

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



M DREAM INWORLD LIMITED

聯夢活力世界有限公司*

(Incorporated in the Cayman Islands with limited liability)

(the “Company”)

(Stock Code: 8100)

PROPOSED ISSUE OF HK\$14.04 MILLION CONVERTIBLE BONDS WHITEWASH WAIVER APPLICATION RESIGNATION OF DIRECTORS

The Company and the Subscriber entered into an Agreement on 12th June, 2006 in respect of the issue of HK\$14.04 million redeemable convertible bonds of the Company for cash at par.

Trading in shares of the Company on the GEM has been suspended since 4th October, 2005. Reference is made to the announcement made by the Company dated 12th December, 2005. The proposed change of domicile, open offer and bonus issue of shares will not further proceed as the negotiation has ceased.

Reference is also made to the announcement made by the Company dated 15th May, 2006 and 21st March, 2006 in relation to the notice of the board meeting of the Company to consider and approve the audited annual results of the Group for the year ended 31st December, 2005. The Board, subject to the publication of the annual audit report for its year ended 31st December, 2005, proposes the date of the board meeting of the Company to consider and approve the audited annual results of the Group will be postponed from 30th June, 2006 to a date expected not later than 31st August, 2006. The notice of board meeting will be notified to the Stock Exchange and the shareholders of the Company accordingly. The announcement of the 1st quarter results and interim results for 2006 of the Company is delayed. The Company intends to announce these results together with the annual results for 2005. The delay in results announcement is due to fees owed to the auditors of the Company which hinders the commencement of audit for the 2005 results. Also at the time when the termination of the Acquisition was unclear, first it would have implication on the equity interest in certain subsidiaries and in a way affected the basis of consolidation of the Group’s results, second the auditors of the Company were denied to access records of certain subsidiaries managed by the Vendor, therefore the Board decided to delay the results announcement at that time. A settlement proposal is being negotiated with the auditors and it is expected to be resolved within one week from the date of this announcement. The

Board would also announce that the Company has terminated the negotiation with the Vendor of the Acquisition. The Acquisition will not be carried out. Details of which were set out in the announcement made by the Company on 22nd February, 2005 and 8th December, 2005. Now the basis of consolidation of the Group's results is fixed and the Vendor allows access to records of certain subsidiaries as the Acquisition is finally not completed.

The Company is seeking new funding for operation and the issue of convertible bonds mentioned hereunder will greatly improve the financial position of the Company.

The Board also proposes the Share Consolidation of every 10 issued shares of HK\$0.01 each in the capital of the Issuer into one share of HK\$0.10 each and the reduction of the par value of the Shares of HK\$0.10 each in issue immediately following the Share Consolidation becoming effective to HK\$0.01 each by the cancellation of HK\$0.09 paid up capital on each Share.

The Board announces that Mr. Peter Tay Yew Beng, Dr. Lee Siu Lung, James have resigned as non-executive director of the Company with effect from 22nd May, 2006 and 23rd May, 2006 respectively. Ms. Hilda Sung has resigned as independent non-executive director of the Company with effect from 5th June, 2006. Mr. Ng Wing Hang, Patrick has resigned as independent non-executive director with effective from 22nd May, 2006 and Mr. Leigh Man Sung, Camballaw has resigned as independent non-executive director with effective from 7th June, 2006. However the Board would like to point out that all the abovementioned directors were resigned before the formal negotiation of the Subscription Agreement which was entered on 12th June, 2006 by both parties.

Mr. Dennis Leung has resigned as qualified accountant with effective from 18th April, 2006.

On 12th June, 2006, a winding-up petition was served on the Company, by a petitioner ("Petitioner"). It was alleged in the winding-up petition that the Company was indebted to the Petitioner for a sum of HK\$840,193 arising from legal services provided by the Petitioner. Further announcement will be issued by the Company as and when appropriate.

