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

ANNUAL REPORT 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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 announcement 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.

This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

DIRECTORS

Executive Directors
Koh Tat Lee, Michael *(Chairman)*
Chen, Domingo
Yu Shu Kuen *(Managing Director)*
Tham Ming Yong

Independent Non-executive Directors
Cheung Wai Shing
Ray Chu
Tsang Kwok Wai

COMPLIANCE OFFICER

Koh Tat Lee, Michael

AUTHORISED REPRESENTATIVES

Koh Tat Lee, Michael
Chen, Domingo

AUDIT COMMITTEE

Cheung Wai Shing
Ray Chu
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/Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Wing Hang Bank Limited

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

STOCK CODE

8100

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Koh Tat Lee, Michael, aged 40, has been an executive director since 23 April 2003. Mr. Koh is responsible for overseeing the general management and formulating strategic plans for the Group. In addition, he is in charge of product development and sales and marketing strategies. Mr. Koh has more then ten years of experience in the telecommunications industry and has worked at Bell South and AT&T in the United States and was promoted to technical director before he left AT&T. During his tenure as vice-president at First Pacific Company Limited from 1994 to 1997, Mr. Koh founded a private company called Tuntex Telecom in Taiwan and assumed the post of president for the period from 1995 to 1997. Mr. Koh holds a master degree in electrical engineering and a master degree in industrial engineering from Columbia University in the United States.

Mr. Chen, Domingo, aged 51, is the Chief Operating Officer of the Company. Mr. Chen jointed the Company as an independent non-executive director on 20 July 2004. He was appointed executive director on 11 November 2004. He has over 25 years experience in the fields of information technology, marketing and financial management. Mr. Chen received master degree in business administration from Northwestern University, Chicago, USA and The Hong Kong University of Science and Technology. Mr. Chen has previously worked for CLP Power Hong Kong Group, Littauer Technologies Co., Ltd. (a public company listed on KOSDAQ in the Republic of Korea), Peoples Telephone Company Limited and Pacific Link Communications Limited.

Mr. Yu Shu Kuen, aged 38, was appointed executive director on 30 January 2007. Mr. Yu has worked in the investment banking field in Hong Kong and has his own financial services business.

Mr. Tham Ming Yong, aged 45, was appointed executive director on 8 March 2007. Mr. Tham is an associate member of the Association of International Accountant and has close to 20 years working experience in accounting, taxation and corporate finance with an international accounting firm and listed companies in Hong Kong and Malaysia. Mr. Tham has been employed by the Company as a senior accountant since 1 August 2006 and he also serves as a director for some subsidiaries of the Company.

BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Wai Shing, aged 36, has been appointed since 6 September 2006. Mr. Cheung obtained a Master Degree of Science in Finance from the University of Michigan-Dearborn. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has more than twelve years of experience in accounting and finance in various esteemed companies in Hong Kong.

Mr. Tsang Kwok Wai, aged 37, has been appointed since 6 September 2006. Mr. Tsang obtained a Bachelor Degree of Business Administration and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Tsang has fourteen years of progressive experience in financial management and corporate development. At present Mr. Tsang runs his own firm and practices public accounting.

Mr. Ray Chu, aged 45, obtained a Bachelor Degree of Science in Building Science of Civil Engineering from the University of Southern California. Mr. Chu has about twenty years of experience in engineering and project management in the USA, Hong Kong and China.

CHAIRMAN STATEMENT

To our shareholders,

2006 was an important year with critical turning points for M Dream Inworld Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). Although the Group experienced a difficult time in 2005, the situation improved after a new potential investor provided financial support to the Group, assisted in the debt restructuring and development of existing and new business.

A representative office in Beijing was set up in the Year for the promotion, development and sales and marketing of People Soft software, Enterprise Resources Planning ("ERP") and human resources software system in the China market. The Group shall actively explore into the market of consultancy for 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. The board of the Company ("Board") believes there are enormous opportunities in the greater China market for the ERP business. Elipva Limited ("Elipva"), 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 in the opportunities in the local market and China.

The Company submitted a resumption proposal to the Stock Exchange of Hong Kong Limited in January, 2007 regarding the prolonged suspension of the trading of the shares of the Company since 4 October 2005. The Board will try its best to speed up the resumption application and will make announcement to our shareholders in appropriate time.

In order to achieve the best practice of corporate governance, the Group appointed an independent accountant firm to conduct an internal control review of the Group in December 2006. New internal control guidelines have been adopted which incorporated the advice of the independent accountant firm. The Board believes effective measures have been undertaken to ensure the compliance of the corporate governance.

I would like to thank on behalf of the Board the management and all the staff members for their dedication to the Group. Their unfailing devotion has made, and will continue to make, it is expected good results will be achieved in 2007.

Koh Tat Lee, Michael
Chairman

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2006 (the "Year").

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 30 July 2001 as an exempted company with limited liability under the Companies Laws of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 31 December 2001.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") published by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The basis of preparation of the financial statements is set out in note 3 to the financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiary companies are detailed in note 22 to the financial statements.

SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the year ended 31 December 2006 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on pages 24 and 25 of the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital and share option scheme are set out in notes 26 and 18(b) to the financial statements.

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.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company during the Year are set out in note 19 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the Year are set out in note 27 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes outstanding as at 31 December 2006 are set out in note 28 to the financial statements.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group are set out in note 35 to the financial statements.

MANAGEMENT CONTRACTS

No director, except Dr. Choong Ying Chuan, had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation). Dr. Choong was employed as the Chief Executive officer of Elipva Limited, a wholly owned subsidiary of the Company, whose contract expired on 29 October 2006.

COMPETING INTEREST

As at the date of this report none of the directors, or the management shareholders of the Company has any interest in a business which competes or may compete with the business of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

The directors who held office during the Year and up to the date of this report were:

	Appointed on	Resigned on
Executive directors		
Mr. Koh Tat Lee, Michael		
Mr. Chen, Domingo		
Mr. Yu Shu Kuen	30 January 2007	
Mr. Tham Ming Yong	8 March 2007	
Dr. Choong Ying Chuan		15 January 2007
Non-executive directors		
Dr. Lee Siu Lung, James		23 May 2006
Mr. Tay Yew Beng, Peter		22 May 2006
Mr. Wong Kean Li		17 January 2007
Independent non-executive directors		
Mr. Cheung Wai Shing	6 September 2006	
Mr. Tsang Kwok Wai	6 September 2006	
Mr. Chu, Ray	6 September 2006	
Mr. Leigh Man Sung, Camballaw		7 June 2006
Mr. Ng Wing Hang, Patrick		22 May 2006
Ms. Sung, Hilda		5 June 2006

In accordance with Article 99 and 116 of the Company's Articles of Association, directors Mr. Yu Shu Kuen, Mr. Tham Ming Yong, Mr. Chen Domingo and Mr. Koh Tat Lee, Michael shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACT

None of the directors had any interests in any contracts of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Year.

REPORT OF THE DIRECTORS

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 *(Note 1)*	323,104,376	12.39%
Dr. Choong Ying Chuan (resigned on 15 January 2007)	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.

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.

REPORT OF THE DIRECTORS

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.

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. An aggregate of 22,000,000 options was outstanding under the share option scheme up to the date of approval of the financial statements.

REPORT OF THE DIRECTORS

Particulars and movements during the year ended 31 December 2006 of the outstanding share options granted under the Share Option Scheme were as follows:

Name or category of participant	As at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options
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. Choong Ying Chuan (resigned as director on 15/1/2007)	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	14,500,000	–	–	–	(14,500,000)	–	30 June 2004	30 June 2004 to 29 June 2014	HK$0.047
Employees	6,820,000	–	–	–	(6,820,000)	–	24 November 2004	1 July 2005 to 23 November 2014	HK$0.034
Total	129,220,000	–	–	–	(107,220,000)	22,000,000			

REPORT OF THE DIRECTORS

Substantial shareholders

As at 31 December 2006, the following persons (not being directors or chief executives 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, or substantial shareholder required to be kept by the Company under section 336 of the SFO were as follows:

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

Notes:

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

2. These shares are held by 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 China 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 subsidiary companies, one of which is Lippo Capital Limited which controls 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.

3. 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.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rule 5.34 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.

BOARD PRACTICES AND PROCEDURES

The Company has compiled with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules during the year ended 31 December 2006.

REPORT OF THE DIRECTORS

AUDITORS

The auditors, HLB Hodgson Impey Cheng resigned on 13 March 2007 and the directors appointed Baker Tilly Hong Kong Limited to fill the casual vacancy. Baker Tilly Hong Kong Limited audited the financial statements for the year ended 31 December 2006.

Baker Tilly Hong Kong Limited shall retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Koh Tat Lee, Michael
Chairman

23 March 2007

CORPORATE GOVERNANCE REPORT

The board of directors would like to present this Corporate Governance Report for the year ended 31 December 2006.

In November 2004, The Stock Exchange of Hong Kong Limited ("the Stock Exchange") promulgated the Code on Corporate Governance Practices contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("the GEM Listing Rules") which sets out corporate governance principles ("the Principles") and code provisions ("the Code Provisions") with which listed issuers are expected to follow and comply.

During the Year the Company has applied the Principles and on best effort basis complied with the Code Provisions except Code Provision A2.1 which requires the separation of the roles of Chairman and Chief Executive Officer. However Mr. Yu Shu Kuen has been appointed as Managing Director of the Company on 30 January 2007 and his role is the same as Chief Executive Director.

The Company has appointed an independent audit firm to carry out a review on the internal control of the Group in December 2006 and subsequently a report containing findings and recommendations was issued to the Company. An independent committee comprising all the independent non-executive directors was set up to discuss the content of the report and its recommendations, and eventually the recommendations were taken up by the Group and became part of the internal control procedures.

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 be collectively 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 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.

