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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)

ISSUE OF CONVERTIBLE NOTES AND RESUMPTION OF TRADING

On 11 November 2004, the Company entered into the Subscription Agreement with the Subscriber in relation to the subscription of the Convertible Notes for an amount of HK\$10,500,000 (which was paid in cash to the Company immediately upon execution of the Subscription Agreement on the same day). Completion of the Convertible Note Issue took place immediately upon execution of the Subscription Agreement.

The net proceeds of approximately HK\$10 million will be used (i) as to approximately HK\$3 million for general working capital purpose; and (ii) as to approximately HK\$7 million for future investments of the Company, including but not limited to investments in the PRC online game industry. The Shares to be issued upon conversion of the Convertible Notes will be issued under the general mandate to issue Shares granted to the Board at the AGM. The aforesaid general mandate has not been previously utilized by the Board since the AGM.

At the request of the Company, the Shares have been suspended from trading on GEM from 9:30 a.m. on 11 November 2004 pending release of this announcement. Application has been made to the Stock Exchange for resumption of trading with effect from 9:30 a.m. on 15 November 2004.

1. THE SUBSCRIPTION AGREEMENT

Date

11 November 2004

Parties

- a. The Company; and
- b. The Subscriber, being Dynamic View Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Hongkong Chinese Limited, a company listed on the main board of the Stock Exchange which indirectly holds 204,870,228 Shares (equivalent to approximately 7.86% of the issued share capital of the Company) as at the date of this announcement

Subscription Price

HK\$10,500,000 (i.e. the face value of the initial aggregate sum of the Convertible Notes) which was paid to the Company immediately upon the execution of the Subscription Agreement on the same day.

2. PRINCIPAL TERMS OF THE CONVERTIBLE NOTES

Issuer

The Company

Principal amount

Convertible Notes in units of HK\$500,000 for an aggregate sum of HK\$10,500,000.

Conversion Price

HK\$0.038 per Share, subject to adjustments arising from events such as capitalization issue, rights issue, consolidation, subdivision or reduction of share capital, which represents:

- (i) a premium of approximately 11.8% over the closing price of HK\$0.034 per Share quoted on the Stock Exchange on the Latest Trading Day;
- (ii) a premium of approximately 15.9% over the average closing price of HK\$0.0328 per Share for the five consecutive trading days as quoted on the Stock Exchange up to and including the Latest Trading Day; and
- (iii) a premium of approximately 11.1% over the average closing price of HK\$0.0342 per Share for the ten consecutive trading days as quoted on the Stock Exchange up to and including the Latest Trading Day.

Condition

The Subscription Agreement is not subject to any conditions precedent.

Interest

4% per annum on the principal amount of the Convertible Notes outstanding from time to time.

Conversion

The outstanding principal amount of the Convertible Notes or part thereof (in amounts not less than HK\$100,000 or its multiple) may be converted into Shares at any time prior to the close of business on the 14th business day immediately preceding the maturity date at HK\$0.038 (subject to adjustments). There is no restriction on the minimum holding period before the Noteholder(s) could convert the Convertible Notes into Shares.

Maturity Date

On the 3rd anniversary of the date of issue of the Convertible Notes, being 12 November 2007.

Transferability

The Convertible Notes are freely transferable, either in whole or in amounts or multiples of HK\$100,000 by a written instrument in any usual or common form. The Company has undertaken to inform the Stock Exchange immediately upon becoming aware that any or all of the Convertible Notes have been transferred to any connected person(s) of the Company.

Ranking of Shares

The Shares to be issued upon conversion of the Convertible Notes will rank pari passu in all respects with the Shares in issue at the time of conversion.

Voting

The Noteholder(s) will not be entitled to attend or vote at any Shareholders' meetings of the Company by reason of it being the Noteholder(s).

Listing

No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock or securities exchanges. An application will be made for the listing of the Shares to be issued upon exercise of the conversion rights attaching to the Convertible Notes.

Legal restrictions

As confirmed by the Company's legal advisers as to Cayman Islands laws, the execution of the Subscription Agreement by the Company and the Convertible Note Issue are not subject to any legal restrictions under the Cayman Islands law.

