THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular does not constitute on offer of, nor is it calculated to invite offers for shares of the Company.

 A letter from the board of directors of M Dream Inworld Limited is set out on pages 7 to 22 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in connection with the Subscription and Whitewash Waiver (as defined herein) is set out on page 23 of this circular. A letter from Veda Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice to the Independent Board Committee in connection with the Subscription and Whitewash Waiver is set out on pages 24 to 37 of this circular.

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

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)

(1) SHARE REORGANISATION
(2) SUBSCRIPTION OF HK$14.04 MILLION CONVERTIBLE BONDS
(3) APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER
(4) PROPOSALS FOR GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES
AND
(5) AMENDMENT TO THE ARTICLES OF ASSOCIATION

Financial Adviser to Ample Field Limited

ASIA VEST PARTNERS

Asia Vest Partners Limited

Independent Financial Adviser to the Independent Board Committee of M Dream Inworld Limited

VEDA | CAPITAL
智略資本

A notice convening the EGM (as defined herein) to be held at 10:30 a.m. on 29th December, 2006 is set out on pages 110 to 117 of this circular. Whether or not you are able to attend the EGM, you are strongly urged to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge it with the offices of the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

* *For identification purpose only*

4th December, 2006

CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

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

"Announcement"	The announcement dated 24th October, 2006 announced by the Company relating to, among other things, the proposed Share Reorganisation, the subscription of HK$14.04 million Convertible Bonds, the application for the granting of the Whitewash Waiver and the application for trading resumption
"Articles of Association"	The articles of association of the Company
"Asiavest"	Asiavest Partners Limited, the financial adviser to the Subscriber
"Associate"	has the meaning ascribed thereto under the GEM Listing Rules
"Board"	The board of Directors
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "Black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
"Capital Reduction"	the proposed reduction of the par value of the issued Consolidated Shares from HK$0.10 per Consolidated Share to HK$0.01 per New Share by reducing the paid up capital to the extent of HK$0.09 on each of the then Consolidated Shares which will give rise to a credit of HK$23,462,549.20 on the basis of the then 260,694,991 Consolidated Shares in issue
"CCASS"	The Central Clearing and Settlement System
"Company"	M Dream Inworld Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM of the Stock Exchange
"Completion"	completion of the Formal Subscription Agreement
"Concert Parties"	has the meaning ascribed to "persons acting in concert" under the Takeovers Code
"Connected Person"	a Director, chief executive, Management Shareholder or Substantial Shareholder of the Company or an Associate of any of them
"Consolidated Share"	share of HK$0.10 each in the capital of the Company immediately following the Share Consolidation becoming effective

"Conversion"	At the option of the Subscriber, the Convertible Bonds can be converted into New Shares subject to the terms and conditions of the Convertible Bonds
"Conversion Price"	The initial conversion price of HK$0.039 per New Shares under the Convertible Bonds, subject to adjustment
"Convertible Bonds"	the convertible bonds to be issued by the Company to the Subscriber with a principal amount of HK$14,040,000, which entitles the holder thereof to convert into New Shares at any time after the date of the Completion and for the avoidance of doubt, including the Final Maturity Date at the Conversion Price
"Directors"	The directors of the Company from time to time
"EGM"	The extraordinary general meeting of the Company to be convened for the purpose of passing the resolutions, amongst other things, the Share Reorganisation, the Formal Subscription Agreement and the Whitewash Waiver, proposals for General Issue Mandate and the Repurchase Mandate and the amendment to the Articles of Association
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Final Maturity Date"	The fifth anniversary of the date of issue of the Convertible Bonds
"Formal Subscription Agreement"	The subscription agreement entered into between the Company and the Subscriber dated 10th October, 2006
"GEM"	The Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	Rules Governing the Listing of Securities on GEM
"General Issue Mandate"	a general mandate to allot and issue the New Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue at the date of approval of the mandate
"Group"	The Company and its subsidiaries
"HKSCC"	The Hong Kong Securities Clearing Company Limited
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	An independent committee of the Board established to advise the Independent Shareholders in respect of the Whitewash Waiver

"Independent Financial Adviser" or "Veda Capital"	Veda Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than the Subscriber and its Concert Parties or others who are interested or involved in the proposed Subscription
"Issuer"	The issuer of the Convertible Bonds
"Last Trading Day"	3rd October, 2005, the last trading day immediately before the trading suspension of the Company on 4th October, 2005
"Latest Practicable Date"	1st December, 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Management Shareholder"	has the meaning ascribed thereto in the GEM Listing Rules
"Mr. Koh"	Mr. Koh Tat Lee, Michael, the chairman and the executive director of the Company
"Mr. Yu"	Mr. Yu Shu Kuen, the sole director and the ultimate beneficial owner of Ample Field Limited
"New Shares"	shares of HK$0.01 each in the capital of the Company upon completion of the Share Reorganisation
"PRC"	the People's Republic of China
"Preliminary Subscription Agreement"	The subscription agreement entered into between Mr. Yu, the beneficial owner of the Subscriber and the Company dated 12th June, 2006
"Repurchase Mandate"	a general mandate to the Directors to exercise all the powers of the Company to repurchase New Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue at the date of approval of the mandate
"SFC"	Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company before the Share Reorganisation

"Share Consolidation"	Every 10 issued shares of HK$0.01 each in the capital of the Issuer into one share of HK$0.10 each
"Share Option Scheme"	The share option scheme adopted by the Company on 14th December, 2001 under which the directors may at their discretion grant options to employees and directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein
"Share Premium Cancellation"	Cancellation of the share premium arising from the Capital Reduction
"Share Reduction"	the reduction of the par value of the Consolidated Shares from HK$0.10 per Consolidated Share to HK$0.01 per New Share by reducing the paid up capital to the extent of HK$0.09 on each of the then issued Consolidated Share
"Share Reorganisation"	the Share Consolidation, the Capital Reduction and the Share Premium Cancellation
"Shareholder(s)"	Holders of Share(s) or New Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Ample Field Limited of which the beneficial owner is Mr. Yu, the subscriber of the Convertible Bonds
"Subscription"	the subscription of the Convertible Bonds
"Subscription Shares"	In aggregate 360,000,000 New Shares based upon the Conversion Price of HK$0.039 and would fall to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds
"Substantial Shareholder"	a person who is entitled to exercise, or control the exercise of, 10% of the voting power at any general meeting of the Company
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Whitewash Waiver"	a waiver from the obligation to make a general offer under the Takeovers Code pursuant to Note 1 to Notes on dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollar(s), the lawful currency in Hong Kong
"%"	Per cent

EXPECTED TIMETABLE

Set out below is the expected timetable for the the Share Reorganisation and the Subscription.

This timetable is indicative only and may be varied due to additional time required for compliance with regulatory requirements in the Cayman Islands and subject to the condition of resumption of trading of the Shares on GEM. Shareholders will be informed of any changes to the expected timetable by public announcement.

Latest time for lodging proxy forms for the EGM	10:30 a.m. on 27th December, 2006
EGM	10:30 a.m. on 29th December, 2006
Publication of announcement of results of EGM	2nd January, 2006
Expected date of publication of announcement for the effective date of the Share Reorganisation	23rd March, 2007
Expected date on which the Share Reorganisation becomes effective*	26th March, 2007
First day of free exchange of existing yellow certificates for the Shares for new certificates for the New Shares	26th March. 2007
Dealings of the New Shares begin	26th March, 2007
Original counter for trading in the Shares in board lots of 8,000 Shares each temporarily closes	9:30 a.m. on 26th March, 2007
Temporary counter for trading in the Consolidated Shares in board lots of 800 New Shares each opens	9:30 a.m. on 26th March, 2007
Original counter for trading in the Consolidated Shares in board lots of 20,000 New Shares of HK$0.01 each reopens	9:30 a.m. on 12th April, 2007
Parallel trading in the New Shares in the form of existing and new share certificates commences	9:30 a.m. on 12th April, 2007
Designated broker starts to stand in the market to provide matching service	9:30 a.m. on 12th April, 2007
Temporary counter for trading in the Consolidated Shares in board lots of 800 New Shares each closes	4:00 p.m. on 4th May, 2007
Parallel trading in the Consolidated Shares ends	4:00 p.m. on 4th May, 2007

Designated broker ceases to stand in the market
to provide matching service .... 4:00 p.m. on 4th May, 2007

Last day of free exchange of existing yellow certificates
for the Shares for new certificates for the New Shares end ....9th May, 2007

Note: All date and time above refer to Hong Kong time.

* *The expected effective date of the Share Reorganisation is subject to the relevant conditions precedent (including but not limited to Independent Shareholders' approval and resumption of trading of the securities of the Company) being fulfilled.*

M DREAM INWORLD LIMITED

聯 夢 活 力 世 界 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8100)

Directors:
Mr. Koh Tat Lee, Michael
Mr. Domingo Chen
Dr. Choong Ying Chuan

Non-executive Directors:
Mr. Wong Kean Li

Independent non-executive Directors:
Mr. Cheung Wai Shing
Mr. Tsang Kwok Wai
Mr. Chu, Ray

Registered Office:
PO Box 309
Ugland House
South Church Street
George Town
Gand Cayman
Cayman Islands
Bristh West Indies

Principal place of business in Hong Kong:
Room A, 5th Floor,
Teda Building,
87 Wing Lok Street,
Sheung Wan,
Hong Kong

4th December, 2006

To the Shareholders

Dear Sir or Madam,

(1) SHARE REORGANISATION
(2) SUBSCRIPTION OF HK$14.04 MILLION CONVERTIBLE BONDS
(3) APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER
(4) PROPOSALS FOR GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES
AND
(5) AMENDMENT TO THE ARTICLES OF ASSOCIATION

INTRODUCTION

As disclosed in the Announcement, the Company proposes the Share Reorganisation which involves the Share Consolidation of every 10 issued shares of HK$0.01 each in the capital of the Company into one Consolidated Shares of HK$0.10 each, the Share Reduction of the par value of the issued Consolidated Shares from HK$0.10 per Consolidated Share to HK$0.01 per New Share by reducing the paid up capital

* *For identification purpose only*

to the extent of HK$0.09 on each of the then Consolidated Shares and cancellation of the share premium arising from the Share Reduction in aggregate of HK$23,462,549.20.

On 12th June, 2006, the Company entered into the Preliminarily Subscription Agreement with Mr. Yu in relation to the subscription of the Convertible Bonds at the conversion price HK$0.039 per New Share with a total subscription price of HK$14.04 million. On 10th October, 2006, the Company entered into the Formal Subscription Agreement with the Subscriber which replaced the Preliminary Subscription Agreement.

Upon Completion and assuming full exercise of the conversion rights under the Convertible Bonds, the Subscriber will be interested in about 58% of the issued share capital of the Company as enlarged by the New Shares issued upon Conversion. Under the Takeovers Code, in the absence of the Whitewash Waiver, the Subscriber should be obliged to make a mandatory general offer to acquire all the New Shares other than those already owned by the Subscriber and his Concert Parties. An application has been made by the Subscriber to the Executive for the Whitewash Waiver.

SHARE REORGANISATION

The Share Reorganisation involves the Share Consolidation, the Share Reduction and the Share Premium Cancellation.

Share Consolidation

The Share Consolidation involves the consolidation of every 10 issued shares of HK$0.01 each in the capital of the Company into one Consolidated Shares of HK$0.10 each. As at the Latest Practicable Date, the authorized share capital of the Company is HK$60,000,000 divided into 6,000,000,000 Shares, which will be equivalent to 600,000,000 Consolidated Shares immediately following the Share Consolidation becoming effective. As at date of this circular, there is 2,606,949,911 Shares in issue. On the basis of such issued share capital, there will be 260,694,991 Consolidated Shares in issue immediately following the Share Consolidation becoming effective.

As at the Latest Practicable Date, the outstanding options granting under the share option scheme of the Company is 54,000,000 Shares.

Share Reduction and Share Premium Cancellation

The Share Reduction will involve the reduction of the par value of the issued Consolidated Shares from HK$0.10 per Consolidated Share to HK$0.01 per New Share by reducing the paid up capital to the extent of HK$0.09 on each of the then Consolidated Shares which will give rise to a credit of HK$23,462,549.20 on the basis of the then 260,694,991 Consolidated Shares in issue. The Share Premium Cancellation will involve the cancellation of the entire amount of approximately HK$23,462,549.20 standing to the credit of the share premium account of the Company as at the effect date of the Share Reorganisation. The credits of HK$23,462,549.20 arising from the Share Reduction and the Share Premium Cancellation will be transferred to the distributable reserve account of the Company.

Reason for the Share Reorganisation

Based on the latest audited accounts of the Company for the year ended 31st December, 2005, the net asset deficit per Share is HK$0.0184. In view of the substantial premium of the existing par value over the net asset deficit per Share, the Directors believes that implementation of the Share Reorganisation will provide better flexibility in pricing any new issue of the New Shares of the Company in conducting fund raising exercises for future expansion. The Board is of the view that the Share Reorganisation is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Effect of the Share Reorganisation

Based on the existing Company's authorized share capital of HK$60,000,000 divided into 6,000,000,000 Shares and existing issued share capital of HK$26,069,499.11 divided into 2,606,949,911 Shares, upon completion of the Share Reorganisation, the authorized share capital of the Company will be HK$60,000,000 divided into 600,000,000 New Shares, and the issued share capital will be HK$2,606,949.91 divided into 260,694,991 New Shares.

Ranking of the New Shares

The New Shares will rank pari passu in all respects with each other. Other than the expenses incurred in relation to the Share Reorganisation, the implementation thereof will not alter the underlying assets, business operations management of financial position of the Company or the relative interests or rights of the Shareholders. Save as disclosed above, the Share Reorganisation itself will not have any material effect on the financial position of the Company.

Conditions of the Share Reorganisation

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares before dispatch of the Company's circular regarding, inter alia, the Share Reorganisation and all necessary arrangement will be made for the New Shares to be admitted into the CCASS established and operated by the HKSCC.

The Share Reorganisation will be conditional upon:

(a) the passing of the necessary resolution(s) by the Shareholders to approve the Share Reorganisation at the EGM;

(b) compliance with the laws of the Cayman Islands, any applicable legal and regulatory requirements and any conditions which the Cayman Islands Court may impose;

(c) the confirmation of the Share Reorganisation by the Cayman Islands Court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the Cayman Islands Court order and the minute containing the particulars required under the laws of the Cayman Islands; and

(d) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the New Shares in issue.

Subject to the granting of listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

CHANGE IN BOARD LOT SIZE

The Board of the Company announces that the board lot for trading in the New Shares on the GEM will be changed from 8,000 Shares to 20,000 New Shares with effect from the completion of the Share Reorganisation. The change is effected in order to reduce the trading costs for the investors and the Shareholders and will not result in any change in relative rights of the Shareholders. The Directors are of the opinion that the change in board lot size is in the best interest of the Company and the Shareholders.

TRADING ARRANGEMENT AND FREE EXCHANGE OF CERTIFICATE(S) FOR NEW SHARES

Shareholders should note that the expected timetable shown on page 5 to 6 of this circular with regard to the Share Reorganisation is prepared on the assumption that the Share Reorganisation will become effective on 26th March, 2007. The Company will make an announcement in the event that there is a change in the expected timetable with regard to the exchange trading arrangements.

The effective date of the Share Reorganisation is not ascertainable at present as the date for resumption of trading of shares of the Company is uncertain and an application will be made to the Cayman Islands court in respect of the Capital Reduction.

Subject to the Share Reorganisation becoming effective on 26th March, 2007, Shareholders may, during 26th March, 2007 to 9th May, 2007 (both dates inclusive), submit share certificates for the Shares (yellow) to the Company's branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for exchange, at the expense of the Company, for new share certificates (blue) for the New Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each share certificate for the Shares cancelled or each new share certificate issued for the New Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, certificates for the Share will continue to be good evidence of legal title and may be exchanged for certificates for the New Shares at any time.

Arrangement on Odd Lot Trading

In order to facilitate the trading of odd lots (if any) of the New Shares, the Company has appointed One China Securities Limited to stand in the market to match the purchased and sale of odd lots of the New Shares at the relevant market price per New Share for the period from 12th April, 2007 to 4th May, 2007 (both days inclusive), on a "best effort" basis. Holders of odd lots of the New Shares who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or to top up to a full board lot may contact Mr. Lo Yiu Chuen of One China Securities Limited at 16/F, 59 Connaught Road Central, Hong Kong (telephone number: (852) 3188 9897) during the aforesaid period. Holders of odd lots of the New Shares should note that the matching of the sale and purchase of odd lots of the New Shares is not guaranteed.

Arrangements will also be made to ensure the New Shares are accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS upon the Share Reorganisation becoming effective.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The GEM Listing Rules have been amended by the Stock Exchange by inserting a new CG Code as Appendix 15 replacing Rules 5.35 to 5.45 of the GEM Listing Rules and adding a new Appendix 16 on the requirements for a Corporate Governance Report to be included in annual reports of listed issuers. Such amendments took effect on 1st January, 2005. Further amendments have been made to the GEM Listing Rules with effect from 1st March, 2006 requiring that, among other matters, the Articles of Association shall provide that Directors may be removed at any time by ordinary resolution of the Shareholders.

The Directors therefore propose to put forward to the Shareholders for approval of a special resolution to amend the Articles of Association at the EGM. The amendments are to bring the current Articles of Association in line with, including but not limited to, (i) paragraph A.4.2 of the CG Code which provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should be subject to election by the shareholders at the first general meeting after their appointment; and (ii) paragraph 4(3) of Appendix 3 to the GEM Listing Rules which provides that any director may be removed by ordinary resolution in general meeting before the expiration of his period of office.

Apart from the above, the Company would like to take this opportunity to amend the Articles in respect of the demand of a poll in the circumstances as required by Rule 17.47(3) of the GEM Listing Rules which provides that if the chairman of the meeting and/or the directors individually or collectively hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting, and if on a show of hands a meeting votes in the opposite manner to that instructed in those proxies, the chairman and/or the directors holding the proxies as aforesaid collectively shall demand a poll.

The proposed amendments to Articles of Association are stated in the proposed special resolution no. 2 in the notice convening the EGM as set out on pages 110 to 117 of this circular.

