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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)

ENTERING INTO OF THE SUPPLEMENTAL AGREEMENT AND MAJOR DEVELOPMENTS SINCE THE TRADE SUSPENSION IN SHARES AND MAJOR TRANSACTION: DISPOSAL OF SUBSIDIARIES

Major developments since the trade suspension of Shares

Trading in the Shares on the GEM of the Stock Exchange has been suspended since 4 October 2005. Since then, the Company has been liaising closely with the Stock Exchange with an aim to restore trading in the Shares. The purpose of this announcement is to set out, inter alia, information relating to the actions taken by the Company to address the concerns raised by the auditors of the Company on the financial statements of the Company for the year ended 31 December 2005, views of the independent non-executive Directors on the internal control system of the Group, updates on the trading and financial position of the Group, future intentions of the Subscriber on the Group, for the information of the potential investors and Shareholders.

Major Transaction: Disposal of subsidiaries

On 2 September 2005, the Company entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Company agreed to sell and the Purchaser agreed to acquire the Sale Shares for an aggregate consideration of HK\$4,000,000 in cash.

The Supplemental Agreement

The Board is pleased to announce that on 23 August 2007, the Supplemental Agreement was entered into between the Company and the Subscriber pursuant to which, inter alia, the Subscriber agreed to pay the full refundable Deposit for the subscription of the Convertible Bonds to the Company on or before 24 August 2007.

Suspension of Trading

Trading in the Shares of the Company was suspended at the request of the Company on 4 October 2005 and will remain to be suspended until further notice.

* For identification purpose only

MAJOR DEVELOPMENTS SINCE THE TRADE SUSPENSION IN SHARES

Since suspension in trading of Shares of the Company on 4 October 2005, the Company has been liaising closely with the Stock Exchange with an aim to restore trading in the Shares. During the process, the Stock Exchange has raised concerns on the qualifications made by the then auditors on the financial statements of the Company for the year ended 31 December 2005 (the “2005 Qualified Opinion”), the Group’s internal control system and the operating and financial positions of the Group. The purposes of this announcement is to set out, inter alia, information relating to the actions taken by the Company to address the concerns raised in the 2005 Qualified Opinion, views of the independent non-executive Directors on the internal control system and the financial reporting procedure of the Group, updates on the trading and financial position of the Group and future intentions of the Subscriber, for the information of the potential investors and Shareholders.

2005 Qualified Opinion

Reference is made to the annual report issued by the Company for the year ended 31 December 2005. Of the nine qualifications made by the then auditors of the Company, seven were made as a result of lack of books and records or lack of sufficient and reliable documentary evidence, one was made on non-compliance with the Listing Rules and one was on going concern of the Group. The primary reason for the qualifications is because of the significance of the possible effect of the limitations in the evidence available to the then auditors relating to the matters relating to the qualifications. For further details of the qualifications and the reasons thereof, please refer to the annual report of the Company for the year ended 31 December 2005. As disclosed herein, the Company was facing financial difficulties during the year ended 31 December 2005 and the attention of the then management was accordingly focus on debt restructuring and procuring financing for the Group. Together with the leaving of several senior management of the Group in early 2006, the Company failed to keep sufficient books and records for audit purposes for the financial year ended 31 December 2005.

In order to avoid occurrence of similar events in the future, the Company has adopted the following measures:

- (i) Record keeping procedures – the Company has reviewed and revised the record keeping procedures, which are now clearly stated in the employees’ handbook. It is clearly stated therein that all books and records are property of the Group and must be kept complete, accurate and up-to-date. False or misleading documents are unacceptable and the senior management will check the records regularly and will report to the Directors from time to time so as to ensure compliance of the new procedures by employees of the Group.
- (ii) Control over subsidiaries – all subsidiaries are required to prepare and submit monthly management accounts to the Company for review and operational control. Copies of documents of material importance must be kept in the Company’s head office in Hong Kong. The Company’s financial controller and/or senior management will pay regular visits to the subsidiaries to ensure the Company’s policies are tightly followed and the books and records are true and accurate.

