (9.23%)	170,163,200 Shares (8.52%)	170,163,200 Shares (6.53%)
Shenzhen Ingen Technology Company Limited	147,440,000 Shares (8.72%)	147,440,000 Shares (8.00%)	147,440,000 Shares (7.38%)	147,440,000 Shares (5.66%)
STTC and STT	0%	0%	152,941,176 Shares (7.66%)	507,862,364 Shares (19.48%)
Allwin Asia Inc.	0%	0%	0%	204,870,228 Shares (7.86%)
Elipva Shareholders (other than STTC and Allwin Asia Inc.) (Note)	0%	0%	0%	50,668,143 Shares (1.94%)
Public	1,013,004,800 Shares (59.92%)	1,013,004,800 Shares (54.95%)	1,013,004,800 Shares (50.74%)	1,013,004,800 Shares (38.85%)
Total	1,690,608,000 Shares (100%)	1,843,549,176 Shares (100%)	1,996,490,352 Shares (100%)	2,606,949,911 Shares (100%)

Note eMatrix Pte Ltd. and its controlling shareholders, Mr. Choong Ying Chuan would together hold 48,653,626 Shares (representing approximately 1.87% of the enlarged issued share capital of the Company as at such completion), while Mr. Chang Sau Sheong would hold 2,014,516 Shares (representing approximately 0.07% of the enlarged issued share capital of the Company as at such completion).

Following completion of the MDC Subscription, the Share Swap and the STT Subscription, an aggregate maximum of 916,341,911 new Shares will be issued, representing approximately 54.20% of the issued share capital of the Company as at the Latest Practicable Date and approximately 35.15% of the issued share capital of the Company as enlarged by the new Shares to be issued under the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement. As referred to in the above table, the shareholding of M Dream China in the Company would decrease from approximately 21.29% to 19.68% and that of Dynamate and Shenzhen Ingen Technology Company Limited would respectively decrease from approximately 10.07% to 6.53% and from approximately 8.72% to 5.66%, while that of the public Shareholders would decrease from approximately 59.92% to 38.85%. According to the confirmations of Elipva Shareholders on their shareholding interests in the Company upon completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement as set out in the Board Letter, STTC and the other Elipva Shareholders and their respective parties acting in concert with them will in aggregate hold less than 30% of the voting rights of the Company immediately upon the completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement.

As discussed in the paragraph headed "Financial effects" above, since the net assets of the Group would increase from approximately HK$63,260,000 to HK$105,894,000 and the net assets per Share would increase from approximately HK$0.0374 to HK$0.0406 as at 31 December, 2003 upon completion of the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement, we are of the view that the dilution effect is acceptable in so far as the Independent Shareholders are concerned.

Although only M Dream China, the substantial shareholder of the Company, and STTC will be entitled to subscribe for new Shares under the MDC Subscription and the STT Subscription respectively, having considered the Subscription Price and the benefits discussed under the above sub-sections headed "Reasons for the MDC Subscription and the STT Subscription" and "Financial effects", we consider that the entering into of the MDC Subscription and the STT Subscription by the Company is fair and reasonable in so far as the Independent Shareholders are concerned.

RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the entering into of the MDC Subscription, the Share Swap and the STT Subscription are in the interests of the Company and the Shareholders as a whole and their respective terms are fair and reasonable in so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the MDC Subscription, the Share Swap and the STT Subscription.

Yours faithfully,
For and on behalf of
Shenyin Wanguo Capital (H.K.) Limited
Simon Lee
Director, Head of Corporate Finance

The following is the text of a report, prepared for the purpose of inclusion in this circular, from the reporting accountants of M Dream Inworld Limited.

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

6th Floor
Wheelock House
20 Pedder Street
Central
Hong Kong

8 October, 2004

The Directors
M Dream Inworld Limited

Dear Sirs,

We set out below our report on the financial information regarding Elipva Limited ("Elipva") and its subsidiaries (hereinafter collectively referred to as "Elipva Group") for each of the three years ended 31 December, 2001, 2002 and 2003, for the five months ended 31 May, 2003 and 31 May, 2004 (the "Relevant Periods") prepared on the basis as set out in Note 1 below, for inclusion in the circular of M Dream Inworld Limited (the "Company") dated 8 October, 2004 (the "Circular").

Elipva is a public* limited liability company incorporated in the Republic of Singapore. Elipva was first incorporated as a private limited liability company in the name of Sttarfire.com (Asia Pacific) Ltd on 27 December, 1999. On 27 November, 2000, it changed its name to Elipva Pte Ltd and on 12 December, 2000, it further changed its name to Elipva Limited and was converted to a public limited liability company on the same day by passing a special resolution.

Elipva is engaged in the business of providing system solutions, including e-business applications, identity and access management, security infrastructure, human capital and financial management, system and enterprise applications integration. It is owned to approximately 56.48% by STT Communications Limited ("STTC"), 34.88% by Allwin Asia Inc., 7.85% by eMatrix Pte Ltd., 0.44% by Mr Choong Ying Chuan and 0.35% by Mr Chang Sau Sheong (the "Elipva Shareholders") respectively as at 31 May, 2004.

* The difference between a private limited liability company and a public limited liability company in Singapore is that a private limited liability company

(i) limits the number of shareholders to 20; and

(ii) prohibits any invitation to the public to subscribe for shares of the company.

On 30 July, 2004, the Company entered into a share swap agreement with the Elipva Shareholders and Elipva (the "Share Swap Agreement"), pursuant to which the Elipva Shareholders conditionally agree to sell, and the Company conditionally agree to purchase, the entire issued share capital of Elipva held by the Elipva Shareholders as at the Completion Date at the Transaction Consideration to be satisfied by the Company's issue and allotment of the Consideration Shares (with a maximum of 610,459,559 shares) at an issue price of HK$0.051 per share. The Transaction Consideration will be the lower of (a) 2.75 times the net asset value of Elipva; and (b) a maximum of S$6,875,000 (approximately HK$31,133,437.50). The net asset value of Elipva will take into account the Elipva Capitalisation. Under the Elipva Capitalisation, one of its existing shareholders, Allwin Asia Inc. will inject about S$1.71 million in cash into Elipva to subscribe for 34,200,000 new shares in Elipva, whilst STTC, the major shareholder will apply its loan of S$4.752 million and payables of S$0.402 million due from Elipva to subscribe for 63,472,760 new shares in Elipva. Upon completion of the Elipva Capitalisation, Elipva will be owned as to 58.14% by STTC, 33.56% by Allwin Asia Inc., 7.55% by eMatrix Pte Limited, 0.42% by Mr Choong Ying Chuan and 0.33% by Mr Chang Sau Sheong respectively.

On 30 July, 2004, the Company also entered into a subscription agreement with stt Ventures Limited ("STT") (the "STT Subscription Agreement"), pursuant to which STT conditionally agreed to subscribe for an aggregate of 152,941,176 new shares of the Company at a subscription price of HK$0.051 per share.

On the same day, the Company entered into an agreement with M Dream China (Holdings) Limited (the "MDC Subscription Agreement"), pursuant to which M Dream China (Holdings) Limited conditionally agreed to subscribe for an aggregate of 152,941,176 new shares of the Company at a subscription price of HK$0.051 per share.

Completion of the Share Swap Agreement, the STT Subscription Agreement and the MDC Subscription Agreement (the "Three Agreements") are inter-conditional and shall take place simultaneously. Upon completion of the Three Agreements, the Company will have the entire equity interests in Elipva and Elipva will become a wholly owned subsidiary of the Company.

The audited consolidated financial statements of Elipva Group for the years ended 31 December, 2001, 2002 and 2003 were prepared in accordance with the provisions of the Companies Act of Singapore and Singapore Financial Reporting Standards and were audited by KPMG, Certified Public Accountants, in accordance with Singapore Standards on Auditing.

The audited consolidated financial statements of Elipva Group for the five months ended 31 May, 2004 were prepared in accordance with Singapore Financial Reporting Standards and were audited by HLB Loke Lum and Partners in accordance with Singapore Standards on Auditing.

For the purpose of this report, the directors of Elipva have prepared the unaudited consolidated management accounts of Elipva Group for each of the Relevant Periods in accordance with the accounting principles generally accepted in Hong Kong for which the directors of Elipva are solely responsible. The consolidated income statements, the consolidated statement of changes in equity, consolidated cash flow statements of Elipva Group for the Relevant Periods and the consolidated balance sheets of Elipva Group as at 31 December, 2001, 2002 and 2003 and 31 May, 2003 and 2004, together with the notes thereto (the "Financial Information"), set out in this report are prepared on the basis as set out in note 1 below. For the purpose of this report, we have examined the Financial Information in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The directors of Elipva are responsible for the Financial Information, together with the notes thereto. In preparing the Financial Information, which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. 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, based on our examination, on the Financial Information.