CORPORATE GOVERNANCE REPORT

Attendance for board meeting

		Attendance
Executive Directors		
Mr. Koh Tat Lee, Michael		22
Mr. Chen, Domingo		20
Dr. Choong Ying Chuan	(Resigned on 15 Jan 2007)	0
Non-executive Directors		
Mr. Tay Yew Beng, Peter	(Resigned on 22 May 2006)	1
Dr. Lee Siu Lung, James	(Resigned on 23 May 2006)	1
Mr. Wong Kean Li	(Resigned on 17 Jan 2007)	2
Independent Non-executive Directors		
Mr. Chu Ray	(Appointed on 06 Sept 2006)	6
Mr. Cheung Wai Shing	(Appointed on 06 Sept 2006)	5
Mr. Tsang Kwok Wai	(Appointed on 06 Sept 2006)	6
Mr. Leigh Man Sung, Camballaw	(Resigned on 07 June 2006)	0
Mr. Ng Wing Hang, Patrick	(Resigned on 22 May 2006)	0
Ms. Sung, Hilda	(Resigned on 05 June 2006)	0

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 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 as 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 therein, 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.

CORPORATE GOVERNANCE REPORT

(d) To review the Company's financial controls, internal control and risk management systems.

The Audit Committee held three 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 all 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.

MANAGEMENT DISCUSSION 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 loss making, 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 disposition of non-profitable subsidiary companies during the Year, the structure of the Group was further streamlined and administrative costs have been reduced. The Group also recorded a gain on disposal of the non-profitable subsidiary companies, details as set out in note 16 to the financial statements.

FINANCIAL REVIEW

Turnover

The turnover of the Group was approximately HK$13,900,000 for the Year, representing 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.

Capital structure

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 exposed to any significant foreign currency exchange risk.

Significant investments

The Group had no significant investments during the Year.

Material acquisitions and disposals

The Group had no material acquisitions during the Year. A disposal of non-profitable subsidiary companies was carried out during the Year and the details are set out in note 16 to the financial statements.

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 company 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 company will explore the opportunities in the local market and China.

REPORT OF THE INDEPENDENT AUDITORS

BAKER TILLY
HONG KONG LIMITED
Certified Public Accountants
正風會計師事務所有限公司
12th Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

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

We have audited the consolidated financial statements of M Dream Inworld Limited set out on pages 24 to 74, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITIES OF AUDITORS

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

REPORT OF THE INDEPENDENT AUDITORS

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

REPORT OF THE INDEPENDENT AUDITORS

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

Hong Kong, 23 March 2007

Andrew David Ross
Practising Certificate number P01183

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	7	**13,931**	14,432
Cost of sales		**(9,058)**	(11,774)
Gross profit		**4,873**	2,658
Other revenue and income	7	**303**	138
Gain on settlement of convertible notes	28	**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	8	**5,328**	(107,783)
Finance costs	9	**(2,209)**	(2,136)
Profit/(loss) before taxation		**3,119**	(109,919)
Taxation	10	**–**	–
Profit/(loss) for the year from continuing operations		**3,119**	(109,919)
Discontinued operations			
Profit/(loss) for the period from discontinued operations	17	**12,402**	(27,977)
Profit/(loss) for the year		**15,521**	(137,896)

CONSOLIDATED INCOME STATEMENT (continued)

For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	2005 *HK$'000*
Net profit/(loss) attributable to	*11*		
– Equity holders of the Company		**15,521**	(137,772)
– Minority Interest		**–**	(124)
		15,521	(137,896)
Earnings/(loss) per share			
From continuing and discontinued operations			
Basic	*12*	**HK0.60 cents**	(HK5.28 cents)
Diluted	*12*	**N/A**	N/A
Earnings/(loss) per share			
From continuing operations			
Basic	*12*	**HK0.12 cents**	(HK4.21 cents)
Diluted	*12*	**N/A**	N/A

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Fixed assets	19	**415**	256
Intangible assets	20	**–**	–
Goodwill	21	**–**	–
		415	256
Current assets			
Inventories	23	**–**	–
Trade receivables	24	**1,870**	4,939
Prepayments, deposits and other receivables	25	**755**	846
Time deposits		**62**	495
Cash and bank balances		**617**	458
		3,304	6,738
Total assets		**3,719**	6,994
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	**26,069**	26,069
Reserves	27	**(59,547)**	(73,941)
Total equity		**(33,478)**	(47,872)
LIABILITIES			
NON-CURRENT LIABILITIES			
Convertible notes	28	**–**	9,484
Current liabilities			
Trade payables	29	**1,998**	10,840
Other payables and accruals		**8,925**	16,670
Unsecured loans	30	**26,274**	17,578
Amount due to a related party	31	**–**	238
Amount due to a director	32	**–**	56
		37,197	45,382
Total liabilities		**37,197**	54,866
Total equity and liabilities		**3,719**	6,994
Net current liabilities		**(33,893)**	(38,644)
Total assets less current liabilities		**(33,478)**	(38,388)

Approved by the Board of Directors on 23 March 2007 and signed on its behalf by:

