M Channel Corporation Limited

流 動 廣 告 有 限 公 司

(formerly known as 36.com Holdings Limited)

Annual Report 2002

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors (the "Directors") of M Channel Corporation Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

CHAIRMAN
Yeung Wing Yan, Wendy

EXECUTIVE DIRECTORS
Wong Kun To
Cheung Kwok Wah
Zhang Zhen Li

NON-EXECUTIVE DIRECTORS
Yang Bu Ting
Zhang Jia Ji

INDEPENDENT NON-EXECUTIVE DIRECTORS
Choy Hok Man, Constance
Pang Hong

REGISTERED OFFICE
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Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
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WEBSITE ADDRESS
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STOCK CODE
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RESIDENT REPRESENTATIVE
AS&K Services Limited

ASSISTANT SECRETARY
AS&K Services Limited

COMPLIANCE OFFICER
Wong Kun To

QUALIFIED ACCOUNTANT
Lai Mei Ling, ACCA

COMPANY SECRETARY
Lai Mei Ling, ACCA

AUDIT COMMITTEE
Choy Hok Man, Constance
Pang Hong

AUTHORISED REPRESENTATIVES
Wong Kun To
Lai Mei Ling

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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SPONSOR
Worldsec Corporate Finance Limited

PRINCIPAL BANKERS
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Ltd.
Bank of China

AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISORS
Iu, Lai & Li
Appleby Spurling & Kempe

BUSINESS REVIEW

The operating environment has been extremely difficult for the Internet portal and publishing business of 36.com Holdings Limited and its subsidiaries ("36.com") over the previous year. Internet portal business of 36.com and print media business of the CUP magazine continued to suffer from sluggish market conditions and fierce competition in the market place.

For the year ended March 31, 2002, the turnover of 36.com amounted to HK$32,865,000, representing a 36.0% increase from last year result. The increase was primarily due to the launching of the CUP magazine in May 2001. Owing to the printing and the production costs associated with the CUP magazine and the severence payments relating to the restructuring programme, loss attributable to shareholders amounted to HK$100,429,000, representing an increase of 27.3% over the past year.

Given the intense competitive environment of e-commerce and publishing business, 2001/02 was a positive year for 36.com to redefine its corporate focus. In review of the Group's operation, several corporate restructurings have occurred during the year.

36.com has decided to diversify and reform its core business through the acquisition of the Mobile Media Group in April 2002 (the Company renamed to M Channel Corporation Limited) for a consideration of HK$250,000,000 which was satisfied by the issue of 15,625,000,000 new ordinary shares in the Company (before the 20 into 1 share consolidation in May 2002) at HK$0.016 per share. New management was put in place after the acquisition to enhance operating efficiencies and redefine the corporate strategy in delivering shareholder value in the long run. As a result, the CUP magazine was disposed of in May 2002 in order to refocus the Group in the out-of-home audio and video advertising business.

The strategic move marked a tremendous step forward in moving the Group to the forefront of out-of-home audio and video media business under the brand name of "M Channel" in Hong Kong and China.

M Channel operates a leading out-of-home audio and video media business in Hong Kong and China, which involves the installation and operation of multi-media advertising systems (display units and telecasting equipment) on transit vehicles such as buses, mini-buses and at fixed locations. The key value driver is on the selling of commercial airtime.

OUTLOOK

Hong Kong

By the end of 2001, the Group has successfully completed the installation of multi-media telecasting systems in over 700 buses on board of New World First Bus, and 1,000 mini-buses on board of green public light buses. M Channel's strategic partnerships with New World First Bus and public light buses built a solid foundation for the Group in its initial stage of operations. Future growth for the Group in Hong Kong will be primarily driven by further roll out of fixed location installation in commercial venues. In addition to transit vehicles, M Channel has access to approximately 120 Watson's stores and other fast food chains. The coverage will continue to grow and further sign up of new business partners is anticipated. Currently, M Channel has daily viewership of approximately 1.5 million in Hong Kong.

China

The China market remains as the prominent growth area for M Channel. Given the entry of WTO and the hosting of the Olympics in 2008, potential growth in outdoor advertising market in China remains promising. M Channel currently has over 1,500 buses coverage in major cities such as Beijing, Guangzhou and Harbin. The daily viewership number in China is approximately 1.8 million. M Channel plans to increase coverage to more cities in the future in vehicles as well as fixed locations rollout.

Other Markets

Depending on the outcome of business evaluation and market conditions, M Channel is set to explore other markets in the Asia Pacific region when opportunity arises.

The Group is determined to increase shareholder value by focusing on the existing business strategy in the out-of-home audio and video media telecasting business. We will also continue to deliver value to our customers through our vast network coverage and the creativity of our people. I would like to thank my fellow dedicated directors and colleagues for their continued efforts and support in paving the way to "Anytime, Everywhere, M Channel!"

Yeung Wing Yan, Wendy
Chairman

Hong Kong, June 27, 2002

Business Objectives

In accordance with the business objectives as set out in the IPO prospectus dated July 18, 2000, below is the progress report of 36.com Holdings Limited.

Following the acquisition of the Mobile Media Group in April 2002, new management was put in place and an in-depth business review on the business operations and objectives was conducted. The Group may cease certain business operations which have no particular cost advantages and cannot justify their operating efficiency and capital requirements. The Group will continue to review its business objectives and strategies and make adjustments as necessary.

Business objectives for the period from April 1, 2001 to September 30, 2001 as stated in the prospectus dated July 18, 2000	**Actual business progress for the year ended March 31, 2002**
Hong Kong	
• Continue to increase the depth of content and variety of features on all the Group's vertical portals to encourage a rapid rate of growth in traffic to the portals and in the number of new registered users.	• The Group had revised its vertical portals several times during the period to increase the depth of content and variety of features.
• Continue to expand and build new portals through joint-venture partnerships including e-tailing (such as e-tailing second hand cars).	• The Group had built many e-tailing partnerships during the period. One example was an online partnership with Citicall on audio visual product.
• Roll out further intermediary services on the Consumer portal.	• The Group had launched an intermediary service to help Public Service Entities (e.g., Hospital) organise events.

Business objectives for the period from April 1, 2001 to September 30, 2001 as stated in the prospectus dated July 18, 2000	Actual business progress for the year ended March 31, 2002
North America	
• Continue to increase the depth of content and variety of features on each of the Group's localised vertical portals to encourage a rapid rate of growth in traffic to the portals and in the number of new registered users.	• The Group had no plan to expand its vertical portals in North America in light of the changes in market conditions.
• Launch localised Entertainment portal.	• The Group had no plan to launch localised Entertainment portal in North America in light of the changes in market conditions.
PRC	
• Continue to increase the depth of content and variety of features on each of the Group's localised vertical portals to encourage a rapid rate of growth in traffic to the portals and in the number of new registered users.	• The Group had no plan to expand its vertical portals in the PRC in light of the changes in market conditions.
• Launch localised Finance portal. • Launch localised Entertainment portal.	• The Group had no plan to launch localised Finance or Entertainment portals in the PRC in light of the changes in market conditions.

