



M DREAM INWORLD LIMITED

聯夢活力世界有限公司

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report

2010

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of the issuer 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 issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.

HIGHLIGHTS (UNAUDITED)

- The turnover of the Group was approximately HK\$3.03 million for the Period representing a decrease of approximately 26.63% as compared to the turnover for the corresponding period in 2009 of approximately HK\$4.13 million.
- The Group recorded a loss attributable to equity shareholders of the Company of approximately HK\$8.03 million for the Period compared to the loss of approximately HK\$11.55 million for the same period last year.
- Loss per share for loss attributable to equity shareholders of the Company for the Period was HK0.71 cents.

RESULT

The board of Directors (the “Board”) of M Dream Inworld Limited (“the Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and nine months ended 30 September 2010 (the “Period”), together with the comparative unaudited figures for the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

For the three months and nine months ended 30 September 2010
(Expressed in Hong Kong dollars)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000 (restate)	2010 HK\$'000	2009 HK\$'000 (restate)
Continuing operations					
Turnover	2	264	1,085	3,030	4,134
Cost of sales		(12)	(981)	(2,469)	(3,625)
Gross profits		252	104	561	509
Other revenue and net income/(loss)	3	(554)	291	369	386
Selling and administrative expenses		(3,361)	(4,366)	(8,942)	(10,557)
Loss from operations		(3,663)	(3,971)	(8,012)	(9,662)
Finance costs		(1)	(9)	(17)	(21)
Loss before taxation		(3,664)	(3,980)	(8,029)	(9,683)
Taxation	4	-	-	-	-
Loss for the period from continuing operations		(3,664)	(3,980)	(8,029)	(9,683)
Discontinued operation					
Loss for the period from discontinued operation	5	-	(855)	-	(2,317)
Loss for the period		(3,664)	(4,835)	(8,029)	(12,000)
Attributable to:					
Equity shareholders of the Company		(3,664)	(4,823)	(8,029)	(11,550)
Non-controlling interests		-	(12)	-	(450)
Loss for the period		(3,664)	(4,835)	(8,029)	(12,000)
Loss per share					
From continuing and discontinued operations					
Basic		(HK\$0.32) cents	(HK\$0.55) cents	(HK\$0.71) cents	(HK\$1.31) cents
Diluted		N/A	N/A	N/A	N/A
From continuing operations					
Basic		(HK\$0.32) cents	(HK\$0.45) cents	(HK\$0.71) cents	(HK\$1.10) cents
Diluted		N/A	N/A	N/A	N/A

RESULT

	Three months ended 30 September		Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000 (restate)	2010 HK\$'000	2009 HK\$'000 (restate)
Loss for the period	(3,664)	(4,835)	(8,029)	(12,000)
Other comprehensive income/(expenses)				
Exchange translation differences on translation of financial statement of overseas subsidiaries	-	56	97	(80)
Total comprehensive loss for the period	(3,664)	(4,779)	(7,932)	(12,080)
Attributable to:				
Equity shareholders of the Company	(3,664)	(4,767)	(7,932)	(11,630)
Non-controlling interests	-	(12)	-	(450)
Total comprehensive loss for the period	(3,664)	(4,779)	(7,932)	(12,080)

RESULT**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED***For the nine months ended 30 September 2010*

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Exchange Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000	Non- controlling interest HK\$'000	Total equity HK\$'000
Balance at 1 January 2009	8,198	164,284	6,426	482	(146,729)	32,661	450	33,111
Partial disposal of a subsidiary	-	-	256	-	-	256	-	256
Issue of new share – open offer	2,733	9,565	-	-	-	12,298	-	12,298
Professional expenses incurred in open offer	-	(798)	-	-	-	(798)	-	(798)
Total comprehensive expense for the period	-	-	-	(80)	(11,550)	(11,630)	(450)	(12,080)
Balance at 30 September 2009	<u>10,931</u>	<u>173,051</u>	<u>6,682</u>	<u>402</u>	<u>(158,279)</u>	<u>32,787</u>	<u>-</u>	<u>32,787</u>
Balance at 1 January 2010	10,931	173,039	6,426	(66)	(160,895)	29,435	-	29,435
Issue of new share – placing	2,180	19,620	-	-	-	21,800	-	21,800
Professional expenses incurred in placing	-	(595)	-	-	-	(595)	-	(595)
Exchange difference	-	-	-	97	-	97	-	97
Net loss for the period	-	-	-	-	(8,029)	(8,029)	-	(8,029)
Balance at 30 September 2010	<u>13,111</u>	<u>192,064</u>	<u>6,426</u>	<u>31</u>	<u>(168,924)</u>	<u>42,708</u>	<u>-</u>	<u>42,708</u>

RESULT

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. Basis of preparation of the financial statements

The consolidated financial statements of the Company have been prepared under the historical cost convention in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) of the Stock Exchange.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the Company’s annual financial statements for the year ended 31 December 2009.

