



M Dream Inworld Limited
聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8100)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

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* For identification purpose only

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

HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2004 increased to approximately HK\$32,437,000, a 53 times improvement over the six months ended 31 December 2003
- Gross profit amounted to HK\$12,347,000 for the year ended 31 December 2004, marking a 29 times increase over the six months ended 31 December 2003
- The Group expanded its business to mobile and online game operations and mobile value added services and these businesses contributed significantly to the Group’s results
- The Company name was changed from Inworld Group Limited to M Dream Inword Limited (聯夢活力世界有限公司*).

AUDITED CONSOLIDATED RESULTS

The Board of Directors (the “Board”) of M Dream Inworld Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004, together with the comparative audited figures for the six months ended 31 December 2003 as follows:

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

Notes:

1. BASIS OF PRESENTATION

The financial statements 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. Pursuant to a resolution passed in the annual general meeting of the Company held on 29 October 2003, the accounting year end date of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) has been changed from 30 June to 31 December.

2. TURNOVER AND REVENUE

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

3. SEGMENT INFORMATION

Business segments

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

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

Geographical segment

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

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

	Year ended 31 December 2004 <i>HK\$'000</i>	Six months ended 31 December 2003 <i>HK\$'000</i>
Revenue from external customers		
– Mainland China	27,530	551
– Singapore	4,610	–
– Hong Kong	–	1
– Philipines	191	–
– Other counties	106	62
	<hr/>	<hr/>
Total revenue from external customers	32,437	614
	<hr/>	<hr/>
Other revenue		
– Mainland China	129	–
– Singapore	83	–
– Hong Kong	182	47
– others	19	278
	<hr/>	<hr/>
	413	325
	<hr/>	<hr/>
Total operating revenue	32,850	939
	<hr/> <hr/>	<hr/> <hr/>
Segment results		
– Mainland China	(1,135)	(2,528)
– Singapore	(793)	(1)
– Hong Kong	(14,403)	(3,040)
– Other counties	(84)	(104)
	<hr/>	<hr/>
Loss from operations	(16,415)	(5,673)
Finance costs	(313)	–
Taxation	(564)	–
Minority interests	143	104
	<hr/>	<hr/>
Loss attributable to shareholders	(17,149)	(5,569)
	<hr/> <hr/>	<hr/> <hr/>
Depreciation		
– Mainland China	322	115
– Singapore	25	–
– Hong Kong	163	172
– Other counties	39	52
	<hr/>	<hr/>
	549	339
	<hr/> <hr/>	<hr/> <hr/>

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

4. LOSS FROM OPERATIONS

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

	Year ended 31 December 2004 <i>HK\$'000</i>	Six months ended 31 December 2003 <i>HK\$'000</i>
Auditors' remuneration	280	120
Staff costs (excluding Directors' remuneration):		
– Wages and salaries	3,789	1,201
– Retirement benefits contributions	200	16
Research expenses incurred	375	31
Exchange loss	24	–
Depreciation of owned fixed assets	549	339
Amortisation of intangible assets	142	141
Amortisation of goodwill	2,907	680
Operating lease rentals in respect of land and buildings	985	293
Provision for doubtful debt	1,528	4
Loss on disposal of property, plant and equipment	1,059	37
Stock written off	870	778
Unrealised loss on investment of securities	5,073	248

5. TAXATION

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

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. Overseas taxation of HK\$564,000 has been made in the financial statements for the subsidiaries operating outside Hong Kong for the year (six months ended 31 December 2003: Nil).

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

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

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 year of HK\$17,149,000 (31 December 2003: HK\$5,569,000) and the weighted average of 1,719,319,929 (2003: 939,660,174) ordinary share in issue during the year.

