



M DREAM INWORLD LIMITED

聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

(the “Company”)

(Stock Code: 8100)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

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* *For identification purpose only*

The board of directors (“the Board”) of M Dream Inworld Limited (“the Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together “the Group”) for the year ended 31 December 2006 (“the Year”).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006 (in HK Dollars)

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	5	13,931	14,432
Cost of sales		(9,058)	(11,774)
Gross profit		4,873	2,658
Other revenue and income	5	303	138
Gain on settlement of convertible notes		9,804	–
Administrative expenses		(11,803)	(25,629)
Selling and distribution costs		–	(274)
Realised loss on disposal of financial assets at fair value through profit or loss		–	(927)
Loss on disposal of fixed assets		–	(1,045)
Amortisation of intangible assets		–	(146)
Recovery of/(impairment loss on) deposits paid		2,151	(3,842)
Impairment loss on goodwill		–	(32,347)
Impairment loss on intangible assets		–	(1,034)
Impairment loss on inventories		–	(20,169)
Impairment loss on trade receivables		–	(21,821)
Impairment loss on other receivables		–	(3,345)
Profit/(loss) from operations	6	5,328	(107,783)
Finance costs	7	(2,209)	(2,136)
Profit/(loss) before taxation		3,119	(109,919)
Taxation	8	–	–
Profit/(loss) for the year from continuing operations		3,119	(109,919)
Discontinued operations			
Profit/(loss) for the period from discontinued operations	13	12,402	(27,977)
Profit/(loss) for the year		15,521	(137,896)

	<i>Notes</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Net profit/(loss) attributable to	<i>9</i>		
– Equity holders of the Company		15,521	(137,772)
– Minority Interest		<u>–</u>	<u>(124)</u>
		<u>15,521</u>	<u>(137,896)</u>
Earnings/(loss) per share			
From continuing and discontinued operations			
Basic	<i>10</i>	<u>HK0.60 cents</u>	<u>(HK5.28 cents)</u>
Diluted	<i>10</i>	<u>N/A</u>	<u>N/A</u>
Earnings/(loss) per share			
From continuing operations			
Basic	<i>10</i>	<u>HK0.12 cents</u>	<u>(HK4.21 cents)</u>
Diluted	<i>10</i>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2006 (in HK Dollars)

	2006 HK\$'000	2005 HK\$'000
ASSETS		
Non-current assets		
Fixed assets	415	256
Intangible assets	–	–
Goodwill	–	–
	<u>415</u>	<u>256</u>
Current assets		
Inventories	–	–
Trade receivables	1,870	4,939
Prepayments, deposits and other receivables	755	846
Time deposits	62	495
Cash and bank balances	617	458
	<u>3,304</u>	<u>6,738</u>
Total assets	<u><u>3,719</u></u>	<u><u>6,994</u></u>
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	26,069	26,069
Reserves	(59,547)	(73,941)
Total equity	<u><u>(33,478)</u></u>	<u><u>(47,872)</u></u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Convertible notes	–	9,484
Current liabilities		
Trade payables	1,998	10,840
Other payables and accruals	8,925	16,670
Unsecured loans	26,274	17,578
Amount due to a related party	–	238
Amount due to a director	–	56
	<u>37,197</u>	<u>45,382</u>
Total liabilities	<u>37,197</u>	<u>54,866</u>
Total equity and liabilities	<u><u>3,719</u></u>	<u><u>6,994</u></u>
Net current liabilities	<u><u>(33,893)</u></u>	<u><u>(38,644)</u></u>
Total assets less current liabilities	<u><u>(33,478)</u></u>	<u><u>(38,388)</u></u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006 (in HK Dollars)

1. CORPORATE INFORMATION

M Dream Inworld Limited (the “Company”) was incorporated in the Cayman Islands on 30 July 2001 under the Companies Law (2001 Revision) of the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at P.O. Box 309, Uglan 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 its 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 its subsidiary companies are set out in note 22 to the financial statements in the Annual Report 2006.

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 23 March 2007.

2. FUNDAMENTAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

As at the balance sheet date, the Group had consolidated net current liabilities of HK\$33,893,000 (2005: consolidated net current liabilities of HK\$38,644,000) and consolidated net liabilities of HK\$33,478,000 (2005: consolidated net liabilities of HK\$47,872,000). The Group however generated a profit attributable to equity holders of the Company for the year ended 31 December 2006 of HK\$15,521,000 (2005: net loss of HK\$137,896,000) and reported a decrease in cash and cash equivalents of HK\$246,000 at 31 December 2006 (2005: a decrease of HK\$8,550,000). Notwithstanding the adverse financial position of the Group as at 31 December 2006, the directors have prepared these financial statements on a going concern basis as they believe that future prospects are good and the measures outlined below can be successfully implemented.

