



# M DREAM INWORLD LIMITED

聯夢活力世界有限公司\*

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

**(the “Company”)**

**(Stock Code: 8100)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005**

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

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

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\* *For identification purpose only*

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 (together “the Group”) for the year ended 31 December 2005.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2005 (in HK Dollars)*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
<u>Continuing operations</u>			
Turnover	3	14,432	27,261
Cost of sales		<u>(11,774)</u>	<u>(19,858)</u>
Gross profit		2,658	7,403
Other revenue	3	87	412
Other income	3	51	–
Gain on liquidation of a subsidiary		–	1,027
Administrative expenses		(25,629)	(11,868)
Selling and distribution costs		(274)	(2,392)
Unrealised loss on financial assets at fair value through profit or loss		–	(5,072)
Realised loss on disposal of financial asset at fair value through profit and loss		(927)	–
Loss on disposal of property, plant and equipment		(1,045)	(1,059)
Amortisation of goodwill		–	(2,709)
Amortisation of intangible assets		(146)	(142)
Impairment loss recognised in respect of goodwill		(32,347)	–
Impairment loss recognised in respect of intangible assets		(1,034)	(1,367)
Impairment loss recognised in respect of inventories		(20,169)	(870)
Impairment loss recognised in respect of trade receivables		(21,821)	(1,528)

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Impairment loss recognised in respect of deposits paid		(3,842)	–
Impairment loss recognised in respect of other receivables		<u>(3,345)</u>	<u>–</u>
Loss from operations	4	(107,783)	(18,165)
Finance costs	5	<u>(2,136)</u>	<u>(418)</u>
Loss before taxation		(109,919)	(18,583)
Taxation	6	<u>–</u>	<u>–</u>
Loss for the year from continuing operations		(109,919)	(18,583)
<u>Discontinued operation</u>			
(Loss)/profit for the period from discontinued operation	9	<u>(27,977)</u>	<u>1,586</u>
Loss for the year		<u><u>(137,896)</u></u>	<u><u>(16,997)</u></u>
Net loss from ordinary activities attributable to			
– Equity holders of the Company		(137,772)	(16,854)
– Minority interest		<u>(124)</u>	<u>(143)</u>
		<u><u>(137,896)</u></u>	<u><u>(16,997)</u></u>
Loss per share			
From continuing and discontinued operations			
Basic		<u><u>(HK5.28 cents)</u></u>	<u><u>(HK0.98 cents)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>
From continuing operations			
Basic		<u><u>(HK4.21 cents)</u></u>	<u><u>(HK1.07 cents)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

# CONSOLIDATED BALANCE SHEETS

As at 31 December 2005 (in HK Dollars)

	2005 HK\$'000	2004 HK\$'000 (restated)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill	–	62,224
Intangible assets	–	1,180
Property, plant and equipment	256	1,486
	<u>256</u>	<u>64,890</u>
<b>Current assets</b>		
Inventories	–	16,162
Trade receivables	4,939	28,525
Prepayments, deposits and other receivables	846	9,140
Financial assets at fair value through profit or loss	–	2,904
Time deposits	495	6,941
Cash and bank balances	458	2,562
	<u>6,738</u>	<u>66,234</u>
<b>Total assets</b>	<u><b>6,994</b></u>	<u><b>131,124</b></u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the Company's equity holders</b>		
Share capital	26,069	26,069
Reserves	(73,941)	64,110
	<u>(47,872)</u>	<u>90,179</u>
<b>Minority interests</b>	–	124
<b>Total equity</b>	<u><b>(47,872)</b></u>	<u><b>90,303</b></u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Convertible notes	9,484	9,097
<b>Current liabilities</b>		
Trade payables	10,840	13,377
Other payables and accruals	14,070	10,547
Short-term unsecured interest bearing loan	17,578	7,800
Amount due to a related party	238	–
Amounts due to directors	2,656	–
	<u>45,382</u>	<u>31,724</u>
<b>Total liabilities</b>	<u><b>54,866</b></u>	<u><b>40,821</b></u>
<b>Total equity and liabilities</b>	<u><b>6,994</b></u>	<u><b>131,124</b></u>
<b>Net current (liabilities)/assets</b>	<u><b>(38,644)</b></u>	<u><b>34,510</b></u>
<b>Total assets less current liabilities</b>	<u><b>(38,388)</b></u>	<u><b>99,400</b></u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2005 (in HK Dollars)

## (1) BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretation (“Ints”) issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 in the Annual Report.

