



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)

**INTERIM RESULTS ANNOUNCEMENT
FOR SIX MONTHS ENDED 30 JUNE 2005**

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

* for identification purpose only

Highlights

- Turnover reached over HK\$18.5 million and increased by 52.82% over the same period in 2004
- Gross profit increased by 47.18% over the same period in 2004
- Loss attributable to shareholders of HK\$28,824,000 comprised a one-time loss of HK\$17,197,000 resulting from disposal of a subsidiary in February 2005.

The directors (the “Directors”) of M Dream Inworld Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2005 together with comparative figures for the three months and six months ended 30 June 2004 as follows:

CONSOLIDATED INCOME STATEMENT

		3 months ended 30 June 2005	3 months ended 30 June 2004	6 months ended 30 June 2005	6 months ended 30 June 2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	8,462	11,798	18,528	12,124
Cost of Sales		(4,965)	(6,921)	(10,987)	(7,021)
Gross Profit		3,497	4,877	7,541	5,103
Other Revenue		31	53	66	53
Distribution Costs		(2,081)	(1,215)	(3,315)	(1,227)
Administrative Expenses		(10,384)	(2,849)	(17,153)	(4,386)
Write off of goodwill upon disposal of equity interests in subsidiaries		–	–	(17,197)	–
Unrealised Profit/(loss) on other investment		2,057	(4,948)	984	(4,948)
Amortisation of Goodwill		–	(408)	–	(816)
Depreciation		(150)	(110)	(274)	(271)
Loss from Operations		(7,030)	(4,600)	(29,348)	(6,492)
Finance Costs		(487)	–	(687)	–
Loss before Taxation		(7,517)	(4,600)	(30,035)	(6,492)
Taxation	4	(50)	–	(50)	–
Loss after taxation		(7,567)	(4,600)	(30,085)	(6,492)
Minority Interests		1,652	23	1,261	32
Net Loss Attributable to Shareholders		<u>(5,915)</u>	<u>(4,577)</u>	<u>(28,824)</u>	<u>(6,460)</u>
Loss Per Share	6				
Basic, HK cents		<u>(0.227)</u>	<u>(0.300)</u>	<u>(1.106)</u>	<u>(0.458)</u>
Diluted, HK cents		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

		30 June 2005 (unaudited) HK\$'000	30 June 2004 (unaudited) HK\$'000
	<i>Note</i>		
Non-Current Assets			
Goodwill		51,250	44,479
Property, plant and equipment	7	4,235	2,207
Intangible assets		1,135	2,689
		<u>56,620</u>	<u>49,375</u>
Current Assets			
Other investments	8	3,887	6,931
Trade receivables	9	28,756	11,254
Deposits, prepayments and other receivables		20,870	1,891
Inventories		22,587	2,601
Time Deposit		489	–
Cash and bank balances		3,805	3,471
		<u>80,394</u>	<u>26,148</u>
Current Liabilities			
Trade payables	10	7,140	7,186
Amount due to a director		2,800	–
Other payables and accrued expenses		22,457	3,532
Short term loan		16,521	7,800
		<u>48,918</u>	<u>18,518</u>
Net Current Assets		<u>31,476</u>	<u>7,630</u>
Total Assets Less Current Liabilities		<u>88,096</u>	<u>57,005</u>
Non-current Liabilities Convertible note		<u>(10,500)</u>	<u>–</u>
Minority Interests		<u>(17,862)</u>	<u>(205)</u>
Net Assets		<u>59,734</u>	<u>56,800</u>
Representing:			
Share Capital	11	26,069	16,906
Reserves	12	33,665	39,894
Shareholders' Funds		<u>59,734</u>	<u>56,800</u>