The Group is dependent upon the continued support of its unsecured creditors. The Group has defaulted on the repayment of certain unsecured borrowings, excluding interest, totaling HK\$19,218,000, and such amounts have therefore become repayable on demand. Certain unsecured creditors of the Company have taken legal action to recover overdue principal balances amounting to HK\$4,600,000.

Against this background, on 12 June 2006, the Company entered into a preliminary agreement in relation to the subscription for redeemable convertible bonds of HK\$14,040,000 to finance its working capital. This agreement was replaced by a formal subscription agreement with the same terms dated 10 October 2006 (Subscription of Convertible Bonds). This agreement stipulated that the Company shall undertake a share capital restructuring. On 24 October 2006, the Company proposed to consolidate every 10 issued shares of HK\$0.01 each in the capital of the Company into one Consolidated Shares of HK\$0.1 each (Share Reorganisation),

reduce the par value of the Consolidated Shares from HK\$0.10 each to HK\$0.01 per New Share by reducing the paid up capital to the extent of HK\$0.09 per Consolidated Share (Capital Reduction), and cancel the share premium (Share Premium Cancellation).

Subsequent to the balance sheet date, the Company has entered into agreements with four unsecured creditors to pay by instalments an aggregate amount of HK\$11,164,000 in full and final settlement of their overdue debts together with related interest of HK\$27,208,000 (Loan Settlement), subject to the completion of the Share Reorganisation, Capital Reduction, Share Premium Cancellation and the Subscription of Convertible Bonds.

On the basis that the Share Reorganisation, Capital Reduction and Share Premium Cancellation will be successful, and that the Loan Settlement and the Subscription to HK\$14,040,000 in Convertible Bonds will be completed, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values 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 current assets and liabilities, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared under historical cost convention in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the 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 consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the consolidated financial statements of the Group for the year ended 31 December 2005, except that the Group has changed certain of its accounting policies following its adoption of new/revised HKFRS and Hong Kong Accounting Standards ("HKAS") (collectively referred to as the "New HKFRSs"), which have become effective for accounting periods beginning on or after 1 January 2006, and had not been early adopted by the Group for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2006. The applicable New HKFRSs adopted in these financial statements are set out below.

HKAS 19 (Amendment)	Employee benefits - Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	The effect 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 and HKFRS 4 (Amendments)	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HK(IFRIC) - Int 4	Determining whether an arrangement contains a lease
HK(IFRIC) - Int 5	Rights to interests arising from decommissioning, restoration and environment rehabilitation funds
HK(IFRIC) - Int 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment
HKAS 1, HKAS 27 and HKFRS 3 (Amendments)	As a consequence of the Hong Kong Companies (Amendment) Ordinance 2005

The adoption of these new HKFRSs did not result in substantial changes to the accounting policies of the Group and the methods of computation used in the consolidated financial statements. As there is no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

As at the date of the approval of these financial statements, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	<i>Note a</i>	Capital disclosures
HKFRS 7	<i>Note a</i>	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	<i>Note b</i>	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies
HK(IFRIC) - Int 8	<i>Note c</i>	Scope of HKFRS 2
HK(IFRIC) - Int 9	<i>Note d</i>	Reassessment of embedded derivatives
HK(IFRIC) - Int 10	<i>Note e</i>	Interim financial reporting and impairment

Note a: effective for annual periods beginning on or after 1 January 2007

Note b: effective for annual periods beginning on or after 1 March 2006

Note c: effective for annual periods beginning on or after 1 May 2006

Note d: effective for annual periods beginning on or after 1 June 2006

Note e: effective for annual periods beginning on or after 1 November 2006

The Group has begun to consider the potential impact of the above standards and amendments, but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial positions are prepared and presented. These standards and amendments may result in changes in the future as to how the results and financial position are prepared and presented.

4. SEGMENT INFORMATION

Business segments

The Group mainly operated in the system solution services business for the year ended 31 December 2006.