The financial statements have been prepared from the books and records maintained by the Company and its subsidiaries. However, due to the significant staff and management turnover of 活力世界(上海)網絡技術有限公司 (“活力上海”) and 聯夢在綫軟件(上海)有限公司 (“Shanghai Online”), both of which are wholly owned subsidiaries, whose operations principally comprise of development and sale of internet application solution services and provision of online game services respectively. During the year, certain underlying books and records of both 活力上海, and Shanghai Online were either lost, or could not be located for the year ended 31 December 2005. Most of the original staff and management of both 活力上海, and Shanghai Online left and consequently the directors could not satisfactorily substantiate or otherwise support the transactions undertaken by both 活力上海 and Shanghai Online and the directors can not ensure the nature, timing, completeness, appropriateness, classification and disclosures in respect of the transactions undertaken by both 活力上海 and Shanghai Online and the related balances as included in these financial statements or whether any additional disclosures are required.

As explained in note 31 in the Annual Report, the Company has disposed 100% equity interest in M Dream Mobile Entertainment Limited and Hangzhou M Dream Zone Co. Limited (the “M Dream Zone”) (hereinafter referred to as the “M Dream MEL Group”) on 2 September 2005. Due to the limitation to assess the books and records of the entities that have already been disposed on 2 September 2005, the directors can only obtain the unaudited management account of M Dream MEL Group for the period ended 2 September 2005. The directors are unable to represent that all transactions entered into M Dream MEL Group have been included and disclosed in the financial statements.

In view of the above, the directors have taken such steps as they consider practicable, in all material respects, to improve the accuracy of the account balances based on the information which they consider to be reliable and have made provisions as they consider appropriate in the preparation of the financial statements.

In preparing the financial statements, the directors have given consideration to the future liquidity of the Group in light of its net current liabilities and net liabilities of approximately HK\$38,644,000 and HK\$47,872,000 as at 31 December 2005 and reported net loss amounted to approximately HK\$137,896,000. (Please also refer to note 39 in the Annual Report).

These financial statements have been prepared on a going concern basis, the validity of which depends upon future profitable operations and the funds being available to the Group to carry on its business and to meet its debts and when they fall due in the foreseeable future. If the going concern basis is not used, adjustments would have to be made to the financial statement to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as currents and liabilities, respectively.

### **The adoption of new/revised HKFRSs**

In 2005, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new/revised HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 33, 36, 37 and 38 did not result in substantial changes to the Group's accounting policies.

For details of the effect of changes in accounting policies, please refer to the Company's Annual Report for the year ended 31 December 2005.

## (2) 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 2005.

	Continued Operations							
	System solution services		Online games		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)
Segment revenue								
Sales to external customers	<u>14,277</u>	<u>26,843</u>	<u>-</u>	<u>-</u>	<u>155</u>	<u>418</u>	<u>14,432</u>	<u>27,261</u>
Segment results	<u>(42,151)</u>	<u>(5,934)</u>	<u>(18,201)</u>	<u>(3,797)</u>	<u>(15,084)</u>	<u>(5,992)</u>	<u>(75,436)</u>	<u>(15,723)</u>
Unallocated expenses							<u>(32,347)</u>	<u>(2,442)</u>
Loss from operations							<u>(107,783)</u>	<u>(18,165)</u>
Finance costs							<u>(2,136)</u>	<u>(418)</u>
Loss before taxation							<u>(109,919)</u>	<u>(18,583)</u>
Taxation							<u>-</u>	<u>-</u>
Loss for the year from continuing operations							<u>(109,919)</u>	<u>(18,583)</u>
Loss for the period from discontinued operations							<u>(27,977)</u>	<u>1,586</u>
Loss for the year							<u>(137,896)</u>	<u>(16,997)</u>