CONSOLIDATED CONDENSED CASH FLOW STATEMENT

	6 months ended	
	30 June	30 June
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	(14,111)	3,406
Net cash outflow from investing activities	(1,705)	(7,192)
Net cash outflow before financing	(15,816)	(3,786)
Net cash inflow from financing	10,607	7,091
Increase/(decrease) in cash and cash equivalents		
– at beginning of the period	(5,209)	3,305
– at end of the period	9,503	166
	<u>4,294</u>	<u>3,471</u>
Analysis of balance of cash and cash equivalents		
– Cash and bank balances	3,805	3,471
– Time Deposit	489	–
	<u>4,294</u>	<u>3,471</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	6 months ended 30 June 2005 <i>HK\$'000</i>	6 months ended 30 June 2004 <i>HK\$'000</i>
Total equity at 1 January 2005/2004	88,785	29,349
Net loss for the period	(28,824)	(6,460)
Issue of shares	–	4,480
Share issue expenses	(227)	(2,359)
Share premium arising from placing of shares	–	31,790
Total equity at 30 June 2005/2004	<u>59,734</u>	<u>56,800</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

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

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

2. Turnover

	6 months ended	
	30 June 2005 HK\$'000	30 June 2004 HK\$'000
Turnover		
Mobile game and value added services	8,401	1,636
System solutions services income	10,095	679
Online game operation	–	9,750
Others	32	59
	<u>18,528</u>	<u>12,124</u>

3. Segment information

Business segments

The Group mainly operated in the online gaming business, mobile gaming and value added service business and system solution provision business for the six months ended 30 June 2005.

Segment assets to be allocated to business segments are as follows:

	System solution services		Mobile game and value added services		Online game		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
Sales to external customers	<u>10,095</u>	<u>679</u>	<u>8,401</u>	<u>1,636</u>	<u>–</u>	<u>9,750</u>	<u>32</u>	<u>59</u>	<u>18,528</u>	<u>12,124</u>
Segment results	<u>(2,805)</u>	<u>(227)</u>	<u>(305)</u>	<u>44</u>	<u>(3,062)</u>	<u>3,269</u>	<u>(5,979)</u>	<u>(9,578)</u>	<u>(12,151)</u>	<u>(6,492)</u>
Write off of goodwill upon disposal of equity interest in subsidiaries									(17,197)	–
Finance costs									(687)	–
Loss before taxation									(30,035)	(6,492)
Tax									(50)	–
Loss after taxation									(30,085)	(6,492)
Minority interests									1,261	32
Loss attributable to shareholders									<u>(28,824)</u>	<u>(6,460)</u>
Assets										
Segment assets	<u>48,218</u>	<u>21,751</u>	<u>50,150</u>	<u>32,217</u>	<u>31,657</u>	<u>13,653</u>	<u>6,989</u>	<u>7,902</u>	<u>137,014</u>	<u>75,523</u>
Liabilities										
Segment liabilities	<u>5,708</u>	<u>973</u>	<u>14,508</u>	<u>1,079</u>	<u>3,758</u>	<u>6,481</u>	<u>4,734</u>	<u>2,185</u>	<u>28,708</u>	<u>10,718</u>
Unallocated liabilities									30,710	7,800
									<u>59,418</u>	<u>18,518</u>

Geographical segment

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

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

	6 months ended	
	30 June 2005	30 June 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers		
– Mainland China	8,699	11,699
– Singapore	9,609	–
– Hong Kong	16	366
– Philippines	172	–
– Other Countries	32	59
	<hr/>	<hr/>
Total revenue from external customers	18,528	12,124
	<hr/>	<hr/>
Other revenue		
– Mainland China	–	–
– Singapore	15	–
– Hong Kong	51	32
– Other Countries	–	21
	<hr/>	<hr/>
	66	53
	<hr/>	<hr/>
Total operating revenue	18,594	12,177
	<hr/> <hr/>	<hr/> <hr/>
Segment results		
– Mainland China	(5,436)	3,313
– Singapore	(2,049)	–
– Hong Kong	(4,686)	(9,756)
– Other Countries	20	(49)
	<hr/>	<hr/>
Loss from operations	(12,151)	(6,492)
Write off of goodwill upon disposal of equity interest in subsidiaries	(17,197)	–
Finance costs	(687)	–
Taxation	(50)	–
Minority interests	1,261	32
	<hr/>	<hr/>
Loss attributable to shareholders	(28,824)	(6,460)
	<hr/> <hr/>	<hr/> <hr/>