2. Turnover

	Nine months ended 30 September					
	Continuing operations		Discontinued operation		Total	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of software and hardware, and system solutions services	-	-	-	4,790	-	4,790
Sales of display equipment, components and related technology	2,766	4,134	-	-	2,766	4,134
Sales of website development, electronic learning services and related technology	264	-	-	-	264	-
	3,030	4,134	-	4,790	3,030	8,924

RESULT**3. Other revenue and net income/(loss)**

Nine months ended 30 September

	Continuing operations		Discontinued operation		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other revenue						
Bank interest income	60	75	-	-	60	75
Dividend income	390	-	-	-	390	-
Government grant	-	-	-	202	-	202
Sundry income	3	50	-	-	3	50
	453	125	-	202	453	327
Other net income/(loss)						
Loss on disposal of associated companies	(7)	-	-	-	(7)	-
Loss on disposal of fixed assets	(49)	(114)	-	-	(49)	(114)
Gain/(loss) on disposal of subsidiary companies	(28)	375	-	-	(28)	375
	(84)	261	-	-	(84)	261
	369	386	-	202	369	588

4. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits in Hong Kong for the Period (2009: Nil).

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. No overseas taxation has been made in the financial statements for the subsidiaries operating outside Hong Kong for the Period (2009: Nil).

RESULT

5. Loss from discontinued operation

On 20 March 2008, the Group disposed of a 30% equity interest in a wholly owned subsidiary company, Elipva Limited, together with its interest in a subsidiary, Elipva Inc.

On 29 October 2009, the Group further disposed of the remaining 70% equity interest in Elipva Limited, together with its interest in Elipva Inc.

The business of sales of system solution services carried out by the subsidiaries was discussed as discontinued operation.

6. Loss per share

(a) Basic loss per share

From continuing operations

The calculation of basic loss per share from continuing operations is based on the loss attributable to equity shareholders of the Company of HK\$8,029,000 (2009: HK\$9,683,000 (restated)) and the weighted average of 1,133,843,181 ordinary shares (2009: 881,901,901 shares) in issue during the Period.

From discontinued operation

The calculation of basic loss per share from discontinued operation of 2009 is based on the loss attributable to equity shareholders of the Company of HK\$2,317,000 and the weighted average of 881,901,901 ordinary shares in issue during the period.

There is no loss from discontinued operation in 2010.

(b) Diluted loss per share

No diluted loss per share has been presented as there were no dilutive events during the periods ended 30 September 2010 and 2009.

RESULT**7. Segment reporting**

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three (2009: two) reportable segments.

- Sale of software and hardware, and system solution services
- Sale of display equipment, components and related technology
- Sale of website development, electronic learning services and related technology

(a) Segment results

	Nine months ended 30 September							
	Continuing operations				Discontinued operation			
	Sales of display equipment, components and related technology		Sale of website development, electronic learning services and related technology		Sales of software and hardware, and system solution services		Total	
2010	2009	2010	2009	2010	2009	2010	2009	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Sales from external customers	2,766	4,134	264	-	-	4,790	8,924	
Segment results	(3,158)	(2,915)	(33)	-	-	(2,317)	(5,232)	
Unallocated operating income and expenses						(4,821)	(6,746)	
Loss from operations						(8,012)	(11,978)	
Finance costs						(17)	(22)	
Loss for the period						(8,029)	(12,000)	
Other segment information:								
Depreciation	471	137	-	-	-	26	163	
Capital expenditure	417	875	-	-	-	29	904	

RESULT

(b) Geographical segments

In presenting the information on the basis of geographical segments, segment revenue is calculated based on the geographical location of customers. The details of geographical segments are as follows:

	Nine months ended	
	30 September	
	2010	2009
	HK\$'000	HK\$'000
Revenue from external customers		
PRC	2,766	2,952
Singapore	–	4,790
Hong Kong (place of domicile)	264	1,182
	3,030	8,924

8. Reserves

The amounts of the Group's reserves and the movements therein for the Period and the same period of previous year are presented in the condensed consolidated statement of changes in equity of the financial statements.

9. Dividends

The Directors of the Company do not recommend the payment of any dividend in respect of the Period (2009: Nil).

10. Continuing connected transactions

During the Period, the Group's wholly owned subsidiary, 廣泰益昌 (北京) 科技有限公司 ("Guang Tai Yichang (Beijing) Technology Co., Ltd."), entered into a framework agreement with 鴻源控股有限公司 ("Greatsource Holding Co., Ltd."), a PRC company which is controlled by Ms Li Fang Hong, a former Executive Director and former substantial shareholder of the Company, and her associate(s), to purchase display equipment and components and related technology, in an aggregate commercial value of, but not exceeding, HK\$97,000,000, HK\$126,000,000 and HK\$149,000,000 in the calendar years of 2009, 2010 and 2011 respectively. The transaction has been approved in an extraordinary general meeting on 9 March 2009. Details of the transaction and the results of the extraordinary general meeting are set out in the Company's announcements dated 18 February and 9 March 2009 respectively. The amount of purchase for the Period is shown in Note 11.