- (iii) Report to audit committee – upon reviewing the books and records of the subsidiaries of the Company, the qualified accountant of the Company will report to the audit committee in respect of any irregularity/abnormality identified on a quarterly basis.
- (iv) Review of interim results by independent accountant – besides the annual results, the Company will also engage an independent accountant to review the interim results of the Company.
- (v) Adoption of the Code on Corporate Governance Practices – the Company has applied the corporate governance principles and on a best effort basis complied with the code provisions as contained in appendix 15 of the Listing Rules. Attention of the potential investors and shareholders of the Company are also drawn to the corporate governance report as contained in the annual report of the Company for year ended 31 December 2006.
- (vi) Appointment of competent directors/qualified accountant/company secretary – The Board now comprises of four executive Directors, one non-executive Director and three independent non-executive Directors. The newly appointed Directors, qualified accountant and company secretary as mentioned below are all experienced in the finance industry and/or qualified professionals and will undoubtedly strengthen the management profile and corporate governance of the Group: Mr. Ha Shu Tong, the Chairman and an executive Director who was appointed on 13 April 2007 has years of experiences in corporate finance and corporate development. Mr. Tham Ming Yong, an executive Director appointed on 8 March 2007, is a professional accountant and has nearly 20 years of experience in accounting, taxation and corporate finance. Mr. Yu Shu Kuen, an executive Director appointed on 30 January 2007, has worked in the investment banking field and runs his own financial services business. Mr. Ng Kay Kwok was appointed as the qualified accountant and company secretary of the Company on 1 January 2007. Mr. Ng is an associate member of CPA, Australia and has various listed company experiences. Of the three independent non-executive Directors, two of whom are also qualified accountants. With the diverse expertise of the Directors and qualified accountant/company secretary and the newly adopted internal control measures as detailed above, the corporate governance of the Company is now greatly enhanced.

Internal control review

In order to alleviate the concerns of the Stock Exchange and provide comfort to the shareholders of the Company, the Company has commissioned Baker Tilly, an independent accounting firm, to perform certain review procedures on the Company's key procedures, systems and control and to review and assess the impact of the nine incidents stated in the 2005 Qualified Opinion on the current operations and financial position of the Company and its subsidiary, Elipva Limited (which is the only operating subsidiary of the Company at present) . In its report, Baker Tilly stated that its review results did not indicate there was any irregularity or material error, and in respect of the 2005 Qualified Opinion, Baker Tilly is of the view that the incidents mentioned therein have no material impact on the current operations and financial position of the Company and its subsidiaries. Nevertheless, Baker Tilly is of the opinion that there is room for improvements in the internal control system of the Company and its subsidiaries as summarised below:

- (i) Comprehensive policy and procedures for debts collection (which should include steps of action to be taken in respect of different levels of the overdue receivable) should be set up in writing, as a guideline for relevant personnel to take proper action to recover the long outstanding debts in a timely manner.
- (ii) Competitive bids for capital expenditure acquisitions should be obtained from different vendors with proper documentation. Quotations from vendors should be properly analysed, reviewed and approved in writing by management to ensure that the Group can enjoy favourable trading terms.
- (iii) Detailed periodic financial budget for capital expenditure of planning and monitoring purposes should be prepared, and such should be properly approved by management in writing and all relevant parties should be respectively notified of the budget of their own responsible area. Actual capital expenditure has to be measured against the budget to ensure that capital expenditure is properly monitored. Where necessary, the budget should be revised to reflect the needs of the Group.
- (iv) A clear and formal authorisation matrix for both acquisition and disposal of fixed assets should be established, with the authority limit of the designated responsible personnel clearly spell out.
- (v) Purchases of capital expenditure items should be supported by proper documentation to ensure that proper authorisation has been obtained.

Baker Tilly emphasized that the scope of the internal control review by Baker Tilly is different from that required for an audit and it cannot, therefore be relied upon to provide the same level of assurance as an audit.