Business objectives for the period from April 1, 2001 to September 30, 2001 as stated in the prospectus dated July 18, 2000	Actual business progress for the year ended March 31, 2002
Asia/ Australasia	
• Launch localised Entertainment portals targeted at the Chinese communities in Thailand, Taiwan, and Australasia. • Launch localised Consumer portals targeted at the Chinese communities in Thailand, Taiwan, and Australasia.	• The Group had no plan to launch localised Entertainment or Consumer portals in Asia/ Australasia in light of the changes in market conditions.
• Develop distribution of the Group's Chinese language vertical portals/ content through other third parties networks.	• The Group had no plan to distribute its Chinese language vertical portals through other third parties networks in Asia/ Australasia in light of the change in market conditions.

Business objectives for the period from October 1, 2001 to March 31, 2002 as stated in the prospectus dated July 18, 2000	Actual business progress for the year ended March 31, 2002
Hong Kong	
• Promote wireless platform capabilities in the areas of shopping.	• The Group had no plan to promote wireless platform capabilities in the areas of shopping in light of the changes in market conditions.
• Launch new generation products such as broadband version of the Entertainment and e-card portals.	• The Group had no plan to launch new generation products such as broadband version of the Entertainment and e-card portals in light of the changes in market conditions.
• Broaden the range of available e-tailing products such as fashions, cosmetics.	• The Group had broadened the range of available e-tailing products such as alcoholic drinks, watches, etc. during the period.
• Continue to establish e-business in target markets that offer opportunities.	• The Group had no plan to increase its e-business in target markets in light of the changes in market conditions.
• Continue to explore and capitalise on strategic opportunities such as through acquisition of country specific portals in target markets.	• The Group had no plan to acquire portals in light of the changes in market conditions.
• Continue to increase the depth of content and variety of features on each vertical portal.	• The Group had revised its vertical portals several times during the period to increase the depth of content and variety of features.

Business Objectives

Business objectives for the period from October 1, 2001 to March 31, 2002 as stated in the prospectus dated July 18, 2000	Actual business progress for the year ended March 31, 2002
North America	
• Promote wireless platform capabilities in the areas of shopping.	• The Group had no plan to promote wireless platform capabilities in the areas of shopping in North America in light of the changes in market conditions.
• Launch localised versions of further vertical portals of the Group.	• The Group had no plan to launch localised versions of its vertical portals in North America in light of the changes in market conditions.
• Continue to establish an e-business in target markets that offer opportunities.	• The Group had no plan to expand its e-business in North America in light of the changes in market conditions.
• Continue to explore and capitalise on strategic opportunities such as through acquisition of country specific portals in target markets.	• The Group had no plan to acquire portals in North America in light of the changes in market conditions.
PRC	
• Promote wireless platform capabilities in the areas of shopping.	• The Group had no plan to promote wireless platform capabilities in the areas of shopping in the PRC in light of the changes in market conditions.
• Launch localised versions of further vertical portals of the Group (but excluding the Group's News vertical portal).	• The Group had no plan to launch localised versions of its vertical portals in the PRC in light of the changes in market conditions.
• Continue to establish an e-business presence in target markets that offer opportunities.	• The Group had no plan to expand its e-business in the PRC in light of the changes in market conditions.
• Continue to explore and capitalise on strategic opportunities such as through acquisition of country specific portals in target markets.	• The Group had no plan to explore and capitalise on strategic opportunities in the PRC in light of the changes in market conditions.

Business objectives for the period from October 1, 2001 to March 31, 2002 as stated in the prospectus dated July 18, 2000	Actual business progress for the year ended March 31, 2002
Asia/ Australasia	
• Launch localised versions of further vertical portals of the Group targeted at the Chinese communities in Thailand, Taiwan and Australasia.	• The Group had no plan to launch localised versions of its vertical portals in Asia/ Australasia in light of the changes in market conditions.
• Commence establishment of e-business in target markets that offer opportunities.	• The Group had no plan to commence e-business in Asia/ Australasia in light of the changes in market conditions.
• Continue to explore and capitalise on strategic opportunities such as through acquisition of country specific portals in target markets.	• The Group had no plan to explore and capitalise on strategic opportunities in Asia/ Australasia in light of the changes in market conditions.

LIQUIDITY AND FINANCIAL RESOURCES

As at March 31, 2002, the Group had cash balance of approximately HK$897,000 as compared to approximately HK$78,386,000 as at March 31, 2001. Owing to the loss recorded for the year, the cash balance of the Group decreased significantly during the year under review. As at March 31, 2002, the Group had obligations under finance leases of approximately HK$143,000 (2001: approximately HK$4,633,000). Save as disclosed above, the Group had no bank borrowings.

In order to finance its working capital and in view of the need to develop the outdoor media business acquired in April 2002, the Group raised a net amount of approximately HK$45,000,000 in April 2002 by way of placement of 3,125,000,000 new ordinary shares of the Company (before the 20 into 1 share consolidation in May 2002) to independent investors at a price of HK$0.016 per share. The placement has strengthened the financial position of the Group.

THE GEARING RATIO

Owing to the loss incurred for the year under review, the gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of total assets, was 324.7% as at March 31, 2002, as compared to 8.9% of last year. The gearing ratio has been substantially improved upon the receipt of the net placement proceeds of approximately HK$45,000,000 in April 2002.

EXCHANGE RISK

The Group was not exposed to any exchange risk as all its transactions were negotiated and settled in Hong Kong dollars.

CHARGES ON GROUP ASSETS

As at March 31, 2002, none of the Group's assets was pledged as security for liabilities.

SEGMENT INFORMATION

For the year under review, the Group was principally engaged in three business segments, which included e-commerce trading, Internet advertising and consultancy, and magazine publishing and advertising. All the activities of the business segments were based in Hong Kong. The Group presented its segment information based on the nature of its operations and the products and services it provided.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group launched the CUP magazine in May 2001. However, owing to the market downturn caused by both the September 11 terrorist attack and the overall adverse economic environment in Hong Kong, the Group announced a major restructuring programme in December 2001 and turned the CUP magazine from a weekly into a monthly magazine.

On February 21, 2002, the Company entered into the sale and purchase agreements with Gold Focus Ltd. and Tiger Princess Co., Ltd. for the acquisition of the entire issued share capital of Fortune Impact Limited, a company which is engaged in the outdoor media business, for a consideration of HK$250,000,000. The consideration was satisfied by the issue of 15,625,000,000 new ordinary shares in the Company (before the 20 into 1 share consolidation in May 2002) at HK$0.016 per share. The acquisition was approved by the shareholders of the Company on April 15, 2002 and completed on April 18, 2002. Upon completion of the acquisition, new management was put in place and the Company has implemented a restructuring exercise under which the Group's interest in the CUP magazine was disposed of in May 2002 to enable the Group to focus and devote its resources to the development of the outdoor media business. To cope with the new business direction, the Company changed its name to M Channel Corporation Limited and adopted the Chinese trade name of 流動廣告有限公司 with effect from April 23, 2002.