FORMAL SUBSCRIPTION AGREEMENT

On 12th June, 2006, the Company entered into the Preliminarily Subscription Agreement with Mr. Yu in relation to the subscription of the Convertible Bonds at the conversion price HK$0.039 per New Share with a total subscription price of HK$14.04 million. Details of which were disclosed in the announcement of the Company dated 19th July, 2006. On 10th October, 2006, the Company entered into the Formal Subscription Agreement with the Subscriber which replaced the Preliminary Subscription Agreement.

Parties

Issuer	:	the Company
Subscriber	:	Ample Field Limited, a company incorporated in the British Virgin Island and is 100% beneficially owned by Mr. Yu

The Subscriber with its ultimate beneficial owner, Mr. Yu, are independent of and not connected with the Company, any of the directors, chief executive, substantial shareholders of the Company or its subsidiaries, or any associates of any of them (as defined under the GEM Listing Rules).

Summary of the principal terms of the Convertible Bonds

HK$14.04 million redeemable convertible bonds of the Company which shall be convertible at the conversion price of HK$0.039 per New Share, subject to anti-dilution adjustments including but not limited to share consolidation, share subdivision, capitalization issue, capital distribution and right issues.

Price

Par value of the principal amount of the Convertible Bonds, HK$14.04 million in aggregate.

Maturity

The fifth anniversary of the date of issue of the Convertible Bonds.

Coupon

The prime rate for Hong Kong dollar loan as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited and is payable annually in arrears.

Conversion price and Conversion rights

At the option of the Subscriber, the Convertible Bonds can be converted into New Shares of HK$0.01 each in the authorized share capital of the Company after the Completion at the Conversion Price.

Based upon the Conversion Price of HK$0.039 per New Share, a total of 360,000,000 New Shares would fall to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds. The Conversion Price of HK$0.039 per Subscription Shares was determined after arm's length negotiations between the Company and the Subscriber, after considering the existing liabilities and indebtedness of the Group, the Group's net asset deficit of HK$47,872,000 which is equal to HK1.84 cents loss per Share as at 31st December, 2005. The Board is of the view that the terms of the Subscription are fair and reasonable and in the interests of the Shareholders as a whole.

Assuming the Share Reorganisation becoming effective, the Conversion Price represents a discount of approximately: (1) 64.55% to the closing price of HK$0.11 per New Share as quoted on the Stock Exchange on the Last Trading Day; (2) a discount of approximately 64.55% to the average closing price of HK$0.11 per New Share as quoted on the Stock Exchange over the last ten trading days up to and including the Last Trading Day; and (3) a premium of HK$0.2226 per New Share over the Group's audited net asset deficit of HK$0.184 per New Share as at 31st December, 2005.

Conversion period

The five year period from the date of the issue and for the avoidance of doubt, including the Final Maturity Date.

Redemption of the Convertible Bonds

The Company at any time can redeem the entire Convertible Bonds (but not part of) by payment to the holder of the Convertible Bonds in cash of an amount equal to 120% of the outstanding principal amount of the Convertible Bonds.

Status and Transfer

The Convertible Bonds may only be transferred, if and only if, the transfer is made in accordance with any applicable requirements of the Stock Exchange, the GEM Listing Rules, applicable laws and regulations. In the event of a transfer to a connected person (as defined in the GEM Listing Rules) of the Company, it should notify the Stock Exchange immediately.

The holder of the Convertible Bonds will not be entitled to receive notice of, attend or vote at any general meetings of the Company be reason of a Convertible Bonds holder unless any conversion right of the Convertible Bonds is exercised or the holder of the Convertible Bonds is also a shareholder of the Company.

Conditions of the Formal Subscription Agreement

The issue of the Convertible Bonds is subject to:

(a) completion of due diligence review to be conducted by the Subscriber to its satisfaction on the assets, liabilities, operations and affairs of the Group;

(b) Shareholders' approval at an extraordinary general meeting to be convened and held for the purpose of approving: (i) the Share Reorganisation and (ii) the Formal Subscription Agreement and the transactions contemplated hereunder, including but not limited to the issue of the Convertible Bonds to the Subscriber;

(c) the Share Reorganisation becoming effective;

(d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the New Shares in issue immediately following the Share Reorganisation, and the New Shares which may fall to be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds;

(e) the cancellation of the share options (if any) granted under the share option scheme(s) of the Company and outstanding as at the date of the Formal Subscription Agreement;

(f) the passing of the Shareholders (excluding any person(s), if any, who are required to abstain from voting under the GEM Listing Rules and the Takeovers Code) at the EGM to be convened and held of an ordinary resolution (such vote shall be taken by way of poll) to approve the grant of a waiver in respect of the obligation of the Subscriber and the parties acting in concert with it as a result of the subscription and the exercise of the conversion rights attaching to the Convertible Bonds of the Convertible Bonds in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code;

(g) the Executive Director for the time being of the Corporate Finance Division of the SFC or any delegate for the time being of the Executive Director granting to the Subscriber and the parties acting in concert with it a waiver of the obligation to make a mandatory general offer to the Shareholders in respect of the New Shares not already owned or agreed to be acquired by the Subscriber and any parties acting in concert with it as a result of the subscription and the exercise of the conversion rights attaching to the Convertible Bonds in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code;

(h) no indication being received on or before Completion from the Stock Exchange or the SFC to the effect that the listing of the New Shares may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of Completion or in connection with the Formal Subscription Agreement; and

(i) all necessary consents, authorisations, licences and approvals required to be obtained on the part of the Company in relation to the Formal Subscription Agreement and the transactions contemplated in the Formal Subscription Agreement including but not limited to the approval of the Shareholders in relation to the arrangement of the Convertible Bonds.

The Subscriber may at its absolute discretion to waive condition (a) above at any time by notice in writing to the Company. The other conditions are incapable of being waived.

Reason for the Subscription and the use of proceeds

The net proceeds of the issue will be approximately HK$13.5 million, as to HK$11 million of which shall be applied to pay off the creditors of the Company and the balance towards the general working capital for the Company.

Fund raising activities of the Company during the past 12 months

The Company has not effected any capital raising activities by way of placing of new shares, rights issue or open offer of the existing Shares in the 12 month immediately before the date of the Announcement.

Change in the shareholding structure of the Company

Upon full conversion of the Convertible Bonds and assuming no further issue of New Shares other than the New Shares issued upon conversion, the Subscriber will be interested in 360,000,000 New Shares, representing about 58 % of the issued share capital of the Company as enlarged by the conversion of the Convertible Bonds. In case the Whitewash Waiver is granted and the Convertible Bonds are fully converted, the Subscriber may increase its shareholding further without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

	As at the Latest Practicable Date, Existing		Upon Completion and Share Reoganisation but before the conversion of the Convertible Bonds		Upon Completion and Share Reorganisation and after the conversion of the Convertible Bond in full	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Temasek Holdings (Private) Limited *(Note 1)*	507,862,364	19.48	50,786,236	19.48	50,786,236	8.18
Singapore Technologies Telemedia Pte Limited *(Note 1)*	507,862,364	19.48	50,786,236	19.48	50,786,236	8.18
STT Communications Ltd *(Note 1)*	507,862,364	19.48	50,786,236	19.48	50,786,236	8.18
stt Ventures Ltd *(Note 1)*	507,862,364	19.48	50,786,236	19.48	50,786,236	8.18
Dynamate Limited *(Note 2)*	323,104,376	12.39	32,310,438	12.39	32,310,438	5.21
Koh Tat Lee, Michael *(Note 2)*	323,104,376	12.39	32,310,438	12.39	32,310,438	5.21
Yu Chung Choi, Chaucer *(Note 3)*	307,000,000	11.78	307,000,000	11.78	30,700,000	4.95
Madam Lidya Suryawaty *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Dr. Mochtar Riady *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Lanius Limited *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Lippo Cayman Limited *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Lippo Limited *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Lippo China Resources Limited *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
HKCL Holdings Limited *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Hongkong Chinese Ltd *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Allwin Asia Inc. *(Note 4)*	204,870,228	7.86	20,487,023	7.86	20,487,023	3.30
Shenzhen Ingen Technology Company Limited *(Note 5)*	147,440,000	5.66	14,744,000	5.66	14,744,000	2.38
The Subscriber	0	0	0	0	360,000,000	58.00
Public *(Note 6)*	1,116,672,943	42.83	1,116,672,943	42.83	111,667,294	17.99
Total	2,606,949,911	100	260,694,991	100	620,694,991	100

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. All of them are not Concert Parties of the Subscriber and its beneficial owner.

2. These shares are held by Dynamate Limited of which the entire issued 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. All of them are not Concert Parties of the Subscriber and its beneficial owner.

3. Before the conversion of the Convertible Bonds, Mr. Yu Chung Choi, Chaucer is interested in more than 10% of the issued share capital of the Company and is considered as a connected person of the Company. After the conversion of the Convertible Bonds, he shall be interested in less then 10% of the issued share capital of the Company and will not be a connected person of the Company. Mr. Yu Chung Choi, Chucer is not a Concert Parties of the Subscriber and its beneficial owner.

4. 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. All of them are not a Concert Parties of the Subscriber and its beneficial owner.

5. Shenzhen Ingen Technology Company Limited is not a Concert Parties of the Subscriber and its beneficial owner or a connected party of the Company.

6. After the conversion of the Convertible Bonds, the shareholding of Yu Chung Choi, Chaucer, Madam Lidya Suryawaty, Dr. Mochtar Riady, Lanius Limited, Lippo Cayman Limited, Lippo Limited, Lippo China Resources Limited, HKCL Holdings Limited, Hong Kong Chinese Ltd, Allwinn Asia Inc and Shenzhen Ingen Technology Company Limited will be less than 10% and shall be regarded as public. Thus, the shareholding of the public after the conversion of the Convertible Bonds will be 28.62%.

   As at the date of this circular, save for options granted to directors and employees of the Group to subscribe for a total of 54,000,000 Shares in which 16,000,000 Shares may be subscribed at HK$0.036 per Share and 38,000,000 Shares may be subscribed at HK$0.034 per Share under the share option scheme of the Company, there were no other outstanding options, warrants or convertible securities in the Company.

Information of the Subscriber

The Subscriber is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Yu. Mr. Yu is a resident of Hong Kong and has over 17 years of financial market experience. He has worked in the investment banking field in Hong Kong and has his own financial services business. Mr. Yu was the chairman of the GEM listed company Infoserve Technology Corp. from 2003 to 2005.

The Subscriber and its beneficial owner are independent of and not connected with the Company, any of the directors, chief executive, substantial shareholders of the Company or its subsidiaries, or any associates of any of them as associates defined under the GEM Listing Rules.

Future intention of the Subscriber

The Subscriber intends to maintain the existing business of the Company in information technology service. The Subscriber and its associates have no intention to inject their own asset or business to the Group. There are no intention of deployment of fixed asset and existing staffs of the Company. The Subscriber consider the subscription as a good opportunity in investing in a hi-tech experienced team. The Subscriber may exercise the conversion rights of the Convertible Bonds but the amount and time has not yet been finalised. Upon full conversion of the Convertible Bonds, the Subscriber will become the controlling shareholder of the Company. New directors may be appointed to the Board in compliance with the requirements under the Takeovers Code and further details will be announced to the Shareholders and the details of newly appointed directors will be submitted to the Stock Exchange for approval. As at the date of this circular, no Director has tendered resignation.

Dilution effect on Shareholders

In view of the future dilution of existing Shareholders upon exercise of the conversion rights attaching to the Convertible Bonds, the Company will keep the Shareholders informed of the level of dilution and details of conversion as follows:

(a) the Company will make a monthly announcement (the "Monthly Announcement'') on the website of the Stock Exchange. Such announcement will be made on or before the tenth Business Day following the end of each calendar month and will include the following details in a table form:

  (i) whether there is any conversion of the Convertible Bonds during the previous calendar month. If there is a conversion, details thereof including the conversion date, number of Conversion shares issued and Conversion Price for each conversion. If there is no conversion during the previous calendar month, a negative statement to that effect;

  (ii) the number of outstanding Convertible Bonds after the Conversion, if any;

  (iii) the total number of New Shares issued pursuant to other transactions during the previous calendar month, including New Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

  (iv) the total issued share capital of the Company as at the commencement and the last day of the previous calendar month; and

(b) in addition to the Monthly Announcement, if the cumulative amount of Conversion shares issued pursuant to the Conversion reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case maybe be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Conversion shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be).

Application for listing

No Listing approval in respect of the New Shares which may be issued on the exercise of the conversion rights attached to the Convertible Bonds will be granted if the suspension of trading of the Company could not be lifted.

The Convertible Bonds will not be listed on the Stock Exchange or any stock exchange.

SUSPENSION AND RESUMPTION OF TRADING OF THE SERCURITES OF THE COMPANY

Trading in the securities of the Company on the GEM of the Stock Exchange was suspended on 4th October, 2005. The Stock Exchange has expressed concerns, among other things, the financial and operational position, internal control procedures and the qualified opinions in the latest audit report of the Company. The shares of the Company will remain suspended until these concerns are satisfactorily addressed by the Company.

APPLICATION FOR THE GRANTING OF WHITEWASH WAIVER

Upon Completion and assuming full exercise of the conversion rights under the Convertible Bonds, the Subscriber will be interested in about 58% of the issued share capital of the Company as enlarged by the New Shares issued upon Conversion. Under the Takeovers Code, in the absence of the Whitewash Waiver, the Subscriber should be obliged to make a mandatory general offer to acquire all the New Shares other than those already owned by the Subscriber and its Concert Parties.

An application has been made by the Subscriber to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders taken by way of a poll on the EGM. The grant of the Whitewash Waiver is one of the conditional precedent to the Completion.

Investors should be aware that if the Whitewash Waiver is granted to the Subscriber and its Concert Parties, if, as a result of conversion of the Convertible Bonds, the Subscriber and its Concert Parties come to hold more than 50% of the enlarged issued share capital of the Company, in which case, the Subscriber and its Concert Parties may acquire further voting rights of the Company so long as the minimum 25% public float requirement of the Listing Rules is observed, without incurring any further obligation under Rule 26 of The Takeovers Code to make a general offer.

There were no dealings in the Shares by the Subscriber and Mr. Yu for the past 6 months prior to the date of the Announcement until the Latest Practicable Date. The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, the Whitewash Waiver. The resolution in respect of the Whitewash Waiver will be voted on by the Independent Shareholders by way of a poll. The Subscriber and its Concerted Parties will abstain from the voting on this resolution. As Mr. Koh has been involved in the negotiation of the terms of the Formal Subscription Agreement, Mr. Koh and his beneficially owned Dynamate Limited shall abstain from voting in the resolution considering the Whitewash Waiver.

INFORMATION ON THE GROUP

Principal activities of the Company

The Company is an investment holding company. Through its subsidiaries, the Group is principally 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 application integration.

MAINTAINING THE LISTING OF THE COMPANY

It is the intention of the Directors to maintain the listing of the Company on the GEM after Completion. The Directors will undertake to the Stock Exchange that appropriate steps will be taken to ensure that there exists sufficient public float in respect of the Shares immediately following Completion. The Subscriber has undertaken to the Company that it will not convert any part of the Convertible Bonds if immediately after the issue of New Shares following such conversion, there may be insufficient public float for the Shares as required by the GEM Listing Rules. The Directors including any new Directors may be appointed will jointly and severally undertake to the Stock Exchange that appropriate steps will be taken to ensure that there exists sufficient public float for the Shares immediately following Completion.

The Stock Exchange has stated that it will closely monitor the dealing in the Shares/New Shares on the Stock Exchange. The Stock Exchange has also stated that, if less than 25% of the issued New Shares are in public hands following Completion, or if the Stock Exchange believes that a false market exists or may exist in the trading of the New Shares or that there are insufficient New Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the New Shares.

The Stock Exchange has stated that if the Company remains as a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to its Shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions of assets by the Company and any such acquisitions may result in the Company being treated as if it were a new listing applicant and subject to the requirements of new listing applications as set out in the Listing Rules.

PROPOSALS FOR GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

The Company proposes to put forward to the Shareholders for their consideration and, if thought fit, approval of the following after the completion of the Share Reorganisation:

(a) General Issue Mandate;

(b) Repurchase Mandate; and

(c) A general extension mandate to extend the General Issue Mandate to include Shares repurchased under the Repurchase Mandate.

General Issue Mandate

It is proposed that General Issue Mandate be granted to the Directors to issue further New Shares prevailing up to 20% of the aggregate nominal amount of New Shares in issue as at the date of passing the relevant resolution. Subject to the passing of the relevant resolutions to approve the general mandate, the Directors would be authorized to exercise the powers of the Company to issue a maximum of 52,138,998 New Shares. There is however no present intention for any issuance of New Shares.

Repurchase Mandate

On 10th November, 2006, a general mandate was given to the Directors to exercise all the powers of the Company to repurchase its own Shares which will lapse at the conclusion of the forthcoming annual general meeting. An ordinary resolution will therefore be proposed at the EGM to approve the grant of the Repurchase Mandate to the Directors to repurchase on the Stock Exchange New Shares up to a maximum of 10% of the aggregate nominal amount of New Shares at the date of passing the relevant resolution. An explanatory statement to provide Shareholders with all the information reasonably necessary for them to make an informed decision in relation to this proposed resolution as required by the GEM Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in the Appendix II to this circular.

General Extension Mandate

It is recommended that the general extension mandate be granted to the Directors permitting them, after the grant of the Repurchase Mandate referred to above, to add to the General Issue Mandate any New Shares representing the aggregate nominal value of the New Shares repurchased pursuant to the Repurchase Mandate. The authority conferred on the Directors by the General Issue Mandate, the Repurchase Mandate and the General Extension Mandate would continue in force until the earliest of: (i) the conclusion of the annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Articles of Association to be held; and (iii) the revocation or variation of the authority by an ordinary resolution of the Shareholders in general meeting.