The trading of shares of the Company shall remain suspended until among other things the release of financial information including the audited results of 2005, the first quarter and second quarter results of 2006 of the Company and disclosure on the recent financial position of the Company.

Subscription Agreement dated 12th June, 2006 (the "Subscription Agreement"):

Parties

Issuer : the Company

Subscriber : Mr. Yu Shu Kuen (the "Subscriber")

The Subscriber is independent of and not connected with the Company, any of the directors, chief executive, substantial shareholders of the Company or its subsidiaries, or any associates of any of them as associates are defined in the Rules Governing the Listing of Securities on The Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong

Kong Limited (the “Stock Exchange”). The Company gets to know the Subscriber in social occasions. The Subscriber is a resident in Hong Kong and has over 17 years of financial market experience. He has worked in the investment banking field in Hong Kong and has his own financial services business. Mr. Yu was the chairman of the GEM listed company Infoserve Technology Corp. from 2003 to 2005.

Summary of the principal terms of the Convertible Bonds

The Issuer will issue HK\$14.04 million redeemable convertible bonds (the “Convertible Bonds”) of the Company which shall be convertible at HK\$0.039 per New Share to the Subscriber (the “Issue”). The conversion price represents a 65% discount both to the share price of the Company before the suspension of trading and the 10 days average price immediately before suspension assuming the Share Consolidation had carried out. There is no limitation to the transferability of the Convertible Bonds. The Company undertakes it will notify the Stock Exchange if it awares of any dealings in the Convertible Bonds by any persons, whether connected to the Company or not.

The Subscriber is entitled to receive notice and attend any general meeting of the Company by reason of being the Convertible Bond holder. There is no voting right attached to the Convertible Bond.

Price

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

Maturity

The fifth anniversary of the date of issue of the Convertible Bonds (“Final Maturity Date”).

Coupon

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

Conversion price and Conversion rights

At the option of the Subscriber, the Convertible Bonds can be converted into shares of HK\$0.01 each in the authorized share capital of the Issuer immediately following the Share Consolidation and the Reduction of Capital (each a “New Share”) The conversion price and conversion rights will be anti-dilutive and will be adjusted accordingly if there is any other shareholding restructuring in future.

Based upon the conversion price of HK\$0.039 per New Share, a total of 360,000,000 New Shares (the “Conversion Shares”) would fall to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds. Has the Share Consolidation and the Capital Reduction become effective, the Conversion Shares represents 138% to the then existing issued share capital and 58% to the then enlarged issued share capital.

Conversion period

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

Conditions of the Subscription Agreement

The Issue is subject to:

- (i) the completion of due diligence review which shall be procured by the Subscriber or that its agents shall forthwith upon the signing of the Subscription Agreement;
- (ii) shareholders' approval of the Issuer at an extraordinary general meeting to be convened and held in relation to the Share Consolidation, the Reduction of Capital and the Formal Subscription Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Bonds to the Subscriber, having been obtained, and that the Share Consolidation and the Reduction of Capital becoming effective;
- (iii) the passing of the shareholders of the Issuer (excluding any person(s), if any, who are required to abstain from voting under the GEM Listing Rules and the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")) at an extraordinary general meeting of the Company to be convened and held of an ordinary resolution (such vote shall be taken by way of poll) to approve the grant of a waiver in respect of the obligation of the Subscriber and the parties acting in concert with it to make a mandatory general offer to the shareholders in respect of the New Shares not already owned or agreed to be acquired by the Subscriber and the parties acting in concert with it as a result of the conversion of the Convertible Bonds in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code;
- (iv) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the New Shares in issue immediately following the Share Consolidation and the Reduction of Capital, and the New Shares which may be fall to be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds;
- (v) the Executive Director for the time being of the Corporate Finance Division of the Securities and Future Commission of Hong Kong or any delegate for the time being of the Executive Director granting to the Subscriber and the parties acting in concert with it a waiver of the obligation to make a mandatory general offer to the shareholders of the Issuer in respect of the New Shares not already owned or agreed to be acquired by the Subscriber and any parties acting in concert with it as a result of the conversion of the Convertible Bond in accordance with the Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code;
- (vi) completion of the restructuring of all the debts, obligations and liabilities of the Group (which as at the date of the Subscription Agreement, amounted to about HK\$40 million) such that not more than HK\$11,000,000 will be repaid to the creditors in full and final settlement of such debts, obligations and liabilities such restructuring shall be conducted on such further terms and in such reasonable manner as the Subscriber may agree;
- (vii) the cancellation of the share options granted under the share option scheme(s) of the Issuer and outstanding as at the date of the Formal Subscription Agreement; and