(b)	Continuing Operations						Discontinued Operation		Consolidated	
	System solution services		Online games		Others		Mobile game and Value added services			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)	(restated)		(restated)		(restated)		(restated)	
Segment assets	<b>6,853</b>	47,054	<b>32</b>	13,937	<b>109</b>	64,387	-	5,746	<b>6,994</b>	131,124
Segment liabilities	<b>18,743</b>	16,350	<b>2,332</b>	2,214	<b>33,791</b>	18,555	-	3,702	<b>54,866</b>	40,821

Other segment information:

Depreciation	<b>494</b>	457	-	-	<b>24</b>	43	<b>12</b>	49	<b>530</b>	549
Capital expenditure	<b>771</b>	327	-	-	<b>36</b>	39	<b>33</b>	171	<b>840</b>	537
Amortisation of goodwill	-	1,943	-	-	-	-	-	766	-	2,709
Amortisation of intangible assets	<b>146</b>	142	-	-	-	-	-	-	<b>146</b>	142
Impairment loss on goodwill	<b>18,334</b>	-	-	-	-	-	<b>14,013</b>	-	<b>32,347</b>	-
Impairment loss on intangible assets	<b>1,034</b>	1,367	-	-	-	-	-	-	<b>1,034</b>	1,367
Impairment loss on inventories	<b>2,363</b>	870	<b>17,806</b>	-	-	-	-	-	<b>20,169</b>	870
Impairment loss on trade receivables	<b>21,821</b>	1,528	-	-	-	-	-	-	<b>21,821</b>	1,528
Impairment loss on deposits paid	<b>1,587</b>	-	-	-	<b>2,255</b>	-	-	-	<b>3,842</b>	-
Impairment loss on other receivables	<b>2,034</b>	-	-	-	<b>1,311</b>	-	-	-	<b>3,345</b>	-



## 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. The Group's customers are mainly located in Mainland China, Singapore and Hong Kong.

### 2005

	Continuing operations				Total HK\$'000
	Hong Kong HK\$'000	PRC HK\$'000	Singapore HK\$'000	Others HK\$'000	
Revenue from					
external customers	626	287	13,519	–	14,432
Other revenue	63	–	24	–	87
Other income	–	–	51	–	51
Unallocated expenses					<u>(122,353)</u>
Loss from operations					(107,783)
Finance costs					<u>(2,136)</u>
Loss for the year from continuing operations					(109,919)
Loss for the year from discontinued operation					<u>(27,977)</u>
Loss for the year					<u><u>(137,896)</u></u>

### 2004

	Continuing operations				Total HK\$'000
	Hong Kong HK\$'000 (restated)	PRC HK\$'000 (restated)	Singapore HK\$'000 (restated)	Others HK\$'000 (restated)	
Revenue from					
external customers	–	22,354	4,610	297	27,261
Other revenue	182	128	83	19	412
Other income	–	–	–	–	–
Unallocated expenses					<u>(45,838)</u>
Loss from operations					(18,165)
Finance costs					<u>(418)</u>
Loss for the year from continuing operations					(18,583)
Loss for the year from discontinued operation					<u>1,586</u>
Loss for the year					<u><u>(16,997)</u></u>

**(3) TURNOVER AND REVENUE**

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
<b>Turnover</b>		
System solutions service income	–	22,233
Sales of software and hardware	<b>3,836</b>	4,610
Maintenance service income	<b>10,153</b>	313
Others	<b>443</b>	105
	<u>14,432</u>	<u>27,261</u>
<b>Other revenue</b>		
Interest income	<b>16</b>	9
Sundry income	<b>71</b>	403
	<u>87</u>	<u>412</u>
<b>Other Income</b>		
Gain on disposal of property, plant and equipment	<b>4</b>	–
Grant income	<b>47</b>	–
	<u>51</u>	<u>–</u>

