



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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2005

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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 Enterprise 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 the report is accurate and complete in all material aspects 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.

As at the date hereof, the executive directors of the Company are Mr. Koh Tat Lee, Michael, Mr. Chen, Domingo, Mr. Xu Hanjie, Mr. Wong Shui Fun, and Dr. Choong Ying Chuan; the non-executive directors of the Company are Mr. Tay Yew Beng, Peter, Dr. Lee Siu Lung, James, Mr. Wong Kean Li and Mr. Ng Yat Cheung; the independent non-executive directors of the Company are Mr. Wong, Robert, Ms. Sung, Hilda and Mr. Leigh Man Sung, Camballaw.

** For identification purpose only*

HIGHLIGHTS

- The Group expanded its business from system solutions to mobile and online game operations and mobile value added services
- Turnover of the Group for the three months ended 31 March 2005 amounted to HK\$10,066,000, 30 times improvement over the corresponding period in 2004
- Current quarter loss of the Group was mainly attributed to non-cash transactions of one time write off of goodwill upon disposal of equity interests in subsidiaries and an unrealised loss on investment in securities totally HK\$18,271,000
- After discounting these non-cash transactions, the loss of the Group was only HK\$4,638,000, an improvement of 48.4% over the fourth quarter of 2004

QUARTERLY RESULTS

The unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2005 together with comparative figures for the corresponding period in 2004 are as follows:

	<i>Notes</i>	Three months ended	
		31 March	2004
		2005	2004
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover		10,066	326
Cost of services rendered		(6,022)	(100)
Gross profit		4,044	226
Other revenues		35	–
Distribution costs		(1,234)	(12)
Administrative expenses		(6,769)	(1,537)
Write off of goodwill upon disposal of equity interests in subsidiaries		(17,197)	–
Unrealized loss on other investment		(1,074)	–
Amortization of goodwill		–	(408)
Depreciation		(124)	(161)
Loss from operations		(22,319)	(1,892)
Finance costs		(200)	–
Loss before taxation		(22,519)	(1,892)
Taxation	3	–	–
Loss after taxation		(22,519)	(1,892)
Minority interest		(390)	9
Net loss attributable to shareholders		(22,909)	(1,883)
Loss per share			
– Basic (<i>cents</i>)	4	(0.88)	(0.15)
– Diluted (<i>cents</i>)	4	N/A	N/A

Notes:

1. Basis of presentation

The accounts have been prepared in accordance with all applicable Statements of Hong Kong Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure provisions of Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that certain investment securities are stated at fair value.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“New HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the New HKFRSs had no material impact on the Group’s operating results and financial position.

2. Turnover

	Three months ended	
	31 March	
	2005	2004
	HK\$’000	HK\$’000
Turnover		
Mobile game and value added services	3,795	–
System solutions services income	6,250	296
Others	21	30
	<u>10,066</u>	<u>326</u>

3. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong for the period ended 31 March 2005 (2004: 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 accounts as the subsidiaries operating outside Hong Kong have no assessable profits for the period ended 31 March 2005 (2004: Nil).

No provision for deferred taxation has been made as the Group have no material potential liabilities arising on timing difference at 31 March 2005 (2004: Nil).

4. Loss per share

The calculation of the Group’s basic loss per share for the period ended 31 March 2005 is based on the Group’s loss attributable to shareholders of approximately HK\$22,909,000 (2004: approximately HK\$1,883,000) and the weighted average number of approximately 2,606,949,911 shares of the Company for the period ended 31 March 2005 (2004: 1,293,706,901 shares).

Diluted loss per share has not been presented since the exercise of share options granted by the Company could have an anti-dilutive effect on the loss per share for the quarter ended 31 March 2005 and 2004.