Koh Tat Lee, Michael	**Chen, Domingo**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Fixed assets	19	**202**	–
Investments in subsidiary companies	22	**302**	–
		504	–
Current assets			
Prepayments, deposits and other receivables	25	**313**	28
Cash and bank balances		**14**	4
		327	32
Total assets		**831**	32
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	**26,069**	26,069
Reserves	27	**(62,029)**	(66,810)
Total equity		**(35,960)**	(40,741)
LIABILITIES			
NON-CURRENT LIABILITIES			
Convertible notes	28	**–**	9,484
Current liabilities			
Other payables and accruals		**4,506**	6,529
Unsecured loans	30	**26,274**	17,578
Amounts due to subsidiary companies	33	**6,011**	7,182
		36,791	31,289
Total liabilities		**36,791**	40,773
Total equity and liabilities		**831**	32
Net current liabilities		**(36,464)**	(31,257)
Total assets less current liabilities		**(35,960)**	(31,257)

Approved by the Board of Directors on 23 March 2007 and signed on its behalf by:

Koh Tat Lee, Michael
Director

Chen, Domingo
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share Capital	Share Premium	Contributed Surplus	Exchange Reserves	Convertible Notes Reserve	Accumulated Losses	Subtotal	Minority Interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 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 1 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 31 December 2005 and 1 January 2006	26,069	106,730	6,426	(279)	1,099	(187,917)	(47,872)	–	(47,872)
Exchange realignment	–	–	–	(28)	–	–	(28)	–	(28)
Net profit for the year	–	–	–	–	(1,099)	15,521	14,422	–	14,422
Balance as at 31 December 2006	26,069	106,730	6,426	(307)	–	(172,396)	(33,478)	–	(33,478)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Profit/(loss) before taxation			
– continuing operations		**3,119**	(109,919)
– discontinued operations	17	**12,402**	(27,977)
		15,521	(137,896)
Adjustments for:			
Finance costs			
– continuing operations		**2,209**	2,136
– discontinued operations	17	**6**	2
Interest income		**(1)**	(16)
Depreciation		**263**	530
Amortisation of intangible assets		**–**	146
Realised loss on disposal of financial assets at fair value through profit or loss		**–**	927
Loss on disposal of fixed assets, net		**–**	1,041
Gain on settlement of convertible notes		**(9,804)**	–
(Gain)/loss on disposal of subsidiary companies		**(13,217)**	27,421
Impairment loss on inventories		**–**	20,169
Impairment loss on intangible assets		**–**	1,034
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 goodwill		**–**	32,347
Operating loss before working capital changes		**(7,174)**	(23,151)
Inventories		**–**	(4,007)
Trade receivables		**3,065**	(2,759)
Prepayments, deposits and other receivables		**2,183**	1,081
Trade payables		**2,312**	(2,537)
Other payables and accruals		**(2,581)**	7,371
Amount due to director		**(2,596)**	2,656
Amount due to a related party		**2,362**	238
Net cash used in operating activities		**(2,429)**	(21,108)

CONSOLIDATED CASH FLOW STATEMENT (continued)

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from investing activities			
Interest received		**1**	16
Purchases of fixed assets		**(422)**	(840)
Sales proceeds on disposal of fixed assets		**–**	101
Cash effect on disposal of subsidiary companies	*16*	**(78)**	3,541
Net cash (used in)/generated from investing activities		**(499)**	2,818
Cash flows from financing activities			
Interest paid		**(2,215)**	(38)
Unsecured loans		**13,137**	9,800
Repayment of unsecured loans		**(7,040)**	(22)
Repayment of convertible notes		**(1,200)**	–
Net cash generated from financing activities		**2,682**	9,740
Net decrease in cash and cash equivalents		**(246)**	(8,550)
Cash and cash equivalents at beginning of the year		**953**	9,503
Effect of foreign exchange rate changes		**(28)**	–
Cash and cash equivalents at end of the year		**679**	953
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**617**	458
Time deposits		**62**	495
		679	953

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

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, 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 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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

2. FUNDAMENTAL UNCERTAINTIES IN RESPECT OF GOING CONCERN ***(Continued)***

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

(a) Basis of preparation

The consolidated financial statements have been prepared under the 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

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

(a) Basis of preparation *(Continued)*

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)	*Note a*	Capital disclosures
HKFRS 7	*Note a*	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	*Note b*	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	*Note c*	Scope of HKFRS 2
HK(IFRIC) – Int 9	*Note d*	Reassessment of embedded derivatives
HK(IFRIC) – Int 10	*Note e*	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.

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

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies 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 subsidiary companies 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 subsidiary companies.

(c) Subsidiary companies

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

(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 subsidiary companies is included in intangible assets. 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(e) Intangible assets

Intangible assets, representing Technical know-how, Patents and Membership database 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, 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. Such assets are tested at least annually for impairment or 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).

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

(g) Fixed assets

Fixed assets 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 fixed assets have been put into operation, such as repairs and maintenance, are 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 fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated 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, at the following annual rates:

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

Gains or losses arising from the retirement or disposal of fixed assets 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(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.

(k) Leases

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.

(l) 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.

