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M DREAM INWORLD LIMITED

聯夢活力世界有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8100)

PROPOSED CAPITAL REORGANISATION

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The Board proposes to implement the Capital Reorganisation after completion of the Tranche I Performance Shares Issue. The Capital Reorganisation involves the following:

- (1) every four (4) issued and unissued Existing Shares will be consolidated into one (1) Consolidated Share and the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation;
- (2) the issued share capital of the Company will be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.39 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.40 to HK\$0.01;
- (3) immediately following the Capital Reduction, each of the authorised but unissued Consolidated Shares of HK\$0.40 each will be sub-divided into forty (40) New Shares of HK\$0.01 each; and
- (4) the credits arising in the books of the Company from (a) the cancellation of any fraction in the issued share capital of the Company arising from the Share Consolidation; and (b) the reduction of the paid-up capital of HK\$550,011,506.07 will be credited to the contributed surplus account of the Company within the meaning of the Companies Act.

* For identification purpose only

WARNING

Shareholders should take note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed “Conditions of the Capital Reorganisation”. Therefore, the Capital Reorganisation may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, among other things, details of the Capital Reorganisation and a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

PROPOSED CAPITAL REORGANISATION

As at the date of this announcement, the Company has allotted and issued 4,925,620,935 Existing Shares. As announced by the Company in its announcement dated 21 May 2014, the Company will allot and issue 715,522,718 Tranche I Performance Shares on 6 June 2014. Immediately following the Tranche I Performance Shares Issue (assuming that there are no other changes in the issued share capital of the Company for the period from the date of this announcement up to the completion of the Tranche I Performance Shares Issue), an aggregate of 5,641,143,653 Existing Shares will be in issue.

The Company proposes to implement the Capital Reorganisation after completion of the Tranche I Performance Shares Issue. The Capital Reorganisation will involve the following:

(1) Proposed Share Consolidation

The Board proposes to effect the Share Consolidation pursuant to which every four (4) issued and unissued Existing Shares will be consolidated into one (1) Consolidated Share and the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation.

(2) Proposed Capital Reduction and Share Subdivision

- (a) the issued share capital of the Company will be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.39 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.40 to HK\$0.01;
- (b) immediately following the Capital Reduction, each of the authorised but unissued Consolidated Shares of HK\$0.40 each will be sub-divided into forty (40) New Shares of HK\$0.01 each; and

- (c) the credits arising in the books of the Company from (i) the cancellation of any fraction in the issued share capital of the Company arising from the Share Consolidation; and (ii) the reduction of the paid-up capital of the Company of HK\$550,011,506.07 will be credited to the contributed surplus account of the Company within the meaning of the Companies Act.

Immediately following the Tranche I Performance Shares Issue on 6 June 2014, the authorised share capital of the Company will be HK\$800,000,000 comprising 8,000,000,000 Existing Shares of HK\$0.10 each, of which 5,641,143,653 Existing Shares will have been issued and fully paid or credited as fully paid (assuming that there are no other changes in the issued share capital of the Company for the period from the date of this announcement up to the completion of the Tranche I Performance Shares Issue).

Immediately following the Capital Reorganisation, the authorised share capital of the Company will be HK\$800,000,000 divided into 80,000,000,000 New Shares of HK\$0.01 each, of which 1,410,285,913 New Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will be HK\$14,102,859.13 (assuming that there are no other changes in the issued share capital of the Company from the completion of the Tranche I Performance Shares Issue until the effective date of the Capital Reorganisation).

A credit of HK\$550,011,506.07 will arise as a result of the Capital Reduction. Such credit, together with any credit arising as a result of the cancellation of any fraction in the issued share capital of the Company arising from the Share Consolidation, will be transferred to the contributed surplus account of the Company which will then be applied by the Board to set off against the accumulated losses of the Company in full on the date of the Capital Reorganisation becoming effective. The total accumulated losses of the Company was approximately HK\$401,561,000 as shown in the unaudited consolidated financial statements of the Company as at 31 May 2014.