#### (4) LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging/(crediting):

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
		(restated)
Auditors' remuneration	<b>299</b>	280
Staff costs (excluding directors' remuneration):		
– Wages and salaries	<b>8,090</b>	3,789
– Retirement benefits contributions	<b>975</b>	200
Research expenses incurred	<b>230</b>	375
Exchange loss	<b>33</b>	24
Depreciation of owned assets	<b>530</b>	549
Amortisation of intangible assets	<b>146</b>	142
Amortisation of goodwill	–	2,709
Operating lease rentals in respect of land and buildings	<b>1,630</b>	985
Loss on disposal of property, plant and equipment	<b>1,045</b>	1,059
Impairment loss recognised in respect of intangible assets	<b>1,034</b>	1,367
Impairment loss recognised in respect of goodwill	<b>32,347</b>	–
Impairment loss recognised in respect of trade receivables	<b>21,821</b>	1,528
Impairment loss recognised in respect of deposits paid	<b>3,842</b>	–
Impairment loss recognised in respect of other receivables	<b>3,345</b>	–
Impairment loss recognised in respect of inventories	<b>20,169</b>	870
Unrealised loss on financial assets at fair value through profit or loss	–	5,072
Realised loss on financial assets at fair value through profit or loss	<b>927</b>	–
Gain on liquidation of a subsidiary	–	(1,027)
	<b><u>                    </u></b>	<b><u>                    </u></b>

#### (5) FINANCE COSTS

	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
		(restated)
Interest on short term unsecured bearing loan wholly repayable within five years	<b><u>2,136</u></b>	<b><u>418</u></b>

## (6) 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 (2004: Nil).

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. No overseas taxation has been made in the financial statements for the subsidiaries operating outside Hong Kong for the year (2004: HK\$564,000).

## (7) LOSS PER SHARE

### (a) Basic loss per share

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Loss attributable to equity holders of the Company	<u>(137,772)</u>	<u>(16,854)</u>
Attributable to:		
Continuing operations	(109,795)	(18,440)
Discontinued operation ( <i>Note 9</i> )	<u>(27,977)</u>	<u>1,586</u>
	<u>(137,772)</u>	<u>(16,854)</u>
	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares in issue	<u>2,606,949,911</u>	<u>1,719,319,929</u>
<b>Basic (loss)/profit per share</b>		
– for loss for the year	<u>(HK5.28 cents)</u>	<u>(HK0.98 cents)</u>
– for loss from continuing operations	<u>(HK4.21 cents)</u>	<u>(HK1.07 cents)</u>
– for (loss)/profit from discontinued operation	<u>(HK1.07 cents)</u>	<u>HK0.09 cents</u>

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$137,772,000 (2004: HK\$16,854,000, as restated) and the weighted average of 2,606,949,911 (2004: 1,719,319,929) ordinary share in issue during the period.

### (b) Diluted loss per share

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.

## (8) DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005 (2004: Nil).

**(9) DISCONTINUED OPERATION**

The loss for the year from the discontinued operation which has been included in the consolidated income statement is analysed as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
(Loss)/profit on mobile game and value added services operation	<b>(556)</b>	1,586
Loss on disposal of mobile game and value added services operation	<b>(27,421)</b>	–
	<u><b>(27,977)</b></u>	<u>1,586</u>
Basic (loss)/profit per share from discontinued operation	<u><b>(HK0.02 cents)</b></u>	<u>HK0.09 cents</u>
Diluted loss per share from discontinued operation	<u><b>N/A</b></u>	<u>N/A</u>