Details of the acquisition of Fortune Impact Limited have been set out in the Company's circular dated March 28, 2002.

HUMAN RESOURCES

As at March 31, 2002, the Group had 32 full time employees. Employee cost totaled approximately HK$53,313,000 (excluding Directors' emoluments). Employees are entitled to benefits such as medical coverage and retirement schemes. The Group's salary review is conducted annually and any remuneration adjustment is determined on the basis of the performance of individual staff.

CONTINGENT LIABILITIES

As at March 31, 2002, the Group did not have any material contingent liabilities.

Ms. Yeung Wing Yan, Wendy, aged 40, has been the chief executive officer of the Mobile Media Group since June 2001 and is, since inception of the Mobile Media Group, responsible for overseeing various areas such as corporate development, marketing and sales and strategic development. Ms. Yeung has over 10 years of experience in the media and communications industry, and in sales and marketing in Hong Kong and the People's Republic of China ("PRC"). She is a director of Occasions Corporate & Financial Communications Limited, the business of which was established by her in 1989 and has since then been developed into an active financial public relations and communications consultant company in Hong Kong. Ms. Yeung graduated from the University of Hawaii at Manoa with a degree in Business Administration, majoring in marketing.

Mr. Wong Kun To, aged 45, is the executive director of Mobile Media Group. Mr. Wong has over 15 years of experience in business development and investment especially in the media, entertainment and technology industries. Mr. Wong is a member of the Institute of Engineers (U.K.) and the Hong Kong Institute of Engineers. Prior to joining the Mobile Media Group and since January 1999, Mr. Wong established and developed the information technology business of STAREASTnet.com Corporation (now known as Sing Pao Media Group Limited). He is the managing director of Star East Holdings Limited and an executive director of ITC Corporation Limited ("ITC") and Sing Pao Media Group Limited.

Mr. Cheung Kwok Wah, Ken, aged 45, is the vice chairman of Sing Pao Media Group Limited, executive director of ITC and Hanny Holdings Limited. He holds a bachelor of civil laws from University College, Dublin. Prior to joining ITC, he was a director of an international merchant bank in Hong Kong for over seven years. He is a solicitor in Hong Kong and has over 15 years' experience in the legal and merchant banking fields.

Mr. Zhang Zhen Li, aged 47, joined the Mobile Media Group in September 2001 and is responsible for the Group's operations in the PRC. Mr. Zhang holds a master of arts degree in business and administration management and has over 29 years of experience in management in mainland China which included taking leadership of Low-pressure Electrical Machine Manufacturing of Beijing and serving as the chief executive of various departments of the Beijing government, the chief delegate of Computer Product Co. of United States of America (Beijing) and the managing director of Beijing Tai Feng Hui Zhong Mansion Co., Ltd.

Ms. Choy Hok Man, Constance, aged 41, holds directorship in a number of listed companies in Hong Kong. Ms. Choy is a solicitor qualified in Hong Kong and England. She is a partner of Sidley Austin Brown & Wood, an international law firm.

Mr. Pang Hong, aged 48, worked for 18 years in enterprises and government departments in the PRC. After studying for 3 years in the United States, Mr. Pang came to Hong Kong for his career development. Mr. Pang is familiar with the investment environment in the PRC and has rich experience in the management of PRC companies. Mr. Pang is also an executive director of PacMOS Technologies Holdings Limited.

Mr. Yang Bu Ting, aged 56, has over 30 years of experience in the television and film industries in the PRC and is currently the chairman of China Film Group Company which is principally engaged in the film development business in the PRC.

Mr. Zhang Jia Ji, aged 49, has over 20 years of experience in the public transportation industry in the PRC and is currently the chairman of the National Urban Public Transportation Advertising Committee which is a management committee organised by PRC advertising agencies engaged in outdoor advertising relating transit vehicles, a director of Beijing Bus Joint Stock Company Limited which is principally engaged in the operation of public buses in Beijing, the PRC and the chairman and general manager of Beijing Public Transportation Advertising Company Limited which is engaged in outdoor advertising business involving bus shelters and bus bodies in Beijing, the PRC.

The Directors present their annual report and the audited financial statements of the Company for the year ended March 31, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements.

CHANGE OF COMPANY'S NAME

Pursuant to a special resolution passed at the special general meeting held on April 22, 2002, the name of the Company was changed from 36.com Holdings Limited to M Channel Corporation Limited and流動廣告有限公司was adopted as the Chinese translation of the new name of the Company with effect from April 23, 2002.

RESULTS

Details of the Group's results for the year ended March 31, 2002 are set out in the consolidated income statement on page 28 of the annual report.

FINANCIAL SUMMARY

A summary of the Group's results for each of the four years ended March 31, 2002 and the Group's assets and liabilities as at March 31, 2000, 2001 and 2002 is set out in the annual report on page 58.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the share capital, share options and warrants of the Company during the year are set out in notes 18, 19 and 20, respectively, to the financial statements. Pursuant to special resolutions passed at the special general meeting held on April 15, 2002, every 20 issued and unissued shares of HK$0.0001 each in the capital of the Company were consolidated into one share of HK$0.002 each which became effective on May 24, 2002 ("Share Consolidation").

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately HK$12,000,000 on the acquisition of plant and equipment for the purpose of expanding the Group's business. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries at March 31, 2002 are set out in note 30 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Yeung Wing Yan, Wendy (Chairman)	(appointed on April 17, 2002)
Wong Kun To	(appointed on April 17, 2002)
Cheung Kwok Wah, Ken	(appointed on April 17, 2002)
Zhang Zhen Li	(appointed on June 1, 2002)
Ip Saimond	(resigned on April 18, 2002)
Cheng Albert Jinghan	(resigned on April 18, 2002)
Yeung Kwok Mung	(resigned on April 18, 2002)

Non-executive directors:

Yang Bu Ting	(appointed on June 20, 2002)
Zhang Jia Ji	(appointed on June 20, 2002)
Huang Erwin Steve	(resigned on April 18, 2002)
Chung Wai Yang	(resigned on April 18, 2002)
Poon Kai Tik	(resigned on August 5, 2001)

Independent non-executive directors:

Choy Hok Man, Constance	(appointed on April 17, 2002)
Pang Hong	(appointed on April 30, 2002)
Leung Tak Man	(appointed on February 9, 2002 and resigned on April 30, 2002)
Wong Richard Yue Chim	(resigned on April 18, 2002)
Shek Abraham Lai Him, JP	(resigned on February 10, 2002)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

In accordance with article 102 of the Company's bye-laws, Messrs. Yeung Wing Yan, Wendy, Wong Kun To, Cheung Kwok Wah, Ken, Zhang Zhen Li, Yang Bu Ting, Zhang Jia Ji, Choy Hok Man, Constance and Pang Hong will retire and, eligible, offer themselves for re-election at the forthcoming annual general meeting. The term of office of each non-executive and independent non-executive director is the period up to his/her retirement in accordance with the provisions of the Company's Bye-laws.