5. Reserves

	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 January 2004	42,818	7,396	(33,291)	16,923
Placement of shares	7,950	–	–	7,950
Share issuing expenses	(1,024)	–	–	(1,024)
Loss for the period	–	–	(1,883)	(1,883)
	<u>49,744</u>	<u>7,396</u>	<u>(35,174)</u>	<u>21,966</u>
At 31 March 2004				
At 1 January 2005	106,730	6,426	(50,440)	62,716
Loss for the period	–	–	(22,909)	(22,909)
	<u>106,730</u>	<u>6,426</u>	<u>(73,349)</u>	<u>39,807</u>
At 31 March 2005				

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an investment holding company. When the Company went for its initial public offering in December 2001, its subsidiaries focused on the provision of system solutions. 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 first quarter of Year 2005, the Group continued to advance in these business segments and achieved improved results.

For the three months ended 31 March 2005, the turnover of the Group amounted to approximately HK\$10,066,000, representing an increase of approximately 30 times over the corresponding period last year. Turnover from system solutions accounting for approximately 62.1% of total turnover and a value of approximately HK\$6,250,000, which represented an increase of approximately 21 times as compared with the corresponding period last year.

The significant increase in the turnover from system solutions was contributed by the acquisition of Elipva Limited (“Elipva”) in October 2004. 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. Through Elipva, the Group successfully entered into the South East Asian market, such as Singapore and Indonesia and expanded its system solution business from Mainland China and Hong Kong to Singapore, the Philippines, Thailand and Malaysia.

Revenue from mobile gaming and value added services accounted for most of the balance of the turnover for the current quarter. In February 2005, the Group entered into a subscription agreement with M Dream China (Holdings) Ltd and an acquisition agreement with Vasina Limited to strengthen the Group's competitive edge in the mobile gaming and value added industry. Pursuant to the subscription agreement and the acquisition agreement, the Group formed a stronger and technically more advanced team to serve this industry segment in Mainland China. In view of the anticipated growth of the Mainland China mobile phone market, the Group will need to strengthen its technical skillset in order to fully penetrate the market and this subscription and acquisition will complement the Group with such skillset.

The online gaming operation of the Group experienced a slowdown in revenue in the current quarter. The contribution of over HK\$21,607,000 million of revenue from this business segment in Year 2004 mainly resulted from trading of gaming licenses. With the tightening of control over online game publishing in Mainland China, the trading volume of gaming licenses decreased. To compensate for the decrease in trading of game licenses, the Group will commercially launch its massively multi-user online role play game ("MMORPG"), Last Chaos, later in Year 2005. This will bring significant revenue to the Group and contributed positively to the net results of the Group in Year 2005.

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 internally 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. Year 2005 will be a harvesting year for the Group.

Since the opening of the k-Java mobile gaming market in Mainland China by mobile phone operators in or about July 2004, this has been one of the fastest growing mobile gaming and value added service industry segment. The Group see the great potential of the k-Java mobile gaming market in Mainland China and believe that it is in the best interests of the Group and the shareholders as a whole to invest into this particular industry. Through the subscription of M Dream China (Holdings) Ltd. shares and the acquisition of Vasina Limited, the Group will expand its mobile gaming operations in Mainland China and further into the k-Java mobile gaming industry in Mainland China. The expertise developed by M Dream China (Holdings) Ltd will propel the Group's technology in the China game market arena and greatly assist the Group's further expansion in the mobile and online gaming industry. In addition, several k-Java mobile games offered by M Dream China (Holdings) Limited, 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.

After the investment of significant resources into the development and deployment strategies of online games in Mainland China in Year 2004, the Group will commercially launch some of these MMOPRG games in Mainland China in 2005. Significant 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 introduction of Elipva's system solution in Mainland China, the revenue contribution by Elipva will continue to drive the Group's system solution business. With the help of 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.

FINANCIAL REVIEW

The Group recorded turnover of HK\$10,066,000 for the three months ended 31 March 2005, compared with HK\$326,000 for the three months ended 31 March 2004. This represents an increase of almost 30 times.

Gross profit for the three months ended 31 March 2005 amounted to HK\$4,044,000 compared with a gross profit of HK\$226,000 for the same period in 2004. The significant growth reflected the positive results from the Group's current operation.