(a)	Continuing Operations							
	System solution services		Online games		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>13,931</u>	<u>14,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155</u>	<u>13,931</u>	<u>14,432</u>
Segment results	<u>(3,041)</u>	<u>(42,151)</u>	<u>-</u>	<u>(18,201)</u>	<u>8,369</u>	<u>(15,084)</u>	<u>5,328</u>	<u>(75,436)</u>
Unallocated expenses							<u>-</u>	<u>(32,347)</u>
Profit/(loss) from operations							<u>5,328</u>	<u>(107,783)</u>
Finance costs							<u>(2,209)</u>	<u>(2,136)</u>
Profit/(loss) before taxation							<u>3,119</u>	<u>(109,919)</u>
Taxation							<u>-</u>	<u>-</u>
Profit/(loss) for the year from continuing operations							<u>3,119</u>	<u>(109,919)</u>
Profit/(loss) for the period from discontinued operations							<u>12,402</u>	<u>(27,977)</u>
Profit/(loss) for the year							<u>15,521</u>	<u>(137,896)</u>

	Continuing Operations						Discontinued Operations			
	System solution services		Online games		Others		Value added services and mobile game		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	2,865	6,853	-	32	854	109	-	-	3,719	6,994
Segment liabilities	6,357	18,743	-	2,332	30,840	33,791	-	-	37,197	54,866

Other segment information:

Depreciation	244	494	-	-	19	24	-	12	263	530
Capital expenditure	-	771	-	-	-	36	-	33	-	840
Amortisation of goodwill	-	-	-	-	-	-	-	-	-	-
Amortisation of intangible assets	-	146	-	-	-	-	-	-	-	146
Impairment loss on goodwill	-	32,347	-	-	-	-	-	14,013	-	32,347
Impairment loss on intangible assets	-	1,034	-	-	-	-	-	-	-	1,034
Impairment loss on inventories	-	2,363	-	17,806	-	-	-	-	-	20,169
Impairment loss on trade receivables	-	21,821	-	-	-	-	-	-	-	21,821
(Recovery of)/impairment loss on deposits paid	-	1,587	-	-	(2,151)	2,255	-	-	(2,151)	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.

2006

	Continuing operations				Consolidated <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Revenue from					
external customers	-	-	13,931	-	13,931
Other revenue and income	12,189	-	69	-	12,258
Unallocated expenses					(20,861)
Profit from operations					5,328
Finance costs					(2,209)
Profit for the year from continuing operations					3,119
Profit for the period from discontinued operations					12,402
Profit for the year					<u>15,521</u>

2005

	Continuing operations				Consolidated <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Revenue from					
external customers	626	287	13,519	-	14,432
Other revenue and income	63	-	75	-	138
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 period from discontinued operations					(27,977)
Loss for the year					<u>(137,896)</u>

5. TURNOVER AND REVENUE

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Sales of software and hardware	2,731	3,836
Maintenance service income	11,200	10,153
Others	–	443
	<u>13,931</u>	<u>14,432</u>
Other revenue and income		
Interest income	1	16
Sundry income	302	71
Gain on disposal of fixed assets	–	4
Grant income	–	47
	<u>303</u>	<u>138</u>

6. PROFIT/(LOSS) FROM OPERATIONS

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Auditors' remuneration	289	299
Staff costs (excluding directors' remuneration):		
– Wages and salaries	6,655	8,090
– Retirement benefits contributions	804	975
Research expenses incurred	–	230
Exchange loss	–	33
Depreciation of owned assets	263	530
Amortisation of intangible assets	–	146
Operating lease rentals in respect of land and buildings	473	1,630
Loss on disposal of fixed assets	–	1,045
Impairment loss on intangible assets	–	1,034
Impairment loss on goodwill	–	32,347
Impairment loss on trade receivables	–	21,821
(Recovery of) impairment loss on deposits paid	(2,151)	3,842
Impairment loss on other receivables	–	3,345
Impairment loss on inventories	–	20,169
Gain on settlement convertible notes	(9,804)	–
Realised loss on financial assets at fair value through profit or loss	–	927
	<u>–</u>	<u>927</u>

7. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on unsecured loans	2,209	2,136

8. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiary companies operating in Hong Kong have no assessable profits for the year (2005: Nil).

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the subsidiary companies operate. No overseas taxation has been made in the financial statements for the subsidiary companies operating outside Hong Kong for the year (2005: Nil).