Yeung Wing Yan, Wendy has entered into a service agreement with the Company for an initial period of two years commencing April 19, 2002, which will continue thereafter unless and until terminated by either party by giving two months' prior written notice.

Other than was disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

As at March 31, 2002, the interests of the directors and their associates in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities in the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

	Number of issued ordinary shares of HK$0.0001 each in the Company				
Name	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Cheng Albert Jinghan	1,326,000	13,206,000 *(note 1)*	–	602,490,000 *(note 2)*	617,022,000
Ip Saimond	243,456,000	–	–	–	243,456,000
Yeung Kwok Mung	68,238,000	–	–	–	68,238,000
Huang Erwin Steve	25,326,000	–	–	–	25,326,000
Chung Wai Yang	–	–	83,166,000 *(note 3)*	–	83,166,000

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Notes:

(1) These shares were held by Cheng Albert Jinghan's wife, Lo Irene Kam Sheung, and Cheng Albert Jinghan is therefore deemed to have an interest in these shares.

(2) These shares were held by Drummond Finance Limited ("Drummond"). Drummond is the wholly-owned subsidiary of Umbel Inc. ("Umbel"), a company which is owned by CIBC Trust Company (Bahamas) Limited ("CIBC Trust") and acts as a trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are discretionary beneficiaries of such trust and Cheng Albert Jinghan is therefore deemed to have an interest in these shares.

(3) These shares were held by Cyber Channel Limited, a company which is beneficially owned by Chung Wai Yang and Chung Wai Yang is therefore deemed to have an interest in these shares.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme".

None of directors or their associates have any interests in the warrants of the Company.

Save as disclosed above and other than certain nominee shares in the subsidiaries held in trust for the Company or its subsidiaries, or at March 31, 2002, none of the directors or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the financial statements, there were no other contracts of significance 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, which subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as detailed in note 29 to the financial statements, which also constituted connected transactions under the GEM Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following persons are interested in 10% or more of the issued ordinary shares of the Company:

Name	**Number of shares held**	**Percentage of issued share capital**
CIBC Trust *(Note 1)*	602,490,000	24.41%
Umbel *(Note 1)*	602,490,000	24.41%
Drummond *(Note 1)*	602,490,000	24.41%
Lo Irene Kam Sheung/Cheng Albert Jinghan *(Note 2)*	617,022,000	25.00%
ACAEDL Limited ("ACAEDL") *(Note 3)*	326,052,000	13.21%
Chung Po Yang *(Note 3)*	336,092,000	13.62%

Notes:

(1) These shares were held by Drummond. Drummond is the wholly-owned subsidiary of Umbel, a company which is owned by CIBC Trust and acts as a trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are discretionary beneficiaries of such trust and Cheng Albert Jinghan is therefore deemed to have an interest in these shares.

(2) Lo Irene Kam Sheung is the wife of Cheng Albert Jinghan and therefore she was deemed to have an interest in 603,816,000 shares in which Cheng Albert Jinghan had an interest.

(3) ACAEDL is wholly owned by Chung Po Yang and Chung Po Yang was therefore deemed to have an interest in these shares. In addition, Chung Po Yang is personally interested in 10,040,000 shares. Chung Po Yang is the brother of Chung Wai Yang who is a former non-executive director of the Company. Chung Wai Yang is also a director of ACAEDL.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at March 31, 2002.

COMPETING INTERESTS

The directors believe that none of the directors nor the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group except that Cheng Albert Jinghan is a director and shareholder of a company which is principally engaged into the provision of advisory services on the content and the editorial strategy of various media during the year ended March 31, 2002.

SHARE OPTION SCHEME

(1) PRE-IPO SHARE OPTION SCHEME (the "Pre-IPO Plan")

The Pre-IPO Plan of the Company was adopted on July 12, 2000. Pursuant to the terms of the Pre-IPO Plan, the board of directors of the Company granted options to eligible employees, including executive directors of the Company and its subsidiaries and non-executive directors of the Company, to subscribe for shares at pre-determined exercise prices in the Company for the primary purpose of providing incentives to directors and eligible employees.

Any offer of the grant of an option may be accepted in respect of less than the number of shares in respect of which it is offered. To the extent that the offer of the grant of an option is not accepted within the period stipulated in the relevant offer document, it will be deemed to have been irrevocably declined and lapsed automatically. The options granted under Pre-IPO Plan can be exercised at any time within a period of ten years commencing from the date of adoption of the Pre-IPO Plan.

(2) SHARE OPTION SCHEME (the "Option Scheme")

The Option Scheme of the Company was adopted on July 12, 2000. Pursuant to the terms of the Option Scheme, the board of directors of the Company may, at their discretion, grant options to any employees of the Company and its subsidiaries, including executive directors of any of such companies, to subscribe for shares in the Company for the primary purpose of providing incentives to directors and employees.

Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant. The options granted under the Option Scheme can be exercised at any time within a period of that shall not be less than three years and more than ten years commencing from the date of adoption of the Option Scheme.

The subscription price of the option shares granted under the Option Scheme shall be a price to be determined by the directors of the Company being not less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of a share.

SHARE OPTION SCHEME *(Continued)*

The following table discloses movements in the Company's share options during the year:

				Number of share options		
	Exercisable period	*Notes*	**Exercise price per share** HK$	**Outstanding at 4.1.2001**	**Lapsed during the year**	**Outstanding at 3.31.2002**
(1) The Pre-IPO Plan						
Former directors						
Ip Saimond	July 12, 2000 to December 31, 2005	*(i) & (iii)*	0.0379	72,602,255	–	72,602,255
Yeung Kwok Mung	July 12, 2000 to December 31, 2005	*(i) & (iii)*	0.0379	72,602,255	–	72,602,255
Poon Kai Tik	July 12, 2000 to December 31, 2005	*(i) & (iv)*	0.0379	19,800,615	19,800,615	–
Huang Erwin Steve	July 12, 2000 to December 31, 2005	*(i) & (iii)*	0.0379	7,425,231	–	7,425,231
Tsang Moses Kwok Tai	July 12, 2000 to December 31, 2005	*(i) & (v)*	0.0379	44,551,384	44,551,384	–
				216,981,740	64,351,999	152,629,741
Employees						
	July 12, 2000 to December 31, 2005	*(i)*	0.0379	3,795,118	3,795,118	–
	July 12, 2000 to July 31, 2004	*(i)*	0.0909	38,665,679	23,213,226	15,452,453
	July 12, 2000 to July 31, 2004	*(ii)*	0.0909	242,007	155,379	86,628
				42,702,804	27,163,723	15,539,081
Sub-total				259,684,544	91,515,722	168,168,822