Repayment and Redemption

The Company shall on the Maturity Date or on such earlier date as the principal amount outstanding on the Convertible Notes redeem the Convertible Notes at a value equal to 100% of the principal amount outstanding under the Convertible Notes payable to the Noteholder(s) entitled thereto (or the assignee(s) to the Convertible Notes) together with all interest accrued thereon up to and including the date of repayment. The Noteholder(s) may, by not less than 2 months and not more than 4 months written notice to the Company, redeem the Convertible Notes then outstanding at a value equal to 100% of the principal amount outstanding under the Convertible Notes together with all interest accrued thereon up to and including the date of repayment. There is no restriction on the minimum holding period before the Company or Noteholder(s) could redeem the outstanding Convertible Notes.

Upon full conversion of the Convertible Notes (based on the conversion price of HK\$0.038 per Share) and before any adjustments arising from events such as capitalization issue, rights issue, consolidation, subdivision or reduction of share capital, a total of 276,315,789 Shares, representing approximately (i) 19.8% of the then issued share capital of the Company as at the date of AGM; (ii) 10.6% of the existing issued share capital; and (iii) 9.58% of the issued share capital of the Company as enlarged by such conversion, will be issued and allotted by the Company.

Completion of the Convertible Note Issue

Completion of the Convertible Note Issue took place immediately upon execution of the Subscription Agreement.

Basis of determination

The terms of the Convertible Note Issue (including the subscription price, conversion price and the interest rate) were determined by the parties after arm's length negotiations and on normal commercial terms having considered the estimated financial needs of the Company for general working capital and future investments and the prevailing market conditions.

The Company has also conducted research into various convertible loan notes issued by other companies listed on the Stock Exchange which have been publicly announced in 2004 and, based on the information obtained from such research, the Company noted that (i) the interest rates payable under these convertible instruments ranged from 0% to 8.5%, with an average coupon rate of 2.3%; and (ii) the conversion premium (discount) ranged from a discount of (65.52%) to a premium of 85.19%, with an average conversion premium of approximately 14.5% over the underlying closing share price. Based on the aforesaid, the interest rate of 4% and the conversion premium of 11.8% over the price as quoted on the Stock Exchange on the Latest Trading Date are comparable with the range of other convertibles issued in 2004.

Taking into account the aforesaid and also having regard to the prevailing interest rate charged by the banks to the Group for unsecured loans of similar amount and terms, the Directors consider that the terms of the Convertible Note Issue are fair and reasonable and in the best of the interest of the Company and the Shareholders as a whole.

Board Representation

The Subscription Agreement does not confer any rights upon the Noteholder(s) to appoint any Director to the Board.

3 USE OF PROCEEDS

The net proceeds of the Convertible Note Issue, after deduction of the expenses, are estimated to be approximately HK\$10 million, of which approximately (i) HK\$3 million will be used for general working capital purpose and (ii) approximately HK\$7 million will be used for future investments of the Company, including but not limited to investments in the PRC online game industry, pursuant to the investment objectives adopted by the Company from time to time.

The Company has not identified any particular investments as at the date of this announcement.

4 REASONS FOR AND BENEFIT OF THE CONVERTIBLE NOTE ISSUE

The Group continues to actively consider suitable investment opportunities, including but not limited to investments in the PRC online game industry, for the benefit for the Group and the Shareholders as a whole. As such, the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Company to raise funds for future investments as and when appropriate. As previously disclosed in the Company's circular dated 8 October 2004, the Company will continue to identify and consider possible fund raising exercises.

Taking into account the prevailing market conditions, the Board is of the view that the Convertible Note Issue, as opposed to other means of fund raising, particularly bank loan, is the most efficient and cost effective way for the Company to raise funds for the general working capitals and for future investments of the Company. The Board considers that the terms of the Subscription Agreement, including but not limited to the interest rate of the Convertible Note, namely 4% per annum, are fair and reasonable having regard to (i) the

information set out in the paragraph headed “Basis of determination”; and (ii) the prevailing interest rates charged by the banks to the Group for unsecured loans of similar amount and terms.