11. Related parties transactions

During the Period, the Group entered into the following transactions with related parties:

		Nine months ended	
		30 September	
Name of related party	Nature of transactions	2010	2009
		HK\$'000	HK\$'000
鸿源控股有限公司 ("Greatsource Holding Co., Ltd.") and its subsidiaries (Note)	Purchase of display equipment, components and related technology	<u>2,120</u>	<u>3,706</u>

Note: 鸿源控股有限公司 ("Greatsource Holding Co., Ltd.") is a PRC company which is controlled by Ms. Li Fang Hong, a former Director and former substantial shareholder of the Company, and her associate(s).

12. Subsequent event

On 15 October 2010 the Company entered an Underwriting Agreement with Kingston Securities Limited as the Underwriter for an Open Offer proposed by the Company which, upon completion approximately HK\$104,889,000 new funding before expenses will be raised. There is Share Consolidation and Bonus Shares Issue associated with the Open Offer. The details of the exercise can be referred to the announcement published by the Company on 15 October 2010.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

The display business recorded no turnover for the three months ended 30 September 2010 and the turnover generated from this business for the Period was approximately HK\$2,766,000 only. This operation was mainly carried out by the subsidiary in Beijing and the management is thinking seriously about the prospect of this business. However, the new business of provision of electronic learning products and services marked a new start to the Group. The turnover from this business was approximately HK\$264,000 for the Period. It was not significant as the Company only began to consolidate the results of this new business since 19 July 2010. Selling and administrative expenses were tightly controlled during the Period to reduce the loss of the Group compared to the same period in last year despite the disappointing turnover amount for the Period.

FINANCIAL REVIEW

Turnover

The turnover of the Group was approximately HK\$3,030,000 for the Period, representing a decrease of approximately 66.05% compared to the turnover for the period ended 30 September 2009 of approximately HK\$8,924,000. The drop in turnover was due to the Group discontinued its operations of sales in software and hardware, and system solutions and services in 2009, and a drop in sales of display equipment, components and related technology.

Loss for the period

The loss attributable to shareholders for the Period was approximately HK\$8,029,000 compared to loss attributable to shareholders of approximately HK\$11,550,000 for the period ended 30 September 2009. The improvement in the loss attributable to shareholders was due to tight management control on cutting down administrative expenses.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Capital structure

There has been no significant change in the capital structure of the Company during the Period except a placement was done and 218,000,000 new shares at HK\$0.10 per share were issued under a general mandate to several placees. Details of this placement are set out in the Company's announcement published on 29 July 2010. The changes in equity of the Company by this placement is shown in Condensed Consolidated Statement of Changes in Equity.

Foreign exchange exposure

During the Period the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The directors did not consider the Group was significantly exposed to any foreign currency exchange risk.

Significant investments

The Group had no significant investments during the Period except the acquisition mentioned below.

Material acquisitions and disposals

During the Period the Company through a wholly-owned subsidiary, successfully acquired all the issued capital of Kanhan Educational Services Limited ("Kanhan Educational") at a consideration of HK\$25,000,000. The main business of Kanhan Educational is to provide electronic learning products and services. The contributions from Kanhan Educational to the Group can be referred in Note 2 and Note 7 in Notes to the Financial Statements. Details of this acquisition and its completion are set out in the Company's announcements published on 14 July 2010, 19 July 2010 and 13 August 2010 respectively.

There was no material disposal by the Group during the Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has relied on Rules 5.48 to 5.67 of the GEM Listing Rules as the required standard of dealings in respect to any dealings in the Company's securities by the Company's Directors.

General and specific enquiries have been made to all Directors and they all confirmed they have complied with the said GEM Listing Rules during the Period.

OUTLOOK

The new wholly-owned subsidiary Kanhan Educational will provide a steady growth in income to the Group. As mentioned before in the Company's announcements, Kanhan Educational has a profits guarantee of HK\$2,200,000 and HK\$6,500,000 for each of the year 2011 and 2012 respectively. There are more than 120 secondary and primary schools subscribing the electronic learning products and services offered by Kanhan Educational, and the number is expected to increase in the coming future.

There are also two major efforts underway in expanding Kanhan Educational's electronic learning offerings. The Hong Kong government has made a provision approximately HK\$140,000,000 for schools to participate in electronic learning pilot projects. Kanhan Educational has applied funding for three pilot projects in partnership with schools providing the learning materials and IT infrastructure. The success of each project will bring upon a new brand new teaching curriculum to replace traditional text book based teaching approach.