In our opinion, the Financial Information, for the purpose 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 Elipva Group for the Relevant Periods and of the state of affairs of Elipva Group as at 31 December, 2001, 2002 and 2003 and 31 May, 2003 and 2004.

As at the date of this report, Elipva had direct interest in the following subsidiary:

Name	Place of incorporation and business	Date of incorporation	Issued and fully paid share capital	Percentage of equity attributable to Elipva	Principal activities
Elipva Inc.	United States of America	26 October, 2002	US$100	100%	Dormant

During the Relevant Periods and up to the date of this report, there were no significant changes in Elipva Group's structure, except for:

(a) On 31 October, 2001, Elipva Hong Kong/China Limited, a limited liability company incorporated in Hong Kong was put into creditors' voluntary liquidation. Elipva held 55% equity interest in Elipva Hong Kong/China Limited before it was put into liquidation.

(b) On 6 May, 2002, Elipva (M) Sdn Bhd, a company incorporated in Malaysia, was put into creditors' voluntary liquidation. Elipva held 90% equity interest in Elipva (M) Sdn Bhd before it was put into liquidation.

A. CONSOLIDATED INCOME STATEMENT

	Note	Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	2	7,878	3,825	10,647	6,505	22,676
Other income	2	192	14	41	1,840	1,059
Gain on liquidation of subsidiaries	21	–	–	–	4,792	–
Cost of software and hardware		(4,488)	(2,160)	(4,881)	(2,145)	(8,693)
Depreciation and impairment		(32)	(99)	(200)	(1,561)	(3,087)
Administrative expenses		(4,576)	(3,411)	(8,921)	(15,460)	(35,128)
Loss from operations	3	(1,026)	(1,831)	(3,314)	(6,029)	(23,173)
Finance costs	16	(169)	(176)	(454)	(453)	(157)
Loss on ordinary activities before taxation		(1,195)	(2,007)	(3,768)	(6,482)	(23,330)
Taxation	4	–	–	–	–	–
Loss after taxation but before minority interest		(1,195)	(2,007)	(3,768)	(6,482)	(23,330)
Minority interest		–	–	–	–	392
Loss for the period/year	15	(1,195)	(2,007)	(3,768)	(6,482)	(22,938)
Loss per share Basic, HK cents	5	(1.04)	(1.75)	(3.29)	(13.86)	(57.00)

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

The accompanying notes form an integral part of the Financial Information.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 May, 2004 HK$'000	As at 31 May, 2003 HK$'000	As at 31 December, 2003 HK$'000	2002 HK$'000	2001 HK$'000
Non-current assets						
Fixed assets	7	161	190	166	266	4,102
Current assets						
Trade receivables	9	2,748	2,268	3,322	761	5,705
Prepayments, deposits and other receivables		1,489	882	1,037	1,553	844
Pledged fixed deposits		487	–	–	–	–
Cash and bank balances		3,378	7,407	6,110	10,737	1,629
		8,102	10,557	10,469	13,051	8,178
Less: **Current liabilities**						
Trade payables	10	1,884	1,188	1,010	1,314	2,528
Amount due to immediate holding company	11	1,850	1,809	2,842	1,103	11,993
Amount due to intermediate holding company	11	280	23	233	90	127
Amount due to related companies	11	23	63	55	72	3,258
Other payables and accruals		1,081	1,674	2,171	2,624	3,810
Loan from immediate holding company	12	–	–	–	–	12,255
		5,118	4,757	6,311	5,203	33,971
Net current assets/(liabilities)		2,984	5,800	4,158	7,848	(25,793)
Total assets less current liabilities		3,145	5,990	4,324	8,114	(21,691)
Less: **Non-current liabilities**						
Loan from immediate holding company	12	21,812	21,384	21,717	21,384	–
Net liabilities		(18,667)	(15,394)	(17,393)	(13,270)	(21,691)
Representing:						
Share capital	13	25,641	25,641	25,641	25,641	9,000
Reserves	15	(44,308)	(41,035)	(43,034)	(38,911)	(30,691)
Shareholders' deficits		(18,667)	(15,394)	(17,393)	(13,270)	(21,691)

The accompanying notes form an integral part of the Financial Information.

BALANCE SHEET

	Note	As at 31 May, 2004 HK$'000	As at 31 May, 2003 HK$'000	As at 31 December, 2003 HK$'000	2002 HK$'000	2001 HK$'000
Non-current assets						
Fixed assets	7	161	190	166	266	3,562
Investment in subsidiaries	8	–	–	–	–	–
		161	190	166	266	3,562
Current assets						
Trade receivables	9	2,748	2,268	3,322	761	4,220
Prepayments, deposits and other receivables		1,489	882	1,037	1,553	549
Pledged fixed deposits		487	–	–	–	–
Cash and bank balances		3,378	7,407	6,110	10,737	1,608
		8,102	10,557	10,469	13,051	6,377
Less: **Current liabilities**						
Trade payables	10	1,884	1,188	1,010	1,314	2,355
Amount due to immediate holding company	11	1,850	1,809	2,842	1,103	11,993
Amount due to intermediate holding company	11	280	23	233	90	122
Amount due to related companies	11	23	63	55	72	21
Other payables and accruals		1,081	1,674	2,171	2,624	1,916
Loan from immediate holding company	12	–	–	–	–	12,255
		5,118	4,757	6,311	5,203	28,662
Net current assets/(liabilities)		2,984	5,800	4,158	7,848	(22,285)
Total assets less current liabilities		3,145	5,990	4,324	8,114	(18,723)
Less: **Non-current liabilities**						
Loan from immediate holding company	12	21,812	21,384	21,717	21,384	–
Net liabilities		(18,667)	(15,394)	(17,393)	(13,270)	(18,723)
Representing:						
Share capital	13	25,641	25,641	25,641	25,641	9,000
Reserves	15	(44,308)	(41,035)	(43,034)	(38,911)	(27,723)
Shareholders' deficits		(18,667)	(15,394)	(17,393)	(13,270)	(18,723)

The accompanying notes form an integral part of the Financial Information.

CONSOLDIATED STATEMENT OF CHANGES IN EQUITY

	Note	Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total equity at the beginning of the period/year		(17,393)	(13,270)	(13,270)	(21,691)	121
Issue of new shares		–	–	–	16,641	–
Loss for the period/year	*15*	(1,195)	(2,007)	(3,768)	(6,482)	(22,938)
Exchange translation gain/(loss)	*15*	(79)	(117)	(355)	(1,738)	1,126
Total equity at the end of the period/year		(18,667)	(15,394)	(17,393)	(13,270)	(21,691)

The accompanying notes form an integral part of the Financial Information.

CONSOLIDATED CASH FLOW STATEMENT

	Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities					
Loss before taxation	(1,195)	(2,007)	(3,768)	(6,482)	(23,330)
Adjustments for:					
Depreciation and impairment of property, plant and equipment	32	99	200	1,561	3,087
Exchange losses/(gain)	16	(117)	(22)	(620)	1,076
Gain on liquidation of subsidiary	–	–	–	(4,792)	–
Interest expense	169	176	454	453	157
Loss on disposal of property, plant and equipment	–	–	–	–	201
Write off of property, plant and equipment	–	–	–	1,875	440
Provision for doubtful debts	413	–	–	623	2,437
Operating loss before working capital changes	(565)	(1,849)	(3,136)	(7,382)	(15,932)
Decrease/(increase) in trade receivables	161	(1,507)	(2,561)	3,459	(1,419)
(Increase)/decrease in other receivables, deposits and prepayments	(452)	806	516	(1,004)	592
Increase/(decrease) in trade payables	874	(126)	(304)	(1,041)	926
(Decrease)/increase in other payables and accruals	(1,090)	(950)	(453)	708	(5,208)
(Decrease)/increase in amount due to immediate holding company	(992)	571	1,739	(3,089)	8,973
(Decrease)/increase in amount due to related corporation	(32)	(9)	(17)	51	1,404
Increase/(decrease) in amount due to intermediate holding company	47	(67)	143	(32)	127

	Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash used in operations	(2,049)	(3,131)	(4,073)	(8,330)	(10,537)
Interest paid	(169)	(176)	(454)	(453)	(157)
Net cash used in operating activities	(2,218)	(3,307)	(4,527)	(8,783)	(10,694)
Cash flows from investing activities					
Purchase of property, plant and equipment	(27)	(23)	(100)	(78)	(2,088)
Increase in pledged fixed deposits	(487)	–	–	–	–
Net cash used in investing activities	(514)	(23)	(100)	(78)	(2,088)
Cash flows from financing activities					
Issue of share capital	–	–	–	8,840	–
Loan from immediate holding company	–	–	–	9,129	12,255
Net cash generated from financing activities	–	–	–	17,969	12,255
Net (decrease)/increase in cash and cash equivalents	(2,732)	(3,330)	(4,627)	9,108	(527)
Cash and cash equivalents at the beginning of the period/year	6,110	10,737	10,737	1,629	2,156
Cash and cash equivalents at the end of the period/year	3,378	7,407	6,110	10,737	1,629
Analysis of balances of cash and cash equivalents					
Cash and bank balances	3,378	7,407	6,110	10,737	1,629

The accompanying notes form an integral part of the Financial Information.