(viii) no indication being received on or before Completion from the Stock Exchange or the Securities and Futures Commission of Hong Kong to the effect that the listing of the New Shares may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of Completion or in connection with the Subscription Agreement.

Refer to (iii) the Board does not aware any shareholder of the Company is required to abstain from voting. Refer to (vi) the Group refers to the Company and its subsidiaries. None of the abovementioned conditions is waivable condition. Refer to (vi), after the completion of the restructuring of debts, obligations and liabilities, the debts of the Group would be waived by HK\$29 million with the remaining HK\$11 million to be settled by part of the proceeds of the Convertible Bonds. Negotiations have been going through with creditors of the Company and the Board believes the debt restructuring can be eventually achieved. Further announcement in relation to the progress and details of this debt restructuring will be made by the Company when appropriate.

Formal Subscription Agreement:

The Issuer and the Subscriber shall negotiate in good faith towards each other with a view to ensure that the formal subscription agreement (the “Formal Subscription Agreement”) in relation to the Issue is entered into as soon as practicable following the signing of the Subscription Agreement and in any event, before 31st July, 2006. This Subscription Agreement is legally binding against both the Subscriber and the Company.

The Formal Subscription Agreement shall be in form and substance reasonably satisfactory to the Subscriber. It shall incorporate the Convertible Bonds instruments and all other warranty terms which the Subscription Agreement not yet contain. In particular, the Formal Subscription Agreement shall contain such standard and customary representations, covenants and warranties of the Issuer for this kind of Convertible Bonds.

Completion of the Formal Subscription Agreement shall take place on the second business day after the conditions precedent have been fulfilled.

It was agreed between the Subscriber and the Company that the Formal Subscription Agreement will be entered into upon completion of the due diligence review exercise carried out by the Subscriber to the affairs of the Company.

Application for listing:

Application will be made by the Company to the Stock Exchange for approval to the issue of the Convertible Bonds and the grant of listing of and permission to deal in the shares which may be issuable on the exercise of the conversion rights attached to the Convertible Bonds, however the Stock Exchange has indicated that it will not grant the listing approval to the New Shares arising from Share Consolidation, Capital Reduction and the Conversion Shares under the Convertible Bonds unless and until the resumption of trading of the shares of the Company.

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

The shareholding structure before issue and conversion of the Convertible Bonds and the Share Consolidation and the Reduction of Capital is as follows:

Shareholder	percentage
stt Ventures Ltd.	19.48%
Dynamate Ltd.	12.39%
Yu Chung Choi, Chaucer	11.78%
Allwin Asia Inc.	7.86%
Shenzhen Ingen Technology Co.Ltd.	5.66%
Public	42.83%

The shareholding structure after issue and conversion of the Convertible Bonds and the Share Consolidation and the Reduction of Capital is as follows:

Shareholder	percentage
stt Ventures Ltd.	8.18%
Dynamate Ltd.	5.21%
Yu Chung Choi, Chaucer	4.95%
Allwin Asia Inc.	3.30%
Shenzhen Ingen Technology Co.Ltd.	2.38%
The Subscriber	58.00%
Public	17.98%

Reason for the Issue and use of proceeds:

The Company is seeking new funding for operation and the low liquidity and prolong trading suspension of shares of the Company has made it difficult. Given the price discount in the Convertible Bonds, the Subscriber finally agreed to offer financing to the Company. The issue of Convertible Bonds will greatly improve the financial position of the Company. The net proceeds of the Issue will be approximately HK\$13.5 million, HK\$11 million of which shall be applied to pay off the creditors of the Company and the balance as general working capital for the Company. The principal business of the Company will still be carried out and the Subscriber has no present intention to inject any business/assets into the Company.