The results of mobile game and value added services operation for the period from 1 January 2005 to 2 September 2005, which has been included in the consolidated income statement, were as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	<b>1,894</b>	5,176
Cost of sales	<b>(672)</b>	(232)
Gross profit	<b>1,222</b>	4,944
Other revenue	<b>1</b>	1
Administrative expenses	<b>(1,300)</b>	(1,553)
Selling and distribution costs	<b>(477)</b>	(1,242)
(Loss)/profit from operation	<b>(554)</b>	2,150
Finance costs	<b>(2)</b>	–
(Loss)/profit before taxation	<b>(556)</b>	2,150
Taxation	<b>–</b>	(564)
(Loss)/profit after taxation	<u><b>(556)</b></u>	<u>1,586</u>

## EXTRACT FROM AUDITORS' REPORT

### Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below:

**(i) Limitation of audit scope relating to the absence of books and records of a subsidiary, Hangzhou M Dream Zone Company Limited (“M Dream Zone”) and in relation to the respective loss on disposal of M Dream Zone on 2 September 2005**

As mentioned in note 2(a) to the financial statements, the Group has disposed of 100% equity interests in subsidiaries, M Dream Mobile Entertainment Limited and Hangzhou M Dream Zone Company Limited (hereinafter referred to as the “M Dream MEL Group”) on 2 September 2005. In the absence of sufficient documentary evidence, we were unable to carry out any audit procedures to verify the occurrence of this disposal and whether such disposal was legally and properly transacted.

The consolidated financial statements have incorporated the unaudited management accounts of M Dream Zone from 1 January 2005 to the date of disposal. Due to the fact that the books and records of this subsidiary were not made available to us, we were unable to ascertain that income statements of these disposed subsidiaries for the period from 1 January 2005 to 2 September 2005 (date of disposal) so consolidated are fairly stated.

With regard to the above limitations, we were not provided with sufficient appropriate audit evidence to determine whether the disposal was legitimate and whether the related loss on disposal of approximately HK\$27,421,000 was fairly stated in the financial statements and whether the details of the disposal had been properly disclosed in the financial statements for the year.

**(ii) Limitation of audit scope relating to the absence of books and records in respect of a subsidiary of the Company, 活力世界(上海)網絡技術有限公司 (“活力上海”)**

As explained in note 2(a) to the financial statements, in the absence of books and records of 活力上海, we were unable to carry out any procedures to verify its financial position as at 31 December 2005 and its performance for the year then ended was properly consolidated into the Group’s financial statements.

- (iii) Limitation of audit scope relating to the absence of books and records in respect of a subsidiary, 聯夢在綫軟件(上海)有限公司 (“Shanghai Online”)**  
As explained in note 2(a) to the financial statements, a wholly owned subsidiary of the Company, Shanghai Online was established in the People’s Republic of China (the “PRC”) during the year ended 31 December 2005. In the absence of books and records, we were unable to obtain any sufficient reliable financial information relating to the financial position of Shanghai Online as at 31 December 2005, its cash flow and its performance for the year then ended. In particular, included in the consolidated income statements of the Group as at 31 December 2005 were administrative expenses of approximately HK\$4,598,000 of Shanghai Online. As there was no reliable information available to us to ascertain the nature and accuracy of the aforesaid administrative expenses of approximately HK\$4,598,000, we were unable to ascertain whether such expenses included in the consolidated income statements of the Group for the year ended 31 December 2005 are fairly stated.
- (iv) Limitation of audit scope relating to revenue recognition**  
Included in the consolidated income statements is an amount of approximately HK\$281,000 recognised as revenue under the stage of completion method as set out in note 2(q) to the financial statements. Due to lack of proper documentation of timesheets and cost incurred, we were unable to obtain adequate evidence and satisfactory explanation to ascertain whether work-in-progress was properly and adequately taken as recognised revenue in the consolidated income statements.
- (v) Limitation of audit scope relating to share option scheme**  
As explained in note 33 to the financial statements, the Company has adopted a share option scheme on 14 December 2001, over which the directors of the Company may at their discretion grant options to employees and directors of the Group to subscribe for ordinary shares in the Company. Due to the absence of sufficient documentary evidence and lost of the scheme documents, we were unable to classify and verify whether the share options being cancelled or lapsed to the extent of 45,740,000 share options during the year ended 31 December 2005 were accurate and whether the outstanding share options to the extent of 129,220,000 share options as at 31 December 2005 were accurate. Consequently, we were unable to determine the effect of the share option scheme on the Group’s financial statements.
- (vi) Limitation of audit scope relating to Other Receivable**  
Included in the consolidated balance sheet of the Group as at 31 December 2005 is Other Receivable of approximately HK\$1,311,000 before impairment, which is receivable from High Land Logistics Express Limited. No reliable information is available to us to assess the nature of such receivable. Accordingly, we have been unable to obtain sufficient reliable audit evidence either to ascertain whether the amount can be recovered in full, or to determine whether the impairment loss of approximately HK\$1,311,000 was properly made by the directors of the Group for the year ended 31 December 2005.