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 60 people as of 31 March 2004 to over 224 people as of 31 March 2005. The addition of new offices and significant increase of staff number increased the operating expenses to HK\$8,127,000.

The consolidated loss of the Group for the three months ended 31 March 2005 was approximately HK\$22,909,000 (Three months ended 31 March 2004: loss of HK\$1,883,000). The current quarter loss was mainly attributed to non-cash transactions of one time write off of goodwill of HK\$17,197,000 resulting from the disposal of certain equity interests in M Dream Mobile Entertainment Limited in connection with the M Dream China (Holdings) Ltd subscription for the future growth of the mobile gaming and value added business and an unrealized holding loss on investment in securities of HK\$1,074,000. After discounting these two non-cash transactions, the loss of the Group was only HK\$4,638,000, which was a significant improvement of 48.4% over the net loss of HK\$8,984,000 for the fourth quarter of 2004.

Segmental information

The Group mainly operated in the online gaming business, mobile gaming and value added service business and system solution provision business for the quarter ended 31 March 2005. 62.1% of the Group's turnover resulted from system solutions business. 37.7% of the Group's turnover was from mobile gaming and value added service business.

The Group presented its geographical segment reporting based on the geographical location of our customers. During the quarter ended 31 March 2005, the Group's customers are mostly in Mainland China, Singapore, the Philippines and other countries. Mainland China accounted for 37.7% of the turnover of the Group and Singapore customers accounted for 62.0% of the turnover of the Group for the quarter.

Interim dividend

The Directors do not recommend the payment of an interim dividend for the period ended 31 March 2005 (2004: Nil).

DISCLOSURE OF INTERESTS

Directors' Interests in Shares and Underlying Shares

At 31 March 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance ("SFO") (a) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange

pursuant to Rules 5.46 of the Rules Governing The Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) relating to securities transaction by Directors, were as follows:

Long position in the ordinary shares of the Company

Name of Directors	Number of shares in the Company				Percentage of interests
	Personal interests	Family interests	Corporate interests	Total interests	
Mr. Koh Tat Lee, Michael (<i>Note 1</i>)	–	–	323,104,376	323,104,376	12.39%
Dr. Choong Ying Chuan (<i>Note 2</i>)	2,563,930	–	46,089,697	48,653,627	1.87%

Notes:

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

Save as disclosed above, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules relating to securities transaction by directors.

Directors’ Rights to Acquire Shares or Debentures

Apart from those as disclosed under the heading “Share options” below, at no time during the quarter was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Share Options

Pre-IPO share option scheme

On 14 December 2001, the Pre-IPO Share Option Scheme was approved and adopted by a written resolution of all the Shareholders. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or the listing of the Shares on GEM.

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

Share option scheme

The Company has also adopted a share option scheme on 14 December 2001 (“Share Option Scheme”) under which the Directors may at their discretion grant options to employees (whether under full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme.

Particulars and movements as at 31 March 2005 of the outstanding share options granted under the Share Option Scheme were as follows:

Name or Category of participant	As at 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 31 March 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Wong Shui Fun	10,000,000	-	-	-	-	10,000,000	31 March, 2004	31 March, 2004 to 30 March, 2014	HK\$0.060
	6,000,000	-	-	-	-	6,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Mr. Xu Hanjie	16,000,000	-	-	-	-	16,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Mr. Wong Kean Li	16,000,000	-	-	-	-	16,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Mr. Chen Domingo	22,000,000	-	-	-	-	22,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Dr. Chung Ying Chuan, Thomas	16,000,000	-	-	-	-	16,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Employees	17,000,000	-	-	-	-	17,000,000	9 October, 2003	9 October, 2003 to 8 October, 2013	HK\$0.076
Employees	1,500,000	-	-	-	-	1,500,000	31 March, 2004	31 March, 2004 to 30 March, 2014	HK\$0.060
Employees	35,400,000	-	-	-	-	35,400,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Employees	16,000,000	-	-	-	-	16,000,000	30 June, 2004	30 June, 2004 to 29 June, 2014	HK\$0.047
Employees	9,060,000	-	-	-	-	9,060,000	24 November, 2004	1 July, 2005 to 23 November, 2014 (Note 1)	HK\$0.034
Employees	10,000,000	-	-	-	-	10,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Total	<u>174,960,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,960,000</u>			

Note 1: Options granted to these grantees are entitled to exercise (i) half of the options granted to them after 30 June, 2005; (ii) the remaining options after 31 December, 2005.