NOTES TO FINANCIAL INFORMATION

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The financial information have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 preparation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the periods ended 31 May, 2003 and 31 May, 2004, and the years ended 31 December, 2003, 2002 and 2001. The results of the 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 Elipva Group are eliminated on consolidation.

The Financial Information is prepared on a going concern basis. The Elipva Group incurred significant accumulated losses and a deficiency in shareholders' funds as at 31 May, 2004 and its continuance in business as a going concern is dependent upon the Elipva Group maintaining future profitable operations and the continuing financial support from its shareholders. The Financial Information has been prepared on a going concern basis as a shareholder has confirmed to provide continuing financial support to Elipva Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due.

(b) Subsidiaries

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

Investment in subsidiaries in the Elipva's balance sheet is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to Elipva. The results of subsidiaries are accounted for by Elipva on the basis of dividends received and receivable during the year.

(c) Fixed Assets and depreciation

1. Valuation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

2. 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 improvement	:	2 to 5 years
Office equipment	:	3 years
Computers	:	2 years

3. Disposition

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

(d) 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 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 year in which it arises.

1. 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 in 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).

2. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been changed in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount related clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(e) Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

(f) 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.

The assets and liabilities of Elipva Group's operations denominated in Singapore dollars are translated to Hong Kong dollars at the rates ruling on the balance sheet date. Income and expense items denominated in Singapore dollars are translated to Hong Kong dollars at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to Elipva Group's exchange reserve.

(g) 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 Elipva 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 Elipva Group's operating cycle.

(h) Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that effects 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 Elipva Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent 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.

(i) Recognition of revenue

1. Revenue from sales of software and hardware is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, which generally coincide with the time of delivery. Revenue comprises the invoiced value for the sale of products net of goods selling tax ("GST"), rebates and discounts.

2. Revenue from professional services is recognised on the percentage of completion basis when the outcome of the transaction can be estimated reliably.

3. Revenue pertaining to the provision of maintenance services is deferred and recognised over the period in which the services are rendered.

(j) Related party 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.

(k) Retirement benefits schemes

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

2. Contributions to defined contribution pension plans are recognised as an expense in the income statement when incurred.

3. Elipva Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Elipva Group's operations. The financial impact of share options granted under the share option scheme is not recorded in Elipva Group's balance sheet until such time as the options are exercised, and no charge is recorded in the consolidated income statement or consolidated balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by

Elipva as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by Elipva in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(l) Provisions

Provisions are recognised when Elipva Group has 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.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of Elipva Group's cash management are also included as a component of cash and cash equivalents of the purpose of the cash flow statement.

(n) 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 Elipva 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 information. 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 Elipva Group.

Contingent assets are not recognised but are disclosed in the notes to the financial information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) 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 year in which the costs are incurred.

(p) Government Grants

Income-related government grants are credited to income statement in the period to which they relate.

2. TURNOVER AND REVENUE

The principal activities of Elipva Group are those relating to the provision of system solutions. An analysis of revenue recognised during the Relevant Periods is as follows:

	Five months ended 31 May, 2004	**Five months ended 31 May, 2003**	**Year ended 31 December, 2003**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
– System solutions	7,878	3,825	10,647	6,505	22,676
Other income					
– Grant income	183	–	–	1,818	911
– Others	9	14	41	22	148
	192	14	41	1,840	1,059
Total revenue	8,070	3,839	10,688	8,345	23,735

3. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

		Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' remuneration	– fees	–	–	–	–	–
	– other emoluments	457	509	1,107	1,030	1,354
	– central provident fund	16	44	81	77	110
Total staff costs, excluding directors' remuneration						
– Central provident fund		254	258	600	1,174	2,240
– Salaries and other staff costs		2,873	2,051	5,667	8,593	21,423
Depreciation and impairment of owned fixed assets		32	99	200	1,561	3,087
Auditors' remuneration		11	11	27	39	48
Net exchange loss		11	–	–	26	166
Cost of inventories expensed		4,488	2,160	4,881	2,145	8,693
Loss on disposal of fixed assets		–	–	–	–	201
Write off of property, plant and equipment		–	–	–	1,875	440

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

	Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and other emoluments (including central provident fund)	1,039	856	1,986	1,907	2,143

(ii) The five highest paid employees during the period included one (31 May, 2003: one; 2003: one; 2002: one; 2001: one) director, details of whose remuneration are set out above. Details of the remaining four (31 May, 2003: four; 2003: four; 2002: four; 2001: four) non-director, highest paid employees, which each remuneration fell into the band of nil to HK$1,000,000 are set out in point (i) above.

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

4. TAXATION

No provision for Hong Kong profits tax has been made as there was no assessable profits derived in Hong Kong by Elipva Group during the Relevant Periods. No provision for Singapore income taxes has been made as Elipva Group incurred taxation loss for the Relevant Periods. The Group recorded no current and deferred Singapore tax during the Relevant Periods.

There are no material unprovided deferred tax assets and liabilities as at the end of each of the Relevant Periods.

Reconciliation between tax expense and accounting profit at applicable tax rates:

	Five months ended 31 May, 2004	**Five months ended 31 May, 2003**	**Year ended 31 December, 2003**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss before taxation	1,195	2,007	3,768	6,482	23,330
Tax at the domestic income tax of 22% (2003, 2002 and 2001: 22%)	263	442	829	1,426	5,716
Estimated tax effect of income that is not taxable in determining taxable profit	–	–	23	1,055	–
Estimated tax effect of expense that is not deductible in determining taxable profit	(44)	–	–	(201)	(2,006)
Estimated tax effect of unrecognised tax losses	(213)	(417)	(177)	(1,230)	(2,738)
Estimated tax effect of unrecognised temporary difference	(6)	(25)	(675)	(1,050)	(972)
Taxation charge for the period/year	–	–	–	–	–

5. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$1,195,000 (31 May, 2003: loss of 2,007,000; 2003: loss of HK$3,768,000; 2002: loss of HK$6,482,000; 2001: loss of HK$22,938,000) and the weighted average of 114,672,000 (31 May, 2003: 114,672,000; 2003: 114,672,000; 2002: 46,751,167; 2001: 40,000,000) ordinary share in issue during the period.

The computation of diluted loss per share for the periods ended 31 May, 2004 and 31 May, 2003 and for the years 2001, 2002 and 2003 does not assume the conversion of Elipva's share options since their exercise would result in a decrease in net loss per share from ordinary activities.

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The amount dealt with in the financial statements of Elipva for the period amounted to loss of HK$1,195,000 (31 May, 2003: loss of HK$2,124,000; 2003: loss of HK$3,886,000; 2002: loss of HK$9,596,000; 2001: loss of HK$21,133,000).

7. FIXED ASSETS

Elipva Group

	Leasehold improvements	Office equipment	Computers	Assets under installation and construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:					
At 1 January, 2001	1,859	319	2,948	1,539	6,665
Additions	706	61	1,312	9	2,088
Disposals	(518)	–	(432)	–	(950)
Translation difference	35	4	22	–	61
Transfer	1,539	–	–	(1,539)	–
At 31 December, 2001 and at 1 January, 2002	3,621	384	3,850	9	7,864
Additions	52	–	26	–	78
Disposals	(3,012)	–	–	–	(3,012)
Liquidation of subsidiaries	(609)	(331)	(961)	–	(1,901)
Transfer	9	–	–	(9)	–
At 31 December, 2002 and at 1 January, 2003	61	53	2,915	–	3,029
Additions	–	41	59	–	100
Disposals	–	–	(244)	–	(244)
At 31 December, 2003 and at 1 January, 2004	61	94	2,730	–	2,885
Additions	–	–	27	–	27
Disposals	–	–	–	–	–
At 31 May, 2004	61	94	2,757	–	2,912

	Leasehold improvements	Office equipment	Computers	Assets under installation and construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation and impairment loss:					
At 1 January, 2001	203	41	720	–	964
Charge for the year	676	113	1,831	–	2,620
Impairment losses	306	48	113	–	467
On disposals written back	(77)	–	(212)	–	(289)
At 31 December, 2001 and at 1 January, 2002	1,108	202	2,452	–	3,762
Charge for the year	445	65	1,051	–	1,561
Liquidation of subsidiaries	(476)	(228)	(788)	–	(1,492)
On disposals written back	(1,068)	–	–	–	(1,068)
At 31 December, 2002 and at 1 January, 2003	9	39	2,715	–	2,763
Charge for the year	14	23	163	–	200
On disposals written back	–	–	(244)	–	(244)
At 31 December, 2003 and at 1 January, 2004	23	62	2,634	–	2,719
Charge for the period	4	6	22	–	32
At 31 May, 2004	27	68	2,656	–	2,751
Net book value:					
At 31 May, 2004	**34**	**26**	**101**	**–**	**161**
At 31 December, 2003	38	32	96	–	166
At 31 December, 2002	52	14	200	–	266
At 31 December, 2001	2,513	182	1,398	9	4,102