	6 months ended	
	30 June 2005	30 June 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation		
– Mainland China	34	64
– Singapore	106	–
– Hong Kong	127	176
– Other Countries	7	31
	<u>274</u>	<u>271</u>

4. 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 period (2004: Nil).

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. No provision for overseas taxation has been made in the financial statements as the subsidiaries operating outside Hong Kong have no assessable profits for the period (2004: Nil).

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (2004: Nil).

5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil)

6. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$28,824,000 (2004: HK\$6,460,000) and the weighted average of 2,606,949,911 (2004: 1,411,926,681) ordinary share in issue during the period.

The exercise of share options granted by the Company would have an anti-dilutive effect on the loss per share for the six months ended 30 June 2005.

7. Property, plant and equipment

During the six months ended 30 June 2005, the Group had additions to office equipment and computer hardware and software in the amounts of HK\$1,577,000.

8. Other Investment

	Group	
	30 June 2005	30 June 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other investments, at market value:		
Listed in Hong Kong	3,887	3,028
	<u> </u>	<u> </u>
Debt securities		
Unlisted	–	3,903
	<u> </u>	<u> </u>
Market value of listed securities	3,887	3,028
	<u> </u>	<u> </u>

9. Trade receivables

An ageing analysis of trade receivables (net of provisions for bad and doubtful debts) at the balance sheet date is as follows:

	30 June 2005	30 June 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	9,294	11,254
91 – 180 days	2,872	–
Over 180 days	16,590	–
	<u> </u>	<u> </u>
	28,756	11,254
	<u> </u>	<u> </u>

Customers are usually offered a credit period ranging from 30 days to 90 days.

10. Trade payables

An ageing analysis of trade payables at the balance sheet date is as follows:

	30 June 2005	30 June 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	3,995	7,186
91 – 180 days	170	–
Over 180 days	2,975	–
	<u> </u>	<u> </u>
	7,140	7,186
	<u> </u>	<u> </u>

11. Share capital

	Number of shares		Amount	
	30 June 2005	30 June 2004	30 June 2005 <i>HK\$'000</i>	30 June 2004 <i>HK\$'000</i>
Authorised (ordinary shares of HK\$0.01 each):	<u>6,000,000,000</u>	<u>3,000,000,000</u>	<u>60,000</u>	<u>30,000</u>
Issued and fully paid (ordinary shares of HK\$0.01 each):	<u>2,606,949,911</u>	<u>1,690,608,000</u>	<u>26,069</u>	<u>16,906</u>

12. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	42,818	7,396	(33,291)	16,923
Placing of shares	31,790	–	–	31,790
Issuing expenses	(2,359)	–	–	(2,359)
Net loss for the period	–	–	(6,460)	(6,460)
At 30 June 2004	<u>72,249</u>	<u>7,396</u>	<u>(39,751)</u>	<u>39,894</u>
At 1 January 2005	106,730	6,426	(50,440)	62,716
Issuing expenses	(227)	–	–	(227)
Net loss for the period	–	–	(28,824)	(28,824)
At 30 June 2005	<u>106,503</u>	<u>6,426</u>	<u>(79,264)</u>	<u>33,665</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company is an investment holding company. Since its initial public offering in December 2001, the Group has expanded its information technology consultation and infrastructure services from system solutions to mobile and online game operations and mobile value added business. In the first six months of Year 2005, the Group continued to advance in these business segments.