SHARE OPTION SCHEME *(Continued)*

		Exercisable period	*Notes*	Exercise price per share HK$	Number of share options Outstanding at 4.1.2001	Lapsed during the year	Outstanding at 3.31.2002
(2)	**The Option Scheme**						
	Employees	August 15, 2000 to December 31, 2005	*(i)*	0.187	26,096,667	9,306,709	16,789,958
		September 11, 2000 to December 31, 2005	*(i)*	0.168	910,000	355,835	554,165
		October 25, 2000 to December 31, 2005	*(i)*	0.072	128,333	75,833	52,500
		November 24, 2000 to December 31, 2005	*(i)*	0.058	923,333	701,675	221,658
		December 20, 2000 to December 31, 2005	*(i)*	0.058	10,000	10,000	–
		February 23, 2001 to December 31, 2005	*(i)*	0.050	40,000,000	40,000,000	–
		March 28, 2001 to December 31, 2005	*(i)*	0.050	10,000,000	–	10,000,000
	Sub-total				78,068,333	50,450,052	27,618,281
	Total				337,752,877	141,965,774	195,787,103

Notes:

(i) Each of these options becomes exercisable as to 8.33% of the number of shares issuable under the options, after each Reference Date immediately after the date of commencement of dealings of the Company's shares and warrants on the GEM of the Stock Exchange. "Reference Date" means each of March 31, June 30, September 30 and December 31. The first Reference Date was September 30, 2000.

(ii) Each of these options becomes exercisable as to 6.25% of the number of shares issuable under the options, after each Reference Date (as referred to above) immediately after the date of commencement of dealings of the Company's shares and warrants on the GEM of the Stock Exchange.

(iii) Ip Saimond and Yeung Kwok Mung resigned as the executive directors and Huang Erwin Steve resigned as the non-executive director of the Company on April 18, 2002. The options granted to them under the Pre-IPO Plan will be lapsed in July 2002.

(iv) Poon Kai Tik resigned as the non-executive director of the Company on August 5, 2001. The options granted to him under the Pre-IPO Plan were lapsed in November 2001.

(v) Tsang Moses Kwok Tai resigned as the non-executive director of the Company on January 28, 2001. The options granted to him under the Pre-IPO plan were lapsed in April 2001.

SHARE OPTION SCHEME *(Continued)*

At March 31, 2002, the number of shares in respect of which options could be exercisable under the terms of the Pre-IPO Plan and the Option Scheme was 101,128,984 and 15,106,062 representing 4.1% and 0.6% respectively of the shares of the Company in issue at the date. No employee shall be granted an option which if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised and issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the above schemes. In accordance with the Share Consolidation with effect in May 2002, the number of options granted under the Pre-IPO Plan and the Option Scheme will be consolidated and the relevant exercise price will be adjusted accordingly.

Pursuant to a special resolution passed at the special general meetings held on May 24, 2002, a new share option scheme (the "New Scheme") was adopted by shareholders to grant to the grantees to subscribe for an aggregate of 56,000,000 shares of the Company at a subscription price of HK$0.26 per share (subject to adjustment) for the primary purpose of providing incentives to directors and employees. No further options shall be granted under the Pre-IPO Plan and the Option Scheme and the options which have been granted during the life of the Pre-IPO Plan and the Option Scheme shall continue to be exercisable.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company (including the Pre-IPO Plan and the Option Scheme) shall not in aggregate exceed 30% of the share in issue from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to any individual under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue.

The New Scheme will remain in force for a period of ten years commencing from the date of adoption of the New Scheme, after which no further options shall be granted but the options which are granted during the life of the New Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the New Scheme shall in all other respects remain in full force and effect in respect thereof.

Options granted under the New Scheme must be taken up within 28 days of the date of grant. Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, at no time during the year was the Company or any its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company or had exercised any such rights during the year.

SPONSOR'S INTERESTS

Neither the sponsor of the Company, Worldsec Corporate Finance Limited ("Worldsec"), nor its associates obtained any material benefit as a result of the listing of the Company on the GEM of the Stock Exchange, other than: (i) by a sponsor agreement entered into between Worldsec and the Company, pursuant to which Worldsec received, and will receive, fees for acting as the Company's retained sponsor for the period from July 28, 2000 to March 31, 2003; and (ii) Cheong Henry Ying Chew, one of the directors of Worldsec, held 19,806,000 shares of the Company which represented approximately 0.8% of the Company's issued share capital as at March 31, 2002.

Save as disclosed above, as at March 31, 2002, Worldsec, its directors, employees and associates did not have any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The largest and five largest customers accounted for approximately 41% and approximately 49% of the Group's turnover, respectively, and the largest and five largest suppliers accounted for approximately 65% and approximately 74% of the Group's cost of sales, respectively, for the year ended March 31, 2002.

None of the directors, their associates or shareholders, which to the knowledge of the Directors own more than 5% of the Company's share capital, have any interest in the above customers or suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 25 to the financial statements.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended March 31, 2002 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on May 11, 2000 with written terms of reference in compliance with rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. At the date of this report, the audit committee comprises Miss Choy Hok Man, Constance and Mr. Pang Hong, who are the independent non-executive directors of the Company. The Group's financial statement for the year ended March 31, 2002 have been reviewed by the audit committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Five audit committee meetings were held since April 1, 2001 to the date of this report. The work undertaken by the audit committee was to review, in draft form, the Company's annual and interim financial reports and to provide advice and comments thereon to the Board.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 31 to the financial statements.

AUDITORS

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the past one year, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company to fill in the casual vacancy.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Yeung Wing Yan, Wendy
Chairman

Hong Kong,
June 27, 2002

德勤‧關黃陳方會計師行

Certified Public Accountants
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永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE MEMBERS OF M CHANNEL CORPORATION LIMITED
(FORMERLY KNOWN AS 36.COM HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, June 27, 2002

Consolidated Income Statement

For the year ended March 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
Turnover	*5*	**32,865**	24,164
Other income	*6*	**1,613**	5,715
Cost of merchandise sold		**(2,582)**	(9,499)
Printing and other production costs		**(22,715)**	–
Advertising and marketing expenses		**(10,086)**	(26,843)
Software acquisition and hardware maintenance costs		**(288)**	(1,057)
Depreciation and amortisation		**(8,148)**	(5,701)
Rental expenses		**(2,972)**	(1,625)
Staff costs		**(58,259)**	(38,485)
Loss on disposal of property, plant and equipment		**(3,830)**	(1,662)
Impairment loss recognised in respect of property, plant and equipment	*12*	**(7,613)**	–
Other operating expenses		**(18,207)**	(22,932)
Loss from operations	*7*	**(100,222)**	(77,925)
Finance costs	*8*	**(207)**	(907)
Loss before taxation		**(100,429)**	(78,832)
Taxation	*10*	**–**	31
Loss for the year	*21*	**(100,429)**	(78,863)
Loss per share			
– Basic and diluted	*11*	**HK$(0.81)**	HK$(0.67)

There were no recognised gains or losses other than the loss for the year.