	Leasehold improvements	Office equipment	Computers	Assets under installation and construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:					
At 1 January, 2003	61	53	2,915	–	3,029
Additions	–	23	–	–	23
At 31 May, 2003	61	76	2,915	–	3,052
Depreciation and impairment loss:					
At 1 January, 2003	9	39	2,715	–	2,763
Additions	5	9	85	–	99
At 31 May, 2003	14	48	2,800	–	2,862
Net book value:					
At 31 May, 2003	47	28	115	–	190

Elipva

	Leasehold improvements	Office equipment	Computers	Assets under installation and construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:					
At 1 January, 2001	810	22	1,917	1,539	4,288
Additions	663	31	1,251	9	1,954
Disposals	–	–	(279)	–	(279)
Transfer	1,539	–	–	(1,539)	–
At 31 December, 2001 and at 1 January, 2002	3,012	53	2,889	9	5,963
Additions	52	–	26	–	78
Disposals	(3,012)	–	–	–	(3,012)
Transfer	9	–	–	(9)	–
At 31 December, 2002 and at 1 January, 2003	61	53	2,915	–	3,029
Additions	–	41	59	–	100
Disposals	–	–	(244)	–	(244)
At 31 December, 2003 and at 1 January, 2004	61	94	2,730	–	2,885
Additions	–	–	27	–	27
At 31 May, 2004	61	94	2,757	–	2,912
Depreciation and impairment loss:					
At 1 January, 2001	113	5	549	–	667
Charge for the year	519	17	1,360	–	1,896
On disposals written back	–	–	(162)	–	(162)
At 31 December, 2001 and at 1 January, 2002	632	22	1,747	–	2,401
Charge for the year	445	17	968	–	1,430
On disposals written back	(1,068)	–	–	–	(1,068)

	Leasehold improvements	Office equipment	Computers	Assets under installation and construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December, 2002 and at 1 January, 2003	9	39	2,715	–	2,763
Charge for the year	14	23	163	–	200
On disposals written back	–	–	(244)	–	(244)
At 31 December, 2003 and at 1 January, 2004	23	62	2,634	–	2,719
Charge for the period	4	6	22	–	32
At 31 May, 2004	27	68	2,656	–	2,751
Net book value:					
At 31 May, 2004	34	26	101	–	161
At 31 December, 2003	38	32	96	–	166
At 31 December, 2002	52	14	200	–	266
At 31 December, 2001	2,380	31	1,142	9	3,562
At cost:					
At 1 January, 2003	61	53	2,915	–	3,029
Additions	–	23	–	–	23
At 31 May, 2003	61	76	2,915	–	3,052
Depreciation and impairment loss:					
At 1 January, 2003	9	39	2,715	–	2,763
Additions	5	9	85	–	99
At 31 May, 2003	14	48	2,800	–	2,862
Net book value:					
At 31 May, 2003	47	28	115	–	190

8. INVESTMENT IN SUBSIDIARIES

Elipva

	As at 31 May, 2004 HK$'000	As at 31 May, 2003 HK$'000	As at 31 December, 2003 HK$'000	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	–	–	–	–	4,437
Less: Provision for impairment loss	–	–	–	–	(4,437)
	–	–	–	–	–
Amount due from subsidiaries	–	–	–	–	3,448
Less: Provision for amount due from subsidiaries	–	–	–	–	(3,448)
	–	–	–	–	–

Cost of investment in Elipva Inc. amounting to S$2, no provision for impairment loss has been made.

9. TRADE RECEIVABLES

An ageing analysis of trade receivables, net of provisions, is as follows:

	As at 31 May, 2004 HK$'000	As at 31 May, 2003 HK$'000	As at 31 December, 2003 HK$'000	2002 HK$'000	2001 HK$'000
Below 30 days	222	1,512	1,814	574	3,307
31-60 days	723	744	127	–	2,250
61-90 days	1,374	–	401	–	132
Over 90 days	429	12	980	187	16
	2,748	2,268	3,322	761	5,705

Elipva Group generally grants a credit term of 30 – 90 days to its customers.

10. TRADE PAYABLES

An ageing analysis of trade payables, based on invoice date, is as follows:

	As at 31 May, 2004	As at 31 May, 2003	As at 31 December, 2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Below 30 days	1,135	27	802	908	–
31-60 days	725	868	184	406	2,528
61-90 days	–	269	–	–	–
Over 90 days	24	24	24	–	–
	1,884	1,188	1,010	1,314	2,528

11. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY / INTERMEDIATE HOLDING COMPANY / RELATED COMPANIES

The amounts due are unsecured, interest free and repayable on demand.

12. LOAN FROM IMMEDIATE HOLDING COMPANY

The loan is unsecured, bears interests at 50 basis points above the immediate holding company's cost of borrowing, and is repayable in 2007.

13. SHARE CAPITAL

	As at 31 May, 2004	As at 31 May, 2003	As at 31 December, 2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Authorised:				*Note 1*	
120,000,000 ordinary shares of S$0.05 each	26,680	26,680	26,680	26,680	
40,000,000 ordinary shares of S$0.05 each					9,000
Issued and fully paid:				*Note 1*	
114,672,000 ordinary shares of S$0.05 each	25,641	25,641	25,641	25,641	
40,000,000 ordinary shares of S$0.05 each					9,000

Note 1: By an ordinary resolution passed at the Extraordinary General Meeting held on 25 November, 2002, Elipva's authorised share capital was increased from S$2,000,000 to S$6,000,000 by the creation of an additional 80,000,000 ordinary shares of S$0.05 each. During the year ended 31 December, 2002, Elipva capitalised a loan amount of S$1,733,600 due to its immediate holding company by the allotment and issuance of 34,672,000 ordinary shares of S$0.05 each. On 29 November, 2002, Elipva allotted and issued 40,000,000 ordinary shares of S$0.05 each for cash to provide additional working capital for Elipva.

14. EMPLOYEE BENEFITS

Equity compensation benefits – Share Option Scheme

The Elipva Ltd Share Option Plan 2001 (the "Elipva Scheme") was approved and adopted by its members at an Extraordinary General Meeting held on 13 February, 2001. The Elipva Scheme is administered by the compensation committee (the "Elipva Committee") of the Board of Directors (the "Elipva Board"), or such other committee of the Elipva Board as may be designated from time to time by the Elipva Board to administer the Elipva Scheme. Under the Elipva Scheme, Elipva grants options on shares of Elipva.

Other statutory information regarding the Elipva Scheme are set out below:

(a) The exercise price per ordinary share purchasable under the Elipva Scheme is fixed by the Elipva Committee at the time of grant or, alternatively, is determined by a method specified by the Elipva Committee at the time of grant, but cannot be less than the par value of an ordinary share of Elipva.

(b) The options vest over a period determined by the Elipva Committee.

(c) Unless the options are cancelled or have lapsed, the exercise period of the options is as follows:–

(1) in the case of an option granted to a group executive, the period of the exercise of an option commences after the first anniversary of the date of grant and expires on the tenth anniversary of such date of grant; or

(2) in the case of an option granted to a non-executive director, the exercise period commences after the first anniversary of the date of grant and expires on the fifth anniversary of such date of grant, or on such later date as the Committee may specify on the date of the grant.

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

	Number of share options	Date of grant of share options	Exercise period of share options	Exercise price of share options *S$*
At 1 January, 2001	–			
Granted during the year	1,410,000	16 August, 2001	17 August, 2002 to 16 August, 2011	0.10 (approximately HK$0.45)
Exercised during the year	–			
Lapsed during the year	–			
At 31 December, 2001 and 1 January, 2002	1,410,000			
Granted during the year	–			
Exercised during the year	–			
Lapsed during the year	(705,000)			
At 31 December, 2002 and 1 January, 2003	705,000			
Granted during the period	–			
Exercised during the period	–			
Lapsed during the period	(80,000)			
At 31 May, 2003 and 1 June, 2003	625,000			

	Number of share options	Date of grant of share options	Exercise period of share options	Exercise price of share options
				S$
Granted during the period	–			
Exercised during the period	–			
Lapsed during the period	(145,000)			
At 31 December, 2003 and 1 January, 2004	480,000			
Granted during the period	1,690,000	7 January, 2004	8 January, 2005 to 7 January, 2014	0.05 (approximately HK$0.23)
Exercised during the period	–			
Lapsed during the period	(140,000)			
At 31 May, 2004	2,030,000			

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

	Number of share options vested	Date of grant of share options	Exercise period of share options
At 1 January, 2001	–		
Vested during the year	–		
Lapsed during the year	–		
At 31 December, 2001 and 1 January, 2002	–		
Vested during the year	176,250	16 August, 2001	17 August, 2002 to 16 August, 2011
Lapsed during the year	–		
At 31 December, 2002 and 1 January, 2003	176,250		
Vested during the period	–		
Lapsed during the period	(20,000)		
At 31 May, 2003 and 1 June, 2003	156,250		

	Number of share options vested	Date of grant of share options	Exercise period of share options
Vested during the period	120,000	16 August, 2001	17 August, 2002
Lapsed during the period	(36,250)		to 16 August, 2011
At 31 December, 2003 and 1 January, 2004	240,000		
Vested during the year	–	16 August, 2001	17 August, 2002
Lapsed during the year	(50,000)		to 16 August, 2011
At 31 December, 2004	190,000		

Note 1: The fair value of the price of share options cannot be determined as the company is not a listed company.