For the six months ended 30 June 2005, the turnover of the Group amounted to approximately HK\$18,528,000, representing an increase of approximately 52.82% over the corresponding period last year. Turnover from system solutions accounted for approximately 54.49% of total turnover and a value of approximately HK\$10,095,000, which represented an increase of approximately 14 times as compared with the corresponding period last year.

The system integration business was challenging in the period under review due to the fierce competition among system solutions providers in markets including Singapore, Mainland China and the Philippines, which are the principal markets of the Group. Despite this fact, the revenue from provision of system solutions has been improved by 14 times as compared with the revenue of approximately HK\$10,095,000 recorded the same period last year.

Revenue from mobile gaming and value added services accounted for most of the balance of the turnover for the current six months. In the general mobile industry, about 80-90% of the mobile business revenue came from voice services while the rest came from data services in the past. However, in recent years, the mobile value added data service has shown its soaring importance and high growth potential. The revenue from mobile gaming and value added services increased by 4 times as compared with the same period last year. A sustainable growth is expected this year.

The online gaming operation of the Group experienced a slowdown in revenue in the current six months due to the delay in its commercial launch of its first game. In preparation of the commercial launch of Last Chaos, the first 3-dimension massively multi-user online role play game (“MMORPG”) to be operated by the Group, the Group participated in the third China Digital Entertainment Expo & Conference (“China Joy”) in Shanghai to exhibit a series of innovative features of Last Chaos. An overwhelming feedback was achieved by the Group at China Joy.

Prospects

The Group will continue to grow internally by strengthening its technical edge and bringing ingenious offerings to the market. Some of the games to be offered by the Group are eagerly anticipated by end users in Mainland China. Year 2005 will be a harvesting year for the Group.

The number of mobile phone service subscribers in Mainland China has been rising steadily and reached 363.17 million by the end of June 2005. The figure is envisioned to rise continually in the coming future. This provides a huge pool of potential users for the mobile gaming and value added services provided by the Group and thus favors further development of this segment of business.

The Group is optimistic that the mobile gaming and value added services business will generate solid revenue growth this year. In addition, due to the changing spending pattern of the Chinese population, people are demanding more and more on mobile services. It is expected that the revenue generated from this business segment will increase accordingly.

The Group planned to place its emphasis on the online gaming business segment in the second half of Year 2005 due to the great potential in the online gaming market. The number of internet users in Mainland China has reached 100 million by July 2005 and a further surge can be expected. After the investment of significant resources into the development and deployment strategies of online games in Mainland China, the Group will commercially launch some of these MMOPRG games in Mainland China in the second half of Year 2005. The Group will utilize its resources on marketing and rolling out of the online game in the Mainland China market in which the Group expects to generate a considerable amount of direct revenue. Significant contribution to revenue and operating profit from the online game operation will benefit the Group's 2005 performance.

On top of the generic growth of present operations, the Group also intends to look for new investment and acquisition opportunities and to expand its geographical presence by exploring co-operation opportunities with companies in different industries such as mobile services, online services and online gaming industries. The Company is dedicated to strive for the best return and to uplift the shareholders' value in the long run.

FINANCIAL REVIEW

The Group recorded turnover of HK\$18,528,000 for the six months ended 30 June 2005, compared with HK\$12,124,000 for the same period in 2004. This represents a growth of 52.82%. The major revenue contributor was from the system solutions services segment which increased 14 times from prior year.

Gross profit for the six months ended 30 June 2005 amounted to HK\$7,541,000 compared with a gross profit of HK\$5,103,000 for the same period in 2004. This represents an improvement of 47.78% over the previous corresponding period and a continual growth for the Group's current operation.

The operating expenses of the Group increased significantly despite the tight control exercised by management. With the expansion of operation in Shanghai, Hangzhou, Shenzhen, Singapore and Hong Kong, the headcount of the Group grew from 90 people as of 30 June 2004 to over 210 people as of 30 June 2005. The addition of new offices and significant growth in staff number augmented the distribution costs and administrative expenses from HK\$5,613,000 in 2004 to HK\$20,468,000.