**(vii) Limitation of audit scope relating to Trade Receivables**

Included in the consolidated balance sheet of the Group as at 31 December 2005 are Trade Receivables of approximately HK\$9,750,000 and HK\$11,918,000, which are receivables from 浙江怡天信息產業有限公司 and 杭州怡天科技有限公司 respectively. No reliable information are available to us to in respect of such receivables. Accordingly, we have been unable to obtain sufficient reliable audit evidence either to ascertain whether the amount can be recovered in full, or to determine whether the impairment loss of approximately HK\$9,750,000 and HK\$11,918,000 are properly made by the directors of the Group for the year ended 31 December 2005.

**(viii) Non-compliance with the rules governing the listing of securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited**

As aforementioned in (i) above, the Company has disposed of 100% equity interests in M Dream MEL Group on 2 September 2005. We were unable to determine whether this transaction constitute to a notifiable transaction under Chapter 19 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”). As no disclosure was made by the Company, such non-disclosure may constitute to a breach of the GEM Listing Rules and the validity of the transaction is uncertain. Further details relating to the disposal of M Dream MEL Group are described in note 21 to the financial statements.

**(ix) Fundamental uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made as set out in note 2(a) to the financial statements which explains the circumstances giving rise to the fundamental uncertainties relating to the net loss and net liabilities position of the Group. These financial statements have been prepared on a going concern basis, the validity of which depends upon future profitable operations and the funds being available to the Group to carry on its business and to meet its debts and when they fall due in the foreseeable future. The financial statements do no include any adjustments that may be required if the Group failed to obtain the necessary financial support from its controlling substantial shareholder. We have considered that appropriate disclosures have been made in the financial statements concerning this situation, but the evidence available to us was limited. In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumption made by the directors of the Company in preparing the financial statements on a going concern basis, as set out in note 2 to the financial statements, is fair and reasonable. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential significant effect on the results for the year and its liquidity position as at 31 December 2005. These fundamental uncertainties relating to whether the going concern basis is appropriate are so extreme that we have disclaimed our opinion.

Any adjustment found to be necessary in respect of note (i) to (ix) might have had a material effect on the net assets of the Group as at 31 December 2005 and the results for the year then ended, and the related disclosures in these financial statements.



In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Qualified Opinion: Disclaimer on View Given by the Financial Statements**

Because of the significance of the possible effect of the limitations in the evidence available to us relating to the matters referred to above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of its loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matter referred to above,

- We have not obtained all information and explanations that we considered necessary for the purpose of our audit.
- We were unable to determine whether proper books of account had been kept.

## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **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.

In retrospect, the Company had tried to venture into new business area like mobile value added business and online game operations in China in the previous year. However, these projects were rather unsuccessful. Our subsidiary in Singapore Elipva Limited (“Elipva”) which specialized 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 performance of the system solution business was acceptable in view of the slower economics pickup in Singapore.