Note 2: On 7 January, 2004, 60,000 share options are granted to a director, Mr. Choong Ying Chuan Thomas.

15. RESERVES

Elipva Group

	Exchange translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January, 2001	(23)	(8,856)	(8,879)
Exchange difference	1,126	–	1,126
Loss for the year	–	(22,938)	(22,938)
At 31 December, 2001 and at 1 January, 2002	1,103	(31,794)	(30,691)
Exchange difference	(1,738)	–	(1,738)
Loss for the year	–	(6,482)	(6,482)
At 31 December, 2002 and At 1 January, 2003	(635)	(38,276)	(38,911)
Exchange difference	(355)	–	(355)
Loss for the year	–	(3,768)	(3,768)
At 31 December, 2003 and At 1 January, 2004	(990)	(42,044)	(43,034)
Exchange difference	(79)	–	(79)
Loss for the period	–	(1,195)	(1,195)
At 31 May, 2004	(1,069)	(43,239)	(44,308)
At 1 January, 2003	(635)	(38,276)	(38,911)
Exchange difference	(117)	–	(117)
Loss for the year	–	(2,007)	(2,007)
At 31 May, 2003	(752)	(40,283)	(41,035)

Elipva

	Exchange translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January, 2001	–	(7,389)	(7,389)
Exchange difference	799	–	799
Loss for the year	–	(21,133)	(21,133)
At 31 December, 2001 and at 1 January, 2002	799	(28,522)	(27,723)
Exchange difference	(1,592)	–	(1,592)
Loss for the year	–	(9,596)	(9,596)
At 31 December, 2002 and At 1 January, 2003	(793)	(38,118)	(38,911)
Exchange difference	(237)	–	(237)
Loss for the year	–	(3,886)	(3,886)
At 31 December, 2003 and At 1 January, 2004	(1,030)	(42,004)	(43,034)
Exchange difference	(79)	–	(79)
Loss for the period	–	(1,195)	(1,195)
At 31 May, 2004	(1,109)	(43,199)	(44,308)
At 1 January, 2003	(793)	(38,118)	(38,911)
Exchange difference	–	–	–
Loss for the year	–	(2,124)	(2,124)
At 31 May, 2003	(793)	(40,242)	(41,035)

16. FINANCE COSTS

	Five months ended 31 May, 2004	Five months ended 31 May, 2003	Year ended 31 December, 2003		
			2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on loans from immediate holding company:					
– wholly repayable within five years	169	176	454	453	157

17. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December, 2002, Elipva capitalised a loan amount of S$1,733,600 due to its immediate holding company by the allotment and issuance of 34,672,000 ordinary shares of S$0.05 each. The nominal value of the ordinary shares issued amounted to S$1,733,600 (approximately HK$7.8 million).

18. OPERATING LEASE ARRANGEMENTS

Elipva Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between 1 and 2 years.

Elipva Group and Elipva had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 May, 2004	As at 31 May, 2003	As at 31 December, 2003		
			2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	106	253	214	257	1,172
In the second to fifth years, inclusive	–	105	–	210	–
	106	358	214	467	1,172

19. MATERIAL RELATED PARTY TRANSACTIONS

During the year, Elipva 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 Elipva Group's business, as shown below:

Name of related parties	Relationship	Nature of transactions	Five months ended 31 May, 2004	Five Months ended 31 May, 2003	Year ended 31 December, 2003	2002	2001
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Singapore Technologies Pte Limited	Intermediate holding company	Sales – received	–	–	271	–	–
STT Communications Ltd	Immediate holding company	Interest expense – paid	169	176	454	453	157
		Management fee – paid	220	270	654	628	626
		Sales – received	434	–	77	–	–

Note: The transactions were based on amounts agreed between the parties concerned.

20. PLEDGE OF ASSETS

As at 31 May, 2004, Elipva Group pledged its fixed deposits of S$106,160 (approximately HK$487,000) to a bank to secure a guarantee of the same amount provided by the bank to a customer of Elipva Group.

21. GAIN ON LIQUIDATION OF SUBSIDIARIES

During the year ended 31 December, 2002, two subsidiaries of Elipva Group, Elipva (M) Sdn Bhd and Elipva Hong Kong/China Limited, have been put into creditors' voluntary winding up.

Share of net liabilities:

	Elipva Sdn (M) Sdn Bhd	Elipva Hong Kong/ China Limited
	HK$'000	*HK$'000*
Net liabilities:		
Property, plant and equipment	44	318
Receivables, deposits and prepayments	74	196
Payables and accruals	(1,304)	(558)
Balances with immediate holding company	(4)	(3,558)
	(1,190)	(3,602)
Effect of interest liquidated of	90%	55%
Gain on liquidation of subsidiaries	(1,190)	(3,602)
Consideration	–	–

22. CONTINGENT LIABILITIES

Elipva and Elipva Group did not any significant contingent liabilities at the end of each of the Relevant Periods.

23. SEGMENT INFORMATION

Business segments

All of Elipva Group's turnover and contributions to operating profit are attributable to the provision of system solution services, and accordingly no analysis of segment is presented.

Geographical segments

	Year ended 31 December, 2001			
	Singapore	**Malaysia**	**Hong Kong**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	19,515	3,161	–	22,676
Loss from operations	16,677	2,847	3,649	23,173
Segment assets	9,939	1,843	498	12,280
Capital expenditure incurred during the year	1,954	65	69	2,088

For the two years ended 31 December, 2002 and 2003, for the five months ended 31 May, 2003 and 31 May, 2004, all of Elipva Group's turnover, profit from operations, assets and liabilities were derived from and located in Singapore and, therefore, no geographical segment are presented for the two years ended 31 December, 2002, 2003 and for the five months ended 31 May, 2003 and 31 May, 2004.

24. SUBSEQUENT EVENTS

No significant subsequent events took place subsequent to 31 May, 2004, except for the Share Swap Agreement signed on 30 July, 2004 by Elipva as mentioned in the beginning of the Report. As per Share Swap Agreement, the authorised share capital of Elipva would be increased from S$6,000,000 to S$15,000,000 divided into 300,000,000 ordinary shares of S$0.05 each by the creation of 180,000,000 ordinary shares of S$0.05 each.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Elipva Group in respect of any period subsequent to 31 May, 2004 and no dividends or other distributions have been declared by Elipva Group in respect of any period subsequent to 31 May, 2004.

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

AUDITED FINANCIAL STATEMENT

The following is a summary of the audited consolidated accounts of the Group for the year ended 30 June, 2003 and the six months ended 31 December, 2003 as extracted from the relevant annual reports of the Company.

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 31 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	Year ended 30 June, 2003
	HK$'000	*HK$'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 25 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	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

SUMMARY OF FINANCIAL INFORMATION

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

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)

Assets and Liabilities

	As at 31 December, 2003	As at 30 June, 2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	32,047	9,942	29,143	8,485	1,877
Total liabilities	(2,461)	(1,812)	(1,858)	(456)	(6,093)
Minority interests	(237)	–	(72)	–	–
Shareholders' funds	29,349	8,130	27,213	8,029	(4,216)

Note:

The summary of the published combined results of the Group for the two years ended 30 June, 2000 and 2001, and of the assets and liabilities of the Group as at 30 June, 2000 and 2001 have been extracted from the Company's prospectus dated 18 December, 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the financial year. The results of the Group for the period ended 31 December, 2003 and for the year ended 30 June, 2003 and its assets and liabilities as at 31 December, 2003 and 30 June, 2003 are set out in the financial statements on pages 24 and 25 respectively.

INTERIM REPORT

The following is the unaudited consolidated accounts of the Group for the six months ended 30 June, 2004 as extracted from the interim report of the Company.