EGM

There is set out on page 110 to page 117 of this circular a notice convening the EGM to be held at 10:30 a.m. on 29th December, 2006 at Phoenix Room, The Charterhouse Hotel, 209-219 Wanchai Road, Hong Kong at which resolutions will be proposed to the Shareholders to consider and, if thought fit, approving the Capital Reorganisation and the Subscription, Whitewash Waiver and the General Mandate and Repurchase Mandate and amendment to the Articles of Association. As The Subscriber and its Concert Parties and those who are interested in and involved in the Subscription, namely Mr. Koh has been involved in the negotiation of the terms of the Formal Subscription Agreement, Mr. Koh and his beneficially owned Dynamate Limited directly hold 323,104,376 Shares, representing approximately 12.39% equity interests (i.e. voting rights) of the Company, shall abstain from voting in the resolution considering Whitewash Waiver. Mr. Koh shall also abstain from voting in the resolution considering the Subscription.

A form of proxy for use at the EGM is enclosed with this circular. In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be delivered to the offices of the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding the EGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors are of the opinion that the amendment of the Articles of Association and the Capital Reorganisation, are in the interests of the Company and the Shareholders as a whole and the Directors recommended the Shareholders to vote in favour of the resolutions to be proposed in the EGM. The Dirctors are of the opinion that the Subscription and the Whitewash waiver are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommended the Shareholders (other than Mr. Koh) to vote in favour of the resolutions approving the Subscription and the Independent Shareholders to vote in favour of the resolution approving the Whitewash Waiver.

The Independent Board Committee has been established comprising Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu, Ray being the independent non-executive directors of the Company to consider and make recommendation to the Independent Shareholders as regards the Subscription and the Whitewash Waiver after taking into account the advice from the Independent Financial Adviser, Veda Capital Limited who has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness in respect of the Subscription and the Whitewash Waiver. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

GENERAL

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 circular 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 circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Your attention is drawn to the letter from the Independent Board Committee set out on page 23 of this circular and the letter of advice received from the Independent Financial Adviser on page 24 to 37 of this circular.

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

One important point is that as the shares of the Company is suspended from trading, the issue of the Convertible Bonds still cannot be completed even if Shareholders vote and approve all the mentioned resolutions in the GEM. Therefore the Company will try to resume trading of shares as soon as possible. However the Board as at the date of this circular still cannot estimate low long it will take to get the shares of the Company commence trading again.

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

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver.

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)

4th December, 2006

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 4th December, 2006 (the "Circular") of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise specified.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. Details of which are set out in the "Letter from the Board" contained in the Circular. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 24 to 37 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider the Subscription and the Whitewash Waiver is fair and reasonable so far as the interest of the Independent Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the resolutions as set out in the notice of the EGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully
For an on behalf of the Independent Board Committee

Mr. Cheung Wai Shing	**Mr. Tsang Kwok Wai**	**Mr. Chu, Ray**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本
Veda Capital Limited
Suite 11-12, 13/F, Nam Fung Tower
173 Des Voeux Road Central, Hong Kong

4th December, 2006

To the Independent Board Committee and
the Independent Shareholders of
M Dream Inworld Limited

Dear Sirs,

SUBSCRIPTION OF HK$14.04 MILLION CONVERTIBLE BONDS AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the "Board Letter") contained in this circular (the "Circular") dated 4th December, 2006 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 12th June, 2006, the Company entered into the Preliminarily Subscription Agreement with Mr. Yu in relation to the subscription of the Convertible Bonds at the conversion price HK$0.039 per New Share with a total subscription price of HK$14.04 million. On 10th October, 2006, the Company entered into the Formal Subscription Agreement with the Subscriber, which replaced the Preliminary Subscription Agreement. Upon Completion and assuming full exercise of the conversion rights under the Convertible Bonds, the Subscriber will be interested in about 58% of the issued share capital of the Company as enlarged by the New Shares issued upon Conversion. Under the Takeovers Code, in the absence of the Whitewash Waiver, the Subscriber should be obliged to make a mandatory general offer to acquire all the New Shares other than those already owned by the Subscriber and its Concert Parties. An application has been made to the Executive by the Subscriber for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to the approval of the Independent Shareholders taken by way of a poll at the EGM.

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu, Ray, which is not involved in or has no interest in the Subscription and the Whitewash Waiver and thus being independent, has been established to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolutions to approve the Subscription and the Whitewash Waiver.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information including but not limited to the published information of the Group and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions contained or referred to in the Circular and all information, representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which are solely responsible, are true and accurate at the time when they were made and will continue to be accurate as at date of the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Subscription and the Whitewash Waiver and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Financial and business highlights of the Group

The Company is an investment holding company. Through its subsidiaries, the Group is principally 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 application integration.

The year end date of the Company has been changed from 30th June to 31st December pursuant to a resolution passed in the annual general meeting of the Company held on 29th October, 2003. In other words, the first full financial year after such change was for the year ended 31st December, 2004 whereas the previous financial period was for the six months ended 31st December, 2003. Consequently, financial information of the Group for the year ended 31st December, 2004 was incomparable to the financial information for the six months ended 31st December, 2003 due to the difference in length of financial period. For illustration purpose, for the year ended 31st December, 2004, the Group recorded turnover of approximately HK$32.44 million whereas for the six months ended 31st December, 2003, the Group recorded turnover of approximately HK$0.61 million. According to 2004 annual report of the Company, 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. The consolidated loss of the Group for the year ended 31st December, 2004 was approximately HK$17.15 million whereas for the six months ended 31st December, 2003, the consolidated loss of the Group was approximately HK$5.57 million. The loss for the year ended 31st December, 2004 was mainly attributed to an unrealized holding loss on investment of HK$5.07 million and increase of expenses due to the investing phase of various subsidiaries in 2004.

For the year ended 31st December, 2005, the Group recorded turnover from continuing operations of approximately HK$14.43 million, representing a substantial decrease of approximately 47.06% from the turnover of the previous year of approximately HK$27.26 million. Compared to the restated net loss of the Group for the year ended 31st December, 2004 of approximately HK$17.00 million, net loss of the Group worsened by approximately 711.30% to approximately HK$137.90 million for the year ended 31st December, 2005. However, the attention of the Independent Shareholders should be drawn to the auditors' report as contained in the 2005 annual report of the Company (which was also extracted into Appendix I to the Circular) that evidence available to the auditors was limited as follows (for details contained in each of the following notes, please refer to 2005 annual report of the Company or Appendix I to the Circular): (i) limitation of audit scope relating to the disposal of the two wholly owned subsidiaries, namely M Dream Mobile Entertainment Limited and Hangzhou M Dream Zone Company Limited on 2nd September, 2005 due to the absence of sufficient documentary evidence, in particular books and records of Hangzhou M Dream Zone Company Limited; (ii) limitation of audit scope relating to the absence of books and records of a wholly owned subsidiary of the Company, 活力世界(上海)網路技術有限公司 (Inworld (Shanghai) Network Technology Company Limited); (iii) limitation of audit scope relating to the absence of books and records of a wholly owned subsidiary, 聯夢線上軟體(上海)有限公司 (M Dream Online Software (Shanghai) Company Limited); (iv) limitation of audit scope relating to revenue recognition under the stage of completion method due to lack of proper documentation of timesheets and cost incurred; (v) limitation of audit scope relating to share option scheme due to absence of sufficient documentary evidence and lost of scheme documents; (vi) limitation of audit scope relating to "Other Receivable" due to absence of reliable information to assess the nature of such receivable; (vii) limitation of audit scope relating to "Trade Receivables" due to absence of reliable information in respect of such receivables; (viii) non-compliance with the GEM Listing Rules for the disposal of (i) above; and (ix) fundamental uncertainty relating to the going concern basis.

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

Because of the significance of the possible effect of the limitations in the evidence available to the auditors relating to the matters referred to above, the auditors 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 31st 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. The auditors have qualified their opinion and disclaimed on the view given by the financial statements for the year ended 31st December, 2005.

In respect alone of the limitation on the work of the auditors relating to the matter referred to above, the auditors have not obtained all information and explanation that they considered necessary for the purpose of their audit and the auditors were unable to determine whether proper books of account had been kept by the Group.

As for the nine months ended 30th September, 2006, turnover of the Group was approximately HK$9.89 million, representing a significant decrease of approximately 61% compared to the turnover for the nine months ended 30th September, 2005 of approximately HK$25.60 million. Net profit attributable to Shareholders for the nine months ended 30th September, 2006 was approximately HK$2.5 million compared to a net loss of approximately HK$34.28 million for the same period in 2005. As stated in the 2006 third quarterly report of the Company, the significant improvement in net profit of the Group was partly due to the fact that there was no goodwill being written off during the nine months ended 30th September, 2006 as all goodwill previously generated had been fully impaired as at 31st December, 2005. The improvement in net profit was also related to a waiver of payment for convertible notes of aggregate principal amount of HK$10,500,000 (booked as non-current liabilities of approximately HK$9.484 million as at 31st December, 2005). On 8th September, 2006, the Company has settled such convertible notes by paying the note holder HK$1.2 million as full and final settlement. Consequently, the Group was able to record other revenue in the amount of approximately HK$8.284 million arisen from such waiver of payment for convertible notes. Also, the Group has been cutting costs in every aspect. However, such cost-cutting measures were not able to eliminate the accumulated losses of the Group.

Unsuccessful fund raising of the Group

As stated in the announcement of the Company dated 12th December, 2005, trading in the Shares on GEM has been suspended since 4th October, 2005 pending an announcement in relation to the proposed change of domicile, capital reorganization, open offer and bonus issue of Shares. Eventually, as the negotiation has ceased at the end of May 2006, the proposed change of domicile, open offer and bonus issue of Shares will not further proceed. The Company stated the reason was that certain underwriters finally declined to enter into the underwriting agreement in view of the prolonged trading suspension of the Shares even though the Company had started discussion with the underwriters after the commencement of suspension of trading of the Shares. Although the underwriting agreement of the open offer has never been entered into, should the open offer have proceeded as originally planned, the Directors expected that the Company would have received gross proceeds before expenses in the amount of approximately HK$34.7 million.

The Directors have expressed that the Group is currently facing an extremely tight liquidity situation as (i) the Group experienced a huge loss for the year ended 31 December 2005 and hence resulted in the current net liabilities position; and (ii) the financing exercise of the proposed open offer was called off previously.

As stated in the Board Letter, the Stock Exchange has expressed concerns, amongst other thing, the financial and operational position, internal control procedures and qualified opinions in the latest audit report of the Company. Trading of the Shares will remain suspended until these concerns are satisfactorily addressed by the Company.

Reasons for the Subscription and the use of proceeds

The Board considers that the Subscription provides a good opportunity for the Group to improve its financial position. The estimated net proceeds from the Subscription will be approximately HK$13.5 million, after paying professional fees and printing expenses totaling approximately HK$0.54 million. The Directors intend to utilize HK$11 million to pay off the creditors of the Company and the balance for working capital needs of the Company.

Principal terms of the Convertible Bonds

In order to assess the fairness and reasonableness of the terms of the Convertible Bonds, we have looked into all the recent issues (since June 2006 until the Latest Practicable Date) of convertible bonds/ notes (the "Comparables") nominated in Hong Kong dollars by listed companies in Hong Kong involving issuance of circulars for reference. We believe that the Comparables may reflect the recent trend of the terms of convertibls bonds/notes in the market. Set out below is a summary of the Comparables:

Date of circular	Date of initial announcement	Company	Principal amount of convertible bond/note *(HK$ million)*	Maturity *(Years)*	Interest rate per annum	Redemption premium	Premium/ (discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement	Latest audited net asset value per share before the release of the corresponding circular *(HK$)*	Premium/ (discount) of the initial conversion price over/to the then latest audited net asset value per share
20th Oct	28th Sep	Qualipak International Holdings Limited (Stock Code: 1224)	2,552.00	10	0% up to 2nd year 2% from 3rd year onwards	0%	(8.20)%	0.147	90.48%
15th Sep	22th Aug	Wing Shan International Limited (Stock Code: 570)	282.40	3.5	3%	1.5%	6.25%	0.43	(62)%

Date of circular	Date of initial announcement	Company	Principal amount of convertible bond/note *(HK$ million)*	Maturity *(Years)*	Interest rate per annum	Redemption premium	Premium/ (discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement	Latest audited net asset value per share before the release of the corresponding circular *(HK$)*	Premium/ (discount) of the initial conversion price over/to the then latest audited net asset value per share
28th Aug	28th Jun	Everbest Century Holdings Limited (Stock Code: 578)	20.00	3	1%	0%	27.27%	0.55	(36.36)%
21st Aug	7th Jun	Daido Group Limited (Stock Code: 544)	104.40	5	0%	5%	(3.33)%	0.105	10.48%
18th Aug	13th Jul	Yanion International Holdings Limited (Stock Code: 82)	Up to 66.32	3	0%	0%	(30)%	0.025	2,420%
11th Aug	4th Jul	K.P.I. Company Limited (Stock Code: 605)	93	2	0%	(i) 6.5%; or (ii) 13% in the the case of change in control	45.45%	0.171	87.24%
31st Jul	10th Jul	Golden Harvest Entertainment (Holdings) Limited (Stock Code: 1132)	100	2	4%	4%	47%	0.31	(29)%
19th Jul	29th Jun	Mei Ah Entertainment Group Limited (Stock Code: 391)	100	3	4%	(i) 10% for redemption within 1st anniversary; (ii) 8% for redemption between 1st and 2nd anniversary; (iii) 6% for redemption between 2nd and 3rd anniversary	8.64%	0.29	51.72%

Date of circular	Date of initial announcement	Company	Principal amount of convertible bond/note *(HK$ million)*	Maturity *(Years)*	Interest rate per annum	Redemption premium	Premium/(discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement	Latest audited net asset value per share before the release of the corresponding circular *(HK$)*	Premium/(discount) of the initial conversion price over/to the then latest audited net asset value per share
30th Jun	15th Jun	Shanghai Merchants Holdings Limited (Stock Code: 1104)	2	2	Prime *(Note)*	0%	(42.3)%	0.053	183%
8th Jun	16th May	Neo-China Group (Holdings) Limited (Stock Code: 563)	1,340	5	0%	6.2% per annum and compounded annually with 35.7% at maturity	32.00%	0.243	83.8%
5th Jun	7th Apr	Yue Da Holdings Limited (Stock Code: 629)	75	3	3.5%	0%	(11.11)%	1.31	(8.3)%
2nd Jun	12th May	PYI Corporation Limited (Stock Code: 498)	116.5	3	0%	4.52% per annum and compounded annually with 14.167% at maturity	30.77%	1.75	142.9%
		Highest	2,552.00	10	Prime *(Note)*	35.7	47%		2,420%
		Lowest	2.00	2	0%	0%	(42.3)%		(62)%
		Average	404.30	3.7	2.19%	Not applicable	9.9%		244.9%
		The Company	**14.04**	**5**	**Prime** *(Note)*	**20% by Company** **0% by Subscriber**	**(64.55)%**	**(0.184)**	**a premium of HK$0.2226 per New Share over the net liabilities of HK$0.184 per New Share**

Note: Current prime lending rate as quoted by HSBC = 7.75% per annum

Source: The Stock Exchange of Hong Kong Limited *(i) Conversion Price*

At the option of the Subscriber, the Convertible Bonds can be converted into the New Shares of HK$0.01 each in the authorized share capital of the Company after the Share Reorganisation at the Conversion Price. Assuming the Share Reorganisation becoming effective, the Conversion Price represents a discount of approximately 64.55% to the closing price of HK$0.11 per New Share as quoted on the Stock Exchange on the Last Trading Day.

As indicated in the above table setting out the Comparables, the discount of approximately 64.55% represented by the Conversion Price to the closing price of HK$0.11 per New Share as quoted on the Stock Exchange on the Last Trading Day falls out of the range of premiums/discounts represented by the Comparables on the relevant last trading days, which ranges between a discount of 42.3% and a premium of 47%. We have discussed with the Directors about the deep discount represented by the Conversion Price to the closing price on the Last Trading Day and were given the explanation that the Conversion Price was determined after arm's length negotiations between the Company and the Subscriber after considering the existing liabilities and indebtedness of the Group and the Group's net asset deficit as at 31st December, 2005. In this respect, we concur with the view of the Directors that the Conversion Price is fair and reasonable so far as the interests of the Company and the Independent Shareholders are considered. On the other hand, since trading of the Shares has a prolonged suspension since 4th October, 2005, we concur with the Directors that comparison of the Conversion Price to the closing price per New Share on the Last Trading Day might not be a meaningful tool.

We noted from the above table that 8 out of 12 of the Comparables have the conversion price set at premiums over the relevant latest net asset value per share. The range of premiums/discounts represented by the conversion price of the Comparables over/to the relevant latest net asset value per share ranges between a discount of 62% and a premium of 2,420%. All of the Comparables have positive net asset values whereas the Company is at a net liabilities position. As such, we consider that it would not be meaningful to compare the Conversion Price to the Group's audited net liabilities relative to the comparisons of the conversion price of the Comparables to the net asset value of the Comparable. For illustration purpose, the Conversion Price represents a premium of HK$0.2226 per New Share over the Group's audited net liabilities of HK$0.184 per New Share as at 31st December, 2005.

(ii) Interest rate

As noted from 2006 interim report of the Company, as at 30th June, 2006, the Group had an aggregate of approximately HK$17.8 million short term interest bearing loan with interest rates ranging from 5% to 9% ("Borrowing Range"). On 11th November, 2004, the Company issued HK$10,500,000 4% convertible notes due on 12th November, 2007. According to the disclosure under subsequent events of the 2005 annual report, the Company has settled its convertible notes of the aggregate principal amount of HK$10,500,000 on 8th September, 2006 by paying the note holder HK$1,200,000 as full and final settlement. Interest rate of the Convertible Bonds equals the prime lending rate for Hong Kong dollar loan as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). The current prime lending rate as quoted by HSBC is 7.75% per annum. Thus, the interest rate of the Convertible Bonds falls within the Borrowing Range of the Group.

We also looked into the interest rates of the Comparables in order to assess the fairness and reasonableness of the interest rate carried by the Convertible Bonds. The Comparables carry annual interest rates ranging from 0% to prime lending rate (the "Interest Range"). It should however be noted that the Comparables are not necessarily entirely comparable with the Convertible Bonds given differences in (i) the industries and businesses in which the Comparables are engaged in; (ii) the credit rating of the Comparables; (iii) availabilities of assets for securing the convertibles; (iv) trading liquidities of the respective shares; and (v) issue or redemption price, conversion restrictions and/or other features. As noted from the comparison table above, the interest rate of the Convertible Bonds is at the high end of the Interest Range. As mentioned in the section headed "Financial and business highlights of the Group" above in this letter, there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, the Directors considered a higher interest rate of the Convertible Bonds is inevitable in order to provide incentives to the Subscriber to subscribe for the Convertible Bonds, which in turn will provide financial liquidity to the Group.