In light of the recommendation of the internal control review by Baker Tilly, the Company adopted the following measures:

- (1) In relation to the collection of debts of the subsidiaries, the Company has issued a memorandum to the management of the subsidiaries set out the underlying guidelines for collection of debts. Every month there is a debt ageing analysis prepared by the subsidiaries which will submit to the qualified accountant and managing director of the Company for review.
- (2) In relation to the documentation of competitive bids for capital expenditure by the subsidiaries, proper documentation system has been set up and kept in the subsidiaries, including both successful and unsuccessful bids, as recommended by Baker Tilly. The management of the Company will check such documentation when they pay regular visits to the subsidiaries.
- (3) In relation to preparing financial budget for capital expenditure of the Group, a yearly budget for capital expenditure will be prepared and approved by the management of the Company. The budget will be crossly checked in comparison with the monthly accounts of the subsidiaries by the qualified accountant of the Company.

- (4) In relation to authorization matrix for acquisition and disposal of fixed assets, an internal memorandum stating the authorised limit has been issued to the management of the subsidiaries. Anything beyond that limit would require special approval by the Company. A fixed assets movement schedule associated with the monthly accounts of the subsidiaries will be reviewed by the qualified accountant and the managing director of the Company. The management of the Company would also physically inspect the fixed assets when they visit the subsidiaries if there has been a material acquisition of fixed assets.
- (5) In relation to requisition forms for capital expenditure in the subsidiaries, all the requisition forms are now properly filled and authorised and being kept for random review by the management of the Company when they visit the subsidiaries.

If there is any non-compliance of the abovementioned procedures and measures or any other internal control deficiencies identified, the qualified accountant of the Company will report to the audit committee of the Company. The practice is expected to be maintained so to enhance the correctness and effectiveness of the financial reporting procedures as well as the proper implementation of internal control of the Company.

Potential investors and Shareholders of the Company should be aware that the financial statements of the Company for the year ended 31 December 2006 was released on 23 March 2007 and Baker Tilly, the independent auditors, made no qualifications on the financial statements. Baker Tilly, nonetheless, emphasized the fact that the financial statements of the Group for the year ended 31 December 2005 were audited by another firm of accountants and the audit report for the year ended 31 December 2005 stated that 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 for the year ended 31 December 2005 may not therefore be directly comparable with the figures for the year ended 31 December 2006.

In addition, as disclosed in note 2 to the financial statements of the Group for the year ended 31 December 2006, Baker Tilly highlighted the uncertainty in respect of going concern. Pursuant to the terms of the Supplemental Agreement, the Subscriber has paid the Deposit to the Company and all unsecured creditors have been settled by the Company. Accordingly, in the absence of unforeseeable circumstances, the Directors consider that it is appropriate to prepare the financial statements of the Group on a going concern basis.

The Independent Board Committee has reviewed and considered the internal control review report of Baker Tilly in details. It agreed to the findings of Baker Tilly and the Company has since adopted the recommendations as contained in the report so as to improve the internal control and corporate governance of the Group. On 23 March 2007, the Independent Board Committee convened a meeting to review the status of the Company's financial reporting system, internal control procedures and corporate governance practices. Based on the report of Baker Tilly and discussion with the management of the Company, the Independent Board

Committee was satisfied that the prevailing financial reporting, internal control procedures and corporate governance of the Company is adequate to enable the Company to comply with its obligation under the Listing Rules. The conclusion of the Independent Board Committee was based on:

- (i) effective adoption of the recommendations by Baker Tilly contained in the internal control review report;
- (ii) appointment of qualified accountant and company secretary of the Company;
- (iii) appointment of executive Directors with listed company exposures;
- (iv) regular audit committee meetings for discussions on internal control; and
- (v) appointment of company solicitors to give advice on compliance issues.

Latest trading and financial position of the Group

The Group is principally engaged in the provision of system solutions, including e-services/consulting, internet application software and enterprise software/services such as e-business applications, identity and access management, security infrastructure, human capital and financial management, system and enterprise application integration.