Principal activities of the Company:

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 (MORPG, 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 networking building, e-business applications, identity and access management, security infrastructure, human capital and financial management services.

General:

Suspension of trading and stop process in open offer

Trading in shares of the Company on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM”) has been suspended since 4th October, 2005. Reference is made to the announcement made by the Company dated 12th December, 2005. The proposed change of domicile, open offer and bonus issue of shares will not further proceed as the negotiation has ceased at the end of May 2006. The reason was certain underwriters finally declined to enter into the underwriting agreement in view of the prolong trading suspension of shares of the Company even though the Company started discussion with the underwriters after the commencement of suspension of trading of the Company’s shares.

Postponement of Board Meeting, Delayed Publication of the Audited Annual Results Announcement and Despatch of the Annual Report For the Year Ended 31st December, 2005

Reference is made to the announcement made by the Company dated 15th May, 2006 and 21st March, 2006 in relation to the notice of the board meeting of the Company to consider and approve the audited annual results of the Group for the year ended 31st December, 2005. The board of the Company (the “Board”), subject to the publication of the annual audit for its year ended 31st December, 2005, proposes the date of the board meeting of the Company to consider and approve the audited annual results of the Group will be postponed from 30th June, 2006 to a date not later than 31st August, 2006. The notice of board meeting will be notified to the Stock Exchange and the shareholders of the Company accordingly. The announcement of the 1st quarter results and interim results for 2006 of the Company is delayed. The Company intends to announce these results together with the annual results for 2005. The delay in announcement of results is due to fees owed to the auditors of the Company which hinders the commencement of audit for the 2005 results. Also at the time when the termination of the Acquisition was unclear, first it would have implication on the equity interest in certain subsidiaries and in a way affected the basis of consolidation of the Group’s results, second the auditors of the Company were denied to access records of certain subsidiaries managed by the Vendor, therefore the Board decided to delay the results announcement at that time. A settlement proposal is being negotiated with the auditors and it is expected to be resolved within one week from the date of this announcement. Now also the termination of the Acquisition is decided, the basis of consolidation of the Group’s results is fixed and the Vendor allows access to records of certain subsidiaries as the Acquisition is finally not completed. Pursuant to the GEM Listing Rules, the publication of annual results announcement and dispatch of annual report of the Company for the year ended 31st December, 2005, including its audited annual accounts, has to be sent to the shareholders of the Company not later than three months after the date upon which the financial year ended, i.e. 31st December, 2005. The delay of the publication of the audited annual results announcement and dispatch of annual report for the year ended 31st December, 2005 constitute a breach of Rules 18.03, 18.48A and 18.49 of the GEM Listing Rules.

The delay in finalization of the audit of the Group’s annual results would not constitute a breach of the Companies Law of the Cayman Islands as there is no requirement for preparation of audited accounts under the Companies Law of the Cayman Islands.

Termination of the Acquisition

The Board would also announce that the Company has terminated the negotiation with the Vendor of the Acquisition. The Acquisition will not be carried out. Details of which were set out in the announcement made by the Company on 22nd February, 2005 and 8th December, 2005. The Company and the Vendor could not agree on certain terms including time extension for payment and time extension for entering agreement so both parties decide to terminate the Acquisition in a peaceful manner.