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

(l) Borrowings *(Continued)*

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.

(m) 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.

(n) 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(n) Foreign currency translation *(Continued)*

(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.

(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; Available-for-sale financial assets;

– 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.

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

(o) 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.

(p) Revenue recognition

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) Revenue 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; and

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

(q) 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(q) Taxation *(Continued)*

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 subsidiary companies 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.

(r) 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.

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

(r) Employee benefits *(Continued)*

(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.

(s) 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.

(t) Related party 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;

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(t) Related parties transactions *(Continued)*

(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.

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

(u) 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 fixed assets. 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 intragroup 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.

4. 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 not exposed to any equity securities risk or 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 to meet the Group's liquidity requirements in short and long term.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Cash flow and fair value interest rate risk

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

Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31st December 2006 and 2005 except the unsecured loans.

	Carrying amount		Fair value	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured loans	**26,274**	17,578	**13,310**	17,578

As set out in note 2 to the financial statements, subsequent to the balance sheet date, the Group has entered into conditional agreements with four unsecured creditors to settle their overdue debts together with interest at a significant discount. The fair value of the unsecured loans has been calculated by discounting the expected future cash flows at prevailing interest rates.

5. 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

The Group performs annual tests whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3 to the financial statements. 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.

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

(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 fixed assets

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

6. 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	**13,931**	14,277	**–**	–	**–**	155	**13,931**	14,432
Segment results	**(3,041)**	(42,151)	**–**	(18,201)	**8,369**	(15,084)	**5,328**	(75,436)
Unallocated expenses							**–**	(32,347)
Profit/(loss) from operations							**5,328**	(107,783)
Finance costs							**(2,209)**	(2,136)
Profit/(loss) before taxation							**3,119**	(109,919)
Taxation							**–**	–
Profit/(loss) for the year from continuing operations							**3,119**	(109,919)
Profit/(loss) for the period from discontinued operations							**12,402**	(27,977)
Profit/(loss) for the year							**15,521**	(137,896)

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(b)

	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 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

6. SEGMENT INFORMATION *(Continued)*

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				
	Hong Kong	PRC	Singapore	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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					15,521

6. SEGMENT INFORMATION *(Continued)*

Geographical segment *(Continued)*

2005

	Continuing operations				
	Hong Kong	PRC	Singapore	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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					(137,896)

7. TURNOVER AND REVENUE

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sales of software and hardware	**2,731**	3,836
Maintenance service income	**11,200**	10,153
Others	**–**	443
	13,931	14,432

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

7. TURNOVER AND REVENUE *(Continued)*

	2006	2005
	HK$'000	*HK$'000*
Other revenue and income		
Interest income	**1**	16
Sundry income	**302**	71
Gain on disposal of fixed assets	**–**	4
Grant income	**–**	47
	303	138

8. PROFIT/(LOSS) FROM OPERATIONS

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

	2006	2005
	HK$'000	*HK$'000*
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	**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

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on unsecured loans	**2,209**	2,136

10. 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	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
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	–	–	–	–	–	–	–	–

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

10. TAXATION *(Continued)*

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.

11. 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).

12. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) attributable to equity holders of the Company	**15,521**	(137,772)
Attributable to:		
Continuing operations	**3,119**	(109,795)
Discontinued operations *(note 17)*	**12,402**	(27,977)
	15,521	(137,772)
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	**2,606,949,911**	2,606,949,911
Basic earnings/(loss) per share		
– for profit/(loss) for the year	**HK0.60 cents**	(HK5.28 cents)
– for profit/(loss) from continuing operations	**HK0.12 cents**	(HK4.21 cents)
– for profit/(loss) from discontinued operations	**HK0.48 cents**	(HK1.07 cents)

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

13. DIVIDENDS

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

14. DIRECTORS' REMUNERATION

At the balance sheet date, the board of directors of the Company, currently composed of four executive directors and three independent non-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		Provident fund		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
NAME OF DIRECTORS								
Executive directors								
Mr. Koh Tat Lee, Michael	**–**	–	**43**	2,116	**–**	–	**43**	2,116
Mr. Domingo Chen	**–**	–	**582**	906	**–**	–	**582**	906
Dr. Choong Ying Chuan, Thomas	**–**	–	**665**	769	**14**	35	**679**	804
Mr. Wong Shui Fun	**–**	–	**–**	75	**–**	–	**–**	75
Independent non-executive directors								
Mr. Cheung Wai Shing	**–**	–	**19**	–	**–**	–	**19**	–
Mr. Tsang Kwok Wai	**–**	–	**19**	–	**–**	–	**19**	–
Mr. Chu, Ray	**–**	–	**4**	–	**–**	–	**4**	–
Mr. Wong Robert	**–**	40	**–**	–	**–**	–	**–**	40
Mr. Yeung Chun Wai, Anthony	**–**	4	**–**	–	**–**	–	**–**	4
	–	44	**1,332**	3,866	**14**	35	**1,346**	3,945

During the year, there were no bonuses paid or payable to the directors (2005: HK$Nil). During the year, Michael Koh Tat Lee waived his remuneration of HK$1,860,000. No director waived or agreed to waive any remuneration in 2005. In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group as a compensation for loss of office (2005: HK$Nil).

15. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included two (2005: three) Directors, details of whose remuneration are set out in note 14 above. Details of the remuneration of the five highest paid individuals, which each fell within the nil to HK$1,000,000 band, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,875**	3,608
Contributions to defined contribution plan	**130**	24
	3,005	3,632

During the year, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (2005: HK$Nil). During the year, Michael Koh Tat Lee waived his remuneration of HK$1,860,000. No Director waived or agreed to waive any remuneration in 2005. In addition no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: HK$Nil).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

16. 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	2005
	HK$'000	*HK$'000*
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)
	(13,217)	1,493
Goodwill	**–**	29,877
Gain/(loss) on disposal of subsidiary companies	**13,217**	(27,421)
	–	3,949
Satisfied by:		
Cash consideration	**–**	3,949
Net cash (outflow)/inflow arising on disposal:		
Cash consideration	**–**	3,949
Cash and bank balances disposed off	**(78)**	(408)
	(78)	3,541

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

17. DISCONTINUED OPERATIONS

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

	2006	2005
	HK$'000	*HK$'000*
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)
	12,402	(27,977)
Basic earnings/(loss) per share from discontinued operations	**HK0.48 cents**	(HK1.07 cents)
Diluted earnings per share from discontinued operations	**N/A**	N/A

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	2005
	HK$'000	*HK$'000*
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	**(815)**	(556)

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

17. DISCONTINUED OPERATIONS *(Continued)*

The net liabilities of the discontinued operations at 20 November 2006 (date of disposal) have been presented in note 16 to the financial statements.

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

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

18. 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 13% (2005: 16%) of staff's relevant income and the contribution is charged to the income statement.

18. EMPLOYEE BENEFITS *(Continued)*

(a) Retirement benefits scheme *(Continued)*

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 31 December 2006.

The Group does not have any other pension schemes for its employees in respect of its subsidiary companies 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 31 December 2006 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 14 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 14 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 these financial statements. 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

18. EMPLOYEE BENEFITS *(Continued)*

(b) Equity compensation benefits *(Continued)*

Share option scheme (Continued)

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.

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.

In the opinion of the Directors of the Company, no (2005: nil) options were granted by the Company during the period up to the date of approval of these financial statements.

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

	2006 Number of Options	2005 Number of Options
Option outstanding at 1 January 2006/2005	**129,220,000**	174,960,000
Cancelled/Lapsed	**(107,220,000)**	(45,740,000)
Option outstanding at 31 December 2006/2005	**22,000,000**	129,220,000

None of the Directors and employees of the Group had exercised their share options during the year ended 31 December 2006.

19. FIXED ASSETS

The Group

	Leasehold improvements	Office equipment	Furniture and fixtures	Computer hardware and software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2005	46	822	120	4,724	5,712
Additions	501	8	30	301	840
Disposal of subsidiary companies	–	(77)	(58)	(312)	(447)
Disposals	(492)	(655)	(70)	(2,336)	(3,553)
At 31 December 2005	55	98	22	2,377	2,552
Additions	111	69	98	144	422
At 31 December 2006	166	167	120	2,521	2,974
Accumulated depreciation and Impairment					
At 1 January 2005	20	221	51	3,934	4,226
Charge for the year	104	34	14	378	530
Disposal of subsidiary companies	–	(8)	(8)	(33)	(49)
Written back on disposal	(95)	(159)	(36)	(2,121)	(2,411)
At 31 December 2005	29	88	21	2,158	2,296
Charge for the year	15	11	9	228	263
At 31 December 2006	44	99	30	2,386	2,559
Net book value					
At 31 December 2006	122	68	90	135	415
At 31 December 2005	26	10	1	219	256

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

19. FIXED ASSETS *(Continued)*

The Company

	Office equipment	Furniture and fixtures	Computer hardware and software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
Additions and at 31 December 2006	69	98	54	221
Accumulated depreciation				
Charge for the year	6	9	4	19
Net book value				
At 31 December 2006	63	89	50	202

20. INTANGIBLE ASSETS

The Group

	Technical know-how	Patents	Membership database	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 January 2005 and 2006	1,415	1,415	1,590	4,420
Disposal of subsidiary companies	(1,415)	(1,415)	(1,590)	(4,420)
At 31 December 2006	–	–	–	–
Accumulated amortisation and impairment				
At 1 January 2005	235	1,415	1,590	3,240
Charge for the year	146	–	–	146
Impairment loss for the year	1,034	–	–	1,034
At 31 December 2005	1,415	1,415	1,590	4,420
Disposal of subsidiary companies	(1,415)	(1,415)	(1,590)	(4,420)
At 31 December 2006	–	–	–	–
Carrying amount				
At 31 December 2006	**–**	**–**	**–**	**–**
At 31 December 2005	–	–	–	–