Consolidated Balance Sheet

At March 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current asset			
Property, plant and equipment	*12*	**2,166**	11,627
Current assets			
Accounts receivable	*14*	**942**	1,275
Other receivables	*15*	**896**	4,548
Pledged time deposits	*28*	**–**	2,274
Bank balances and cash		**897**	78,386
		2,735	86,483
Current liabilities			
Accounts payable and accrued charges	*16*	**15,772**	4,062
Obligations under finance leases			
– due within one year	*17*	**143**	4,490
		15,915	8,552
Net current (liabilities) assets		**(13,180)**	77,931
Total assets less current liabilities		**(11,014)**	89,558
Non-current liability			
Obligations under finance leases			
– due after one year	*17*	**–**	143
		(11,014)	89,415
Capital and Reserves			
Share capital	*18*	**247**	247
Reserves	*21*	**(11,261)**	89,168
		(11,014)	89,415

The financial statements on pages 28 to 57 were approved and authorised for issue by the Board of Directors on June 27, 2002 and are signed on its behalf by:

Yeung Wing Yan, Wendy
DIRECTOR

Wong Kun To
DIRECTOR

Balance Sheet

At March 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current asset			
Interests in subsidiaries	*13*	**690**	88,134
Current asset			
Bank balances and cash		**110**	33
Non-current liabilities			
Accrued charges	*16*	**2,293**	–
Amounts due to subsidiaries	*13*	**257**	–
		2,550	–
Net current (liabilities) asset		**(2,440)**	33
		(1,750)	88,167
Capital and Reserves			
Share capital	*18*	**247**	247
Reserves	*21*	**(1,997)**	87,920
		(1,750)	88,167

Yeung Wing Yan, Wendy
DIRECTOR

Wong Kun To
DIRECTOR

Consolidated Cash Flow Statement

For the year ended March 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	*22*	**(66,260)**	(78,187)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**1,324**	5,419
Interest element on finance lease rental payments		**(201)**	(905)
Interest paid		**(6)**	(2)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**1,117**	4,512
TAX			
Hong Kong profits tax paid		**–**	(56)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(12,026)**	(5,010)
Decrease (increase) in pledged time deposits		**2,274**	(71)
Proceeds from disposal of property, plant and equipment		**1,896**	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(7,856)**	(5,081)
NET CASH OUTFLOW BEFORE FINANCING		**(72,999)**	(78,812)

For the year ended March 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
NET CASH OUTFLOW BEFORE FINANCING		**(72,999)**	(78,812)
FINANCING	*23*		
Repayment of obligations under finance leases		**(4,490)**	(5,728)
Proceeds from issue of share capital		**–**	110,520
Share issue expenses		**–**	(15,361)
NET CASH (OUTFLOW) INFLOW FROM FINANCING		**(4,490)**	89,431
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(77,489)**	10,619
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**78,386**	67,767
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**897**	78,386
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**897**	2,737
Unpledged time deposits		**–**	75,649
		897	78,386

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda and its shares and warrants are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM").

The Company is an investment holding company. Its subsidiaries are engaged in the provision of internet advertising, e-commerce trading, internet consultancy services and magazine publishing and advertising.

2. BASIS OF PREPARATION

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK$13 million as at March 31, 2002. As explained in note 31, subsequent to March 31, 2002, the Company received the net proceeds of approximately HK$45 million from the successful placement of 3,125,000,000 new shares at HK$0.016 each to independent third parties. The directors are satisfied that sufficient funding has been obtained to enable the Group to meet in full its liabilities, as and when fall due and to continue operating in the next twelve months. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 4. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. These changes have not had any effects on the results for the current or prior accounting periods and, accordingly, no prior period adjustments has been required.

Disclosures have been modified so as to comply with the requirements of revised SSAPs. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Barter transactions

When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue and barter revenue and expenses are recognised. Barter revenue and expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, barter revenue and expenses are measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Internet advertising income is recognised on a time proportion basis over the period that the related advertising services are rendered.

Magazine advertising income is recognised when the advertisements are published.

Sales of magazines is recognised when the magazines are delivered and titles have passed.

Other service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation at the balance sheet date and any accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvement	20% or over the term of the lease, whichever is shorter
Furniture and fixtures	20%
Motor vehicles	20%
Office equipment	20%
Computer equipment	$33^1/_3$%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Development costs

All costs incurred in the acquisition, development, enhancement and maintenance of the software required to support the Group's vertical portals are recognised as expenses in the period in which they are incurred.

Lease assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefits scheme

The retirement benefit scheme contributions relating to the mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into the following lines of business. These lines of business are the basis on which the Group reports its primary segment information.

A geographical analysis of turnover and assets and liabilities has not been presented as all of the activities of the Group during the year were based in Hong Kong and all of the turnover and loss before taxation were derived from Hong Kong.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments

An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by business segments is as follows:

	E-commerce trading HK$'000	Internet advertising and consultancy HK$'000	Magazine publishing and advertising HK$'000 *(Note)*	Eliminations HK$'000	Consolidated HK$'000
For the year ended March 31, 2002					
TURNOVER					
External sales	743	5,068	27,054	–	32,865
Inter-segment sales	–	–	257	(257)	–
Total	743	5,068	27,311	(257)	32,865
RESULTS					
Segment result	(15)	(21,226)	(61,447)	–	(82,688)
Other income					1,613
Unallocated corporate expenses					(19,147)
Loss from operations					(100,222)
Finance costs					(207)
Loss before taxation					(100,429)
Taxation					–
Loss for the year					(100,429)
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	–	2,192	1,151	–	3,343
Unallocated corporate assets					1,558
Consolidated total assets					4,901
LIABILITIES					
Segment liabilities	9	379	9,788	–	10,176
Unallocated corporate liabilities					5,739
Consolidated total liabilities					15,915
OTHER INFORMATION					
Capital additions	–	12,026	–	–	12,026
Depreciation and amortisation	–	8,148	–	–	8,148
Impairment loss recognised in respect of property, plant and equipment	–	7,613	–	–	7,613

Inter-segment sales are charged at terms determined and agreed between group companies.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	E-commerce trading HK$'000	Internet advertising and consultancy HK$'000	Magazine publishing and advertising HK$'000 *(Note)*	Eliminations HK$'000	Consolidated HK$'000
For the year ended March 31, 2001					
TURNOVER					
External sales	10,267	13,897	–	–	24,164
Inter-segment sales	–	–	–	–	–
Total	10,267	13,897	–	–	24,164
RESULTS					
Segment result	2,018	(53,738)	–	–	(51,720)
Other income					5,715
Unallocated corporate expenses					(31,920)
Loss from operations					(77,925)
Finance costs					(907)
Loss before taxation					(78,832)
Taxation					31
Loss for the year					(78,863)
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	133	12,770	–	–	12,903
Unallocated corporate assets					85,207
Consolidated total assets					98,110
LIABILITIES					
Segment liabilities	98	4,714	–	–	4,812
Unallocated corporate liabilities					3,883
Consolidated total liabilities					8,695
OTHER INFORMATION					
Capital additions	–	9,284	–	–	9,284
Depreciation and amortisation	–	5,701	–	–	5,701

Note: As explained in note 31, the business segment of magazine publishing and advertising will be regarded as discontinued operation in the coming year following the disposal of the subsidiary engaging in the business of magazine publishing and advertising in May 2002.