## **FINANCIAL REVIEW**

### **Turnover**

The turnover of the Group was approximately HK\$14 million for the year ended 31 December 2005, representing a decrease of 47% compared to the turnover for the year ended 31 December 2004 of approximately HK\$27 million.

**Loss for the year**

The consolidated loss of the Group for the year ended was approximately HK\$138 million.

**Liquidity and financial resources**

The Group has faced extremely tight liquidity situation during the year as some financing exercises were called off.

**Capital structure**

There has been no change in the capital structure of the Company during the year.

**Foreign exchange exposure**

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

**Significant investments**

The Group had no significant investments during the year.

**Material acquisitions and disposals**

The Group had no material acquisition during the year. A disposal of subsidiaries was carried out during the year and the details are set in notes to the financial statements in the Annual Report of the Company.

**Gearing ratio**

As at 31 December 2005 the gearing ratio of the Group was 784% (2004: 31%).

**Employee information**

Currently the Group has about 30 employees (2004: 170) working in Hong Kong and Singapore. The Group remunerates its employees based on their experience, performance and values they contribute to the Group.

**Contingent liabilities**

As at 31 December 2005 the Group had no contingent liabilities (2004: nil).

**OUTLOOK**

Year 2005 was a slow year for the Group. The Group will continue to grow organically by strengthening its technical edge and bringing ingenious offerings to the market. Although, the company has stopped operation for its MMORPG (Massively Multiplayer Online Role Play Game) and sold off its mobile value added service subsidiary; the company will actively look for opportunity to invest or acquire company in China.

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

As at 31 December 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### **Long position in the ordinary shares of the Company**

<b>Name of director</b>	<b>Personal interests</b>	<b>Corporate interests</b>	<b>Total interests</b>	<b>Percentage of interests</b>
Mr. Koh Tat Lee, Michael	–	323,104,376 <i>(Note 1)</i>	323,104,376	12.39%
Dr. Choong Ying Chuan	2,563,930	46,089,697 <i>(Note 2)</i>	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 Limited of which 83.33% of the entire issued capital is beneficially owned by Dr. Choong Ying Chuan. Accordingly, Dr. Choong is deemed to be interested in the shares beneficially owned by eMatrix Pte Limited.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

Apart from those as disclosed under the heading "Share Options" in the Annual Report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executives, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference in accordance with Rules 5.34 to 5.45 of the GEM Listing Rules. The audit committee members as at the date of this report are Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu, Ray. They are the independent non-executive directors of the Company. The audit committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2005.

The Company's financial statements for the year ended 31 December 2005 have been reviewed and discussed by the audit committee before any disclosure and release of information.

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

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

## **CORPORATE GOVERNANCE**

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

The Company has established formal, considered and transparent procedures for the appointment of new directors.

According to the Company's Articles of Association all directors appointed to fill a casual vacancy should be subject to elections by shareholders at the first annual general meeting. A common consent by the Board is that all directors should retire by rotation at least once every three years including those appointed for a specific term.

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

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

## **(2) Training for directors**

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

## **(3) Chairman and chief executive officer**

Code Provision A2.1 stipulates the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Chairman should be responsible for the management of the board of directors, whereas the daily management of business operations should rest with the Chief Executive Officer.

When the resource of the Company improves it will recruit a suitable candidate to become the Chief Executive Officer of the Company. At the moment the management of business operations is also conducted by the Chairman of the Company.

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

Hong Kong, 29 September 2006

*As at the date of this announcement, the board of Directors consists of Mr. Koh Tat Lee, Michael, Mr. Domingo Chen and Dr. Choong Ying Chuan, being the executive Directors, Mr. Wong Kean Li, being the non-executive Director, Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu, Ray, being the independent non-executive directors.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange for the purpose of giving information with regard to the company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this 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.*

*This announcement will remain on the “Latest Company Announcement” page of the GEM website for least 7 days from the date of its publication.*