With the continuous efforts of the management and the financial support from the Subscriber, the Group has gradually regained financial stability. The Singapore subsidiary of the Company has been able to secure a number of system development contracts. For the six months ended 30 June 2007, the Group recorded unaudited turnover of HK\$8,135,000 (compared with HK\$6,400,000 for the corresponding period in 2006) and unaudited profit before taxation of HK\$14,817,000 (compared with a loss of HK\$4,112,000 for the corresponding period in 2006). The improvement in profit position is largely due to increase in turnover, improvement in profit margin and gain from debt restructuring.

As detailed in the Announcement and the circular of the Company dated 4 December 2006 issued by the Company, the Subscriber has conditionally agreed to subscribe for the Convertible Bonds pursuant to the Formal Subscription Agreement, and the Share Reorganisation will be implemented to provide flexibility to the Company for possible equity fund raising activities in the future. As mentioned in the Announcement and the circular, the net proceeds of approximately HK\$13.5 million will be used as to HK\$11 million for paying off creditors of the Company and the balance will be used for general working capital of the Group. As disclosed in the section headed "The Supplemental Agreement" below, since the creditors of the Company has been paid off, the proceeds will be applied toward the general working capital of the Group. With the improvement in the financial position of the Group, the business connections of the new Directors and the expertise of the Group, the Group is now in a position to capture new business opportunities. The Group plans to explore the China market and a subsidiary is set up in Beijing as the representative office of the Company. The Company is in negotiation with a group of chained department stores for the provision of system integration service and enterprise resources planning solution. The Singapore subsidiary, on the other hand, will continue to explore business opportunities in the South East Asia market.

The Company has prepared a cash flow forecast for the period ending 31 December 2008. The Directors have formed that view that, after taking into account the financial support from the Subscriber in the form of the Convertible Bond, the Group shall have sufficient working capital for the period ending 31 December 2008. The Company's financial adviser in respect of the cash flow forecast, Veda Capital Limited, of the opinion that the statement and the forecast has been made by the Directors after due and careful enquiry. Veda Capital Limited also confirmed that the Subscriber, being the institution providing finance to the Company, has confirmed in writing that such facilities exist.

Intentions of the Subscriber

Upon full conversion of the Convertible Bonds, the Subscriber will become a controlling shareholder of the Company. The Subscriber currently intends to fully convert the Convertible Bonds into Shares immediately after the issue of the Convertible Bonds. The Subscriber intends to maintain the existing business of the Group in information technology services and has no intention to inject its or its associates' assets or business to the Group. Nonetheless, the Subscriber will continue to review the performance of the Group and where suitable business opportunities emerge, will introduce new business dimensions to the Group. The Company will comply with the requirements of the Listing Rules should it enter into any agreements in this regard.

Revised expected timetable

Reference is also made to the Announcement and the circular of the Company dated 4 December 2006. The Share Reorganisation and the Subscription have been approved by the Shareholders at the extraordinary general meeting of the Company held on 29 December 2006. Set out below is the revised expected timetable for the Share Reorganisation and the Subscription. For the purpose of this timetable, capitalised terms used therein shall bear the same meanings as defined in the circular of the Company dated 4 December 2006.

| Expected Date | Documents/Events |
|------------------------------|---|
| On or before 12 October 2007 | completion of the Share Subscription completion of the Subscription |
| 15 October 2007 | Resumption of trading in the Shares (<i>Note</i>) Dealings of the New Shares begin First day of free exchange of existing yellow certificate for the Shares for new certificates for the New Shares |
| 9:30 a.m. on 15 October 2007 | Original counter for trading in the Shares in board lots of 8,000 Shares temporarily closes |
| 9:30 a.m. on 15 October 2007 | Temporary counter for trading in the Shares in board lots of 800 New Shares open |
| 9:30 a.m. on 30 October 2007 | Original counter for trading in the New Shares in board lots of 20,000 New Shares reopen |

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|-------------------------------|--|
| 9:30 a.m. on 30 October 2007 | Parallel trading in the New Shares in the form of existing and new share certificates commences |
| 9:30 a.m. on 30 October 2007 | Designated broker starts to stand in the market to provide matching service |
| 4:00 p.m. on 20 November 2007 | Temporary counter for trading in the New Shares in board lots of 800 New Shares each closes |
| 4:00 p.m. on 20 November 2007 | Parallel trading in the New Shares ends |
| 4:00 p.m. on 20 November 2007 | Designated broker ceases to stand in the market to provide matching services |
| 23 November 2007 | Last day of free exchange of existing yellow certificates for the Shares for new certificates for the New Shares |

Note: The timetable is merely indicative and resumption of trading in the Shares may or may not take place as stipulated in this timetable.