The negotiations with the Subscriber started in early November 2004. Other than the terms of the Subscription Agreement and the Convertible Note Issue, the Company has no other prior understanding, undertaking or arrangement with the Subscriber and/or its associates with regard to the Convertible Note Issue or other similar exercise.

5 GENERAL

The Company is an investment holding company. Through its subsidiaries, the Group is principally engaged in the business of mobile and online game operation and development, mobile value added service and information technology service. The mobile and online game operation and development include the provision of games over the internet platform and mobile networks, operation of online games, including massively multi-user online role play games (“MMORPG”), casual games and other role play games, and game licensing. The information technology service of the Group includes but not limited to information technology consultation and information technology infrastructure services. By providing such services, the Group is engaged in, among other things, hardware and software design and installation, computer system integration, system programming, server collocation, server building, computer system building, computer network building, e-business applications, identity and access management, security infrastructure, human capital and financial management services.

The Subscriber is an investment holding company whose sole investment is the Convertible Notes. The Subscriber is an indirect wholly-owned subsidiary of Hongkong Chinese Limited. Hongkong Chinese Limited and its subsidiaries are principally engaged in investment holding, fund management, underwriting, corporate finance, securities broking, securities investment, treasury investment, money lending, commercial banking and other financial services.

The Company confirms that to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial shareholders are third parties independent of the Company and its connected persons as at the date of the Subscription Agreement.

6 EFFECT OF THE CONVERTIBLE NOTE ISSUE

The effects of the shareholding structure of the Company pursuant to the Convertible Note Issue are as follows:

	M Dream China (Holdings) Limited (note 1)	stt Ventures Limited (note 2)	Allwin Asia Inc. and the Subscriber (note 3)	Dynamate Limited (note 4)	Public	Total
Present sharehold- ing	512,941,176 shares (19.68%)	507,862,364 shares (19.48%)	204,870,228 shares (7.86%)	170,163,200 shares (6.53%)	1,211,112,943 shares (46.45%)	2,606,949,911 shares (100%)
After full conversion of the Convertibl e Notes (based on	512,941,176 shares (17.79%)	507,862,364 shares (17.61%)	481,186,017 shares (16.69%)	170,163,200 shares (5.90%)	1,211,112,943 shares (42.01%)	2,883,265,700 shares (100%)

the
conversion
price of
HK\$0.038
per Share)

Notes :

1. These shares are held by M Dream China (Holdings) Limited of which 50.44% of the voting rights are held by Vasina Limited. Accordingly, Vasina Limited is deemed to be interested in the shares beneficially owned by M Dream China (Holdings) Limited. The shareholders of Vasina Limited are Zhu Yujin (28.42%), Xu Hanjie (16.27%) (Mr. Xu is an executive Director), Gao Zheng (16.27%), Ye Jianding (10.16%), Shen Beilun (10.16%), Yang Chongyu (6.24%), Lu Wenxiong (6.24%) and Wang Zhiyong (6.24%). All shareholders of Vasina Limited are Chinese nationals. Save for Mr. Xu, all other shareholders of Vasina Limited are independent of and not connected with the Company, the Directors, chief executives, substantial or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).
2. 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.
3. These shares are held by Allwin Asia Inc., which is a wholly-owned indirect subsidiary of Hongkong Chinese Limited. The Subscriber is also 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 subsidiaries, one of which is Lippo Capital Limited which control an approximate 50.47% interest in Lippo Limited.

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

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

Upon full conversion of the Convertible Notes and on the bases of (i) the conversion price of HK\$0.038 per Share; (ii) the present shareholding and capital structure of the Company at the time of such conversion remains unchanged, Allwin Asia Inc. and the Subscriber, which are both wholly-owned subsidiaries of Hongkong Chinese Limited, will hold an aggregate of 481,186,017 Shares, representing approximately 16.69% of the issued share capital of the Company as enlarged by the conversion and, in which event, Hongkong Chinese Limited would become a substantial shareholder of the Company (as defined under the GEM Listing Rules).

4. These shares are held by Dynamate Limited of which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael, an executive Director and chairman of the Company. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited.