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED BALANCE SHEET

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

CONSOLIDATED CONDENSED CASH FLOW STATEMENT

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The accounting policies adopted in the preparation of the accounts are consistent with those used in the annual financial statements for the period ended 31 December, 2003. All significant transactions and balances between companies comprising the Group have been eliminated on consolidation.

2. Turnover

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

3. Segment information

Business segments

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

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

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

Group:

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

Geographical segment

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

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

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

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

4. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group and its subsidiaries operating in Hong Kong have no assessable profits for the period (six months ended 31 December, 2003: Nil).

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. No provision for overseas taxation has been made in the financial statements as the subsidiaries operating outside Hong Kong have no assessable profits for the period (six months ended 31 December, 2003: Nil).

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (six months ended 31 December, 2003: Nil).

5. Interim dividend

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

6. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$6,460,000 (31 December, 2003: HK$5,569,000) and the weighted average of 1,411,926,681 (31 December, 2003: 939,660,174) ordinary share in issue during the period.

The exercise of share options granted by the Company would have an anti-dilutive effect on the loss per share for the six months ended 30 June, 2004.

7. Property, plant and equipment

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

8. Other Investment

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

9. Trade receivables

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

	30 June, 2004	31 December, 2003
	HK$'000	*HK$'000*
0 – 30 days	11,069	12
31 – 60 days	185	–
61 – 90 days	–	–
Over 90 days	–	–
	11,254	12

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

10. Trade payables

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

	30 June, 2004	**31 December, 2003**
	HK$'000	*HK$'000*
0 – 30 days	7,186	2
31 – 60 days	–	–
61 – 90 days	–	–
Over 90 days	–	–
	7,186	2

11. Share capital

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

12. Reserves

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July, 2003	22,666	7,396	(27,722)	2,340
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(5,569)	(5,569)
At 31 December, 2003 and 1 January, 2004	42,818	7,396	(33,291)	16,923
Placing of shares	31,790	–	–	31,790
Issuing expenses	(2,359)	–	–	(2,359)
Net loss for the period	–	–	(6,460)	(6,460)
At 30 June, 2004	72,249	7,396	(39,751)	39,894

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received form the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma balance sheet, income statement and cash flow statement of the Enlarged Group as set out in this Appendix.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

6th Floor
Wheelock House
20 Pedder Street
Central
Hong Kong

8 October, 2004

The Directors
M Dream Inworld Limited

Dear Sirs,

We set out below our report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of M Dream Inworld Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Elipva Limited ("Elipva") and its subsidiaries ("Elipva Group") (together with the Group hereinafter referred to as the "Enlarged Group") set out in Appendix III of the circular of the Company dated 8 October, 2004 (the "Circular") in connection with the proposed acquisition of the entire equity interests in Elipva (the "Proposed Acquisition"), which has been prepared, for illustrative purposes only, to provide information about how the Proposed Acquisition might have affected the historical financial information of the Group presented therein. The basis of preparation for the Pro Forma Financial Information is set out in the accompanying introduction thereto.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Rules 7.31 (1) to (6) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

It is our responsibility to form an opinion as required by the GEM Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

Where applicable, we conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practice Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

Because the above work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been prepared in accordance with the basis set out in the Introduction to the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix III for illustrative purposes only and, because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not give an indicative financial position, results and cash flows of the Enlarged Group had the Proposed Acquisition actually been completed at the beginning of the relevant period, or for any future periods.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Rule 7.31 (1) of the GEM Listing Rules.

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

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Company's proposed acquisition of the entire issued share capital in Elipva Group. The Transaction Consideration for the acquisition is the lower of (a) 2.75 times the net asset value of Elipva; and (b) a maximum of S$6,875,000 (approximately HK$31,133,437.50). The consideration will be satisfied by the Company's issue and allotment of the Consideration Share at an issue price of HK$0.051 per share.

The accompanying unaudited pro forma income statement and cash flow statement for the period ended 31 December, 2003 of the Enlarged Group gives effect to the above transaction as if the maximum amount of the Transaction Consideration is paid and the MDC Subscription Agreement, the Share Swap Agreement and the STT Subscription Agreement have been simultaneously completed and taken place at the beginning of the period. The accompanying unaudited pro forma balance sheet of the Enlarged Group gives effect to the transaction described above as if it had been consummated on 31 December, 2003.

The accompanying unaudited pro forma financial information of the Enlarged Group is prepared based upon the historical financial information of Elipva Group as set out in Appendix I – Accountants' Report on Elipva Group after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments is summarised in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the accompanying unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the acquisition actually occurred on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the Accountants' Report on Elipva Group as set out in Appendix I, the financial information on the Group as set out in Appendix II and other financial information included elsewhere in this circular.

PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER, 2003

	Group (Pro forma adjustment 1) For the year ended 31 December, 2003	Elipva Group For the year ended 31 December, 2003	Pro forma adjustments *(2)*	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	552	10,647		11,199
Cost of sales	(1,560)	(4,881)		(6,441)
Gross profit/(loss)	(1,008)	5,766		4,758
Other revenue	6,180	–		6,180
Other income	–	41		41
Selling and distribution expenses	(2,925)	–		(2,925)
Administrative expenses	(12,290)	(8,921)		(21,211)
Depreciation, amortisation and impairment	(7,221)	(200)	(1,839)	(9,260)
Loss from operations	(17,264)	(3,314)		(22,417)
Finance costs	–	(454)		(454)
Loss before tax	(17,264)	(3,768)		(22,871)
Taxation	–	–		–
Loss before minority interests	(17,264)	(3,768)		(22,871)
Minority interests	(85)	–		(85)
Net loss from ordinary activities attributable to shareholders	(17,349)	(3,768)		(22,956)

PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	Group	Elipva Group	Sub-total				Pro forma adjustments				Enlarged Group
				(3)	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets											
Goodwill	15,646	–	15,646					29,995		16,555	62,196
Property, plant and equipment	2,156	161	2,317								2,317
Intangible assets	2,689	–	2,689								2,689
	20,491	161	20,652								67,202
Current assets											
Other investments	7,976	–	7,976								7,976
Trade receivables	12	2,748	2,760					198			2,958
Deposits, prepayments and other receivables	905	1,489	2,394								2,394
Inventories	2,497	–	2,497								2,497
Pledged fixed deposit	–	487	487								487
Cash and bank balances	166	3,378	3,544	7,744			8,426	(4,668)	13,340		28,386
	11,556	8,102	19,658								44,698

	Group	Elipva Group	Sub-total	Pro forma adjustments							Enlarged Group
				(3)	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
***Less:* Current liabilities**											
Trade payables	2	1,884	1,886					28			1,914
Amount due to immediate holding company	–	1,850	1,850			(1,850)					–
Amount due to intermediate holding company	–	280	280								280
Amount due to related companies	–	23	23								23
Amount due to a director	217	–	217								217
Other payable and accruals	2,242	1,081	3,323								3,323
Tax payable	–	–	–					12			12
	2,461	5,118	7,579								5,769
Net current assets	9,095	2,984	12,079								38,929
Total assets less current liabilities	29,586	3,145	32,731								106,131
Non-current liabilities											
Loan from immediate holding company	–	21,812	21,812		(21,812)						–
Minority interests	(237)	–	(237)								(237)
Net assets/(liabilities)	29,349	(18,667)	10,682								105,894
Representing:											
Share capital	12,426	25,641	38,067	7,744	12,539	1,822	1,500	2,980	3,058	(41,641)	26,069
Reserves	16,923	(44,308)	(27,385)		9,273	28	6,926	22,505	10,282	58,196	79,825
Shareholders' funds/(deficits)	29,349	(18,667)	10,682								105,894

PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER, 2003

	Group	Elipva Group	Sub-total	Pro forma adjustments					Enlarged Group
				(10)	*(11)*	*(12)*	*(13)*	*(14)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities									
Loss before taxation	(17,264)	(3,768)	(21,032)					(1,839)	(22,871)
Adjustments for:									
Interest income	(6)	–	(6)						(6)
Depreciation	765	200	965						965
Exchange gain	–	(22)	(22)						(22)
Amortisation of									
– intangible assets	936	–	936						936
– product development costs	778	–	778						778
Unrealised holding loss on other investments	(5,497)	–	(5,497)						(5,497)
Loss on disposal of investment securities	5	–	5						5
Provision for doubtful debts	83	–	83						83
Loss on disposal of property, plant and equipment	418	–	418						418
Amortisation of goodwill	680	–	680					1,839	2,519
Impairment of current asset of overseas subsidiaries	1,151	–	1,151						1,151
Impairment of product development costs	6,620	–	6,620						6,620
Interest expense	–	454	454						454