We also set out in the comparison table the different redemption premium (the "Redemption Range") of the Comparables, which ranges from 0% to 35.7%. The redemption premium of the Convertible Bonds is: (a) 20% if the Company redeems the Convertible Bonds; and (b) 0% if the Subscriber calls on the Company to redeem the Convertible Bonds. Thus, the redemption premium of the Convertible Bonds is within the Redemption Range.

Based on the above analysis, we consider that the interest rate of the Convertible Bonds is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

(iii) Redemption

The Subscriber has the option at its discretion to call on the Company to redeem the Convertible Bonds in whole or in part at any time after the date of issue and until maturity of the Convertible Bonds. The early redemption price will be 100% of the principal amount or the part thereof being redeemed early (i.e. 0% redemption premium), together with accrued interest up to the date of redemption on the principal amount to be redeemed. In the event of a partial redemption, the redemption will be made pro rata to the principal amount of Convertible Bonds outstanding held by the holder(s). The Company also has the option to redeem the Convertible Bonds in whole at any time after the date of issue and until maturity of the Convertible Bonds. The early redemption price will be 120% of the principal amount together with accrued interest up to the date of redemption on the principal amount to be redeemed (i.e. 20% redemption premium). Such redemption feature gives the Company the flexibility to repay early the Convertible Bonds at its option.

The redemption premium of the Convertible Bonds at (a) 20% if the Company redeems the Convertible Bonds; and (b) 0% if the Subscriber calls on the Company to redeem the Convertible Bonds, falls within the Redemption Range which ranges between 0% and approximately 35.7%.

Having considered the flexibility associated with the early redemption feature and with a redemption premium falling within the Redemption Range of the Comparables, we are of the view that the term of redemption of the Convertible Bonds is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

(iv) Maturity and transferability

The Convertible Bonds have a maturity period of five years from the date of issue. They are freely transferable and the Company undertakes to disclose to the Stock Exchange any transfers of the Convertible Bonds by the Subscriber to any connected persons before the transfer is made.

We consider that the terms of the Convertible Bonds in relation to maturity and transferability are normal for debt securities of similar kind.

Having considered the above, we are of the view that the principal terms of the Convertible Bonds are fair and reasonable and the issue of the Convertible Bonds to the Subscriber as a whole benefits the Company and are in the interests of the Company and the Independent Shareholders as a whole.

Intention of the Subscriber

The Subscriber intends to maintain the existing business of the Company in information technology service. The Subscriber and its associates have no intention to inject their own asset or business to the Group. The Convertible Bonds are convertible upon issue. The Subscriber may exercise the conversion rights of the Convertible Bond but the amount and timing has not yet been finalized. As stated in the Board Letter, new Directors may be appointed to the Board in compliance with the requirements under the Takeovers Code and further details will be announced to the Shareholders and the details of newly appointed Directors will be submitted to the Stock Exchange for approval.

The Subscriber is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Yu. Mr. Yu is a resident of Hong Kong and has over 17 years of financial market experience. He has worked in the investment banking field in Hong Kong and has his own financial services business. Mr. Yu was the Chairman of Infoserve Technology Corp., a GEM listed company, from 2003 to 2005.

Alternatives to the Convertible Bonds

The Directors understand that by issuing the Convertible Bonds, before conversion in full of the Convertible Bonds, the debt nature of the Convertible Bonds would increase the Group's interest expenses in view of the recent increasing trend of interest rate and the Group's high gearing ratio. As advised by the Directors, they have considered alternative means for the Company to raise funds other than the Convertible Bonds, including equity financing by placing of New Shares to the Subscriber. However, the Directors explained that given the prolonged suspension in trading of the Shares, after series of commercial negotiations with the Subscriber, the Subscriber would only agree to subscribe for the Convertible Bonds.

Possible financial effects

(i) Working capital

The Group's capital base will be strengthened assuming the issue of the Convertible Bonds and its subsequent conversions. The working capital position of the Group will also be improved as a result of the increase in its cash and bank balances from net proceeds from the issue of the Convertible Bonds. After utilizing HK$11 million to pay off the creditors, the Group's working capital will increase by approximately HK$2.5 million.

However, Independent Shareholders should note that the Subscriber has the option at its discretion to call on the Company to redeem the Convertible Bonds in whole or in part at any time after the date of issue and until maturity of the Convertible Bonds.

It may be possible that the Group (i) may not be able to pay off HK$11 million in full or in part to the creditors should the Subscriber decide to call on the Company to redeem in whole or in part of the Convertible Bonds before the payment to the creditors; or (ii) may not have enough liquidity to repay the Subscriber should the Subscriber decide to call on the Company to redeem in whole or in part of the Convertible Bonds after the payment to the creditors and before maturity of the Convertible Bonds.

(ii) Net liabilities

Upon the issue of the Convertible Bonds and before any conversion of the Convertible Bonds, there will not be a material effect or improvement on the net liabilities position of the Group. Assuming the Convertible Bonds are converted in full at HK$0.039 per New Share, the consolidated net liabilities of the Group will be decreased by HK$14.04 million, being the aggregate principal amount of the Convertible Bonds. Moreover, the consolidated net liabilities per New Share will be lessened and improved due to the increase in number of New Shares outstanding after full conversion of the Convertible Bonds.

(iii) Gearing ratio

Gearing ratio (calculated as net borrowings divided by net asset value) has been commonly used to assess the financial effects on companies by different events. However, since the Group is at a net liabilities position, we consider the use of gearing ratio as a method of assessment not meaningful.

Having considered the benefits of improving the consolidated net liabilities and consolidated net liabilities per New Share if the Convertible Bonds are fully converted and the increase in working capital upon the issue of the Convertible Bonds, we consider that the conversion of the Convertible Bonds is fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

Potential dilution effect on the shareholding interests of the Independent Shareholders

Based on the shareholding structure of the Company as set out in the Board Letter, as at the Latest Practicable Date, 1,116,672,943 Shares were held by public Shareholders, representing approximately 42.83% of the issued share capital of the Company. Upon Completion and Share Reorganisation but before the conversion of the Convertible Bond, 111,667,294 New Shares will be held by public Shareholders, representing approximately 42.83% of the issued share capital of the Company as enlarged by the New Shares issued upon Conversion.

Upon full conversion of the Convertible Bonds, the number of New Shares held by the Subscriber will be 360,000,000, representing approximately 58% of the issued share capital of the Company as enlarged by the New Shares issued upon Conversion. The number of New Shares held by existing public Shareholders will remain unchanged and the corresponding shareholding will decrease to approximately 17.99%. However, upon full conversion of the Convertible Bonds, the shareholdings of certain existing Shareholders namely, Mr. Yu Chung Choi, Chaucer, Madam Lidya Suryawaty, Dr. Mochtar Riady, Lanius Limited, Lippo Cayman Limited, Lippo Limited, Lippo China Resources Limited, HKCL Holdings Limited, Hongkong Chinese Ltd, Allwin Asia Inc and Shenzhen Ingen Technology Company Limited, will be less than 5% and will be regarded as the shareholdings of the public. Thus, the public shareholdings upon full conversion of the Convertible Bonds will be approximately 28.62%. In view of the possible future dilution of the shareholdings of the existing Shareholders upon conversion in full or in part of the Convertible Bonds, the Company will keep the Shareholders informed of the level of dilution and details of conversion and such details are stated in the section headed "Dilution effect on Shareholders" in the Board Letter.

Having considered that (i) the Company intends to use the net proceeds from the issue of the Convertible Bonds to pay the creditors of the Company, which will improve the current extremely tight liquidity situation of the Group and improve the working capital position of the Group; (ii) the interest rate carried by the Convertible Bonds is within the Borrowing Range; (iii) the level of indebtedness of the Group will be improved upon conversion of the Convertible Bonds, we consider that the benefits of the issue and the conversion of the Convertible Bonds might outweigh the dilution effect on the shareholders. Overall, we consider that such dilution effect to public Shareholders is acceptable so far as the Independent Shareholders are concerned.

THE WHITEWASH WAIVER

Upon Completion and assuming full exercise of the conversion rights under the Convertible Bonds, the Subscriber will be interested in about 58% of the issued share capital of the Company as enlarged by the New Shares issued upon Conversion. There were no dealings in the Shares by the Subscriber for the past 6 months prior to 19th July, 2006, being the date of the announcement regarding the Preliminary Subscription Agreement up to and including the Latest Practicable Date. Under Rule 26 of the Takeovers Code, in absence of the Whitewash Waiver, the Subscriber should be obliged to make a mandatory general offer to acquire all the New Shares other than those already owned by the Subscriber and its Concert Parties. However, the Subscriber has applied to the Executive for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code and the Executive has indicated that subject to the approval of the Whitewash Waiver by the Independent Shareholders at the EGM by way of a poll, he will waive the obligation of the Subscriber and its Concert Parties to make a general offer which might result from the Conversion. As stated in the Board Letter, the Subscription is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Subscriber and its Concert Parties.

Based on our analysis of the terms and conditions of the Convertible Bonds as set out above, we consider that the Subscription is in the interests of the Company and the Independent Shareholders taken as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Subscription will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Subscription. Accordingly, we are in the opinion that for the purpose of implementing the Subscription as discussed above, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM is in the interests of the Company and the Shareholders as a whole and are fair and reasonable.

Shareholders should note if the Whitewash Waiver is granted to the Subscriber and its Concert Parties, upon Completion and assuming full conversion of the Convertible Bonds, the Subscriber will hold more that 50% of the then issued share capital of the Company and so long as the minimum 25% public float requirement of the Listing Rules is being observed, the Subscriber may purchase for additional New Shares without triggering any further obligation for a general offer under the Takeovers Code.

SUSPENSION AND RESUMPTION OF TRADING IN THE SECURITIES OF THE COMPANY

Trading in the Shares on GEM has been suspended since 4th October, 2005 and will continue to be suspended until the concerns of the Stock Exchange are satisfactorily addressed. Independent Shareholders should be reminded that the Stock Exchange has indicated that no listing approval in respect of the New Shares which may be issued on the exercise of the conversion rights attached to the Convertible Bonds will be granted if the suspension of trading of the Shares could not be uplifted.

RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, being:

(i) the Group is currently facing an extremely tight liquidity situation;

(ii) the deep discount represented by the Conversion Price to the closing price on the Last Trading Day was determined after arm's length negotiations between the Company and the Subscriber after considering the existing liabilities and indebtedness of the Group and the Group's net asset deficit as at 31st December, 2005 and the fact that trading of the Shares has a prolonged suspension since 4th October, 2005;

(iii) the interest rate carried by the Convertible Bonds is within the Borrowing Range;

(iv) the redemption premium of the Convertible Bonds is within the Redemption Range;

(v) the redemption features of the Convertible Bonds gives the Company the flexibility to repay early the Convertible Bonds at its option;

(vi) the terms of the Convertible Bonds in relation to maturity and transferability are normal for debt securities of similar kind;

(vii) the Subscriber would only agree to subscribe for the Convertible Bonds instead of other alternative means of fund raising, including equity financing by placing of New Shares to the Subscriber;

(viii) the consolidated net liabilities and consolidated net liabilities per New Share would be improved if the Convertible Bonds are fully converted;

(ix) the working capital of the Group would be increased upon issue of the Convertible Bonds; and

(x) the benefits of the issue and the conversion of the Convertible Bonds outweighs the dilution effect on the public Shareholders,

we consider that, on balance, the terms of the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong	**Julisa Fong**
Managing Director	*Director*

I. AUDITORS' OPINION

There are some qualifications contained in the Auditors' Report for the year 2005 as follows:

Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31st December, 2005.

TO THE SHAREHOLDERS OF M DREAM INWORLD LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this 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 2nd 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 2nd 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 1st 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 1st January, 2005 to 2nd 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 31st 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 31st 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 31st December, 2005, its cash flow and its performance for the year then ended. In particular, included in the consolidated income statements of the Group for the year ended 31st 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 31st 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 35(b) to the financial statements, the Company has adopted a share option scheme on 14th 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 options during the year ended 31st December, 2005 were accurate and whether the outstanding share options to the extent of 129,220,000 as at 31st 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 31st December, 2005 is Other Receivable of approximately HK$1,311,000 before impairment, which was 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 31st December, 2005.

(vii) Limitation of audit scope relating to Trade Receivables

Included in the consolidated balance sheet of the Group as at 31st 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 31st 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 2nd 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 33 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 31st 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 31st 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 31st 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 29th September, 2006

II. SUMMARY OF FIRST QUARTER RESULTS FOR THE YEAR 2006, 2005 & 2004

	Three months ended 31st March,		
	2006	**2005**	**2004**
	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	5,268	10,066	326
Cost of services rendered	(3,919)	(6,022)	(100)
Gross Profit	1,349	4,044	226
Other revenues	4	35	–
Distribution costs	(45)	(1,234)	(12)
Administrative expenses	(3,382)	(6,769)	(1,537)
Write off of goodwill upon disposal of equity interests in subsidiaries	–	(17,197)	–
Unrealized loss on other investment	–	(1,074)	–
Amortization of goodwill	–	–	(408)
Depreciation	–	(124)	(161)
Loss from operations	(2,074)	(22,319)	(1,892)
Finance costs	(188)	(200)	–
Loss before taxation	(2,262)	(22,519)	(1,892)
Taxation	–	–	–
Loss after taxation	(2,262)	(22,519)	(1,892)
Minority interest	–	(390)	9
Net loss attributtable to shareholders	(2,262)	(22,909)	(1,883)
Basic loss per share *(HK$ cents)*	(0.09)	(0.88)	(0.15)

There were no dividend declared or paid for the first quarter of 2004, 2005 and 2006.

There were no extraordinary/exceptional items in the first quarter of 2004, 2005 and 2006.

SUMMARY OF INTERIM RESULTS FOR THE YEAR 2006, 2005 & 2004

	Six months ended 30th June,		
	2006	**2005**	**2004**
	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	6,400	18,528	12,124
Cost of services rendered	(4,939)	(10,987)	(7,021)
Gross Profit	1,461	7,541	5,103
Other revenues	10	66	53
Distribution costs	(69)	(3,315)	(1,227)
Administrative expenses	(5,321)	(17,153)	(4,386)
Write off of goodwill upon disposal of equity interests in subsidiaries	–	(17,197)	–
Unrealized Profit/(loss) on other investment	–	(4,948)	–
Amortization of goodwill	–	–	(816)
Amortization of Intangible Assets	–	–	–
Depreciation	–	(274)	(271)
Loss from operations	(3,919)	(29,348)	(6,492)
Finance costs	(193)	(687)	–
Loss before taxation	(4,112)	(30,035)	(6,492)
Taxation	–	(50)	–
Loss after taxation	(4,112)	(30,085)	(6,492)
Minority interest	–	1,261	32
Net loss attributtable to shareholders	(4,112)	(28,824)	(6,460)
Basic loss per share *(HK$ cents)*	(0.160)	(1.106)	(0.458)

There were no dividend declared or paid for the second quarter of 2004, 2005 and 2006.

There were no extraordinary/exceptional items in the second quarter of 2004, 2005 and 2006.

SUMMARY OF THIRD QUARTER RESULTS FOR THE YEAR 2006, 2005 & 2004

	Nine months ended 30th September,		
	2006	**2005**	**2004**
	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	9,887	25,598	27,339
Cost of services rendered	(7,310)	(14,377)	(17,447)
Gross Profit	2,577	11,221	9,892
Other revenues	8,369	127	88
Distribution costs	(75)	(4,762)	(1,920)
Administrative expenses	(8,134)	(23,196)	(8,610)
Write off of goodwill upon disposal of equity interests in subsidiaries	–	(17,197)	–
Unrealized Profit/(loss) on other investment	–	498	(5,691)
Impairment of product development costs	–	–	–
Amortization of goodwill	–	–	(1,599)
Depreciation	–	(446)	(378)
Loss from operations	2,737	(33,755)	(8,218)
Finance costs	(232)	(1,210)	–
Loss before taxation	2,505	(34,965)	(8,218)
Taxation	–	(50)	–
Loss after taxation	2,505	(35,015)	(8,218)
Minority interest	–	731	53
Net loss attributtable to shareholders	2,505	(34,284)	(8,165)
Basic earning/(loss) per share *(HK$ cents)*	0.0961	(1.3151)	(0.5423)

There were no dividend declared or paid for the third quarter of 2004, 2005 and 2006.

There were no extraordinary/exceptional items in the third quarter of 2004, 2005 and 2006.

SUMMARY OF FINANCIAL RESULTS FOR THE TWO YEARS ENDED 31ST DECEMBER, 2004 AND 2005 AND SIX MONTHS ENDED 31ST DECEMBER, 2003

The financial information set out in this appendix is extracted from the annual report 2005 of the Company. The auditors of the Company in preparing the annual report 2005 is HLB Hodgson Impey Cheng.

RESULTS

	For the Year ended 31st December, 2005	For the Year ended 31st December, 2004	Six months ended 31st December, 2003
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Turnover	14,432	27,261	614
Loss from operations	(107,783)	(18,165)	(5,673)
Finance costs	(2,136)	(418)	0
Loss before taxation	(109,919)	(18,583)	(5,673)
Taxation	0	0	0
Loss for the year from continuing operations	(109,919)	(18,583)	(5,673)
(Loss)/profit for the year from discontinued operations	(27,977)	1,586	0
Loss for the year	(137,896)	(16,997)	(5,673)
Net loss from ordinary activities attributable to			
– Equity holders of the Company	(137,772)	(16,854)	(5,569)
– Minority interest	(124)	(143)	(104)
	(137,896)	(16,997)	(5,673)
Basic loss per share *(HK$ cents)*	(5.28)	(0.98)	(0.59)

There were no dividend declared or paid for the financial years of 2003, 2004 and 2005.

There were no extraordinary/exceptional items in the financial years of 2003, 2004 and 2005.