The reconciliation of taxation provision to the profit/(loss) per income statement is as follows:

The Group – for the year ended 31 December 2006

	Hong Kong		PRC		Singapore		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit/(loss) before taxation	6,197		(37)		(3,041)		3,119	
Tax at appropriate tax rate	1,084	17.5%	(12)	(33%)	(608)	(20%)	464	14.88%
Tax effect of expenses not deductible for tax purposes	109	1.76%	-	-	18	0.59%	127	4.07%
Tax effect of income not taxable for tax purposes	(4,405)	(71.09%)	-	-	-	-	(4,405)	(141.23%)
Tax effect of recognised temporary differences	(34)	(0.55%)	-	-	48	1.58%	14	0.45%
Tax effect of tax loss not recognised	3,246	52.39%	12	33%	542	17.82%	3,800	121.83%
Tax charge for the year	-	-	-	-	-	-	-	-

The Group – for the year ended 31 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 recognised temporary differences	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	-	-	-	-	-	-	-	-

No provision for deferred tax liabilities has been made as the Group and the Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (2005: Nil).

The Group and the Company 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 the current tax legislation.

9. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2006 was HK\$5,880,000 (2005: loss of HK\$130,744,000).

10. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit/(loss) attributable to equity holders of the Company	<u>15,521</u>	<u>(137,772)</u>
Attributable to:		
Continuing operations	<u>3,119</u>	(109,795)
Discontinued operations (<i>note 13</i>)	<u>12,402</u>	<u>(27,977)</u>
	<u>15,521</u>	<u>(137,772)</u>
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	<u>2,606,949,911</u>	<u>2,606,949,911</u>
Basic earnings/(loss) per share		
– for profit/(loss) for the year	<u>HK 0.60 cents</u>	<u>(HK 5.28 cents)</u>
– for profit/(loss) from continuing operations	<u>HK 0.12 cents</u>	<u>(HK 4.21 cents)</u>
– for profit/(loss) from discontinued operations	<u>HK 0.48 cents</u>	<u>(HK 1.07 cents)</u>

The calculation of basic earnings/(loss) per share is based on the net profit/(loss) from ordinary activities attributable to shareholders for the year of HK\$15,521,000 (2005: loss of HK\$137,772,000) and the weighted average of 2,606,949,911 (2005: 2,606,949,911) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted earnings/(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.

11. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006 (2005: HK\$Nil).

12. DISPOSAL OF SUBSIDIARY COMPANIES

On 20 November 2006, the Group disposed off its subsidiary companies, M Dream Media (China) Ltd, M Dream MEL Holdings Ltd, 活力世界（上海）網絡技術有限公司, Inworld System (HK) Ltd, Inworld (Hong Kong) Ltd, Sunny World Co. Ltd, M Dream Online Ltd, M Dream Online (Shanghai) Ltd, Inworld Technology (HK) Ltd, Wah Shui Company Ltd and Shenzhen Huaruiyuan Co. Ltd for nil consideration. The operating results of these subsidiary companies has been reported in the consolidated financial statements as discontinued operations. A summary of the effects of the disposal of the subsidiary companies is set out as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Net (liabilities)/assets disposed off:		
Fixed assets	–	398
Trade receivables	3	4,524
Prepayments, deposits and other receivables	60	26
Cash and cash equivalents	78	408
Trade and other payables	(11,718)	(3,389)
Accruals	(1,640)	(474)
	<hr/>	<hr/>
	(13,217)	1,493
Goodwill	–	29,877
Gain/(loss) on disposal of subsidiary companies	13,217	(27,421)
	<hr/>	<hr/>
	–	3,949
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash consideration	–	3,949
	<hr/> <hr/>	<hr/> <hr/>
Net cash (outflow)/inflow arising on disposal:		
Cash consideration	–	3,949
Cash and bank balances disposed off	(78)	(408)
	<hr/>	<hr/>
	(78)	3,541
	<hr/> <hr/>	<hr/> <hr/>

For the period from 1 January 2006 to 20 November 2006, the above subsidiary companies incurred a loss of HK\$815,000.

13. DISCONTINUED OPERATIONS

In addition to note 6 to the financial statements in the Annual Report 2006, the loss for the period from the discontinued operations, included in the consolidated income statement is analysed as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss on system solution services operations	(815)	–
Loss on Mobile game and value added services operations	–	(556)
Gain on disposal of system solution services operations	13,217	–
Loss on disposal of Mobile game and value added services operations	–	(27,421)
	<u>12,402</u>	<u>(27,977)</u>
Basic earnings/(loss) per share from discontinued operations	<u>HK cents 0.48</u>	<u>(HK cents 1.07)</u>
Diluted earnings per share from discontinued operations	<u>N/A</u>	<u>N/A</u>

The results of the system solution services operations for the period from 1 January 2006 to 20 November 2006, included in the consolidated income statement, were as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	–	1,894
Cost of sales	–	(672)
Gross Profit	–	1,222
Other revenue	1	1
Administrative expenses	(810)	(1,300)
Selling and distribution costs	–	(477)
Loss from operations	(809)	(554)
Finance costs	(6)	(2)
Loss before taxation	(815)	(556)
Taxation	–	–
Loss after taxation	<u>(815)</u>	<u>(556)</u>

The net assets of the discontinued operations at 20 November 2006 (date of disposal) have been presented in note 6 to the financial statements in the Annual Report 2006.