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

7. DIVIDENDS

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

8. RESERVES

Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	22,666	7,396	(27,722)	2,340
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(5,569)	(5,569)
At 31 December 2003 and 1 January 2004	42,818	7,396	(33,291)	16,923
Placing of shares	20,491	–	–	20,491
Issuance of shares as purchase consideration	48,869	–	–	48,869
Issuing expenses	(5,448)	–	–	(5,448)
Liquidation of a subsidiary	–	(970)	–	(970)
Net loss for the year	–	–	(17,149)	(17,149)
At 31 December 2004	106,730	6,426	(50,440)	62,716

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

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

Operating expenses

The operating expenses of the Group had been kept under tight control by management. However, due to the expansion of operation in Shanghai, Hangzhou, Shenzhen, Singapore and Hong Kong, the headcount of the Group grew from 70 people as of 31 December 2003 to over 170 people during the year. The addition of new offices and significant increase of staff number increased the operating expenses to HK\$21,220,000 (six months ended 31 December 2003: HK\$5,607,000).

Loss for the period

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

Liquidity, financial resources, gearing and capital commitments

As at 31 December 2004, shareholders' funds of the Group amounted to approximately HK\$88,784,000 (2003: HK\$29,349,000). The Group expresses its gearing ratio (if any) as a percentage of bank borrowing, short-term loans and long-term debts over total assets. As at 31 December 2004, the gearing ratio of the Group was 14% (2003: 13%).

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

As at 31 December 2004, 100 per cent (2003: 100 per cent) of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in Hong Kong dollars, Renminbi or Singapore dollars.

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

The capital structure, funding and treasury policies of the Group

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

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

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

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

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

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

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

During the period under review, the business activities of the Group were mainly denominated in Hong Kong dollars, Renminbi and Singapore Dollars. The Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group’s treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not employ any financial instruments for hedging purposes and does not engage in foreign currency speculative activities.

Investment

As at 31 December 2004, the Group held shares of two companies which shares are listed on GEM. During the year, the Group did not receive any dividend from these listed securities (2003: Nil). The Group intends to hold these listed securities for trading purpose.

The investment of shares in one of these listed companies were suspended from June 2003 until June 2004. Subsequent to the resumption of trading, the share price decreased by 66%. Due to this significant drop in share price, the Group suffered an unrealized holding loss on investment of HK\$5,072,000 in the year ended 31 December 2004.

Details of material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year under review

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

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

Directors' Service Contracts

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

Employees and remuneration policies

As at 31 December 2004, the Group had over 170 employees (2003: 70), including directors of the Company. For the year ended 31 December 2004, the remuneration of the Group amounted to approximately HK\$6,937,000 (six months ended 31 December 2003: HK\$1,217,000). The Group's remuneration policies are in line with prevailing market practice and are determined on the basis of the performance and experience of individual employees. The Group also provides retirement schemes and medical insurance scheme for its employees.

Details of charges on Group assets

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

Contingent liabilities

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

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

Segmental Results

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

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

BUSINESS REVIEW

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

On 20 May 2004, Inworld International Limited, a wholly-owned subsidiary of the Company, completed the acquisition of the entire issued share of M Dream Mobile Entertainment Limited (“M Dream MEL”). M Dream MEL is principally engaged in the research, development and after-sale services of entertainment gaming software. It focuses on the provision of application services in relation to value added services in the wireless mobile games and entertainment market in Mainland China, a large and rapidly growing market, including the provision of information technology solutions to Internet content providers for distribution of wireless mobile games and downloadable applications via the Internet and mobile networks in Mainland China.

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

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

On 29 October 2004, the Company issued and allotted shares to M Dream China (Holdings) Limited and stt Venture Limited for a subscription proceed of US\$2,000,000 (equivalent to approximately HK\$1,560,000) in accordance with the subscription agreements signed. Through these subscriptions, the capital base of the Company was enhanced and the financial position of the Group strengthened. The proceeds from the subscriptions would also facilitate the investment strategy of the Group for 2005.