The expected timetable is indicative only and subject to the condition of resumption of trading of the Shares on GEM. Further announcement(s) will be made as and when appropriate should there be any changes to the timetable of Share Reorganisation.

MAJOR TRANSACTION

Reference is made to the announcement of the Company dated 22 February 2005 and note 33 to the financial statements of the Group in the 2005 annual report of the Company. On 2 September 2005, the Company entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Company agreed to sell and the Purchaser agreed to acquire the Sale Shares for an aggregate consideration of HK\$4,000,000 in cash.

Sale and Purchase Agreement

Date: 2 September 2005

Parties:

- (1) the Company as the vendor
- (2) Sharp Talent Limited as the purchaser

The Purchaser is a company incorporated in the British Virgin Islands and is principally engaged in investment holdings. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules).

Assets disposed

Pursuant to the Sale and Purchase Agreement, the Company has agreed to dispose and the Purchaser has agreed to acquire the Sale Shares, representing approximately 20.17% of the issued share capital of M Dream China as at the date of the Sale and Purchase Agreement.

Consideration

The aggregate consideration for the disposal is HK\$4,000,000 which shall be satisfied by the Purchaser in cash upon signing the Sale and Purchase Agreement.

The consideration for the Disposal was arrived at after arm's length negotiations between the relevant parties to the Sale and Purchase Agreement after taking into consideration of various factors, in particular, the cash flow position of the Company at that time.

Completion

Completion of the Disposal took place immediately after signing the Sale and Purchase Agreement. The cash consideration of HK\$4,000,000 had been received by the Company.

INFORMATION ON M DREAM MEL GROUP

M Dream MEL Group comprises M Dream Mobile Entertainment Limited, a company incorporated in the British Virgin Islands and its wholly owned subsidiary Hangzhou M Dream Zone Limited, a company established in PRC. M Dream MEL Group was engaged in provision of mobile games and value added services.

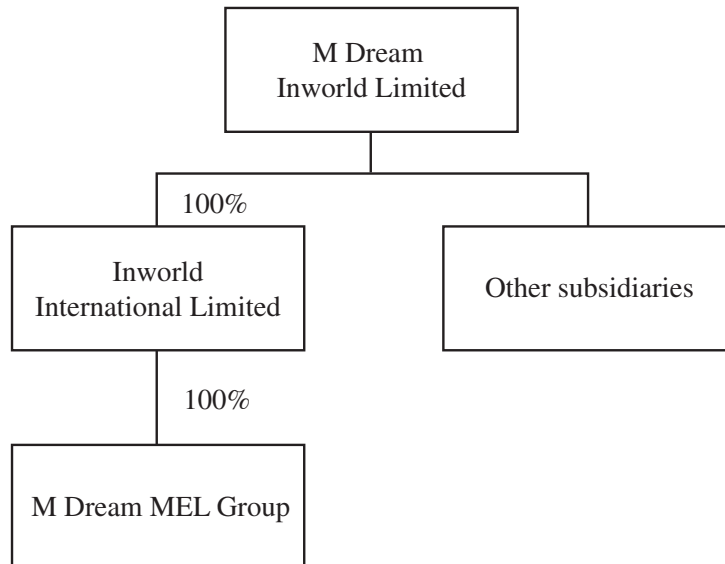
The consolidated unaudited net assets value of M Dream MEL Group was approximately HK\$31,370,000 as at the date of Disposal. For the year ended 31 December 2004, the unaudited net profits before tax and after tax and extraordinary items of M Dream MEL Group were approximately HK\$2,150,000 and HK\$1,586,000 respectively.