ASSETS AND LIABILITIES

	As at 31st December, 2005	As at 31st December, 2004	As at 31st December, 2003
	HK$'000	*HK$'000* (restated)	*HK$'000*
Total assets	6,994	131,124	32,047
Total liabilities	(54,866)	(40,821)	(2,461)
Minority interest	0	(124)	(237)
Shareholders' fund	(47,872)	90,179	29,349

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity holders of the Company								
	Share Capital	Share Premium	Contributed Surplus	Exchange Reserves	Convertible notes Reserve	Accumulated Loss	Subtotal	Minority Interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(restated)	(restated)	(restated)	(restated)	(restated)
Balance as at 1st January, 2004, as previously stated	12,426	42,818	7,396	–	–	(33,291)	29,349	–	29,349
Effect of adoption of HKAS 1	–	–	–	–	–	–	–	237	237
Balance as at 1st January, 2004, as restated	12,426	42,818	7,396	–	–	(33,291)	29,349	237	29,586
Placing of shares	1,500	20,491	–	–	–	–	21,991	–	21,991
Issuance of shares as purchases consideration	12,143	48,869	–	–	–	–	61,012	–	61,012
Issuing expenses	–	(5,448)	–	–	–	–	(5,448)	–	(5,448)
Liquidation of a subsidiary	–	–	(970)	–	–	–	(970)	–	(970)
Acquisition of a subsidiary	–	–	–	–	–	–	–	30	30
Net loss for the year	–	–	–	–	–	(17,149)	(17,149)	(143)	(17,292)
Issue of convertible notes	–	–	–	–	1,099	295	1,394	–	1,394
Balance as at 31st December, 2004 and 1st January, 2005	26,069	106,730	6,426	–	1,099	(50,145)	90,179	124	90,303
Balance as at 31st December, 2004 and 1st January, 2005, as previously stated	26,069	106,730	6,426	–	–	(50,440)	88,785	–	88,785
Effect of adoption of									
– HKAS 1	–	–	–	–	–	–	–	124	124
– HKAS 39	–	–	–	–	1,099	295	1,394	–	1,394
Balance as at 31st December, 2004 and 1st January, 2005, as restated	26,069	106,730	6,426	–	1,099	(50,145)	90,179	124	90,303
Exchange realignment	–	–	–	(279)	–	–	(279)	–	(279)
Net loss for the year	–	–	–	–	–	(137,772)	(137,772)	(124)	(137,896)
Balance as at 31st December, 2005	26,069	106,730	6,426	(279)	1,099	(187,917)	(47,872)	–	(47,872)

CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2005 HK$'000	2004 HK$'000 (restated)
Cash flows from operating activities			
Loss/(profit) before taxation			
continuing operations		(109,919)	(18,583)
discontinued operation	34	(27,977)	2,150
		(137,896)	(16,433)
Adjustments for:			
Finance cost			
continuing operations		2,136	418
discontinued operation	34	2	–
Interest income		(16)	(9)
Depreciation		530	549
Gain in disposal of property, plant and equipment		(4)	–
Amortisation of intangible assets		146	142
Amortisation of goodwill		–	2,709
Unrealised holding loss on financial assets at fair value through profit or loss		–	5,072
Realised loss on disposal of financial assets at fair value through profit or loss		927	–
Loss on disposals of property, plant and equipment		1,045	1,059
Loss on disposals of subsidiaries		27,421	–
Impairment loss recognised in respect of inventories		20,169	–
Impairment loss recognised in respect of intangible assets		1,034	1,367
Impairment loss recognised in respect of trade receivables		21,821	1,528
Impairment loss recognised in respect of deposits paid		3,842	–
Impairment loss recognised in respect of other receivables		3,345	–
Impairment loss recognised in respect of goodwill		32,347	–
Gain on liquidation of subsidiary		–	(1,027)
Operating loss before working capital changes		(23,151)	(4,625)
Increase in inventories		(4,007)	(13,665)
Decrease/(increase) in trade receivables		(2,759)	(25,148)
Decrease/(increase) in prepayments, deposits and other receivables		1,081	(6,112)
Decrease/(increase) in trade payables		(2,537)	10,710
Increase in other payables and accruals		7,371	4,479
Increase/(decrease) in amounts due to directors		2,656	(217)
Increase in amount due to a related party		238	–

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

	Note	2005 *HK$'000*	2004 *HK$'000* (restated)
Cash used in operations		(21,108)	(34,578)
Profits tax in The People's Republic of China (paid)/ Hong Kong profits tax refunded		–	(564)
Net cash outflow from operating activities		(21,108)	(35,142)
Cash flows from investing activities			
Interest received		16	9
Purchases of property, plant and equipment		(840)	(537)
Sales proceeds on disposals of property, plant and equipment		101	–
Cash effect on acquisition of subsidiaries	28	–	7,787
Cash effect on formation of a subsidiary		–	31
Cash effect on disposal of subsidiaries		3,541	–
Net cash outflow from investing activities		2,818	7,290
Cash flows from financing activities			
Interest paid		(38)	(313)
Proceeds from issue of convertible bond		–	10,500
Proceeds from placing of shares		–	25,050
Short term unsecured interest bearing loan		9,800	7,800
Repayment of short term unsecured interest bearing loan		(22)	–
Share issue expenses		–	(5,448)
Convertible notes issue expenses		–	(400)
Net cash inflow from financing activities		9,740	37,189
Net decrease in cash and cash equivalents		(8,550)	9,337
Cash and cash equivalents at the beginning of the year		9,503	166
Cash and cash equivalents at the end of the year		953	9,503
Analysis of balances of cash and cash equivalents			
Cash and bank balances		458	2,562
Time deposit		495	6,941
		953	9,503

III. NOTES TO FINANCIAL STATEMENTS

31st December, 2005 (in HK Dollars)

1. CORPORATE INFORMATION

M Dream Inworld Limited (the "Company") was incorporated in the Cayman Islands on 30th July, 2001 under the Companies Law (2001 Revision) of the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business in Hong Kong is Room A, 5th Floor, Teda Building, 87 Wing Lok Street, Sheung Wan, Hong Kong.

The Company has it primary listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 9 to the financial statements.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000) unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29th September, 2006.

During the year, the Company disposed its wholly owned subsidiary M Dream Mobile Entertainment Limited ("M Dream MEL"). M Dream MEL owns 100% equity interest in Hangzhou M Dream Zone Co. Limited ("M Dream Zone"), which principal activity is provision of mobile game and value added services. The transaction was completed on 2nd September, 2005.

After the disposals, the Group does not participate in any mobile game activity. This mobile game activity represents the discontinued operation of the Group. Further details are disclosed in note 34 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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 31st 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 33, 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 2nd September, 2005. Due to the limitation to assess the books and records of the entities that have already been disposed on 2nd September, 2005, the directors can only obtain the unaudited management account of M Dream MEL Group for the period ended 2nd 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 31st December, 2005 and reported net loss amounted to approximately HK$137,896,000. (Please refer to note 41(b)).

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 assets and liabilities, respectively.

The adoption of new/revised HKFRSs

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** ***(Continued)***

(a) **Basis of preparation** ***(Continued)***

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 20	Accounting for Government Grants and Disclosure of Government Assistance
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, 20, 23, 27, 33, 36, 37 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss. It has resulted in the recognition of assets at fair value and the change in the recognition and measurement of hedging activities.

Under HKAS 32, convertible notes issued are split into their liability and equity components at its fair value which is determined by using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible note reserves until the notes are either converted (in which case it is transferred to share premium) or redeemed (in which case it is released directly to retained earnings).

In prior years, convertible notes were stated at face value. The finance cost was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible note were charged to the income statement in the year of issue. Retrospective application is required for adoption of HKAS 32.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** ***(Continued)***

(a) **Basis of preparation** ***(Continued)***

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1st April, 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in share-based reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price when the option holders exercise its rights. In prior year, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. As a transitional provision, the cost of share option granted after 7th November, 2002 and had not yet vested on 1st January, 2005 shall expense retrospectively in the income statement of the respective periods.

Upon the adoption of HKFRS 2, with effect from 1st January, 2005, the Group should recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in an employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. In prior years, no amount was recognised when options were granted. If the opinion holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. As a transitional provision, the cost of share option granted after 7th November, 2002 and had not yet vested on 1st January, 2005 was expensed retrospectively in the income statement of the respective periods.

Due to absence of sufficient documentary evidence, and lost of the scheme documents, the directors were unable to represent the effect to the consolidated financial statements for effect of the share option scheme upon adoption of HKFRS 2.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December, 2004, goodwill was:

– Amortised on a straight line basis over 10 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1st January, 2005;

– Accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31st December, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of HKFRS 5 has resulted in a change in accounting policy on the recognition of a discontinued operation. Prior to the application of HKFRS 5, the Group would have previously recognised a discontinued operation at the earlier of when the Group enters into a binding sale agreement and the board of directors have approved and announced a formal disposal plan. HKFRS 5 now requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed the operation. Held for sale is when the carrying amount of an operation will be recovered principally through sale transaction and not through continuing use. The result of this change in accounting policy is that a discontinued operation is recognised at a later point than the previous accounting policy due to the recognition criteria being stricter under HKFRS 5.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16: initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

(a) **Basis of preparation *(Continued)***

– HKAS 21: prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39: does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January, 2005.

– HKFRS 2: only retrospective application for all equity instruments granted after 7th November, 2002 and not vested at 1st January, 2005; and

– HKFRS 3: prospectively after 1st January, 2005.

(i) Effect of the consolidated assets and liabilities as at 31st December, 2005 and 2004

	HKAS 39 Financial Instruments *HK$'000*	HKFRS 3 Business Combinations *HK$'000*	Total *HK$'000*
At 31st December, 2004			
Decrease in investment in securities	(2,904)	–	(2,904)
Increase in financial assets at fair value through profit or loss	2,904	–	2,904
Decrease in accumulated amortisation	–	(7,838)	(7,838)
Decrease in goodwill	–	7,838	7,838
Decrease in convertible notes	(1,403)	–	(1,403)
Increase in bond interest payable	9	–	9
	(1,394)	–	(1,394)
At 31st December, 2005			
Decrease in convertible notes	(1,016)	–	(1,016)
Increase in bond interest payable	9	–	9
	(1,007)	–	(1,007)

(ii) Effect of the balance of equity as at 1st January, 2005

	HKAS 39 Financial Instruments *HK$'000*
At 31st December, 2004	
Increase in convertible notes reserve	1,099

There was no impact on opening balance of equity as at 1st January, 2004 from the adoption of HKFRS 2 and HKFRS 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(iii) Effect of the consolidated income statements for the year ended 31st December, 2004 and 2005

	HKAS 39 Financial Instruments *HK$'000*
At 31st December, 2004	
Increase in finance costs	105
Increase in basic loss per share	0.01
Decrease in diluted loss per share	N/A

	HKAS 39 Financial Instruments *HK$'000*
At 31st December, 2005	
Increase in finance costs	389
Increase in basic loss per share	0.01
Decrease in diluted loss per share	N/A

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contacts
HKFRSs 1 & 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKAS 1 (Amendment) – Presentation of Financial Statements – Capital Disclosures introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKAS 1 from annual periods beginning 1st January, 2007.

HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31st March, 2005 and 2006.

HKAS 39 (Amendment) – The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on or after 1st January, 2006.

HKAS 39 and HKFRS 4 (Amendment) – Financial Guarantee requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

HKFRS 7 – Financial Instruments: Disclosures introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32 – Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company its subsidiary company made up to the end of the financial year. All significant intercompany transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only.

The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated income statement from the effective date in which control is transferred to the Group or in which control ceases, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year. Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(e) Intangible assets

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

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

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

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

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ***(Continued)***

(g) Property, plant and equipment

i. Valuation

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

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

ii. Depreciation

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

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

iii. Disposition

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted-average method. The cost of finished goods and work in progress comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in ordinary course of business, less applicable selling expenses.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Investments

From 1st January, 2004 to 31st December, 2004:

The Company classified its investments, other than subsidiaries, associates and jointly controlled entities, as investment in securities.

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

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

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

From 1st January, 2005 onwards:

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. During the year, the Company did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** ***(Continued)***

(k) Investments ***(Continued)***

Purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses or impairments from investment securities respectively.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale financial assets, a significant or prolonged decline in fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Leases

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible bond is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest rate method. The equity component is recognised in the convertible bonds reserve until either the bond are converted or redeemed.

If the notes are converted, the convertible notes reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible bonds reserve is released directly to accumulated losses.

(o) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Foreign currency translation *(Continued)*

(iii) Transactions and balances

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(p) Provision

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(q) Recognition of revenue

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

i. Revenues from system solutions and the mobile value added services are recognised when the services are rendered or under the stage of completion basis when the outcome of the transaction can be estimated reliably;

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

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

(r) Government Grant

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(t) Employee benefits

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

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

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

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

(u) Contingent liabilities and assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ***(Continued)***

(v) Related parties transactions

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is jointly-controlled entity;

(d) the party is a member of the family of any individual referred to in (a) or (d);

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(w) Segment reporting

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

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

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

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

Credit risk arising from the inability of a customer to meet the terms of the financial instrument contracts is generally limited to the amounts, if any, by which the customer's obligations exceed the obligations. The policy of the management is to sell to a diversity of creditworthy customers so as to reduce concentration of credit risk. Therefore, material credit losses on risk management or other financial instruments are not expected.

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in short and long term.

(d) Cash flow and fair value interest rate risk

As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent of changes in market interest rates.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and intangible assets

The Group perform annual tests whether there has been impairment of goodwill and intangible assets in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value in use calculations.

(ii) Trade and other receivables

The aged debt profile of trade and other receivables are reviewed on a regular basis to ensure that the debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of debtor balances are called into doubts, specific provisions for impairment loss are made based on credit status of the customers, the aged analysis of the trade and other receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade and other receivables for which provisions are not made could affect our results of operations.

(iii) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of fixed assets in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(v) Measurement of convertible notes

On issuance of convertible notes, the fair value of the liability component is determined by using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

4. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS *(Continued)*

(vi) Impairment of inventories

Impairment for slowing-moving inventories is made based on the aging and accomplishment of certain finished goods or work-in-progress. The assessment of the impairment amount required involving management judgement and estimate. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of work-in-progress and provision charge/write-back in the period in which such estimate has been changed.

(vii) Impairment loss of financial assets at fair value through profit or loss

The fair values of financial assets at fair value through profit or loss and financial liabilities are accounted for or disclosed in the financial statements and provision for impairment loss would be made whenever management of the Group considered that there is a permanent decline in future economic benefits associated with the financial assets. Estimation of the fair value and impairment loss involves significant judgement and could affect results of operations.

5. 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 31st December, 2005.

(a)	Continuing 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	14,277	26,843	–	–	155	418	14,432	27,261
Segment results	(42,151)	(5,934)	(18,201)	(3,797)	(15,084)	(5,992)	(75,436)	(15,723)
Unallocated expenses							(32,347)	(2,442)
Loss from operations							(107,783)	(18,165)
Finance costs							(2,136)	(418)
Loss before taxation							(109,919)	(18,583)
Taxation							–	–
Loss for the year from continuing operations							(109,919)	(18,583)
Loss for the period from discontinued operations							(27,977)	1,586
Loss for the year							(137,896)	(16,997)

5. **SEGMENT INFORMATION *(Continued)***

Business segments *(Continued)*

(b)

	Continuing Operations						Discontinued Operation			
	System solution services		Online games		Others		Mobile game and value added services		Consolidated	
	2005	**2004**	**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)	*HK$'000*	*HK$'000* (restated)
Segment assets	6,853	47,054	32	13,937	109	64,387	–	5,746	6,994	131,124
Segment liabilities	18,743	16,350	2,332	2,214	33,791	18,555	–	3,702	54,866	40,821
Other segment information:										
Depreciation	494	457	–	–	24	43	12	49	530	549
Capital expenditure	771	327	–	–	36	39	33	171	840	537
Amortisation of goodwill	–	1,943	–	–	–	–	–	766	–	2,709
Amortisation of intangible assets	146	142	–	–	–	–	–	–	146	142
Impairment loss on goodwill	32,347	–	–	–	–	–	14,013	–	32,347	–
Impairment loss on intangible assets	1,034	1,367	–	–	–	–	–	–	1,034	1,367
Impairment loss on inventories	2,363	870	17,806	–	–	–	–	–	20,169	870
Impairment loss on trade receivables	21,821	1,528	–	–	–	–	–	–	21,821	1,528
Impairment loss on deposits paid	1,587	–	–	–	2,255	–	–	–	3,842	–
Impairment loss on other receivables	2,034	–	–	–	1,311	–	–	–	3,345	–

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

5. **SEGMENT INFORMATION *(Continued)***

Geographical segment *(Continued)*

2004

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

6. **GOODWILL**

	HK$'000
	(restated)
The Group	
Cost	
At 1st January, 2004	20,775
Arising from acquisition of subsidiaries during the year	49,287
At 31st December, 2004, as previously reported	70,062
Elimination of accumulated amortisation upon adoption of HKFRS 3	(7,838)
At 1st January, 2005, as restated	62,224
Disposal of subsidiaries	(29,877)
At 31st December, 2005	32,347
Accumulated amortisation & impairment	
At 1st January, 2004	5,129
Charge for the year	2,709
At 31st December, 2004, as previously reported	7,838
Elimination of accumulated amortisation upon adoption of HKFRS 3	(7,838)
Impairment loss recognised in respect of goodwill	32,347
At 31st December, 2005	32,347
Carrying amount	
At 31st December, 2005	–
At 31st December, 2004	62,224

In prior years, Goodwill was amortised over a period of 10 to 20 years. Following the adoption of HKFRS 3, amortisation of goodwill has ceased since 1st January, 2005. The accumulated amortisation of goodwill as at 1st January, 2005 has been eliminated against the cost of goodwill as at that date. Annual impairment review was performed.

6. GOODWILL *(Continued)*

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and business segment as follows:

	2005 *HK$'000*	2004 *HK$'000* (restated)
Provision of system solution services – PRC	–	14,013
Provision of system solution services – Singapore	–	18,334
Provision of mobile game and value added services – PRC	–	29,877
	–	62,224

The recoverable amount of CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five year period. Cash flow beyond five year period is extrapolated using the estimated rate as stated below. The growth rates do not exceed the long term average growth rates for the business in which the CGU operates.