The net cash flow of the discontinued operations for the period from 1 January 2006 to 20 November 2006 was as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net operating cash (outflow)/inflow	(3)	2
Net investing cash outflow	–	(33)
Net financing cash flow	–	–
	<hr/>	<hr/>
Total net cash (outflow)/inflow	(3)	31
	<hr/> <hr/>	<hr/> <hr/>

EXTRACT FROM AUDITORS' REPORT

Basis for opinion

In forming our opinion, we have considered the adequacy of the disclosures made as set out in note 2 to the financial statements concerning the adoption of going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to relieve its current liquidity pressure, including a proposed issuance of convertible bonds for HK\$14,040,000, a proposed share capital restructuring, and a proposed settlement with unsecured creditors.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of these measures. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the fact that the financial statements for the year ended 31 December 2005 were audited by another firm of accountants. Their audit report, dated 29 September 2006, stated they were unable to form an opinion on the financial statements due to the possible effect of a limitation in evidence then available for audit purposes. The comparative figures in these financial statements may not therefore be directly comparable with the figures for the current year.

BAKER TILLY HONG KONG LIMITED

Certified Public Accountants

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

Year 2006 is a turnaround year to the Company as reflected in the profit and loss statements, profit for the Year was HK\$15,521,000 compared to loss of HK\$137,896,000 in last year. The new investor who was appointed as the Managing Director of the Company has contributed tremendously to the management and corporate governance of the Group. Cost control was imposed and the overhead of the Group has been substantially reduced compared to the past.

Although the Singapore subsidiary, Elipva, was still making loss, the management has confidence that Elipva will improve its results in 2007 as the demand for IT solution remains strong in South East Asia.

Upon disposal of non-profitable subsidiaries during the Year, the structure of the Group was further streamlined and administrative costs has been reduced. The Group also recorded a gain on disposal of the non-profitable subsidiaries, details as set out in note 16 to the financial statements in the Annual Report 2006.

FINANCIAL REVIEW

Turnover

The turnover of the Group was approximately HK\$13,900,000 for the Year, representing an decrease of 3% compared to the turnover for the year ended 31 December 2005 of approximately HK\$14,400,000.

Profit for the year

The consolidated profit of the Group for the Year was approximately HK\$15,000,000 compared to the loss of approximately HK\$138,000,000 for the year ended 31 December 2005.

Liquidity and financial resources

During the Year the Group has reduced its total liabilities to approximately HK\$37,000,000 with beginning balance approximately HK\$55,000,000. New financing was procured by the Company to improve the tight liquidity situation. The convertible notes brought forward from 2005 were settled at a significant discount. More details can be referred to in note 28 to the Financial Statements in the Annual Report 2006.

Capital structure

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

Foreign exchange exposure

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

Significant investments

The Group had no significant investments during the Year.

Material acquisitions and disposals

The Group had no material acquisition during the Year. A disposal of non-profitable subsidiaries was carried out during the Year and the details are set in note 16 to the financial statements in the Annual Report 2006.

Gearing ratio

As at 31 December 2006 the gearing ratio of the Group was 1,000% (2005: 784%).

Employee information

Currently the Group has about 30 employees (2005: 30) working in Hong Kong and Singapore. The Group remunerates its employees based on their experience, performance and values they contribute to the Group.

Contingent liabilities

As at 31 December 2006 the Group had no contingent liabilities (2005: nil).

OUTLOOK

The Group shall actively explore into the market of consultancy for enterprise resources planning (“ERP”) solution and at the same time concentrate on its core expertise in the current business of system integration and information technology development in Hong Kong and China. A representative office in Beijing was set up in 2006 for the promotion, development and sales and marketing of People Soft software, ERP and human resources software system in the China market. Elipva Limited, the Singapore subsidiary of the Company, will continue to focus on the business opportunities in the South East Asia market, while the corporate head office in Hong Kong and the Beijing subsidiary will explore to the opportunities in the local market and China.