As disclosed in note 33 of annual report of the Company for the year ended 31 December 2005, apart from the net asset value of M Dream MEL Group of approximately HK\$1,493,000, there was goodwill of carrying value of HK\$29,877,000 associated with M Dream MEL Group in the consolidated accounts of the Company. Accordingly, the total value of M Dream MEL Group as at the time of the Disposal was approximately HK\$31,370,000. Taking into consideration of the net proceeds of HK\$3,949,000 from the Disposal, upon the Disposal, the Company recorded a loss of approximately HK\$27,421,000 (HK\$31,370,000 minus HK\$3,949,000) as disclosed in the 2005 annual report of the Company.

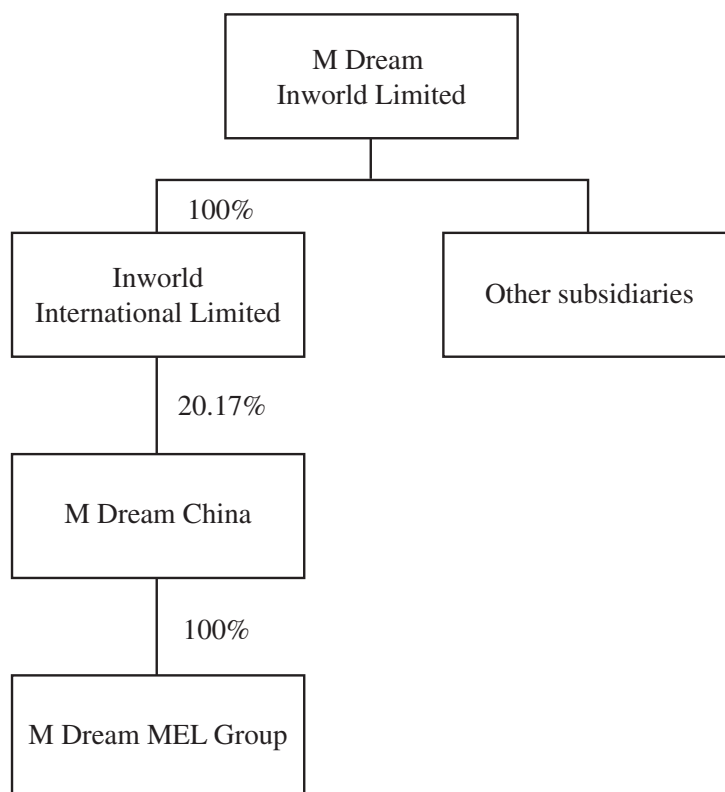
GROUP STRUCTURE BEFORE AND AFTER THE DISPOSAL

Set out below is the structure of the Group immediately before and after the subscription of the M Dream China shares and the Group structures before and after the Disposal:

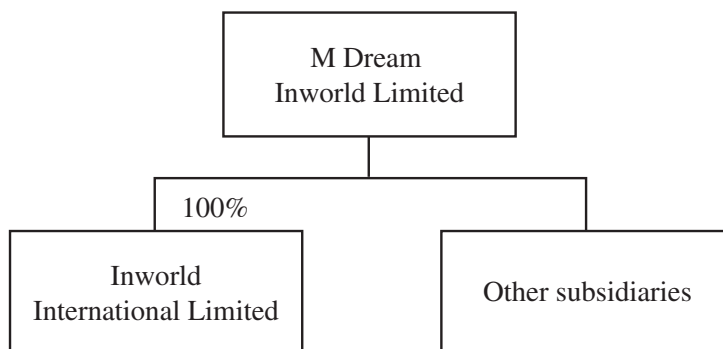
Immediately before the subscription of the M Dream China Shares:



Immediately after the subscription of the M Dream China Shares but before the Disposal:



Immediately after the Disposal:



As disclosed in the announcement of the Company dated 22 February 2005, the subscription of M Dream China shares was a result of the share swap of 100% interests of the Company in M Dream MEL Group for approximately 20.17% interests in M Dream China. On 2 September 2005, the Group has disposed its entire interests in M Dream China as a result of the Disposal.