Assuming that there are no other changes in the issued share capital of the Company from the completion of the Tranche I Performance Shares Issue until the effective date of the Capital Reorganisation, the share capital structure of the Company will be as follows:

	Immediately after completion of the Tranche I Performance Shares Issue	Immediately after the Share Consolidation becoming effective	Immediately after the Capital Reorganisation becoming effective
Authorised share capital	HK\$800,000,000	HK\$800,000,000	HK\$800,000,000
Par value	HK\$0.10 per Existing Share	HK\$0.40 per Consolidated Share	HK\$0.01 per New Share
Number of authorised shares	8,000,000,000 Existing Shares	2,000,000,000 Consolidated Shares	80,000,000,000 New Shares
Amount of issued share capital	HK\$564,114,365.30	HK\$564,114,365.20	HK\$14,102,859.13
Number of issued shares	5,641,143,653 Existing Shares	1,410,285,913 Consolidated Shares	1,410,285,913 New Shares
Amount of unissued share capital	HK\$235,885,634.70	HK\$235,885,634.80	HK\$785,897,140.87
Number of unissued shares	2,358,856,347 Existing Shares	589,714,087 Consolidated Shares	78,589,714,087 New Shares

All New Shares will rank pari passu in all respects with each other.

Under the laws of Bermuda, the Directors may apply the contributed surplus in any manner permitted by the laws of Bermuda and the bye-laws of the Company.

Fractional entitlement to the New Shares

Fractions of the New Shares, if any, arising from the Capital Reorganisation will be aggregated and sold (if a premium, net of expenses, can be obtained) for the benefit of the Company.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary special resolutions by the Shareholders approving the Capital Reorganisation at the SGM;

- (b) the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued (i) upon exercise of the share options to be granted under the share option scheme of the Company, (ii) upon conversion of the Convertible Notes, and (iii) as Tranche II Performance Shares;
- (c) the compliance with the relevant procedures and requirements under the laws of Bermuda and the GEM Listing Rules to effect the Capital Reorganisation; and
- (d) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

Reasons for the Capital Reorganisation

The Board is of the opinion that the Capital Reorganisation will provide the Company with greater flexibility in possible fund raisings in the future. Further, the credits in the contributed surplus account arising from the Capital Reduction will enable the Company to set off its accumulated losses and may be applied in the future for distribution to the Shareholders or in any manner permitted by the laws of Bermuda and the bye-laws of the Company.

The Board considers that the Capital Reorganisation is beneficial to and in the interests of the Company and the Shareholders as a whole.

Effects of the Capital Reorganisation

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Board believes that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group and that on the date the Capital Reorganisation is to be effected, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due. No capital will be lost as a result of the Capital Reorganisation and, except for the expenses involved in relation to the Capital Reorganisation which are expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Company will remain unchanged before and after the Capital Reorganisation becoming effective. The Capital Reorganisation does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company nor will it result in any change in the relative rights of the Shareholders.

Listing and dealings

Application will be made to the Stock Exchange for the granting of the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued (i) upon exercise of the share options to be granted under the share option scheme of the Company, (ii) upon conversion of the Convertible Notes, and (iii) as Tranche II Performance Shares.

Subject to the granting of the listing of, and permission to deal in, the New Shares on GEM, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on GEM or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may during the prescribed period submit share certificates for Existing Shares to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange, at the expense of the Company, for new share certificates for New Shares with new nominal value of HK\$0.01. Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for Existing Shares cancelled or each new share certificate issued for New Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for New Shares at any time.

Board lot size

After the completion of the Capital Reorganisation, the board lot size will remain unchanged and the New Shares will be traded in the board lots of 20,000 New Shares.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company will appoint a securities firm to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Details of the odd lot arrangement will be set out in the circular to be dispatched to the Shareholders in relation to the Capital Reorganisation.

Adjustment in relation to other securities

As at the date of this announcement, apart from the 715,522,718 Tranche I Performance Shares to be allotted and issued on 6 June 2014, there are (i) Convertible Notes in an aggregate principal amount of HK\$16,646,024.625 which are convertible into 154,129,857 Existing Shares at a prevailing conversion price of HK\$0.108 per conversion share; and (ii) Tranche II Performance Shares (i.e. up to 726,171,294 Existing Shares) which may be

allotted and issued by the Company. The Directors will determine any adjustments required to be made in respect of the above as a result of the Capital Reorganisation. The Company will make further announcement about the adjustments in due course.

Save as aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the date of this announcement.