21. GOODWILL

	HK$'000
The Group	
Cost	
At 1 January 2005	62,224
Disposal of subsidiary companies	(29,877)
At 31 December 2005	32,347
Disposal of subsidiary companies	(14,013)
At 31 December 2006	18,334
Accumulated amortisation and impairment	
At 1 January 2005	7,838
Elimination of accumulated amortisation upon adoption of HKFRS 3	(7,838)
Impairment loss for the year	32,347
At 31 December 2005	32,347
Elimination on disposal of subsidiary companies	(14,013)
At 31 December 2006	18,334
Carrying amount	
At 31 December 2006	**–**
At 31 December 2005	–

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 1 January 2005. The accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date. Annual impairment review was performed.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

22. INVESTMENTS IN SUBSIDIARY COMPANIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**7,785**	7,785
Amounts due from subsidiary companies	**92,377**	147,958
	100,162	155,743
Less: Impairment loss on investments in subsidiary companies	**(7,785)**	(7,785)
Impairment loss on amounts due from subsidiary companies	**(92,075)**	(147,958)
	302	–

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

22. INVESTMENTS IN SUBSIDIARY COMPANIES *(Continued)*

Details of the principal subsidiary companies, as at 31 December 2006 of the Company are as follows:

Name of subsidiary	Place/country of incorporation (or establishment)/ operations	Particulars of issued and fully paid 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[1]
iBar International Holdings Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding[3]
Elipva Limited	Singapore	Ordinary S$10,614,988	–	100%	Provision of system integration services[2]
Elipva Inc.	United States of America	Ordinary US$100	–	100%	Dormant[2]
iBar (Greater China) Holdings Limited	Hong Kong	Ordinary HK$1	–	100%	Investment holding[3]
北京聯夢活力世界咨詢服務有限公司*	The People's Republic of China ("PRC")	Registered capital HK$300,000	–	100%	Dormant*[3]

1 Audited by Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, for statutory or consolidation purposes.
2 Audited by Richard Ho & Co. Certified Public Accountants, Singapore, for statutory purposes.
3 Audited by Anthony Kam & Co. Certified Public Accountants, Hong Kong, for statutory purposes.

* 北京聯夢活力世界咨詢服務有限公司 was formed as a wholly-owned foreign enterprise in the PRC.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

23. INVENTORIES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Finished goods	–	2,026
Work in progress	–	18,143
Less: Impairment loss on inventories	–	(20,169)
	–	–

The Group's inventories were written off at the disposal of the subsidiary companies on 20 November 2006.

24. TRADE RECEIVABLES

Trade receivables, with credit terms ranging from 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:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**1,470**	4,291
91 – 180 days	**743**	801
Over 180 days	–	21,668
	2,213	26,760
Less: Impairment loss on trade receivables	**(343)**	(21,821)
	1,870	4,939

In the opinion of the Directors of the Company, 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.

24. TRADE RECEIVABLES *(Continued)*

The carrying amounts of the Group's trade receivables are denominated in the following currency:

	2006	2005
	HK$'000	*HK$'000*
Singapore dollar	**1,870**	4,939

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		**The Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**149**	30	**12**	28
Deposits paid	**86**	4,055	**5**	303
Other receivables	**520**	3,948	**296**	1,311
	755	8,033	**313**	1,642
Less: Impairment loss on deposits paid	**–**	(3,842)	**–**	(303)
Impairment loss on other receivables	**–**	(3,345)	**–**	(1,311)
	755	846	**313**	28

26. SHARE CAPITAL

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 (2005: 6,000,000,000) ordinary shares of HK$0.01 each	**60,000**	60,000
Issued and fully paid:		
2,606,949,911 (2005: 2,606,949,911) ordinary shares of HK$0.01 each	**26,069**	26,069

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 18 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

27. RESERVES

The Group

	Share Premium HK$'000	Contributed Surplus HK$'000	Exchange Reserve HK$'000	Convertible Notes Reserve HK$'000	Accumulated Losses HK$'000	Total HK$'000
Balance as at 1 January 2005 as previously stated	106,730	6,426	–	–	(50,440)	62,716
Effect of adoption of HKAS 39 – Issue of convertible notes	–	–	–	1,099	295	1,394
Balance as at 1 January 2005, as restated	106,730	6,426	–	1,099	(50,145)	64,110
Exchange realignment	–	–	(279)	–	–	(279)
Net loss for the year	–	–	–	–	(137,772)	(137,772)
Balance as at 31 December 2005 and 1 January 2006	106,730	6,426	(279)	1,099	(187,917)	(73,941)
Exchange realignment	–	–	(28)	–	–	(28)
Net profit for the year	–	–	–	(1,099)	15,521	14,422
Balance as at 31 December 2006	**106,730**	**6,426**	**307**	**–**	**(172,396)**	**(59,547)**