Although the form of the assets disposed in the Disposal was the M Dream China shares held by the Group at the time of Disposal, in applying the principle of substance over form, the Company consider that it is necessary to look at the actual commercial substance regarding the Disposal.

From the date of subscription for the M Dream China shares to the date of the Disposal, the actual commercial substance being disposed by the Group was the M Dream MEL Group and the actual commercial substance being received by the Group was the proceeds of the Disposal. There were never any material economic benefits generated as a result of holding approximately 20.17% interests in M Dream China during the short period between the subscription for the M Dream China shares and the Disposal. The Company therefore considers the M Dream China shares were merely the form only and the substance being disposed was the M Dream MEL Group. This was further supported by the relevant accounting treatments as disclosed in note 33 of the annual report of the Company for the year ended 31 December 2005. This accounting treatment regarding the Disposal is confirmed by Baker Tilly, the current auditors of the Group, as acceptable accounting treatment under relevant accounting standard.

Accordingly, the Company considers that the subject assets disposed was the M Dream MEL Group.

REASONS FOR THE DISPOSAL

The Group is principally engaged in the business as a system solutions provider.

The Company was in financial difficulty and could not afford any resources put into developments of mobile games which M Dream MEL Group was doing. Therefore the former management of the Company decided to dispose the business when the Purchaser came up with an offer.

As disclosed in the annual report of the Company for the year ended 31 December 2005, the financial position of the Company has deteriorated seriously during that year. The net cash outflow from operating activities and the net decrease in cash for that year were approximately HK\$21,108,000 and HK\$8,550,000 respectively. The cash available for the Group has dropped from the beginning of the year of approximately HK\$9,503,000 to HK\$953,000 at the year end.

A board meeting by the former management of the Company was held on 29 August 2005 relating to the Disposal. In view of the financial difficulties at that moment, it was decided to carry out the Disposal in order to have immediate fund for the Company.

The current Directors, after reviewing the Disposal and the circumstances of the Company at that time and taking into consideration of the loss resulting from the Disposal, are of the opinion that the terms for the Disposal was not necessarily fair and reasonable to the Company. However, in light of the harsh financial position of the Company at that time, the Disposal could be in the interests of the Company as the Disposal could provide immediate working capital for the Group.

After deducting expenses relating to the Disposal, the net proceeds from the Disposal of HK\$3,949,000 have been applied as general working capital of the Group.

LISTING RULES IMPLICATION

As the relevant percentage ratio under Chapter 19 of the Listing Rules is larger than 25%, the Disposal constitutes a major transaction on the part of the Company under Chapter 19 of the Listing Rules subject to Shareholders' approval.

As the Disposal was completed almost two years ago and the key management at that time have either left or stepped down from the Company, it would be impracticable for the Company to obtain all necessary information to compile a circular on the Disposal for the Shareholders and fulfilling relevant requirements of the Listing Rules. In light that the Disposal has been completed and it is impossible to reverse the transaction, the Company considers that there will be no material practical importance to hold an extraordinary general meeting to seek Shareholders' approval approve the Disposal.

THE SUPPLEMENTAL AGREEMENT

The Board is also pleased to announce that on 23 August 2007, the Supplemental Agreement was entered into between the Company and the Subscriber.

Pursuant to the Supplemental Agreement, the subscription money for the Convertible Bonds shall be paid in the refundable sum of HK\$14,040,000 (the "Deposit") by the Subscriber to the Company on or before 24 August 2007 (or such other date as may be agreed between the Company and the Subscriber) as full payment and deposit of the subscription money for the Convertible Bonds. The Deposit was accordingly paid by the Subscriber and will be applied to set off the subscription price for the Convertible Bonds upon completion of the Formal Subscription Agreement. Since the creditors of the Company have been paid off, the Deposit has been applied toward the general working capital of the Group.