	Group	Elipva Group	Sub-total	Pro forma adjustments (10)	Pro forma adjustments (11)	Pro forma adjustments (12)	Pro forma adjustments (13)	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating loss before working capital changes	(11,331)	(3,136)	(14,467)					(14,467)
Increase in product development cost	(3,100)	–	(3,100)					(3,100)
Decrease in inventories	217	–	217					217
Decrease/(increase) in trade receivables	1,357	(2,561)	(1,204)					(1,204)
Decrease in prepayments, deposits and other receivables	855	516	1,371					1,371
Decrease in trade payables	(34)	(304)	(338)					(338)
(Decrease)/increase in other payables and accrued expenses	1,615	(453)	1,162					1,162
Decrease in amount due to a related company	–	(17)	(17)					(17)
Increase in amount due to immediate holding company	–	1,739	1,739					1,739
Increase in amount due to intermediate holding company	–	143	143					143
Increase in amount due to a director	217	–	217					217
Cash consumed in operations	(10,204)	(4,073)	(14,277)					(14,277)
Interest paid	–	(454)	(454)					(454)
Hong Kong profits tax refund	287	–	287					287
Net cash outflow from operating activities	(9,917)	(4,527)	(14,444)					(14,444)

	Group	Elipva Group	Sub-total	Pro forma adjustments (10)	Pro forma adjustments (11)	Pro forma adjustments (12)	Pro forma adjustments (13)	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from investing activities								
Interest received	6	–	6					6
Purchase of property, plant and equipment	(250)	(100)	(350)					(350)
Sale proceeds on disposals of property, plant and equipment	187	–	187					187
Net cash effect on acquisition of subsidiaries	(10,888)	–	(10,888)	7,744		(3,333)		(6,477)
Proceeds from sale of other investments	2,417	–	2,417					2,417
Net cash used in investing activities	(8,528)	(100)	(8,628)					(4,217)
Cash flows from financing activities								
Proceeds from placing of shares	16,000	–	16,000		8,426		13,340	37,766
Proceeds from issue of share capital upon exercise of share options	4	–	4					4
Share issue expenses	(810)	–	(810)			(1,335)		(2,145)
Net cash inflow from financing activities	15,194	–	15,194					35,625
Net decrease in cash and cash equivalents	(3,251)	(4,627)	(7,878)					16,964
Cash and cash equivalents at beginning of the period	3,417	10,737	14,154					14,154
Cash and cash equivalents at the end of the period	166	6,110	6,276					31,118
Analysis of balances of cash and cash equivalents								
Cash and bank balances	166	6,110	6,276					31,118

NOTES TO PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER, 2003

Unaudited pro forma income statement

(1) The income statement of the Group for the year ended 31 December, 2003 is prepared based on the audited consolidated income statements for the six months ended 31 December, 2003 and for the year ended 30 June, 2003 as set out in Appendix II of this circular and adjusted for the unaudited consolidated results of the Group for the 6 months ended 31 December, 2002 as extracted from the interim report of the Group for the year 2002/2003. The adjusted figures represented the unaudited results of the Group for the year ended 31 December, 2003.

(2) To record the amortisation of goodwill arising on the acquisition of Elipva by equal annual instalment over its estimated useful economic life of 10 years. The estimated goodwill arising on the acquisition of Elipva amounting to approximately HK$18,394,000. The amortisation of goodwill is approximately HK$1,839,000.

Unaudited pro forma balance sheet

(3) To record the cash received by Elipva upon the completion of the Elipva Capitalisation under which Allwin Asia Inc. inject about S$1.71 million (approximately HK$7,744,000) in cash into Elipva to subscribe for 34,200,000 new shares in Elipva.

(4) To record STTC, the major shareholder applies its loan of S$4.752 million (approximately HK$21,812,000) due from Elipva to subscribe for 55,380,060 new shares in Elipva.

(5) To record STTC, the major shareholder applies its payables of S$0.402 million (approximately HK$1,850,000) due from Elipva to subscribe for 8,047,700 new shares in Elipva.

(6) On 16 February, 2004, Dynamate Limited entered into a subscription agreement with the Group 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$8,426,000.

(7) The consideration of acquisition of M Dream Mobile Entertainment Limited ("M Dream MEL") is HK$31,320,000, of which HK$4,500,000 was satisfied by cash and the remaining balance of HK$26,820,000 in consideration shares. 298,000,000 new shares credited as fully paid at the issue price of HK$0.090 per share were allotted and issued to M Dream China as part of the consideration. The acquisition agreement of M Dream MEL was completed on 20 May, 2004.

(8) To record the cash received by the Company upon the Completion of MDC Subscription Agreement and the STT Subscription Agreement under which M Dream China and STT each subscribe for 152,941,176 new shares of the Company at a subscription price of HK$0.051 per share. The net proceeds from the MDC Subscription and the STT Subscription are estimated to be approximately HK$13.4 million.

(9) To eliminate the goodwill on acquisition of Elipva based on the difference between the net assets value of Elipva Group and the maximum amount of Transaction Consideration of S$6,875,000 (approximately HK$31,133,437.50). The net asset value of Elipva Group is taking into account of the Elipva Capitalisation as set out in point (3)-(5) above. The net asset value of Elipva Group after Elipva Capitalisation as stated in point (3)-(5) amounted to approximately HK$12,739,000. As a result, the estimated goodwill arising on the acquisition of Elipva amounting to approximately HK$18,394,000. The goodwill is amortised by equal annual instalment over its estimated useful economic life of 10 years. The amortisation of goodwill is approximately HK$1,839,000.

For the purpose of preparing the unaudited pro forma information of the Enlarged Group after the completion of the MDC Subscription, Share Swap and the STT Subscription Agreements, the net fair value of the identifiable assets and liabilities of Elipva Group, as extracted from the accountants' report on Elipva Group, and the effect of the Elipva Capitalisation as mentioned in points (3) to (5) above, is applied in the calculation of the estimated goodwill arising from the acquisition. Since the fair value of the assets and liabilities of Elipva Group at the date of completion of the acquisition may be substantially different from their adjusted book value used in the preparation of the unaudited pro forma financial information above, the actual goodwill may be different from the estimated as shown above.

Unaudited pro forma consolidated cash flow statement

(10) To record the cash received by Elipva upon the completion of the Elipva Capitalisation under which Allwin Asia Inc. inject about S$1.71 million (approximately HK$7,744,000) in cash into Elipva to subscribe for 34,200,000 new shares in Elipva.

(11) On 16 February, 2004, Dynamate Limited entered into a subscription agreement with the Group for the subscription of 150,000,000 shares of HK$0.01 each at the subscription price of HK$0.0063 per share. The net proceeds of the subscription is approximately HK$8,426,000.

(12) To record the share issue expenses of approximately HK$1,335,000 and the net cash effect on the acquisition of M Dream MEL of HK$3,333,000. The net cash effect represents the cash and bank balances of HK$1,167,000 of M Dream MEL as extracted from the accountants' report on M Dream MEL dated 20 April, 2004, less the cash consideration of HK$4,500,000 paid for the acquisition of M Dream MEL.

(13) To record the cash received by the Company upon the Completion of MDC Subscription Agreement and the STT Subscription Agreement under which M Dream China and STT each subscribe for 152,941,176 new shares of the Company at a subscription price of HK$0.051 per share. The net proceeds from the MDC Subscription and the STT Subscription are estimated to be approximately HK$13.4 million.

(14) To record the amortisation of goodwill arising on the acquisition of Elipva by equal annual instalment over its estimated useful economic life of 10 years. The estimated goodwill arising on the acquisition of Elipva amounting to approximately HK$18,394,000. The amortisation of goodwill is approximately HK$1,839,000.

INDEBTEDNESS

Borrowing

At the close of business on 31 July, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding borrowing of approximately HK$29.3 million, which comprise of an unsecured short-term loan of approximately HK$7.8 million and an unsecured long-term loan from STTC of approximately HK$21.5 million. According to the Share Swap Agreement, STTC will apply its loan to subscribe for 8,047,700 new shares in Elipva.

Debt securities

As at 31 July, 2004, the Enlarged Group had no debt securities.

Commitment and Contingent liabilities

As at 31 July, 2004, the Enlarged Group had no material capital commitment and contingent liabilities.

Pledge of assets

As at 31 July, 2004, the Enlarged Group pledged a fixed deposit of S$106,160 (approximately HK$487,000) to a bank to secure a guarantee of the same amount provided by the bank to a customer of the Enlarged Group.

Disclaimer

Save as aforesaid and apart form intra-group liabilities, the Enlarged Group did not have, at the close of business on 31 July, 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, charges, 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 31 July, 2004.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 July, 2004.

WORKING CAPITAL

The Directors are of the opinion that after taking into account of the Group's present internal resources and available credit facilities, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this circular.