The second effort done by Kanhan Educational is that it has recently launched the world's first Cantonese, Putonghua and English text-to-speech application on iPhone which has received excellent review. When this application is matured enough and with tremendous number of iPhone and smart phone users, the business opportunity to Kanhan Educational in applying mobile learning applications is huge in this area of services.

Apart from the contribution of Kanhan Educational, the Company has been seeking other investment opportunities with full potential. When the Open Offer mentioned in Note 12 to the Financial Statements above is completed, the Company will have sufficient funding to acquire projects with lots of prospects.

OTHER INFORMATION

DIRECTORS' INTERESTS IN CONTRACT

Save as disclosed in note 11 above, none of the Directors had any interests in any contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, and which subsisted at the end of the Period or at any time during the Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2010, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO", Chapter 571 under the Laws of Hong Kong), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

OTHER INFORMATION

SHARE OPTION SCHEME

On 24 December 2007, a new share option scheme (“**the Scheme**”) was approved by shareholders of the Company in an extraordinary general meeting. This Scheme is to enable the Company to grant options to either Directors or employees of the Group in order to recognize and motivate their contribution, provide incentives and to help the Group in retaining its existing employees and recruiting additional quality employees and to provide them with a direct economics interest in attaining the long term business objectives of the Group.

No options were ever granted under this Scheme as at 30 September 2010.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, the following persons had, or were deemed to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Division 2 and 3 or Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the group, or substantial shareholder required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Number of shares held	Approximate percentage of interests in the Company's issued share capital
Ample Field Limited (<i>Note 1</i>)	273,333,333	20.85%
Mr. Yu Shu Kuen (<i>Note 1</i>)	273,333,333	20.85%
Kingston Finance Limited (<i>Note 2</i>)	273,333,333	20.85%
Ample Cheer Limited (<i>Note2, 3</i>)	273,333,333	20.85%
Best Forth Limited (<i>Note2, 3</i>)	273,333,333	20.85%
Mrs. Chu Yuet Wah (<i>Note2, 3</i>)	273,333,333	20.85%

OTHER INFORMATION

Notes:

1. These shares are beneficially owned by Ample Field Limited of which the entire issued capital is beneficially owned by Mr. Yu Shu Kuen. Accordingly, Mr. Yu Shu Kuen is deemed to be interested in these shares.
2. The 273,333,333 shares in the Company held by Ample Field Limited is charged to Kingston Finance Limited. Accordingly, Kingston Finance Limited is deemed to have a security interest in these 273,333,333 shares.
3. Kingston Finance Limited is wholly owned by Ample Cheer Limited which is 80% owned by Best Forth Limited, and Best Forth Limited is wholly owned by Mrs. Chu Yuet Wah. Accordingly, Ample Cheer Limited, Best Forth Limited and Mrs. Chu Yuet Wah are deemed to be interested in the 273,333,333 shares in the Company which Kingston Finance Limited is deemed to have a security interest.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries, had purchased, sold or redeemed any of the Company's shares during the Period.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company has any interest in a business which competes or may compete with the business of the Group during the Period.

CORPORATE GOVERNANCE

During the Period the Company has complied with the code provisions set out in Appendix 15 of the GEM Listing Rules except for temporary violation of Code Provision A2.1 which requires the separation of the roles of chairman and chief executive officer. Since the former chairman resigned on 30 September 2009, the former Managing Director of the Company, Ms. Li Fang Hong, has temporarily taken up the role as chairman while carrying out her duties as the Managing Director until she resigned as Director on 9 July 2010. Mr. Chi Chi Hung, Kenneth has been appointed as Executive Director and chairman of the Company on 8 July 2010. Mr. Ng Kay Kwok has been appointed as Executive Director of the Company on 9 July 2010 and since then he has been carrying out the duties as the chief executive officer.

OTHER INFORMATION

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee members as at the date of this report are Mr. B Ray Tam, Billy, Mr. Yu Pak Yan, Peter and Ms. Chan Hoi Ling. They are the Independent Non-executive Directors of the Company. The Audit Committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The Company's financial statements for the Period have been reviewed and discussed by the Audit Committee before any disclosure and release of information.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 of the GEM Listing Rules during the Period.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their support to the Company.

By Order of the Board
M Dream Inworld Limited
Chi Chi Hung, Kenneth
Chairman

5 November 2010

As at the date of this report, the Board consists of Mr. Chi Chi Hung, Kenneth, and Mr. Ng Kay Kwok being the Executive Directors, Mr. Billy B Ray Tam, Ms. Chan Hoi Ling and Mr. Yu Pak Yan, Peter being the Independent Non-executive Directors.