In the event the conditions precedent as set out in Formal Subscription Agreement cannot be fulfilled or waived (as the case may be) on or before 30 November 2007 (or such other date as may be agreed between the Company and the Subscriber) or completion of the Formal Subscription Agreement cannot take place as stipulated therein, the Company hereby undertakes to and covenants with the Subscriber to forthwith refund the paid Deposit without interest in cash to the Subscriber.

Pursuant to the Supplemental Agreement, the Company and the Subscriber also agreed to extend the date for fulfillment of the conditions of the Formal Subscription Agreement to the Long Stop Date. Save as disclosed and such other alterations (if any) as may be necessary to make the Formal Subscription Agreement consistent with the Supplemental Agreement, the other terms of the Formal Subscription Agreement remain unchanged.

The Directors (including the independent non-executive Directors) consider that the terms contained in the Supplemental Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

The entering into the Supplemental Agreement constitutes a connected transaction under Chapter 20 of the Listing Rules. As the transaction is a provision of financial assistance by a connected person for the benefit of the Company on terms better than normal commercial terms where no security over the assets of the Company is granted, it is exempted from the reporting, announcement and independent Shareholders' approval requirement pursuant to Rule 20.65(4) of the Listing Rules.

Suspension of Trading

Trading in the Shares of the Company was suspended at the request of the Company on 4 October 2005 and will remain to be suspended until further notice.

Definitions:

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

| | |
|----------------|---|
| “Announcement” | the announcement issued by the Company on 24th October, 2006 in relation to the Share Reorganisation and the Formal Subscription Agreement |
| “Baker Tilly” | Baker Tilly Hong Kong Limited and/or Baker Tilly Hong Kong Business Services Limited, both being part of Baker Tilly Hong Kong, an independent professional accounting firm |
| “Board” | the board of Directors |
| “Company” | M Dream Inworld Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM of the Stock Exchange |

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|---------------------------------|--|
| “Convertible Bonds” | the convertible bonds to be issued by the Company with a principal amount of HK\$14,040,000 |
| “Directors” | the directors of the Company |
| “Disposal” | the disposal of interests in the M Dream MEL Group as contemplated under the Sale and Purchase Agreement |
| “Formal Subscription Agreement” | the subscription agreement as defined in the Announcement |
| “GEM” | The Growth Enterprise Market of the Stock Exchange |
| “Group” | the Company and its subsidiaries |
| “Independent Board Committee” | the independent board committee of the Company made up of the three independent non-executive Directors |
| “Listing Rules” | The Rules Governing the Listing of Securities on the GEM |
| “M Dream China” | M Dream China (Holdings) Co. Ltd. |
| “M Dream MEL Group” | together M Dream Mobile Entertainment Limited, a company incorporated in the British Virgin Islands and its wholly owned subsidiary Hangzhou M Dream Zone Limited |
| “New Shares” | shares of HK\$0.01 each in the share capital of the Company upon completion of the Share Reorganisation |
| “Purchaser” | Sharp Talent Limited, the purchaser to the Sale and Purchase Agreement |
| “Sale and Purchase Agreement” | the sale and purchase agreement dated 2 September 2005 between the Company and the Purchaser in relation to, among other, the sale and purchase of the Sale Shares |
| “Sale Shares” | the 2,527 ordinary shares of US\$1.00 each in M Dream China |
| “Shares” | shares in the share capital of the Company |
| “Shareholders” | holders of the Shares |
| “Share Reorganisation” | the share reorganisation as defined in the Announcement |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscriber” | Ample Field Limited, the subscriber of the Convertible Bonds and wholly owned by Mr. Yu Shu Kuen, a Director |

| | |
|--------------------------|---|
| “Subscription” | the subscription of the Convertible Bonds by the Subscriber as stipulated under the Formal Subscription Agreement and the Supplemental Agreement |
| “Supplemental Agreement” | the supplemental agreement dated 23 August 2007 entered into between the Company and the Subscriber in relation to, among other, the amendments of the payment terms of the Formal Subscription Agreement |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |

By order of the Board
M Dream Inworld Limited
Ha Shu Tong
Chairman

Hong Kong, 5 October 2007

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

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

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