MATERIAL CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December, 2003, the date to which the latest audited financial statements of the Group were 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. DISCLOSURE OF INTERESTS IN SECURITIES

Directors' Interests in Shares

At 30 June, 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transaction by Directors, were as follows:

Ordinary Shares Long Position

	Number of shares in the Company				
Name of Directors	Personal Interests	Family Interests	Corporate Interests	Total Interests	Percentage of Interests
Mr. Koh Tat Lee, Michael *(Note)*	–	–	170,163,200	170,163,200	10.07%

Note:

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

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

Options to subscribe for shares in the Company

Pursuant to the Share Option Scheme adopted by the Company on 14 December, 2001 ("Share Option Scheme"), as at 30 June, 2004, the following directors and employees were granted share options to subscribe for shares of the Company, details of which were as follows:

Name of Category of participant	As at 1 January, 2004	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 June, 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Wong Shui Fun	–	10,000,000	–	–	–	10,000,000	31 March, 2004	31 March, 2004 to 30 March, 2014	HK$0.060
	–	6,000,000	–	–	–	6,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK$0.036
Mr. Xu Hanjie	–	16,000,000	–	–	–	16,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK$0.036
Mr. Wong Kean Li	–	16,000,000	–	–	–	16,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK$0.036
Employees	32,000,000	–	–	–	(15,000,000)	17,000,000	9 October, 2003	9 October, 2003 to 8 October, 2013	HK$0.076

Name of Category of participant	As at 1 January, 2004	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 June, 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options
Employees	–	1,500,000	–	–	–	1,500,000	31 March, 2004	31 March, 2004 to 30 March, 2014	HK$0.060
Employees	–	35,400,000	–	–	–	35,400,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK$0.036
Employees	–	16,000,000	–	–	–	16,000,000	30 June, 2004	30 June, 2004 to 29 June, 2014	HK$0.047
Total	32,000,000	100,900,000	–	–	(15,000,000)	117,900,000			

None of the Directors and employees of the Group had exercised their share options during the period ended 30 June, 2004.

Other than the share option schemes as described above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, or their respective associates, had any right to subscribe for the securities of the Company, or had exercised any such rights during the period.

Substantial Shareholders

As at 30 June, 2004, the following persons (not being directors or chief executive of the Company) had interests and short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Note:

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

3. COMPETING INTEREST

None of the Directors of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group.

4. LITIGATION

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

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there were (i) no service contracts for the Directors which had more than 12 months to run or had been entered into or amended and (ii) no existing or proposed service contracts between any member of the Group and any of the Directors or proposed Directors, excluding contracts expiring or determinable by the employer within one year without compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Enlarged Group) have been entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

1. 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;

2. 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;

3. the subscription agreement between the Company and Dynamate Limited dated 16 February, 2004 in relation to the subscription of 150 million Shares at HK$0.063 per Shares;

4. the agreement dated 17 March, 2004 entered into between M Dream China and Inworld International Limited in respect of the acquisition by Inworld International Limited of the entire issued share capital of M Dream Mobile Entertainment Limited from M Dream China;

5. the MDC Subscription Agreement;

6. the Share Swap Agreement; and

7. the STT Subscription Agreement.

7. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given their opinions included in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Certified public accountants
Shenyin Wanguo	a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities

Each of HLB Hodgson Impey Cheng and Shenyin Wanguo has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report to this circular and the references to its names in the form and context in which it appears.

As at the Latest Practicable Date, none of HLB Hodgson Impey Cheng and Shenyin Wanguo was interested beneficially or otherwise in any Shares or shares in any of the Company's subsidiaries and did not have any right, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any Shares or shares in any of the Company's subsidiaries nor did it has any interest, either direct or indirect interest in any assets which have been, since date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. 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 and the Head Office and Principal Place of Business in Hong Kong of the Company is at 3/F, Chinese Club Building, 21-22 Connaught Road Central, Hong Kong. The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited, at G/F, Bank of East Asia Harbour view Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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

(c) The qualified accountant of the Company is Mr. Leung Dennis

(d) The company secretary of the Company is Mr. Leung Dennis

(e) The Company established an audit committee on with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members, Mr. Domingo Chen (Chairman of the audit committee) and Mr. Robert Wong, who are independent non-executive Directors and Mr. Ng Yat Cheung, who is non-executive Director, further details of whom are set out below:

Mr. Domingo Chen, age 49, has over 25 years of experience in the fields of information technology, marketing and financial management. Mr. Domingo Chen received Master's degrees in Business Administration from Northwestern University, Chicago, USA and The Hong Kong University of Science and Technology. Mr. Domingo Chen has previously worked for CLP Power Hong Kong Group, Littauer Technologies Co., Ltd. (a public company listed on KOSDAQ in the Republic of Korea), Peoples Telephone Company Limited and Pacific Link Communications Limited.

Mr. Robert Wong, age 35, has over 12 years of experience in the fields of information technology, advertisement and logistics. Mr. Robert Wong received a Bachelor of Science degree in business administration from San Francisco State University in the United States in 1992. He holds director's offices with a number of private companies, which are principally engaged in technology, logistics, distribution, advertisement and investments. Mr. Robert Wong has previously worked for Sina.com in their marketing and sales division.

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 directors offices with a number of private companies which are principally engaged in technology, property development, insurance, finance and property holding.

(f) (i) none of the Directors has any direct or indirect interest in any assets which have been, since 31 December, 2003, the date to which the latest published audited financial results of the Company were made up, to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(ii) none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

(g) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Head Office and Principal Place of Business in Hong Kong of the Company at 3/F, Chinese Club Building, 21-22 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 25 October, 2004:

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

(b) the annual reports of the Company for the two financial years ended 31 December, 2003;

(c) the accountants' report on Elipva prepared by HLB Hodgson Impey Cheng for each of the three years ended 31 December, 2003 and the five month period ended 31 May, 2003 and 2004, the text of which is set out in appendix I to this circular;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 22 of this circular;

(e) the letter from Shenyin Wanguo, the text of which is set out on pages 23 to 40 of this circular;

(f) the material contracts referred to in the section headed "Material Contracts" in this appendix; and

(g) the letters of consent referred to in the section headed "Experts and Consents" in this appendix.

M DREAM INWORLD LIMITED
聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8100

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of M Dream Inworld Limited (the "Company") will be held at Gloucester Room, 2/F, Mandarin Oriental, 5 Connaught Road Central, Hong Kong on 25 October, 2004 for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$30,000,000 to HK$60,000,000 by the creation of an additional 3,000,000,000 shares of HK$0.01 each."

2. "**THAT**:

   (a) the following transactions by the Company be and are hereby approved:

   (i) the conditional acquisition of the entire issued share capital of Elipva Limited by the Company in consideration of the issue and allotment of a maximum of 610,459,559 new shares of HK$0.01 each in the capital of the Company (each a "**Share**") pursuant to a share swap agreement dated 30 July, 2004 and made between STT Communications Limited, Allwin Asia Inc., eMatrix Pte Ltd., Mr. Choong Ying Chuan, Mr. Chang Sau Sheong, Elipva Limited and the Company (the "**Share Swap Agreement**");

   (ii) the conditional subscription of 152,941,176 new Shares by stt Ventures Limited at HK$0.051 per Share pursuant to a subscription agreement dated 30 July, 2004 and made between stt Ventures Limited and the Company (the "**STT Subscription Agreement**"); and

* *for identification purpose only*

(iii) the conditional subscription of 152,941,176 new Shares by M Dream China (Holdings) Limited at HK$0.051 per Share pursuant to a subscription agreement dated 30 July, 2004 and made between M Dream China (Holdings) Limited and the Company (the "**MDC Subscription Agreement**");

(b) the entering into of the following agreements by the Company be and is hereby ratified, confirmed and approved;

(i) the Share Swap Agreement;

(ii) the STT Subscription Agreement; and

(iii) the MDC Subscription Agreement;

(c) subject to fulfillment or otherwise (where applicable) waiver of all conditions precedent to the Share Swap Agreement, the STT Subscription Agreement and the MDC Subscription Agreement (collectively as the "**Three Agreements**"), the issue and allotment of an aggregate maximum of 916,314,911 Shares in accordance with the Three Agreements be and is hereby approved; and

(d) any one director of the Company be and is hereby authorised for and on behalf of the Company to take all steps and to execute all such further documents as may be necessary or expedient in his/her opinion to implement and/or to give effect to the transactions as described and/or contemplated in sub-paragraphs (a) to (c) above."

By Order of the Board
M Dream Inworld Limited
Koh Tat Lee, Michael
Chairman

Hong Kong, 8 October, 2004

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

Head Office and Principal Place of Business in Hong Kong:
3/F, Chinese Club Building
21-22 Connaught Road Central
Hong Kong

Notes:

(1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more separate proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(2) To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's Head Office and Principal Place of Business in Hong Kong at 3/F, Chinese Club Building, 21-22 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Delivery of a form of proxy will not preclude a member from attending and voting in person at the meeting and in such event, the form of proxy shall be deemed to be revoked.

(3) Pursuant to Article 80 of the Articles of Association of the Company, a poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least three members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which three have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.