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

As at 31 December 2006, 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 <i>(Note 1)</i>	323,104,376	12.39%
Dr. Choong Ying Chuan (resigned on 15 January 2007)	2,563,930	46,089,697 <i>(Note 2)</i>	48,653,627	1.87%

Notes:

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

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

Apart from those as disclosed under the heading "Share Options" in the Annual Report 2006, at no time during the Year was the Company or any of its subsidiary companies a party to any arrangements to enable the directors and chief executives, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rules 5.34 to 5.45 of the GEM Listing Rules. The audit committee members as at the date of this report are Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu, Ray. They are the independent non-executive directors of the Company. The audit committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee met on a quarterly basis during the year ended 31 December 2006.

The Company's financial statements for the year ended 31 December 2006 have been reviewed and discussed by the audit committee before any disclosure and release of information.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiary companies had purchased, sold or redeemed any of the Company's shares during the Year.

CORPORATE GOVERNANCE

The key corporate governance principles and practices of the Company are summarized as follows:

THE BOARD

(1) Responsibilities

The Board should assume responsibility for leadership and control of the Company and is collectively be responsible for promoting the success of the Company. All directors should take decisions objectively in the interests of the Company.

The board should meet regularly and at least four times a year at approximately quarterly intervals. Reasonable notice should be given to all directors before each meeting. During the Year there were 23 board meetings conducted.

The board should agree procedures to enable directors, upon reasonable request, to seek independent professional advice at the Company's expense.

All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules are followed.

(2) Composition

The composition of the Board reflects the balance of skills and experience appropriate for the requirements of the Company's business and for the exercise of independent judgement.

The Company has three independent non-executive directors which is more than one-third of the board.

(3) Appointments, re-election & removal of directors

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

The Company's Articles of Association has been amended recently by the approval of shareholders. According to the present Company's Articles of Association all directors appointed to fill a casual vacancy should be subject to elections by shareholders at the first annual general meeting. All directors should retire by rotation at least once every three years including those appointed for a specific term.

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

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

(4) Training for directors

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

On 30 January 2007 Mr. Yu Shu Kuen was appointed as Managing Director of the Company and his role is the same as Chief Executive Officer.

BOARD COMMITTEES

(1) Remuneration Committee

Code Provision B1.1 stipulates that an issuer should establish a Remuneration Committee with specific written terms of reference and a majority of the members of the Remuneration Committee should be independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and senior management.

The Company has established its Remuneration Committee on 1 February 2007 with all the present independent non-executive directors as committee members. The committee will conduct meetings to discuss the remuneration policy on directors.

(2) Audit Committee

The main duties of the Audit Committee include the following:-

- (a) To monitor the integrity of the Company's financial statements and its financial reports and accounts, and to review significant financial reporting judgements contained on them.
- (b) To consider any significant or unusual items that are, or may need to be, reflected in financial reports and accounts, and give due consideration to matters raised by the Company's qualified accountant, compliance officer or external auditors.
- (c) To review the relationship with the external auditors by reference to the work performed by them, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of auditors.
- (d) To review the Company's financial controls, internal control and risk management systems.

The Audit Committee held two meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of external auditors. All the present independent non-executive directors who are members of the Committee attended both meetings.

The Audit Committee also held a meeting to review the annual results and the reporting of it for the year ended 31 December 2006.

DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has relied on Rules 5.48 to 5.67 of the GEM Listing Rules as the required standard of dealings in respect to any dealings of the Company's securities by the Company's directors.

General and specific enquiries has been made to all directors and they all confirmed they have complied with said GEM Listing Rules during the year ended 31 December 2006.

The Company will establish written guidelines to further govern directors in dealing of the Company's securities.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meeting. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be posted on the website of the Stock Exchange by way of an announcement on the business day following the shareholders' meeting.

The general meetings of the company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the board committees or, in their absence, other members of the respective committees and, where applicable, the independent board committee, are normally available to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Executive directors and senior management are always open to dialogue with investors and analysts to keep them abreast of the Company's developments. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

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

Hong Kong, 23 March 2007

As at the date of this announcement, the board of Directors consists of Mr. Koh Tat Lee, Michael, Mr. Yu Shu Kuen, Mr. Tham Ming Yong and Mr. Domingo Chen being the executive directors, Mr. Cheung Wai Shing, Mr. Tsang Kwok Wai and Mr. Chu, Ray, being the independent non-executive directors.

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

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