The higher operating expenses offset the growth of the Group's turnover and gross profit and led to a consolidated loss attributable to shareholders for the six months ended 30 June 2005 of HK\$28,824,000 (2004: HK\$6,460,000). Beside the increase in operating expenses, the current period loss was caused by non-cash transactions of one time write off of goodwill of HK\$17,197,000 resulting from the disposal of certain equity interests in M Dream Mobile Entertainment Limited in connection with the M Dream China (Holdings) Ltd subscription for the future growth of the mobile gaming and value added business.

Segmental information

The Group mainly operated in the online gaming business, mobile gaming and value added service business and system solution provision business for the six months ended 30 June 2005. 54.49% of the Group's turnover resulted from system solutions business. 45.34% of the Group's turnover was from mobile gaming and value added service business.

The Group presented its geographical segment reporting based on the geographical location of our customers. During the period ended 30 June 2005, the Group's customers are mostly in Mainland China, Singapore, the Philippines and other countries. Mainland China accounted for 46.95% of the turnover of the Group and Singapore customers accounted for 51.86% of the turnover of the Group for the period.

Interim dividend

The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2005 (six months ended 30 June 2004: Nil).

Liquidity, financial resources, gearing and capital commitments

As at 30 June 2005, shareholders' funds of the Group amounted to approximately HK\$59,734,000 (30 June 2004: HK\$56,800,000). The Group expresses its gearing ratio (if any) as a percentage of bank borrowing, short-term loans and long-term debts over total assets. As at 30 June 2005, the gearing ratio of the Group was 19.7% (30 June 2004: 10.3%).

The Group's capital expenditure commitments during the period, mainly in respect of the acquisition agreement dated 4 February 2005, amounted to US\$450,000 (equivalent to approximately HK\$3,510,000). Due to the delay in settlement of the said amount, as disclosed in the announcement of the Company dated 29 July 2005, the vendors have approached the Company to explore the possibility of terminating the acquisition agreement. The Company is considering the proposed termination. As at the date of this announcement, the Company has not committed to proceed with the proposed termination.

As at 30 June 2005, 2.73%, 64.81% and 31.09% (2004: 93.17%, 6.80% and 0%) of the Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in Hong Kong dollars, Renminbi or Singapore dollars.

The capital structure, funding and treasury policies of the Group

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

On 4 February 2005, Inworld International Limited, a wholly-owned subsidiary of the Company and M Dream China (Holdings) Ltd entered into the subscription agreement. Pursuant to which Inworld International Limited had subscribed for the shares of M Dream China (Holdings) Ltd at the total subscription price of HK\$5,000,000, which was satisfied by way of the transfer of 200 shares of US\$1.00 each in the share capital of M Dream Mobile Entertainment Limited (being its entire issued share capital) from Inworld International Limited to M Dream China (Holdings) Ltd.

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

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

On 4 February 2005, the Company and Messrs. Gao Zheng, Ye Jianding, Shen Beilun, Yang Chongyu, Lu Wenxiong and Wang Zhiyong (collectively referred to as the "Vendors") entered into the acquisition agreement, pursuant to the agreement the Company had acquired from the vendors the shares of Vasina Limited, representing 55.31% of the issued share capital of Vasina Limited, at acquisition price of US\$700,000 (equivalent to approximately HK\$5,460,000).

On 4 February 2005, Inworld International Limited, a wholly-owned subsidiary of the Company and M Dream China (Holdings) Ltd entered into the subscription agreement. Pursuant to which Inworld International Limited had subscribed for the shares of M Dream China (Holdings) Ltd at the total subscription price of HK\$5,000,000, which was satisfied by way of the transfer of 200 shares of US\$1.00 each in the share capital of M Dream Mobile Entertainment Limited (being its entire issued share capital) from Inworld International Limited to M Dream China (Holdings) Ltd.