EXPECTED TIMETABLE

The expected timetable for implementation of the Capital Reorganisation is set out below:

Despatch of circular and proxy form of the SGM. Tuesday, 24 June 2014

Latest time for lodging the form of proxy. 11:00 a.m., Tuesday,
15 July 2014

SGM 11:00 a.m., Thursday,
17 July 2014

Publication of announcement of results of the SGM Thursday, 17 July 2014

The following events are conditional on the fulfilment of the conditions for the implementation of the Capital Reorganisation:

Expected effective date of the Capital Reorganisation. Friday, 18 July 2014

First day for free exchange of existing share certificates
for new share certificates. Friday, 18 July 2014

Commencement of dealing in New Shares. 9:00 a.m., Friday,
18 July 2014

Original counter for trading in Existing Shares in board lots
of 20,000 Existing Shares (in the form of existing
share certificates) temporarily closes 9:00 a.m., Friday,
18 July 2014

Temporary counter for trading in New Shares in board lots
of 5,000 New Shares (in the form of existing
share certificates) opens 9:00 a.m., Friday,
18 July 2014

Original counter for trading in New Shares in board lots
of 20,000 New Shares (in the form of new
share certificates) re-opens. 9:00 a.m., Friday,
1 August 2014

Parallel trading in New Shares (in the form of new share certificates and existing share certificates) commences.9:00 a.m., Friday, 1 August 2014

Designated broker starts to provide matching services for odd lots of New SharesFriday, 1 August 2014

Temporary counter for trading in New Shares in board lots of 5,000 New Shares (in the form of existing share certificates) closes4:00 p.m., Thursday, 21 August 2014

Parallel trading in New Shares (in the form of new share certificates and existing share certificates) ends4:00 p.m., Thursday, 21 August 2014

Designated broker ceases to provide matching services for odd lots of New SharesThursday, 21 August 2014

Last day for free exchange of existing share certificates for new share certificates.Monday, 25 August 2014

This timetable is indicative only and any subsequent changes to the expected timetable will be announced by the Company.

WARNING

Shareholders should take note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed “Conditions of the Capital Reorganisation”. Therefore, the Capital Reorganisation may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. In compliance with the GEM Listing Rules, all resolutions will be voted on by way of a poll at the SGM. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM. A circular containing, among other things, details of the Capital Reorganisation and a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Acquisition Agreement”	the sale and purchase agreement dated 15 November 2012 signed by the Company in relation to the acquisition of 50.5% of the equity interest in Apperience Corporation (as supplemented and amended by the supplemental agreement dated 11 December 2012)
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.39 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.40 to HK\$0.01
“Capital Reorganisation”	the proposed reorganisation of the share capital of the Company involving the Share Consolidation, the Capital Reduction and the Share Subdivision
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	M Dream Inworld Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued shares of which are listed on GEM
“Consolidated Share(s)”	ordinary share(s) of HK\$0.40 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Conversion Notes”	zero coupon convertible notes in an aggregate principal amount of HK\$16,646,024.625 convertible into Existing Shares at the conversion price of HK\$0.108 per conversion share (subject to adjustments)
“Director(s)”	the director(s) of the Company
“Existing Share(s)”	ordinary share(s) of HK0.10 each in the existing share capital of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“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
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“New Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, the Capital Reorganisation
“Share Consolidation”	the proposed consolidation of every four (4) issued and unissued Existing Shares into one (1) Consolidated Share
“Shareholder(s)”	holder(s) of the Existing Share(s), the Consolidated Share(s), and/or the New Share(s) as the case may be
“Share Subdivision”	the proposed sub-division of each of the authorised but unissued Consolidated Shares of HK\$0.40 each into forty (40) New Shares of HK\$0.01 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tranche I Performance Shares”	715,522,718 Existing Shares to be allotted and issued by the Company on 6 June 2014 in accordance with the Acquisition Agreement, details of which were set out in the announcement of the Company dated 21 May 2014
“Tranche I Performance Shares Issue”	the allotment and issue of the Tranche I Performance Shares which are to take place on 6 June 2014
“Tranche II Performance Shares”	up to 726,171,294 Existing Shares (subject to adjustments) which may be allotted and issued by the Company in accordance with the Acquisition Agreement
“%”	per cent

On behalf of the Board of
M Dream Inworld Limited
Chi Chi Hung, Kenneth
Chairman

Hong Kong, 3 June 2014

As at the date of this announcement, the Board consists of Mr. Chi Chi Hung, Kenneth and Mr. Xue Qiushi being the executive Directors, and Mr. Lam Kit Sun, Mr. Yip Chi Fai Stevens and Ms. Xiao Yiming 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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its publication and on the website of the Company at <http://www.mdreaminworld.com.hk>.