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

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

Prospects

Year 2004 was a rapid expansion year for the Group. The Group's business grew from system solutions to mobile and online gaming and mobile value added business. The Group will continue to grow organically by strengthening its technical edge and bringing ingenious offerings to the market. Some of the games to be offered by the Group are eagerly anticipated by end users in Mainland China.

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

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

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

On top of the generic growth of present operations, the Group also intends to look for new investment and acquisition opportunities and to expand its geographical presence by forming strategic and business alliances with leading information technology companies and business partners in order to maximize returns to our shareholders.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

According to the business objectives as stated in the prospectus of the Company dated 18

December 2001 for the six months ended 30 June 2004

Actual business progress during the six months ended 30 June 2004

Revenue and business development

- | | |
|---|--|
| <ul style="list-style-type: none">- To continue the business development activities from the previous period
- To maintain the main income stream from the Group's services provided in the PRC
- To expand revenue derived from the 3G-enabled application which has been developed in the previous period | <ul style="list-style-type: none">- The Group continued to strengthen its business operation.
- The Group established further income stream in the PRC market by acquiring M Dream Zone during the period and expanded its operation into the mobile value added service market in the PRC
- The 3G-enabled application development was deferred due to the global delay of the launch of 3G systems. The Group will delay our 3G strategies until the timetable for 3G infrastructure is finalised. |
|---|--|

Product and services development

- | | |
|---|---|
| <ul style="list-style-type: none">- To continue the product and services development activities from the previous period
- To continue to develop value-added features on the CRM applications | <ul style="list-style-type: none">- The Group continued the development activities from the previous period.
- The CRM applications development was slowed down due to market reception of the Group's previous products. The Group had expanded other revenue streams to compensate for the slowdown in this segment. |
|---|---|

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

- To review the existing product portfolio, and withdraw from the market any obsolete products

Marketing

- To implement a marketing program for the Group's system solution and IT outsourcing services
- To implement a marketing program for the new CRM application
- To implement a marketing program for the Group's 3G-enabled application products

Expansion and business alliance

- To recruit new staff for the expansion of the Group's ASP and portal services
- To explore and identify investment and acquisition opportunities for expanding the Group's investment opportunities in the Internet market

Actual business progress during the six months ended 30 June 2004

- The Group consolidated various products during the period and strengthened its continuing business lines.
- The Group scaled back its marketing program during the period as the Group consolidated its various products.
- The marketing program for CRM application was slowed down in line with the slowdown of the CRM applications development.
- The marketing program for 3G-enabled application was slowed down in line with the slowdown of the 3G-enabled applications development.
- The recruitment of new staff for ASP and portal services was suspended as the Group realigned its product offering.
- The Group acquired M Dream Zone to expand its system integration service on to the mobile platform as well as the online platform. The Group will continue to look for opportunities for expanding the Group's presence in related businesses with a growth potential

Use of proceeds

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 December 2004.

The Company has complied throughout the period under review with the provisions on board practice and procedures in the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, from the financial year commencing on 1 January 2005.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members – Yeung Chun Wai, Anthony (independent non-executive director), Robert Wong (independent non-executive director) and Ng Yat Cheung (non-executive director). Its principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2004.

The Company's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee. The audit committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosures have been fully made.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the year ended 31 December 2004.

By Order of the Board
Koh Tat Lee, Michael
Chairman

Hong Kong, 22 March 2005

As at the date of this announcement, the board of Directors consists of Mr. Koh Tat Lee, Michael, Mr. Domingo Chen, Mr. Xu Hanjie, Mr. Wong Shui Fun and Dr. Choong Ying Chuan, being the executive Directors, Mr. Tay Yew Beng, Peter, Dr. Lee Siu Lung, James, Mr. Wong Kean Li and Mr. Ng Yat Cheung being non-executive Directors and Messrs. Robert Wong, Hilda Sung and Yeung Chun Wai, Anthony, being the independent non-executive Directors.

This announcement will remain in the GEM website at www.hkgem.com on the ‘Latest Company Announcements’ page for at least 7 days from the date of its publication.