Proposed Share Consolidation and Reduction of Capital

The Board also proposed the Share Consolidation of every 10 issued shares of HK\$0.01 each in the capital of the Issuer (each a “Share”) into one share of HK\$0.10 each (the “Share Consolidation”) and the reduction of the par value of the Shares of HK\$0.10 each in issue immediately following the Share Consolidation becoming effective to HK\$0.01 each by the cancellation of HK\$0.09 paid up capital on each Share (the “Reduction of Capital”). This capital reorganization will not affect the operation of the Company and its only financial impact is that the accumulated loss of the Company will be reduced by about HK\$23.5 million as the cancellation of HK\$0.09 paid up capital on each Share will be charged against the accumulated loss of the Company. The present issued number of shares of the Company is 2,606,949,911. The timetable for the proposed Share Consolidation and Reduction of Capital is not fixed yet and it should go along with the issue of the Convertible Bonds.

Resignation and appointment of Directors and the Qualified Accountant

The Board of the Company announces that Mr. Peter Tay Yew Beng, Dr. Lee Siu Lung, James have resigned as non-executive director of the Company with effect from 22nd May, 2006 and 23rd May, 2006 respectively. Ms. Hilda Sung has resigned as independent non-executive director of the Company with effect from 5th June, 2006. Mr. Ng Wing Hang, Patrick has resigned as independent non-executive director with effective from 22nd May, 2006 and Mr. Leigh Man Sung, Camballaw has resigned as independent non-executive director with effective from 7th June, 2006. In addition, Mr. Peter Tay Yew Beng, Dr. Lee Siu Lung, James, Ms. Hilda Sung, Mr. Ng Wing Hang, Patrick, Mr. Leigh Man Sung, Camballaw and the Board confirmed that there was no disagreement with one another and were not aware of any matter in relation to their resignation that needs to be brought to the attention of the shareholders of the Company. They also confirmed that their resignations are due to personal reasons only. The Board would like to express its gratitude to them for their contributions to the Company during their service with the Company. However the Board would like to point out that all the abovementioned directors were resigned before the formal negotiation of the Subscription Agreement which was entered on 12th June, 2006 by both parties. New directors will be invited to join the Board but the Subscriber has no indication yet whether he would like to become a director of the Company.

Mr. Dennis Leung has resigned as qualified accountant with effective from 18th April, 2006 due to his personal reasons.

The Company is temporarily vacant in independent non-executive directorship and qualified accountant. The Board is currently seeking suitable candidates and the Company will announce publicly once these vacancies are filled up. The Board believes this transition period will not be long.

Winding-up Petition

On 12th June, 2006, a winding-up petition was served on the Company, by a petitioner (“Petitioner”). It was alleged in the winding-up petition that the Company was indebted to the Petitioner for a sum of HK\$840,193 arising from legal services provided by the Petitioner. Further announcement will be issued by the Company as and when appropriate. Save for the abovementioned winding-up petition, there is no other outstanding litigation against the Group.

Takeovers Code

According to Takeovers Code rule 8.2 a document (“the Circular”) containing among other things, a resolution to approve the whitewash waiver will be dispatched to shareholders of the Company within 21 days of this announcement i.e. 9th August, 2006. But as the audited results of the Company for 2005, which should be included in the Circular, are being prepared and the Company expects it will not be released until the end of August 2006, the Company will not be able to dispatch the Circular within the 21 days time frame. The Company will apply a consent from the Securities and Futures Commission under Rule 8.2 of the Takeovers Code to extend the dispatch date of the Circular. Another announcement will be made by the Company in relation to the delay of dispatch of the Circular.

The trading of shares of the Company shall remain suspended until among other things the release of financial information including the audited results of 2005, the first quarter and second quarter results of 2006 of the Company and disclosure on the recent financial position of the Company.

The Subscriber and his parties acting in concert have never dealt with any shares of the Company in the past six months as from the date of this Announcement.

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

Hong Kong, 19th July, 2006

As at the date of this announcement, the board of Directors consists of Mr. Koh Tat Lee, Michael, Mr. Domingo Chen and Dr. Choong Ying Chuan, being the executive Directors, Mr. Wong Kean Li, being non-executive Directors.

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

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

** For identification purpose only*