NOTES TO FINANCIAL STATEMENTS

27. RESERVES *(Continued)*

The Company

	Share Premium *HK$'000*	Contributed Surplus *HK$'000*	Convertible Notes Reserve *HK$'000*	Accumulated Losses *HK$'000*	Total *HK$'000*
Balance as at 1 January 2005 as previously stated	106,730	2,985	–	(47,175)	62,540
Effect of adoption of HKAS 39 – Issue of convertible notes	–	–	1,099	295	1,394
Balance as at 1 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 31 December 2005 and 1 January 2006	106,730	2,985	1,099	(177,624)	(66,810)
Exchange realignment	–	–	–	–	–
Net profit for the year	–	–	(1,099)	5,880	4,781
Balance as at 31 December 2006	**106,730**	**2,985**	**–**	**(171,744)**	**(62,029)**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiary companies 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 18 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 subsidiary companies 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 31 December 2006, 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 (2005: HK$nil).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

28. CONVERTIBLE NOTES

On 11 November 2004, the Company issued HK$10,500,000 4% convertible note due on 12 November 2007 (the "Notes"). The Notes carried 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.

On 8 September 2006, the Company reached an agreement with the holders of the Notes by paying HK$1,200,000 in full and final settlement of the aggregate principal amount of HK$10,500,000 and accrued interest of HK$420,000.

29. TRADE PAYABLES

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

	The Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**1,154**	673
91 – 180 days	**844**	634
Over 180 days	**–**	9,533
	1,998	10,840

The carrying amounts of the group's trade payables are denominated in the following currency:

	2006	2005
	HK$'000	*HK$'000*
Singapore dollar	**1,998**	10,840

30. UNSECURED LOANS

	The Group and The Company	
	2006	2005
	HK$'000	*HK$'000*
Interest bearing loans (note)	**23,674**	17,578
Interest free loan	**2,600**	–
	26,274	17,578

Note:

The loans carry interest at rates ranging from 5% to 12% and are repayable within one year.

Certain unsecured creditors have taken legal action to recover the loans granted.

31. AMOUNT DUE TO A RELATED PARTY

The amount due was unsecured, bearing interest at 9% per annum and had no fixed terms of repayment.

32. AMOUNT DUE TO A DIRECTOR

The amount due was unsecured, interest free and had no fixed terms of repayment.

33. AMOUNTS DUE TO SUBSIDIARY COMPANIES

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

34. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non cancellable operating leases falling due as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**230**	936
In the second to fifth years, inclusive	**–**	558
	230	1,494

The Group leases office properties under operating lease arrangements, which are negotiated for an average term of one to four years.

At the balance sheet date, the Company did not have any operating lease commitments.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2006

35. MATERIAL RELATED PARTY TRANSACTIONS

Except as disclosed in the financial statements, 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, during the year:

Key management personnel

	2006	2005
	HK$'000	*HK$'000*
Fees	**–**	44
Salaries and allowance	**1,407**	3,866
Provident fund contributions	**14**	35
	1,421	3,945

36. LITIGATION

On 25 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, comprising the principal amount of HK$2,000,000 and accrued interest of approximately HK$27,000. The principal amount and the interest payable have been recognised in the consolidated financial statements as at 31 December 2006.

37. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company did not have any significant commitments.

38. CONTINGENT LIABILITIES

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

39. SUBSEQUENT EVENTS

Except for the events set out in note 2 to the financial statements, there were no other significant post balance sheet events.

40. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2007.

FIVE YEAR FINANCIAL SUMMARY

31 December 2006 (in HK Dollars)

The following is a summary of the published results and of the assets and liabilities of the Group for the year ended 30 June 2003, the six months period ended 31 December 2003 and the three years ended 31 December 2004, 2005 and 2006:

RESULTS

	For the Year ended 31 December 2006	For the Year ended 31 December 2005	For the Year ended 31 December 2004	Six months ended 31 December 2003	For the Year ended 30 June 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**13,931**	14,432	27,261	614	1,558
Profit/(loss)from operations	**5,328**	(107,783)	(18,165)	(5,673)	(19,185)
Finance costs	**(2,209)**	(2,136)	(418)	–	–
Profit/(loss)before taxation	**3,119**	(109,919)	(18,583)	(5,673)	(19,185)
Taxation	–	–	–	–	–
Profit/(loss)for the year from continuing operations	**3,119**	(109,919)	(18,583)	(5,673)	(19,185)
Profit/(loss) for the year from discontinud operation	**12,402**	(27,977)	1,586	–	–
Profit/(loss) for the year	**15,521**	(137,896)	(16,997)	(5,673)	(19,185)
Net profit/(loss) from ordinary activities attributable to					
– Equity holders of the Company	**15,521**	(137,772)	(16,854)	(5,569)	(19,113)
– Minority Interest	**–**	(124)	(143)	(104)	(72)
	15,521	(137,896)	(16,997)	(5,673)	(19,185)

FIVE YEAR FINANCIAL SUMMARY

31 December 2006 (in HK Dollars)

Assets and liabilities

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004	As at 31 December 2003	As at 30 June 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,719**	6,994	131,124	32,047	9,942
Total liabilities	**(37,197)**	(54,866)	(40,821)	(2,461)	(1,812)
Minority Interest	**–**	–	(124)	(237)	–
Shareholders' fund	**(33,478)**	(47,872)	90,179	29,349	8,130