Investment

As at 30 June 2005, the Group held shares of two companies which shares are listed on GEM. During the year, the Group did not receive any dividend from these listed securities (2004: Nil). The Group intends to hold these listed securities for trading purpose.

Employees and remuneration policies

As at 30 June 2005, the Group had over 210 employees (2004: 90), including directors of the Company. For the six months ended 30 June 2005, the remuneration of the Group amounted to approximately HK\$12,172,000 (2004: HK\$2,070,000). The Group's remuneration policies are in line with prevailing market practice and are determined on the basis of the performance and experience of individual employees. The Group also provides retirement schemes and medical insurance scheme for its employees.

Details of charges on Group assets

During the period under review, no assets of the Group were pledged except a fixed deposit of S\$106,160 (approximately HK\$487,000) to a bank to secure a guarantee of the same amount provided by the bank to a customer (2004: Nil).

Contingent liabilities

As at 30 June 2005, save as disclosed below, the Group had no contingent liabilities (2004: Nil).

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

DISCLOSURE OF INTERESTS

Directors' Interests in Shares and Underlying Shares

At 30 June 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (“SFO”) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the Rules Governing The Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) relating to securities transaction by Directors, were as follows:

Long position in the ordinary shares of the Company

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

Notes:

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

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

Directors' Rights to Acquire Shares or Debentures

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

Share Options

Pre-IPO share option scheme

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

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

Share option scheme

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

Particulars and movements as at 30 June 2005 of the outstanding share options granted under the Share Option Scheme were as follows:

Category of participant	As at 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 June 2005	Exercise Date of grant of share options	Name or period of share options	Exercise price of share options
Mr. Wong Shui Fun	10,000,000	-	-	-	-	10,000,000	31 March, 2004	31 March, 2004 to 30 March, 2014	HK\$0.060
	6,000,000	-	-	-	-	6,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Mr. Xu Hanjie	16,000,000	-	-	-	-	16,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Mr. Wong Kean Li	16,000,000	-	-	-	-	16,000,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Mr. Chen Domingo	22,000,000	-	-	-	-	22,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Dr. Chung Ying Chuan, Thomas	16,000,000	-	-	-	-	16,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Employees	17,000,000	-	-	-	-	17,000,000	9 October, 2003	9 October, 2003 to 8 October, 2013	HK\$0.076
Employees	1,500,000	-	-	-	-	1,500,000	31 March, 2004	31 March, 2004 to 30 March, 2014	HK\$0.060
Employees	35,400,000	-	-	-	-	35,400,000	20 May, 2004	20 May, 2004 to 19 May, 2014	HK\$0.036
Employees	16,000,000	-	-	-	-	16,000,000	30 June, 2004	30 June, 2004 to 29 June, 2014	HK\$0.047
Employees	9,060,000	-	-	(2,240,000)	-	6,820,000	24 November, 2004	1 July, 2005 to 23 November, 2014 (Note 1)	HK\$0.034
Employees	10,000,000	-	-	-	-	10,000,000	24 November, 2004	24 November, 2004 to 23 November, 2014	HK\$0.034
Total	174,960,000	-	-	(2,240,000)	-	172,720,000			

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

None of the Directors and employees of the Group had exercised their share options during the six months ended 30 June 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following persons (not being Directors or chief executive of the Company whose interest are disclosed above) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Division 2 and 3 or Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

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

Notes:

- 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.
- These shares are held by Dynamate Limited of which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited.

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

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

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

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

COMPETING INTERESTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members – Leigh Man Sung, Camballaw (independent non-executive director), Sung, Hilda (independent non-executive director) and Ng Yat Cheung (non-executive director). Its principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The Company's financial statements for the six months ended 30 June 2005 have been reviewed by the audit committee. The audit committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosures have been fully made.

CORPORATE GOVERNANCE

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited during the period ended 30 June 2005.

By order of the Board
Koh Tat Lee, Michael
Chairman

Hong Kong, 12 August 2005

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

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