7 CAPITAL-RAISING ACTIVITY DURING THE PAST 12 MONTHS

The capital-raising activities of the Company during the past 12 months are summarized as follows:

Date of announcement	Subject	Net funds raised (approximate)	Use of proceeds (per announcement)	Actual/intended use of proceeds (approximate)
16 February 2004	Placing of existing shares and subscription of new shares	HK\$8,426,000	HK\$4,200,000 for developing the then business in information technology consultation and information technology infrastructure related services and potential future acquisitions; HK\$2,050,000 for funding the business activities for the period ending 30 June 2004 as disclosed in the paragraph headed "Schedule of Use of Proceed" on page 143 of the Company's prospectus dated 18 December 2001; HK\$1,500,000 for the Group's general working capital	HK\$4,500,000 was used for the acquisition of M Dream Mobile Entertainment Limited, a company engaged in the provision of information technology solutions and mobile value added services in the PRC as announcement by the Company on 17 March 2004, approximately HK\$1,876,000 was used for the working capital of the Group and approximately HK\$2,050,000 was used for the overseas market expenses which is consistent with those disclosed in the paragraph headed "Schedule of Use of Proceed" on page 143 of the Company's prospectus dated 18 December 2001; the aforesaid is

				consistent with those disclosed in the announcement of the Company dated 16 February 2004
19 August 2004	Connected transaction, very substantial acquisition, issue of new shares and proposed increase in authorized share capital	HK\$13,340,000	HK\$12,000,000 will be used for the development of the Group's mobile value added service business in the PRC and approximately HK\$1,340,000 will be used as general working capital of the Group in respect of its business operations.	HK\$12,000,000 allocated for the development of the Group's mobile value added service in China, out of which HK\$3,900,000 for the development of the Group's mobile value added service business in the PRC has been used. From the HK\$1,340,000 allocated to working capital usage, an amount of approximately HK\$700,000 has been used for the operating expenses of the Group for October and November.

8 SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, the Shares have been suspended from trading on GEM from 9:30 a.m. on 11 November 2004 pending release of this announcement. Application has been made to the Stock Exchange for resumption of trading with effect from 9:30 a.m. on 15 November 2004.

9 DEFINITIONS

In this announcement, the following expressions have the meanings as set out below unless the context requires otherwise:

"AGM"	annual general meeting of the Company dated 17 May 2004
"Board"	the board of directors of the Company
"Company"	M Dream Inworld Limited, a company incorporated in

	the Cayman Islands with limited liability and whose shares are listed on GEM;
“connected persons”	shall have the meaning ascribed to in the GEM Listing Rules;
“Convertible Notes”	the convertible notes in units of HK\$500,000 to be issued by the Company pursuant to the Convertible Note Issue
“Convertible Note Issue”	the issue of the Convertible Notes under the Subscription Agreement
“Directors”	the Directors, including the independent non-executive Directors, of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Committee”	as such terms defined in the GEM Listing Rules;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Latest Trading Date”	10 November 2004, being the latest trading day of the Company prior to the clearance and release of this announcement
“Maturity Date”	the date falling three years from the date of issue of the Convertible Notes, being 12 November 2007
“Noteholder(s)”	holder(s) of the Convertible Notes
“Shares”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Dynamic View Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Hongkong Chinese Limited, a company listed on the main board of the Stock Exchange which indirectly holds 204,870,228 Shares (equivalent to approximately 7.86% of the issued share capital of the Company) as at the date of this announcement
“Subscription Agreement”	the Convertible Notes agreement dated 11 November 2004 entered into between the Company and the Subscriber relating to the subscription of the Convertible

Notes for an aggregate amount of HK\$10,500,000.

“%”

Per cent

By order of the Board
Koh Tat Lee, Michael
Chairman

Hong Kong, 12 November 2004

** for identification purpose only*

As at the date of this announcement, the board of Directors consists of Messrs. Koh Tat Lee, Michael, Mr. Xu Hanjie, Mr. Wong Shui Fun and Dr. Choong Ying Chuan, being the executive Directors, Messrs. Peter Tay Yew Beng, Wong Kean Li and Ng Yat Cheung, being non-executive Directors and Messrs. Domingo Chen, Robert Wong and Hilda Sung, being the independent non-executive Directors.

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

This announcement will remain on the GEM website www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.