Key assumptions used for value in use calculation for impairment loss of system solution services – PRC and Singapore:

	2005
Gross margin	15% – 65%
Growth rate	–
Discount rate	10%

Due to continuous loss incurred by the business segments from provision of system solution services in PRC and Singapore, the directors of the Group reassessed the value of the goodwill and make full impairment loss of approximately HK$32,347,000.

7. **INTANGIBLE ASSETS**

The Group

	Technical know-how *HK$'000*	**Patents** *HK$'000*	**Membership database** *HK$'000*	**Total** *HK$'000*
At cost:				
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	1,415	1,415	1,590	4,420
Amortisation:				
At 1st January, 2004	47	94	1,590	1,731
Charge for the year	142	–	–	142
Impairment loss	46	1,321	–	1,367
At 31st December, 2004 and 1st January, 2005	235	1,415	1,590	3,240
Charge for the year	146	–	–	146
Impairment loss	1,034	–	–	1,034
At 31st December, 2005	1,415	1,415	1,590	4,420
Carrying value:				
At 31st December, 2005	–	–	–	–
At 31st December, 2004	1,180	–	–	1,180

The directors of the Group considered that the value-in use of the Technical know-how and determine that the Technical know-how is not able to generate future economic benefits to the Group. Therefore, a full impairment loss has been made to its recoverable amount.

8. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold Improvements	Office equipment	Furniture and fixtures	Computer hardware and software	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:						
At 1st January, 2004	619	553	34	1,812	874	3,892
Additions of subsidiaries *(note 31)*	45	114	80	2,957	–	3,196
Additions	5	155	6	371	–	537
Disposals	(623)	–	–	(416)	(874)	(1,913)
At 31st December, 2004 and 1st January, 2005	46	822	120	4,724	–	5,712
Additions	501	8	30	301	–	840
Disposals of subsidiaries *(note 33)*	–	(77)	(58)	(312)	–	(447)
Disposals	(492)	(655)	(70)	(2,336)	–	(3,553)
At 31st December, 2005	55	98	22	2,377	–	2,552
Depreciation and Impairment losses:						
At 1st January, 2004	227	69	20	1,353	67	1,736
Acquisition of subsidiaries *(note 31)*	17	77	16	2,685	–	2,795
Charge for the year	116	75	15	311	32	549
Written back on disposal	(340)	–	–	(415)	(99)	(854)
At 31st December, 2004 and 1st January, 2005	20	221	51	3,934	–	4,226
Charge for the year	104	34	14	378	–	530
Disposals of subsidiaries *(note 33)*	–	(8)	(8)	(33)	–	(49)
Written back on disposal	(95)	(159)	(36)	(2,121)	–	(2,411)
At 31st December, 2005	29	88	21	2,158	–	2,296
Net book value:						
At 31st December, 2005	26	10	1	219	–	256
At 31st December, 2004	26	601	69	790	–	1,486

9. INVESTMENTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	7,785	7,785
Amounts due from subsidiaries	147,958	131,818
	155,743	139,603
Less: Impairment loss on investments in subsidiaries	(7,785)	–
Impairment loss on amounts due from subsidiaries	(147,958)	(34,817)
	–	104,786

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

The directors of the Group had reviewed the net asset values of the Company's subsidiaries as at 31st December, 2005 and considered full provision for impairment in values should be made in respect of the investment in subsidiaries and the amounts due by subsidiaries to their net recoverable values.

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

Name of company	Place of Incorporation/ Establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Inworld International Limited	British Virgin Islands	Ordinary US$328	100%	–	Investment holding
Wai Shui Company Limited	British Virgin Islands	Ordinary US$2	100%	–	Investment holding
M Dream Online Limited	British Virgin Islands	Ordinary US$10,000	–	60%	Provision of online game services
M Dream Media (China) Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of media service
M Dream MEL Holdings Limited	British Virgin Islands	Ordinary US$1	–	100%	Investment holding
Elipva Limited	Singapore	Ordinary S$10,614,988	–	100%	Provision of system integration services
Elipva Inc.	United States of America	Ordinary US$100	–	100%	Dormant
深圳華瑞源實業有限公司	The People's Republic of China ("PRC")	Registered capital RMB10,000,000	–	95%	Provision of system solutions services
Inworld (Hong Kong) Limited	Hong Kong	Ordinary HK$3	–	100%	Provision of system solutions service

9. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of Incorporation/ Establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Inworld System (HK) Limited	Hong Kong	Ordinary HK$3	–	100%	Provision of system solution service
Inworld Technology (HK) Limited	Hong Kong	Ordinary HK$2	–	100%	Provision of system solution service
Sunny World Company Limited	Macau	Registered capital MOP25,000	–	100%	Operations of cyber cafe
活力世界(上海)網絡技術有限公司*	PRC	Registered capital US$200,000	–	100%	Development and sale of internet application solution services
聯夢在綫軟件(上海)有限公司#	PRC	Registered capital US$1,000,000	–	100%	Provision of online game services

* Subsequent to the balance sheet date, 活力世界(上海)網絡技術有限公司 has been de-registered by the Commerce and Industry Bureau ("工商局") in PRC.

\# 聯夢在綫軟件(上海)有限公司 was formed as a wholly-owned foreign enterprise in the PRC.

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

10. INVENTORIES

	Group 2005 *HK$'000*	Group 2004 *HK$'000* (restated)
Finished goods	2,026	3,127
Work in progress	18,143	13,905
Impairment loss recognised in respect of inventories	(20,169)	(870)
	–	16,162

The directors of the Group had considered the net realisable values and conditions of the Group's inventories as at 31st December, 2005 and considered provision for impairment loss in values should be made in respect of the net realisable value.

11. TRADE RECEIVABLES

Trade receivables, which usually have credit term of 30 to 120 days, are recognised and carried at the original invoiced amount less provision for impairment loss. An aging analysis of trade receivables at the balance sheet date is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
0 – 90 days	4,291	3,669
91 – 180 days	801	13,785
Over 180 days	21,668	12,599
	26,760	30,053
Less: Impairment loss recognised in respect of trade receivables	(21,821)	(1,528)
	4,939	28,525

In the opinion of the directors of the Group, the carrying amounts of trade receivables approximate their fair values and impairment loss of trade receivables had been made after considering the recoverability of trade receivables.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)		(restated)
Prepayments	30	117	28	48
Deposits paid	4,055	2,275	303	4,006
Other receivables *(Note)*	3,948	6,748	1,311	18
	8,033	9,140	1,642	4,072
Less: Impairment loss recognised in respect of deposits paid	(3,842)	–	(303)	–
Impairment loss recognised in respect of other receivables	(3,345)	–	(1,311)	–
	846	9,140	28	4,072

Note: Amount of approximately HK$1,311,000 receivables from High Land Logistics Express Limited was included in "Other receivables".

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)		(restated)
Held for trading				
Equity securities listed in Hong Kong, at fair value	–	2,904	–	69

14. SHARE CAPITAL

Authorised (ordinary share of HK$0.01 each):

	Notes	Number of shares	Amount *HK$'000*
At 1st January, 2004		1,500,000,000	15,000
Increase during the year ended 31st December, 2004	(a)	1,500,000,000	15,000
Increase during the year ended 31st December, 2004	(b)	3,000,000,000	30,000
At 31st December, 2004 and 2005		**6,000,000,000**	**60,000**
Issued and fully paid (ordinary shares of HK$0.01 each):			
At 1st January, 2004		1,242,608,000	12,426
Shares issued pursuant to the placing	(c)	150,000,000	1,500
Share issued as consideration for acquisition	(d)	298,000,000	2,980
Share issued as consideration for share swap agreement	(e)	610,459,559	6,105
Share issued pursuant to MDC subscription agreement	(f)	152,941,176	1,529
Share issued pursuant to STT subscription agreement	(g)	152,941,176	1,529
At 31st December, 2004 and 2005		**2,606,949,911**	**26,069**

Notes:

(a) Pursuant to a special resolution of the Company passed on 17th May, 2004, the authorised share capital of the Company was increased from HK$15,000,000 to HK$30,000,000 by the creation of additional 1,500,000,000 shares of HK$0.01 each. Such new shares were rank pari passu in all respects with the existing shares.

(b) Pursuant to an ordinary resolution of the Company passed on 25th October, 2004, the authorised share capital of the Company was increased from HK$30,000,000 to HK$60,000,000 by the creation of additional 3,000,000,000 shares of HK$0.01 each. Such new shares were rank pari passu in all respects with the existing shares.

(c) On 16th February, 2004, Dynamate entered into the Placing and Underwriting Agreement with the Placing Agent, pursuant to which the Placing Agent agreed to place, on a fully underwritten basis, 150,000,000 existing Shares at the Placing Price on behalf of Dynamate. Dynamate is a company incorporated in the BVI and a substantial shareholder (as defined under the GEM Listing Rules) of the Company which is wholly owned by Mr. Koh Tat Lee, Michael. On the same day, Dynamate entered into the Subscription Agreement with the Company for the subscription of the Subscription Shares at the Subscription Price. Completion of the Placing took place on 19th February, 2004 and completion of the Subscription took place on 25th February, 2004. Details of placing existing shares and subscription of new shares were set in the circular of the Company dated 8th March, 2004.

14. SHARE CAPITAL *(Continued)*

(d) On 17th March, 2004, Inworld International Limited ("Inworld International"), a wholly owned subsidiaries of the Company, entered into the MEL Agreement with M Dream China under which and subject to the terms and conditions thereof, Inworld International has agreed to acquire the entire share capital of M Dream MEL at a consideration of HK$31,320,000.

Pursuant to the MEL Agreement, of the HK$31,320,000 consideration, HK$4,500,000 was satisfied in cash and the Company alloted and issued a total of 298,000,000 shares to M Dream China upon Completion.

Details of acquisition of subsidiaries were set in the major transaction of the Company dated 17th March, 2004.

(e) On 30th July, 2004, the Company entered into the Share Swap Agreement with certain shareholders of Elipva Limited in which they conditionally agreed to sell their shares in Elipva Limited by receiving 610,459,559 new Shares of the Company at HK$0.051 per share as the consideration for the acquisition of Elipva Limited. The completion date of this agreement was on 27th October, 2004.

(f) On 30th July, 2004, the Company entered into the MDC Subscription Agreement with M Dream China (Holdings) Limited in which M Dream China (Holdings) Limited conditionally agreed to subscribe for an aggregate of 152,941,176 new Shares of HK$0.051 each. The completion date of this agreement was on 27th October, 2004.

(g) On 30th July, 2004, the Company entered into the STT Subscription Agreement with stt Ventures Limited ("STT"), pursuant to which STT conditionally agreed to subscribe for an aggregate of 152,941,176 new Shares of the Company at HK$0.051 per share. The completion date of this agreement was on 27th October, 2004.

Share option scheme

The Company has two share option schemes, further details of which are set out under the heading "Equity compensation benefits" in note 35 to the financial statements.

15. RESERVES

Group

	Share Premium HK$'000	Contributed Surplus HK$'000	Exchange Reserves HK$'000	Convertible Bond Reserve HK$'000 (restated)	Accumulated Loss HK$'000 (restated)	Total HK$'000 (restated)
Balance as at 1st January, 2004	42,818	7,396	–	–	(33,291)	16,923
Placing of shares	20,491	–	–	–	–	20,491
Issuance of shares as purchases 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)
Balance as at 31st December, 2004 and 1st January, 2005	106,730	6,426	–	–	(50,440)	62,716
Effect of Adoption of HKAS 39 – Issue of convertible bond	–	–	–	1,099	295	1,394
Balance as at 31st December, 2004 and 1st January, 2005 (As Restated)	106,730	6,426	–	1,099	(50,145)	64,110
Exchange reliagnment	–	–	(279)	–	–	(279)
Net loss for the year	–	–	–	–	(137,772)	(137,772)
Balance as at 31st December, 2005	106,730	6,426	(279)	1,099	(187,917)	(73,941)

Company

	Share Premium HK$'000	Contributed Surplus HK$'000	Convertible Bond Reserve HK$'000 (restated)	Accumulated Loss HK$'000 (restated)	Total HK$'000 (restated)
Balance as at 1st January, 2004	42,818	2,985	–	(22,523)	23,280
Placing of shares	20,491	–	–	–	20,491
Issuance of shares As purchases consideration	48,869	–	–	–	48,869
Issuing expenses	(5,448)	–	–	–	(5,448)
Net loss for the year	–	–	–	(24,652)	(24,652)
Balance as at 31st December, 2004 and 1st January, 2005	106,730	2,985	–	(47,175)	62,540
Effect of Adoption of HKAS 39 – Issue of convertible bond	–	–	1,099	295	1,394
Balance as at 31st December, 2004 and 1st January, 2005 (As Restated)	106,730	2,985	1,099	(46,880)	63,934
Net loss for the year	–	–	–	(130,744)	(130,744)
Balance as at 31st December, 2005	106,730	2,985	1,099	(177,624)	(66,810)

15. RESERVES *(Continued)*

Notes:

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

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

(c) Under the Companies Law (2001 Second Revision) of the Cayman Islands, a company may make distributions to its members out of the contributed surplus account under certain circumstances. In addition, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At 31st December, 2005, in the opinion of the Directors, the Company did not have reserves available for cash distribution and/or distribution in specie in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands (2004: HK$51,706,000).

16. CONVERTIBLE NOTES

On 11th November, 2004, the Company issued HK$10,500,000 4% convertible note due on 12th November, 2007 (the "Notes"). The notes carry a right to convert either in whole or in part at any time on or after the date of issue of the Notes and prior to the close of business day on the fourteenth business day immediately preceding the maturity date in whole or any integral multiple of HK$100,000 (save for in respect of any Notes not issued in the denomination of HK$500,000 in which case in the full amount of such Notes) into fully paid shares of the Company having a par value of HK$0.01 at an initial conversion price of HK$0.038 per share (subject to adjustment) at any time on or after the date of issue of the Notes and prior to the close of business day on fourteenth business day immediately preceding the maturity date.

The shares issued upon conversion of the Notes shall rank pari passu in all respects with the fully paid shares in issue at the date of the conversion and be entitled to all dividends and other distributions to be paid or made if the record date of which fall on a day on or after the date of conversion.

The Group adopted HKAS 32 and 39 for the year ended 31st December, 2005. The fair value of the liability component of the bond was determined upon issuance, using the prevailing market interest rate for similar debt without a conversion option and was carried as a current liability. The residual amount was assigned to the conversion option as the equity component that was recognised in shareholders' equity.

The net proceeds received from the issue of the convertible bond has been split between the liability and equity components as follows:

	The Group and the Company	
	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
Face value of convertible bond issued on 11th November, 2004	10,500	10,500
Equity Component	(1,100)	(1,100)
Liability component on initial recognition at 11th November, 2004	9,400	9,400
Transaction costs	(400)	(400)
Amortised cost on initial recognition at 11th November, 2004	9,000	9,000
Interest expense	913	105
Interest payables	(429)	(8)
Amortised costs at 31st December, 2005	9,484	9,097

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 7.75% to the liability component.

17. TRADE PAYABLES

An aging analysis of trade payable at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 90 days	673	1,616
91 – 180 days	634	11,192
Over 180 days	9,533	569
	10,840	13,377

18. SHORT-TERM UNSECURED INTEREST BEARING LOAN

		Group and Company	
		2005	2004
	Notes	*HK$'000*	*HK$'000*
Softbank Investment International (Strategic) Limited ("Softbank Investment")	(i)	7,778	7,800
Best Profit Investment Limited ("Best Profit")	(ii)	2,000	–
Hong Kong Housing Loan Limited ("Housing Loan")	(iii)	7,800	–
		17,578	7,800

Notes:

(i) The amount due to Softbank Investment is unsecured, interest bearing at 5% and repayable on demand. Please also refer to note 37.

(ii) The amount due to Best Profit is unsecured, interest bearing at 8% per annum and repayable on 22nd March, 2006.

(iii) The amount due to Housing Loan is unsecured, interest bearing at 9% per annum and repayable on 1st September, 2005.

19. AMOUNT DUE TO A RELATED PARTY

The amount due is unsecured, interest bearing at 9% and with no fixed terms of repayment.

20. AMOUNTS DUE TO DIRECTORS/A DIRECTOR

	Group		Company	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Chong Ying Chuan, Thomas	56	–	–	–
Mr. Wong Shui Fun	2,600	–	2,600	–
	2,656	–	2,600	–

The amounts due to directors are unsecured, interest-free and with no fixed term of repayment.

21. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and with no fixed terms of repayment.

22. TURNOVER AND REVENUE

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

23. LOSS FROM OPERATIONS

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

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

24. FINANCE COSTS

	2005 HK$'000	2004 HK$'000 (restated)
Interest on short term bearing loan wholly repayable within five years	2,136	418

25. 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).

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

The Group – for the year ended 31st December, 2005

	Hong Kong		PRC		Singapore		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before taxation	(94,085)		(10,025)		(5,809)		(109,919)	
Tax at appropriate tax rate	(16,465)	(17.50%)	(3,308)	(33.00%)	(1,162)	(20.00%)	(20,935)	(19.05%)
Tax effect of expenses not deductible for tax purposes	40,860	43.43%	1,215	12.12%	–	–	42,075	38.28%
Tax effect of income not taxable for tax purposes	(27,527)	(29.26%)	–	–	–	–	(27,527)	(25.04%)
Tax effect of recognized temporary difference	49	0.05%	–	–	–	–	49	0.04%
Tax effect of tax loss not recognised	3,083	3.28%	2,093	20.88%	1,162	20%	6,338	5.77%
Tax charge for the year	–	–	–	–	–	–	–	–

The Group – for the year ended 31st December, 2004 – as restated

	Hong Kong		PRC		Singapore		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before taxation	(18,817)		(2,870)		3,104		(18,583)	
Tax at appropriate tax rate	(3,293)	(17.50%)	(144)	(5%)	621	20.00%	(2,816)	(15.15%)
Tax effect of expenses not deductible for tax purposes	3,763	20.00%	–	–	–	–	3,763	20.25%
Tax effect of income not taxable for tax purposes	(564)	(3.00%)			(791)	(25.48%)	(1,355)	(7.29%)
Tax effect of unrecognised temporary differences	(48)	(0.26%)	144	5%	–	–	96	0.51%
Tax effect of tax loss not recognised	142	0.75%	–	–	170	5.48%	312	1.68%
Tax charge for the year	–	–	–	–	–	–	–	–

25. TAXATION *(Continued)*

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 (2004: 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.

26. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31st December, 2005 was HK$130,744,000 (2004: HK$24,357,000, as restated).

27. LOSS PER SHARE

(a) Basic loss/(earnings) per share

	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
Loss attributable to equity holders of the Company	(137,772)	(16,854)
Attributable to:		
Continuing operations	(109,795)	(18,440)
Discontinued operation *(note 34)*	(27,977)	1,586
	137,772	16,854
	No. of shares	*No. of shares*
Weighted average number of ordinary shares in issue	2,606,949,911	1,719,319,929
Basic (loss)/earnings per share		
– for loss for the year	(HK 5.28 cents)	(HK 0.98 cents)
– for loss from continuing operations	(HK 4.21 cents)	(HK 1.07 cents)
– for (loss)/profit from discontinued operation	(HK 1.07 cents)	HK 0.09 cents

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.

28. DIVIDENDS

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

29. DIRECTORS' REMUNERATION

As at balance sheet date, the board of directors of the Company is currently composed of three executive directors, three non-executive directors and three independent executive directors. Directors' remuneration disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Fee		Salaries And Bonus		Mandatory Provident fund		Total	
	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)
NAME OF DIRECTORS								
Executive directors								
Mr. Koh Tat Lee, Michael	–	–	2,116	1,835	–	–	2,116	1,835
Mr. Domingo Chen	–	60	906	164	–	5	906	229
Mr. Choong Ying Chuan,Thomas	–	–	769	324	35	–	804	324
Mr. Wong Shui Fun	–	14	75	284	–	–	75	298
Mr. Xu Hanjie	–	–	–	58	–	–	–	58
Mr. Chui Siu Wah	–	–	–	117	–	6	–	123
Non-executive directors								
Mr. Wong Kean Li	–	185	–	–	–	–	–	185
Mr. Tay Yew Beng,Peter	–	16	–	–	–	–	–	16
Mr. Ng Yat Cheung	–	–	–	–	–	–	–	–
Mr. Lee Siu Lung, James	–	–	–	–	–	–	–	–
Independent non-executive directors								
Mr. Wong Robert	40	51	–	–	–	–	40	51
Ms. Sung Hilda	–	21	–	–	–	–	–	21
Mr. Yeung Chun Wai, Anthony	4	13	–	–	–	–	4	13
Mr. Leung Chun Cheng	–	28	–	–	–	–	–	28
Mr. Cheong Man Hong	–	23	–	–	–	–	–	23
Mr. Ng Wing Hang, Patrick	–	–	–	–	–	–	–	–
Mr. Leigh Man Sung, Camballaw	–	–	–	–	–	–	–	–
	44	411	3,866	2,782	35	11	3,945	3,204

During the year, there were no bonuses paid or payable to the directors (2004: Nil). No director waived or agreed to waive any remuneration during the year (2004: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group as a compensation for loss of office (2004: Nil).

30. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the period included three (2004: three) Directors, details of whose remuneration are set out in note 29 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid individuals, which each fell within the nil to HK$1,000,000 band, are as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	3,608	556
Mandatory provident fund scheme contribution	24	18
	3,632	574

During the year, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (2004: Nil). No Director waived or agreed to waive any remuneration during the period (2004: Nil). In addition no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

31. ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2004, the Group acquired 100% interests in (i) M Dream Mobile Entertainment Limited and its subsidiary, Hangzhou M Dream Zone Company Limited (hereinafter referred to as the "MDream MEL Group") and (ii) Elipva Limited and its subsidiary, Elipva Inc (hereinafter referred to as the "Elipva Group"). No interest in subsidiaries was acquired by the Group during the year ended 31st December, 2005. The effect of the acquisitions to the financial statements was as follows:

Net assets acquired:

	2005	**M Dream MEL Group**	**Elipva Group**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	–	242	159	401
Trade receivables	–	471	2,894	3,365
Prepayments, deposits and other receivables	–	130	3,521	3,651
Cash and bank balances	–	761	9,351	10,112
Time deposits	–	–	2,175	2,175
Trade payables	–	(805)	(1,917)	(2,722)
Accruals and other payables	–	(121)	(3,695)	(3,816)
Minority interest	–	–	–	–
	–	678	12,488	13,166
Goodwill	–	30,642	18,645	49,287
	–	31,320	31,133	62,453
Satisfied by:				
Cash consideration	–	4,500	–	4,500
Shares	–	26,820	31,133	57,953
	–	31,320	31,133	62,453

31. ACQUISITION OF SUBSIDIARIES ***(Continued)***

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

	HK$'000
Cash consideration paid	(4,500)
Bank balances and cash acquired	10,112
Time deposits acquired	2,175
Net cash inflow in respect of the purchase of the subsidiaries	7,787

During the year ended 31st December, 2004, the subsidiaries acquired contributed approximately HK$9,786,000 to the Group's turnover and contributed to the Group a gain of approximately HK$734,000. The subsidiaries acquired contributed approximately HK$3,807,000 to the Group's net operating cash out flows and gave rise to cash outflow in respect of investing activities of HK$306,000. There is no significant impact in respect of the Group's cash flow for financing and payment for tax.

32. GAIN ON LIQUIDATION OF A SUBSIDIARY

Net liabilities disposed of:

	2005	**2004**
	HK$'000	*HK$'000*
Cash and cash equivalents	–	9
Trade and other payables	–	(66)
Net liabilities	–	(57)
Contributed surplus released on liquidation	–	(970)
Gain on liquidation of a subsidiary	–	(1,027)

The subsidiary liquidated during the year ended 31st December, 2004 did not have any significant impact on the Group's cash outflows, turnover and operating result.

33. DISPOSAL OF SUBSIDIARIES

In the opinion of the directors of the Group, the Group has disposed M Dream MEL Group on 2nd September, 2005, for a cash consideration of approximately HK$3,949,000. The operation of M Dream MEL Group is reported in the consolidated financial statements as a discontinued operation. Summary of the effects of the disposal of subsidiaries are as follow:

	2005
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	398
Trade receivables	4,524
Other receivables	26
Cash and cash equivalents	408
Other payables	(3,389)
Accrual	(474)
	1,493
Goodwill	29,877
Loss on disposal of subsidiaries	(27,421)
	3,949
Satisfactory by:	
Cash consideration	3,949
Net cash inflow/(outflow) arising on disposal:	
Cash consideration	3,949
Cash and bank balances disposed of	(408)
	3,541

For the period from 1st January, 2005 to the respective date of disposal, the above subsidiaries were engaged in provision of mobile game and value added services and contribute approximately HK$1,894,000 to the Group's turnover and approximately a loss of HK$556,000 to the Group's loss before taxation.

34. DISCONTINUED OPERATION

In additions to note 33 to the financial statements, the loss for the year form the discontinued operation which has been included in the consolidated income statement is analysed as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Loss on Mobile game and value added services operation	(556)	1,586
Loss on disposal of Mobile game and value added services operation	(27,421)	–
	(27,977)	1,586
Basic (loss)/earnings per shares from discontinued operation	(HK cents 1.07)	HK cents 0.09
Diluted loss per shares from discontinued operation	N/A	N/A

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

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

The net assets of the discounted operation at 2nd September, 2005 (date of disposal) have been presented in note 33 to the financial statements.

The net cash flow of the discounted operation for the period from 1st January, 2005 to 2nd September, 2005 was as follows:

	HK$'000
Net operating cash inflow	2
Net investing cash outflow	(33)
Net financing cash flow	–
Total net cash inflow	31

35. **EMPLOYEE BENEFITS**

(a) **Retirement benefits scheme**

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

The employees of the Company's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

Under the Central Provident Fund (the "CPF") of Singapore, the Group contributed 16% of staff's relevant income and the contribution is charged to the income statement.

Under the MPF Scheme and CPF, there is no forfeited contribution which could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 31st December, 2005.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong, Singapore and the PRC. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31st December, 2005 in respect of the retirement of its employees.

(b) **Equity compensation benefits**

Pre-IPO share option scheme

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

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

Share option scheme

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

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

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

35. EMPLOYEE BENEFITS *(Continued)*

(b) Equity compensation benefits *(Continued)*

Share option scheme (Continued)

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

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

In the opinion of Directors of the Group, an aggregate of nil (2004: 160,900,000) options were granted by the Company during the period up to the date of approval of these financial statements which consists of nil executive directors, nil non-executive director and nil employees (2004: 4 executive directors, 1 non-executive director and 20 employees). However, the above-mentioned particulars cannot be verified because the Company does not keep proper books and records in respect of the share options scheme, which could lead to material effects in respect of the employee benefits incurred as share-based payments.

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

	2005 *Number of Options*	**2004** *Number of Options*
Option outstanding at 1st January, 2005/ 1st January, 2004	174,960,000	32,000,000
Issued	–	160,900,000
Cancelled/Lapsed	(45,740,000)	(17,940,000)
Option outstanding at 31st December, 2005/2004	129,220,000	174,960,000

None of the Directors and employees of the Group had exercised their share options during the year ended 31st December, 2005.

36. OPERATING LEASE ARRANGEMENTS

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

At 31st December, 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follow:

	Group	
	2005 *HK$'000*	**2004** *HK$'000*
Within one year	936	1,291
In the second to fifth years, inclusive	558	1,806
	1,494	3,097

37. MATERIAL RELATED PARTY TRANSACTION

Saved as disclosed in note 19 and 20 to the financial statements, during the year, the Group had entered into transactions with related parties which, in the opinion of the Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

Key management personnel

	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
Fee	44	411
Salaries and allowance	3,866	2,782
Mandatory provident fund	35	11
	3,945	3,204

38. LITIGATIONS

Case 1

An ex-employee had a claim against the Company in respect of dispute in outstanding salaries. According to the judgment from Labour Tribunal dated 3th June, 2006, the Company should repay HK$493,524 adhere to a settlement proposal. As at report date, an amount of HK$293,524 is still outstanding.

Case 2

In regards to the short term unsecured interest bearing loan disclosed in note 18, Softbank Investment International (Strategic) Limited ("Softbank") has filed a claim of HK$7,800,000 against the Company. On 11th August, 2006, the Company and Softbank have entered into a subscription agreement to settle the claim of HK$7,800,000 by payment of HK$784,345 as full and final settlement of all outstanding obligations the Group due to Softbank. As at report date, the amount of HK$784,345 was yet to be repaid.

Case 3

On 25th September, 2006, a writ of summons and statement of claims were made by Best profit investment Limited against the Company for a sum of approximately HK$2,027,000. HK$2,027,000 comprised of principal of HK$2,000,000 and interest payable of approximately HK$27,000 with interest have been recognised in the consolidated financial statement as at 31st December, 2005.

39. CAPITAL COMMITMENTS

At 31st December, 2005, the Group does not have any significant commitments.

40. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had no significant contingent liabilities.

41. SUBSEQUENT EVENTS

Subsequent to the balance sheet date and saved as disclosed in note 9 and 37, the Group has entered into the following subsequent events.

(a) On 8th September, 2006, the Company has settled its convertible notes of the aggregate principal amount of HK$10,500,000 by paying the note holder, Dynamic View Limited, HK$1,200,000 as full and final settlement. This settlement represents a gain to the Company approximately of HK$8,300,000 subsequent to the balance sheet date.

(b) The Company and an independent third party, Mr. Yu Shu Kuen has entered into a subscription agreement on 12th June, 2006 in respect of proposed issue of HK$14.04 million redeemable convertible bonds for cash at par. As at report date of the financial statements, the issue of the convertible bonds is yet to be completed. Details are disclosed in announcement dated 19th July, 2006.

42. COMPARATIVE FIGURES

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

43. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29th September, 2006.

IV. INDEBTEDNESS

Statement of Indebtedness

As at the close of business on 28th November, 2006 which is the latest practicable date for the purpose of the indebtedness statement for this Circular, the indebtedness of the Group is as follows:

	HK$'000
Loan from a company which Mr. Yu is a shareholder	3,017
Loans from Asiavest *(Note)*	10,140
Loans from third parties	10,032
Loan from a former director	1,800
Total	24,989

Note: HK$3,300,000 of the loan was secured by a first floating on the asset of the Company.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, none of the companies of the Group had any loan capital issued and outstanding or agreed to be issued, any bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, obligations under finance leases or hire purchases, guarantees of other material contingent liabilities as at the close of business on 28th November, 2006.

V. MATERIAL CHANGE

The Directors confirmed that as at the Latest Practicable Date and save as previously disclosed in the quarterly results in the year 2006, there have not been any material changes in the financial or trading position or outlook of the Group since 31st December, 2005.

This explanatory statement contains all the information required pursuant to rule 13.08 and other relevant provisions of the GEM Listing Rules.

1. THE SHARE REPURCHASE RULES

The GEM Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their fully-paid up Shares on the Stock Exchange subject to certain restrictions. In this regard, the definition of "Shares" in the GEM Listing Rules would, and where used below in this explanatory statement (including the use of the word "Share") shall (unless the context otherwise requires) include shares of all classes and securities which carry a right to subscribe or purchase shares of the Company.

The most important restrictions contained in the GEM Listing Rules are summarised below:

1.1. Source of Funds

Repurchases must be funded entirely from the Company's available cash flow or working capital facilities, which will be funds legally available for the purchase in accordance with the Articles of Association of the Company and the applicable laws of the Cayman Islands.

1.2. Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 260,694,991 New Shares of the Company in issue immediately after the Share Reorganisation and on the basis that no new Shares are issued or repurchased prior to the date of the resolution approving the Repurchase Mandate could accordingly result in up to 26,069,499 New Shares, representing 10% of the issued share capital of the Company after the Share Reorganisation being repurchased by the Company during the course of the period from the date of resolution granting the Repurchase Mandate until the earliest of: (i) the conclusion of the next Annual General Meeting of the Company; (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Articles of Association of the Company to be held; and (iii) the revocation or variation of the authority by an ordinary resolution of the Shareholders in general meeting.

1.3. Reasons for Repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders to have a general authority from Shareholders to enable the Directors to repurchase the New Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per New Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

1.4. Funding of Repurchases

In repurchasing its New Shares, the Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association and the laws of the Cayman Islands. It is envisaged that the Company would derive the funds from its distributable profits for the repurchases.

2. GENERAL

None of the Directors, and to the best of their knowledge having made all reasonable enquiries, none of the Associates of Directors, have any present intention in the event that the Repurchase Mandate is approved by Shareholders to sell any of the New Shares to the Company. The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Cayman Islands. If, as a result of a Share repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert could as a result of increase of its or their interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

The Directors will not repurchase the New Shares on GEM if the repurchase would result in the number of the listed securities which are in the hands of the public falling below 25%, being the minimum prescribed percentage for the Company as required by the Stock Exchange. The Directors are not aware of any consequences which the exercise in full of Repurchase Mandate will have under the Takeovers Code. At present, so far as is known to the Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that the Directors exercise the power in full to repurchase the New Shares pursuant to the Repurchase Mandate.

No Connected Person has notified the Company that he has a present intention to sell New Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate was approved by Shareholders. The Company has not repurchased any of its Shares, whether on the Stock Exchange or otherwise, during the previous six months.

The trading of Shares of the Company has been suspended since 4th October, 2005. The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous twelve (12) months before 4th October, 2005 were as follows:

Per Share	Closing Price (at the end of each calendar month)	Highest	Lowest
		HK$	*HK$*
September 2005	0.01	0.01	0.01
August 2005	0.01	0.01	0.01
July 2005	0.01	0.02	0.01
June 2005	0.01	0.02	0.01
May 2005	0.01	0.02	0.01
April 2005	0.01	0.02	0.01
March 2005	0.01	0.02	0.01
February 2005	0.01	0.03	0.01
January 2005	0.01	0.04	0.01
December 2004	0.01	0.04	0.02
November 2004	0.01	0.04	0.03
October 2004	0.01	0.04	0.03

As at the trading date prior to the Latest Practicable Date (3rd October, 2005), the closing price of the Share is HK$0.011.

The Directors have no present intention to exercise the Repurchase Mandate.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Company and the Subscriber.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the Subscriber accepts full responsibility for the accuracy of the information contained in this circular (other than that relating to the Group) and confirm having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Group) not contained in this circular the omission of which would make any statement (other than that relating to the Group) in this circular misleading.

SHARE CAPITAL

	HK$
Authorised capital:	60,000,000
Issued and fully paid or credited as fully paid:	26,069,499

All existing Shares rank equally in all respects, including capital, dividends and voting rights. The Shares in issue are listed on the Stock Exchange.

No Shares have been issued since 31st December, 2005, being the end of the last financial year of the Company.

Save for the Subscription and the Share Option Scheme of the Company stated below, no share or loan capital of the Company or any other member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant, derivative or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Particulars and movements from 1st January, 2006 to the Latest Practicable Date of the outstanding share options granted under the Share Option Scheme were as follows:

Name of participant	As at 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at Latest Practicable Date	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Wong Kean Li (Director)	16,000,000	–	–	–	–	16,000,000	20th May, 2004	20th May, 2004 to 19th May, 2014	HK$0.036
Mr. Chen Domingo (Director)	22,000,000	–	–	–	–	22,000,000	24th Nov., 2004	24th Nov., 2004 to 23rd Nov., 2014	HK$0.034
Dr. Choong Ying Chuan (Director)	16,000,000	–	–	–	–	16,000,000	24th Nov., 2004	24th Nov., 2004 to 23rd Nov., 2014	HK$0.034
Employees	17,000,000	–	–	–	17,000,000	–	9th Oct., 2003	9th Oct., 2003 to 8th Oct., 2013	HK$0.076
Employees	1,500,000	–	–	–	1,500,000	–	31st March, 2004	31st March, 2004 to 30th March, 2014	HK$0.060
Employees	35,400,000	–	–	–	35,400,000	–	20th May, 2004	20th May, 2004 to 19th May, 2014	HK$0.036
Employees	14,500,000	–	–	–	14,500,000	–	30th June, 2004	30th June, 2004 to 29th June, 2014	HK$0.047
Employees	6,820,000	–	–	–	6,820,000	–	24th Nov., 2004	1st July, 2005 to 23th Nov., 2014 *(Note)*	HK$0.034
	129,220,000	–	–	–	75,220,000	54,000,000			

Note: The grantees of these options are entitled to exercise half of the options granted to them after 30th June, 2005; the remaining options after 31st December, 2005.

DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executives' interests or short positions in the Shares, Underlying Shares or Debentures of the Company or any associated corporations

As at the Latest Practicable Date, 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

Name of director	Personal interests	Corporate interests	Total interests	Percentage of interests
Mr. Koh Tat Lee, Michael	–	323,104,376 *(Note 1)*	323,104,376	12.39%
Dr. Choong Ying Chuan	2,563,930	46,089,697 *(Note 2)*	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.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the Shares

	Existing Number of Shares	**%**
Temasek Holdings (Private) Limited *(Note 1)*	507,862,364	19.48
Singapore Technologies Telemedia Pte Limited *(Note 1)*	507,862,364	19.48
STT Communications Ltd *(Note 1)*	507,862,364	19.48
stt Ventures Ltd *(Note 1)*	507,862,364	19.48
Dynamate Limited *(Note 2)*	323,104,376	12.39
Koh Tat Lee, Michael *(Note 2)*	323,104,376	12.39
Yu Chung Choi, Chaucer	307,000,000	11.78
Madam Lidya Suryawaty *(Note 3)*	204,870,228	7.86
Dr. Mochtar Riady *(Note 3)*	204,870,228	7.86
Lanius Limited *(Note 3)*	204,870,228	7.86
Lippo Cayman Limited *(Note 3)*	204,870,228	7.86
Lippo Limited *(Note 3)*	204,870,228	7.86
Lippo China Resources Limited *(Note 3)*	204,870,228	7.86
HKCL Holdings Limited *(Note 3)*	204,870,228	7.86
Hongkong Chinese Ltd *(Note 3)*	204,870,228	7.86
Allwin Asia Inc. *(Note 3)*	204,870,228	7.86
Shenzhen Ingen Technology Company Limited *(Note 4)*	147,440,000	5.66
Other shareholders	1,116,672,943	42.83
Total	2,606,949,911	100

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. All of them are not a Concert Parties of the Subscriber.

2. These shares are held by Dynamate Limited of which the entire issued 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. All of them are not a Concert Parties of the Subscriber.

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. All of them are not a Concert Parties of the Subscriber.

4. Shenzhen Ingen Technology Company Limited is not a Concert Parties of the Subscriber.

As at the date of this circular, save for options granted to directors and employees of the Group to subscribe for a total of 54,000,000 Shares in which 16,000,000 Shares may be subscribed at HK$0.036 per Share and 38,000,000 Shares may be subscribed at HK$0.034 per Share under the share option scheme of the Company, there were no other outstanding options, warrants or convertible securities in the Company.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests in the Company" above, had registered an interest in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors has entered or proposed to enter into a service contract with the Company or any of its subsidiaries or associated companies which is not determinable by the Company within one year without payment of compensation, other than statutory compensation;

(b) none of the Directors had entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or any of its associated companies within six months before the date of the Announcement;

(c) none of the Directors had any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more; and

(d) none of the Directors had any fixed term service contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

MATERIAL LITIGATION

On 25th September, 2006, a writ of summons was served onto the Company by a plaintiff for a claim against the Company in the amount of approximately HK$2 million. The Company is in the process of seeking legal advice on the abovementioned cases and shall update the Shareholders as and when appropriate. Save for the abovementioned litigation, there is no other outstanding litigation against the Company.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
Asiavest Partners Limited	Licensed Corporation for Type 4 (advising on Securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Veda Capital Limited	Licensed Corporation for Type 6 (advising on corporate finance) regulated activity under the SFO
Hodgson Impey Cheng	Certified Public Accountants

All of the above have given and have not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respective appear.

All of the above do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

All of the above do not have direct interests in any assets which have been, since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

DETAILS OF SUBSCRIBER AND ITS FINANCIAL ADVISOR

Subscriber:	Ample Field Limited
Address:	P.O. Box 957 Offershare Incorporation Centre, Road Town, Tortola, British Virgin Islands
Subscriber's financial advisor:	Asiavest Partners Limited
Address:	19/F Crocodile House I, 50-55 Connaught Road, Central, Hong Kong

The Subscriber confirms it has no present intention to transfer, charged or pledged to any other persons the Convertible Bonds or its underlying shares in part or as a whole after its issue.

ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES

(a) As at the Latest Practicable Date, save for the subscription of the Convertible Bonds, neither the Subscriber nor any parties acting in concert with it held any securities of the Company or had dealt in the securities of the Company (the "Relevant Securities") during the period for value beginning six months prior to the Announcement and ending on the Latest Practicable Date (the "Relevant Period").

(b) Save for the subscription of the Convertible Bonds entered into by the Subscriber, the Subscriber is not interested in any securities of the Company and it had not dealt for value in the Relevant Securities during the Relevant Period nor had any interest in Relevant Securities as at the Latest Practicable Date.

(c) As at the Latest Practicable Date, no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Whitewash Waiver.

(d) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exists between the Subscriber or any party acting in concert with it, and any other person.

(e) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) exists between (i) the Subscriber or any party acting in concert with it; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and the Whitewash Waiver.

(f) As at the Latest Practicable Date, there were no agreements or arrangements to which the Subscriber is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to its offer and the consequences of its doing so, including details of any break fees payable as a result.

(g) As at the Latest Practicable Date, the Company did not have any interest in the securities of the Subscriber and had no dealings in the securities of the Subscriber during the Relevant Period.

(h) As at the Latest Practicable Date, save for the disclosure on page 100 of this Circular none of the Directors had any interest in the securities of the Company. And none of the Directors had any interest in the securities of the Subscriber.

(i) None of the Directors had dealt for value in the securities of the Company or the Subscriber during the Relevant Period.

(j) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate "under the Takeovers Code), had any interest in the securities of the Company and/or had dealt in the securities of the Company during the Relevant Period.

(k) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(l) As at the Latest Practicable Date, no securities of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any securities of the Company during the Relevant Period.

(m) As at the Latest Practicable Date, save as Mr. Koh will abstain from the resolutions regarding the Subscription and the Whitewash Waiver in the EGM and Mr. Choong Ying Chuan who indicated that he will vote for such resolutions, none of the Directors held any securities of the Company and therefore did not have any voting intention on the Subscription and the Whitewash Waiver.

(n) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional or dependent on the outcome of the Subscription and the Whitewash Waiver or otherwise connected with the Subscription and the Whitewash Waiver.

(o) As at the Latest Practicable Date, no benefit has been given or will be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and Whitewash Waiver.

(p) As at the Latest Practicable Date, save for the Formal Subscription Agreement, there was no material contract entered into by the Subscriber or any party acting in concert with it in which any Directors has a material personal interest.

MATERIAL CONTRACTS

Save as the (a) the Formal Subscription Agreement and (b) the cancellation agreement entered into between the Company and Dynamic View Limited a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Hongkong Chinese Limited, a company listed on the main board of the Stock Exchange which indirectly holds 204,870,228 Shares (equivalent to approximately 7.86% of the issued share capital of the Company) as at the Latest Practicable Date dated 8th September, 2006 in relation to the cancellation of the issued HK$10,500,000 convertible loan notes due 2007 convertible into fully paid ordinary shares of par value of HK$0.01 each of the Company per the subscription between the Company and Dynamic View Limited dated 11th November, 2004, there are no other material contract entered into by the Company or its subsidiaries after the date 2 year preceding the date of the Announcement and up to the Latest Practicable Date.

MARKET PRICE

No prices was recorded for the Shares for the period commencing six months immediately preceding the date of this document and ending on the Latest Practicable Date since trading in the Shares on the Stock Exchange was suspended at the request of the Company from 9:30 a.m. on 4th October, 2005 and will remain suspended pending the demonstration by the Company to the satisfaction of the Stock Exchange that, among others, the continual listing of the Shares is warranted. The closing price per Share as quoted on the Stock Exchange on the Last Trading Day was HK$0.011.

PARTIES INVOLVED IN THE SUBSCRIPTION OF THE CONVERTIBLE BOND AND CORPORATE INFORMATION

Directors	*Executive Directors* Koh Tat Lee, Michael *(Chairman)* Chen, Domingo Choong Ying Chuan *Non-executive Director* Wong Kean Li *Independent Non-executive Directors* Cheung Wai Shing Chu, Ray Tsang Kwok Wai
Compliance officer	Koh Tat Lee, Michael
Authorised representatives	Koh Tat Lee, Michael
Audit committee	Cheung Wai Shing Chu, Ray Tsang Kwok Wai
Registered office	P.O. Box 309 Ugland House South Church Street George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business	5A Teda Building 87 Wing Lok Street Sheung Wan, Hong Kong
Principal share registrar and transfer office	Bank of Butterfield international (Cayman) Limited Butterfield House, 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies

Hong Kong branch share registrar and transfer office	Tengis Limited 26/F Tesbury Centre 28 Queen's Road East Hong Kong
Principal banker	Liu Chong Hing Bank Limited Wing Hang Bank Limited
Auditors	HLB Hodgson Impey Cheng *Chartered Accountants* *Certified Public Accountants* 31/F, Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong
Stock code	8100
Financial adviser of the Subscriber	Asiavest Partners Limited 19/F, Crocodile House I No. 50 Connaught Road Central Hong Kong
Independent Financial Adviser	Veda Capital Limited Suite 1311-1312 Nam Fung Tower 173 Des Voeux Road Central Hong Kong
Cayman Islands legal advisors	Conyers Dill & Pearman Cricket Square Hutchins Drive Grand Cayman Cayman Islands

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the head office and principal place of business of the Company in Hong Kong at Room A, 5th Floor, Teda Building, 87 Wing Lok Street, Sheung Wan, Hong Kong, (ii) the website of the SFC (www.sfc.hk), (iii) the website of the Company (www.mdreaminworld.com.hk) from the date of this circular up to and including the date of the EGM:

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

(b) the annual reports of the Company for the years ended 31st December, 2004 and 2005;

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

(d) the written consent referred to in the paragraph headed "Qualifications and consents of experts" in this appendix;

(e) the letter from the Independent Board Committee, the text of which is set out on page 23 of this circular; and

(f) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 24 to 37 of this circular.

M DREAM INWORLD LIMITED

聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8100)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of M Dream Inworld Limited ("Company") will be held at 10:30 a.m. on 29th December, 2006 at Phoenix Room, The Charterhouse Hotel, 209-219 Wanchai Road, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as special resolutions and ordinary resolutions of the Company.

SPECIAL RESOLUTION

1. "**THAT,** conditional and effective upon (i) compliance with any conditions which the Grand Court of the Cayman Islands (the "Court") may impose, (ii) the confirmation of the Capital Reduction (as defined below) by the Court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the court order confirming the Capital Resolution (as defined below) and the minutes approved by the Court containing the particulars required under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands; and (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, shares of HK$0.01 each in the issued share capital of the Company upon the Capital Reorganisation (as defined below) becoming effective:

   (a) every ten shares of HK$0.01 in the capital of the Company in issue on the date this resolution becomes effective (the "Effective Date") be consolidated into one (1) share of HK$0.10 (the "Consolidated Share") in the issued capital of the Company (the "Share Consolidated") and any fractional Consolidated Shares be aggregated and sold for the benefit of the Company;

   (b) the issued share capital of the Company be reduced by cancelling paid up capital to the extent of HK$0.09 on each of the Consolidated Share of HK$0.10 in the capital of the Company in issue on the Effective Date (the "Capital Reduction") so that each issued share in the capital of the Company shall be treated as one fully-paid up share of HK$0.01 each in the capital of the Company (the "Reduced Share");

   (c) subject to and forthwith upon the Capital Reduction taking effect, the credit arising from the Capital Reduction be credited to the distributable reserve account of the Company where they may be utilised in accordance with the association of the Company and all applicable laws, including to cancel the share premium of the Company as at 31 December 2005 (the "Share Premium Cancellation"); and

   (d) The Directors be authorised to do all such things, take all such steps and execute all such documents."

* *For identification purpose only*

2. "**THAT** the articles of association (the "**Articles**") of the Company be and are hereby amended in the following manner:

(a) **Article 18**

by deleting Article 18 in its entirety and replacing it with the following:

"18. Every share certificate shall specify the number and class of shares in respect of which it is issued and the amount paid thereon or the fact that they are fully paid, as the case may be, and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meeting, must include the words "restricted voting" or "limited voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares and where the capital of the Company includes shares which do not carry voting rights, the words "non-voting" must appear in the designation of such shares."

(b) **Article 80**

by deleting the existing Article 80 in its entirety and substituting therefor the following new Article 80:

"80. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

(a) the Chairman of the meeting; or

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

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

(d) if required by the Listing Rules, any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five (5) per cent or more of the total voting rights at that meeting.

Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution."

(c) **Article 93**

by inserting the words "(provided that this shall not preclude the use of the two-way form)" immediately after the words "as the Board may from time to time approve" at the end of Article 93.

(d) **Article 99**

by deleting the existing Article 99 in its entirety and substituting therefor the following new Article 99:

"99. The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall then be eligible for re-election at that meeting provided that any Director who so retires shall not be taken into account in determining the number of Directors who are to retire at such meeting by rotation pursuant to Article 116."

(e) **Article 106**

by deleting the existing Article 106(vii) in its entirety and substituting therefor the following new Article 106(vii):

"106. (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under Article 122(a)."

(f) **Article 116**

by deleting the existing Article 116 in its entirety and substituting therefor the following new Article 116:

"116. At each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. A retiring Director shall retain office until the close of the meeting at which he retires, and shall be eligible for re-election thereat."

(g) **Article 119**

by deleting the existing Article 119 in its entirety and substituting therefor the following new Article 119:

"119. The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall not be less than two. Subject to the provisions of these Articles and the Law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall then be eligible for re-election provided that any Director who so retires shall not be taken into account in determining the Directors who are to retire at such meeting."

(h) **Article 122**

(i) by deleting the existing Article 122(a) in its entirety and substituting therefor the following new Article 122(a):

"122. (a) The Company may be ordinary resolution at any time remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead. Any person so elected shall hold office during such time only as the Director in whose place he is elected would have held the same if he had not been removed."

(ii) by deleting the summary note to the existing Article 122 in its entirety and substituting therefor the following new summary note:

"Power to remove Director by ordinary resolution"

(i) **Article 163**

by deleting Article 163(b) in its entirety and replacing it with the following:

"163. (b) Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, and at the same time as the notice of annual general meeting be send in the manner in which notices may be served by the Company provided herein to every member of the Company and every holder of debentures of the Company, provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.""

ORDINARY RESOLUTION

3. "**THAT** conditional upon the passing of the Resolution No. 1 above:

(a) the conditional subscription agreement date 10 October 2006 entered into between the Company as the issuer and Ample Field Limited ("Ample Field") the subscriber ("the Subscription Agreement", a copy of which is produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification) relating to the subscription of the HK$14,040,000 convertible bonds be and are hereby approved, confirmed and ratified;

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is/are hereby authorised on behalf of the Company sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he/they may in his/their absolute discretion consider necessary or desirable or expedient for the purpose of or in connection with the implementation of and to give effect to the Subscription Agreement and any other transaction, agreements or documents contemplated thereunder."

4. "**THAT** conditional upon the passing of the Resolution 1 and 3 above, the application for Whitewash Waiver (as defined and described in the circular of the Company date 4th December, 2006) be and is hereby approved and that any Director be and is hereby authorised to do all things and acts and sign all documents which he considers desirable or expedient to implement and/or give effect to any matters arising to or in connection with the Whitewash Waiver."

5. "**THAT** conditional upon the passing of Resolutions No. 1, 3, 4 above and subject to the Capital Reorganisation becoming effective:

   (a) subject to paragraph 5(c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph 5(a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Periods;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs 3 above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares under any options granted under the share option scheme adopted by the Company; (iii) an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company; (iv) an issue of shares in lieu of the whole or part of a dividend pursuant to any scrip dividend scheme or similar arrangement in accordance with the bye-laws of the Company; and (v) any adjustment, after the date of grant or issue of any options, rights to subscribe or other securities referred to in (ii) and (iii) above, in the price at which shares in the Company shall be subscribed, and/or in the number of Shares in the Company which shall be subscribed, on exercise of relevant rights under such options, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, rights to subscribe or other securities, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the time of passing this resolution; and

   (d) for the purpose of this Resolution:

   "Relevant Period" means the period from the time of the passing of this resolution until whichever is the earliest of:

   (i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum of Association and Bye-laws of the Company or any applicable laws of Bermuda to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Right Issue" means an offer of Shares open for a period fixed by the Directors to holders of the Shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusive or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchange)."

6. "**THAT** conditional upon the passing of Resolutions No. 1, 3 to 5 above:

(a) subject to paragraph 6(c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase issued shares in the capital of the Company on the Stock Exchange or on any other stock exchange on which the Shares may be listed and recognized by The Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws and/or the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange from time to time be and is hereby generally and unconditionally approved;

(b) the approval in paragraph 6(a) shall be in addition to any other authorization given to the Directors and shall authorize the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its Shares at a price determined by the Directors;

(c) the aggregate nominal amount of share capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph 6(a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the time of passing this resolution, which includes the Subscription Shares; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the time of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum of Association and Bye-laws of the Company or any applicable laws of Bermuda to be held; and

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting."

7. "**THAT** conditional upon the passing of the Resolutions No. 1, 3 to 6 above, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the Resolution 6 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the Resolution 4 provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution, which includes the Subscription Shares."

On behalf of the Board
Koh Tat Lee, Michael
Chairman

Hong Kong, 4th December, 2006

Principal place of business in Hong Kong:
Room A, 5th Floor,
Teda Building,
87 Wing Lok Street,
Sheung Wan,
Hong Kong

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and, on a poll vote on his behalf and such proxy need not be member of the Company. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf, if more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which cash such proxy is so appointed. A form of proxy for use at the meeting is enclosed.

(2) In order to be valid, the form or proxy, together with any power of attorney or authority under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong. Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.

(3) Completion and return of the for of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.