None of the Directors and employees of the Group had exercised their share options during the quarter ended 31 March 2005.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the following persons (not being Directors or chief executive of the Company whose interest are disclosed above) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Division 2 and 3 or Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholders	Number of shares held	Percentage of the Company's share capital
Temasek Holdings (Private) Limited (<i>Note 1</i>)	507,862,364	19.48%
Singapore Technologies Telemedia Pte Ltd (<i>Note 1</i>)	507,862,364	19.48%
STT Communications Ltd (<i>Note 1</i>)	507,862,364	19.48%
stt Ventures Ltd (<i>Note 1</i>)	507,862,364	19.48%
Dynamate Limited (<i>Note 2</i>)	323,104,376	12.39%
Koh Tat Lee, Michael (<i>Note 2</i>)	323,104,376	12.39%
Yu Chung Choi, Chaucer	307,000,000	11.78%
Madam Lidya Suryawaty (<i>Note 3</i>)	204,870,228	7.86%
Dr. Mochtar Riady (<i>Note 3</i>)	204,870,228	7.86%
Lanius Limited (<i>Note 3</i>)	204,870,228	7.86%
Lippo Cayman Limited (<i>Note 3</i>)	204,870,228	7.86%
Lippo Limited (<i>Note 3</i>)	204,870,228	7.86%
Lippo China Resources Limited (<i>Note 3</i>)	204,870,228	7.86%
HKCL Holdings Limited (<i>Note 3</i>)	204,870,228	7.86%
Hongkong Chinese Limited (<i>Note 3</i>)	204,870,228	7.86%
Allwin Asia Inc. (<i>Note 3</i>)	204,870,228	7.86%
Shenzhen Ingen Technology Company Limited	147,440,000	5.66%

Notes:

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

3. These shares are held by Allwin Asia Inc., which is a wholly-owned indirect subsidiary of Hongkong Chinese Limited. 60.97% of the interest of Hongkong Chinese Limited is in turn held by HKCL Holdings Limited, which is in turn a wholly-owned indirect subsidiary of Lippo China Resources Limited. 71.13% of the interest of Lippo Chinese Resources Limited is in turn indirectly held by Lippo Limited.

Lippo Cayman Limited is the holding company of Lippo Limited through direct holding and through wholly-owned subsidiaries, one of which is Lippo Capital Limited which control an approximate 50.47% interest in Lippo Limited.

Lanius Limited is the registered shareholder of the entire issued share capital of Lippo Cayman Limited and is the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius Limited is accustomed to act. The beneficiaries of the trust include Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady is not the registered holder of any shares in issued share capital of Lanius Limited.

According, Madam Lidya Suryawaty, Dr. Mochtar Riady, Lanius Limited, Lippo Cayman Limited, Lippo Limited, Lippo China Resources Limited, HKCL Holdings Limited and Hongkong Chinese Limited are deemed to be interested in the shares beneficially owned by Allwin Asia Inc.

COMPETING INTERESTS

None of the Directors or management shareholders (as defined in the GEM Listing Rules) of the Company have any interest in any business which competes with or may compete with the business of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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 – Leigh Man Sung, Camballaw (independent non-executive director), Wong Robert (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 Company's financial statements for the quarter ended 31 March 2005 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.

CORPORATE GOVERNANCE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

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 period ended 31 March 2005.

Koh Tat Lee, Michael

Chairman

Hong Kong, 12 May 2005

This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least seven days from the day of its posting.