6. OTHER INCOME

	2002 HK$'000	2001 HK$'000
Interest income	**1,324**	5,419
Sundry income	**289**	296
	1,613	5,715

7. LOSS FROM OPERATIONS

	2002 HK$'000	2001 HK$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– directors' remuneration *(note 9 (a))*	**4,946**	4,146
– other staff costs	**51,350**	32,791
– Severance payments	**156**	–
– Retirement benefits scheme contributions, excluding directors'	**1,807**	1,548
	58,259	38,485
Auditors' remuneration	**400**	315
Depreciation and amortisation		
Owned assets	**7,962**	1,874
Leased assets	**186**	3,827

8. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on:		
– finance leases	**201**	905
– bank overdrafts	**6**	2
	207	907

9. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	2002	2001
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**230**	180
	230	180
Other emoluments:		
– Executive directors		
Salaries and other benefits	**4,680**	3,839
Retirement benefits scheme contributions	**36**	127
	4,716	3,966
Total directors' remuneration	**4,946**	4,146

For the year ended March 31, 2002, three executive directors received remuneration of approximately HK$1,812,000, HK$1,692,000, and HK$1,212,000 respectively and two independent non-executive directors received remuneration of approximately HK$120,000 and HK$110,000 respectively.

For the year ended March 31, 2001, three executive directors received remuneration of approximately HK$1,710,000, HK$1,386,000, and HK$870,000 respectively and two independent non-executive directors received remuneration of approximately HK$90,000 each.

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

9. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

During the year, the five highest paid individuals in the Group included three (2001: three) directors of the Company, details of whose emoluments are set out above. The aggregate emoluments of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2002	2001
	HK$'000	HK$'000
Salaries and other benefits	**1,564**	1,978

	Number of employees	
	2002	2001
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1

10. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the year. The tax charge for the year ended March 31, 2001 represented the underprovision of Hong Kong Profits Tax in previous years.

The Group did not have any significant unprovided net deferred tax liabilities in respect of the year.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of approximately HK$100,429,000 (2001: HK$78,863,000) and on the adjusted 123,401,300 (2001: the adjusted weighted average of 118,284,650) ordinary shares in issue during the year, after adjustment for the effect of the consolidation of the Company's shares as set out in note 31.

No diluted loss per share has been calculated for either year as the exercise of the share options and warrants would result in a decrease in the loss per share for both years.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Furniture and fixtures	Motor vehicles	Office equipment	Computer equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
COST						
At April 1, 2001	–	1,085	–	470	16,082	17,637
Additions	4,115	247	100	3,810	3,754	12,026
Disposals	–	(801)	(100)	(3,345)	(3,799)	(8,045)
At March 31, 2002	**4,115**	**531**	**–**	**935**	**16,037**	**21,618**
DEPRECIATION AND AMORTISATION						
At April 1, 2001	–	241	–	137	5,632	6,010
Provided for the year	1,189	108	12	626	6,213	8,148
Impairment loss recognised	2,926	–	–	–	4,687	7,613
Eliminated on disposals	–	(227)	(12)	(645)	(1,435)	(2,319)
At March 31, 2002	**4,115**	**122**	**–**	**118**	**15,097**	**19,452**
NET BOOK VALUE						
At March 31, 2002	**–**	**409**	**–**	**817**	**940**	**2,166**
At March 31, 2001	–	844	–	333	10,450	11,627

Carrying value of the existing office's leasehold improvement amounting to approximately HK$2,926,000 as at March 31, 2002 was written off since the Group has planned to move to a new office subsequent to the balance sheet date.

During the year, the directors of the Company reviewed the carrying value of certain computer equipment of the Group with reference to their estimated net realisable value. An impairment loss of approximately HK$4,687,000 was identified and charged to the income statement.

The net book value of the Group's computer equipment includes an amount of approximately HK$211,000 (2001: HK$7,836,000) in respect of assets held under finance leases.

13. INTERESTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**60,093**	60,093
Less: Impairment losses recognised	**(59,403)**	–
	690	60,093
Amounts due from subsidiaries	**95,028**	95,041
Less: Allowances on amounts due from subsidiaries	**(95,028)**	(67,000)
	–	28,041
	690	88,134
Amounts due to subsidiaries	**257**	–

In the opinion of the directors, the amounts due from subsidiaries and the amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The directors of the Company consider that in the light of the recurring operating losses of these subsidiaries and unfavourable market conditions, the recoverable amount of its subsidiaries has been reduced to the estimated net realisable value of the identifiable net assets. Accordingly, an impairment loss of approximately HK$59 million has been recognised in the income statement for the year.

Details of the Company's subsidiaries at March 31, 2002 are set out in note 30.

14. ACCOUNTS RECEIVABLE

The Group allows an average credit period of 30 days to 90 days to its trade customers. Details of the aged analysis of accounts receivable are as follows:

	The Group	
	2002	2001
	HK$'000	HK$'000
Accounts receivable:		
Within 30 days	**440**	381
Within 31 – 60 days	**35**	34
Within 61 – 90 days	**1**	237
Over 90 days	**466**	623
	942	1,275

15. OTHER RECEIVABLES

At March 31, 2001, included in other receivables was a loan advanced to Mr. Lai Chak Fun, a former officer of the Group. The loan amount outstanding at March 31, 2001 and the maximum amount so outstanding during the year were approximately HK$1,140,000. Full provision of HK$1,101,000 has been made in respect of this amount during the year.

16. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are accounts payable with the following aged analysis:

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accounts payable:				
Within 30 days	**478**	111	**–**	–
Within 31 – 60 days	**556**	26	**–**	–
Within 61 – 90 days	**29**	–	**–**	–
Over 90 days	**6,749**	42	**–**	–
	7,812	179	**–**	–
Add: Accrued charges	**7,960**	3,883	**2,293**	–
	15,772	4,062	**2,293**	–

17. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases are repayable as follows:				
Within one year	149	4,692	143	4,490
More than one year, but not exceeding two years	–	149	–	143
	149	4,841	143	4,633
Less: Future finance charges	(6)	(208)	–	–
Present value of lease obligations	143	4,633	143	4,633
Less: Amount due within one year and shown under current liabilities			(143)	(4,490)
Amount due after one year			–	143

The average lease term is 2 years (2001: 2 years). For the year ended March 31, 2002, the average effective borrowing rate was 11% (2001: 11%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases as at March 31, 2002 of approximately HK$143,000 (2001: HK$331,000) were secured by personal guarantees and indemnities given by Mr. Cheng Albert Jinghan, the former director of the Company.

18. SHARE CAPITAL

	Notes	Number of shares authorised '000	Number of shares issued '000	Paid-up nominal value HK$'000
On incorporation, shares issued nil paid	*(a)*	10,000	10,000	–
Share subdivision	*(b)*	990,000	990,000	–
Increase in authorised share capital	*(c)*	4,000,000	–	–
On acquisition of CCC:	*(d)*			
Consideration shares issued		–	710,996	71
Incorporation shares credited as fully paid		–	–	100
Shares issued to internet content providers/ consultants at par	*(e)*	–	98,634	10
Shares issued pursuant to options conversion agreements of certain subsidiaries	*(f)*	–	351,396	35
Proforma share capital as at April 1, 2000		5,000,000	2,161,026	216
New issue on the public listing	*(g)*	–	307,000	31
As at March 31, 2001 and March 31, 2002		5,000,000	2,468,026	247

The following changes in the authorised and issued share capital of the Company took place during the period from May 8, 2000 (date of incorporation) to March 31, 2001:

(a) On May 8, 2000, the authorised share capital of the Company was HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each, all of which were issued and allotted nil paid to Ip Saimond, the former executive director of the Company, on May 9, 2000;

(b) On May 24, 2000, the authorised share capital of 10,000,000 ordinary shares of HK$0.01 each of the Company was sub-divided into 1,000,000,000 ordinary shares of HK$0.0001 each by subdividing every issued ordinary share of HK$0.01 each of the Company into 100 ordinary shares of HK$0.0001 each;

(c) On May 24, 2000, the authorised share capital of the Company was increased from HK$100,000 to HK$500,000 by the creation of 4,000,000,000 additional ordinary shares of HK$0.0001 each, ranking pari passu in all respects with the then existing issued share capital of the Company;

18. SHARE CAPITAL *(Continued)*

(d) On July 12, 2000, as part of a reorganisation to rationalise the Group's structure in preparation for the public listing of the Company's shares on the GEM (the "Group Reorganisation"), the Company acquired through iFocus Group Limited the entire issued share capital of Cyber Communications Corporation Ltd. ("CCC") in consideration for (i) the allotment and issue of an aggregate of 710,996,000 new ordinary shares of HK$0.0001 each credited as fully paid at par and the procurement of the transfer by Ip Saimond of 841,594,000 ordinary shares of HK$0.0001 each, credited as fully paid at par, to the then shareholders of CCC (other than Ip Saimond); and (ii) the crediting as fully paid at par the 1,000,000,000 ordinary shares which had been allotted and issued nil paid to Ip Saimond on May 9, 2000;

(e) On July 12, 2000, the Company issued and allotted an aggregate of 98,634,000 new ordinary shares of HK$0.0001 each at par to 12 Internet content providers/ consultants of the Group;

(f) On July 12, 2000, the Company issued and allotted an aggregate of 351,396,000 new ordinary shares of HK$0.0001 each pursuant to the option conversion agreements of certain subsidiaries where the optionholders agreed to convert their exercisable options into the ordinary shares of the Company. A total of 351,396,000 shares were issued and allotted, at par as to 348,342,000 shares, at approximately HK$0.0667 per share as to 90,000 shares, at HK$0.08 per share as to 30,000 shares, at approximately HK$0.0833 per share as to 162,000 shares, at approximately HK$0.0857 per share as to 168,000 shares, at approximately HK$0.0882 per share as to 204,000 shares, at approximately HK$0.0893 per share as to 756,000 shares, at approximately HK$0.09 per share as to 150,000 shares, at approximately HK$0.0901 per share as to 666,000 shares and at approximately HK$0.0906 per share as to 828,000 shares; and

(g) On July 28, 2000, pursuant to the listing of the Company's shares and warrants on the GEM of the Stock Exchange, the Company issued by way of the share placement and the public offer 307,000,000 ordinary shares of HK$0.0001 each at HK$0.36 per share for a total cash consideration of HK$110,520,000 before the related issue expenses.

There were no movements in the share capital of the Company during the year ended March 31, 2002.

19. SHARE OPTIONS

At March 31, 2002, pursuant to the Pre-IPO share option scheme and Share Option Scheme which were both adopted by the Company on July 12, 2000, the options to subscribe for shares outstanding under the Company's share option schemes were as follows:

Exercisable period	Exercise price HK$	Outstanding at March 31, 2002
7.12.2000 to 12.31.2005	0.0379	152,629,741
7.12.2000 to 7.31.2004	0.0909	15,539,081
8.15.2000 to 12.31.2005	0.187	16,789,958
9.11.2000 to 12.31.2005	0.168	554,165
10.25.2000 to 12.31.2005	0.072	52,500
11.24.2000 to 12.31.2005	0.058	221,658
3.28.2001 to 12.31.2005	0.050	10,000,000
		195,787,103

20. WARRANTS

During the year, none of the warrants had been exercised. At the balance sheet date, the Company had 307,000,000 warrants outstanding. At March 31, 2002, the exercise in full of such warrants with the exercise price of HK$0.4 each would result in the issue of 307,000,000 additional shares of HK$0.0001 each for aggregate proceeds of HK$122,800,000 before the related share issue expense.

21. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
THE GROUP				
At April 1, 2000	270	49,829	(17,196)	32,903
Conversion of shareholders' advances	–	40,000	–	40,000
Issue of shares	110,489	–	–	110,489
Share issue expenses	(15,361)	–	–	(15,361)
Loss for the year	–	–	(78,863)	(78,863)
At March 31, 2001	95,398	89,829	(96,059)	89,168
Loss for the year	–	–	(100,429)	(100,429)
At March 31, 2002	**95,398**	**89,829**	**(196,488)**	**(11,261)**
THE COMPANY				
Issue of shares	110,759	–	–	110,759
Share issue expenses	(15,361)	–	–	(15,361)
Contributed surplus arising from acquisition of subsidiaries	–	59,922	–	59,922
Loss for the period	–	–	(67,400)	(67,400)
At March 31, 2001	95,398	59,922	(67,400)	87,920
Loss for the year	–	–	(89,917)	(89,917)
At March 31, 2002	**95,398**	**59,922**	**(157,317)**	**(1,997)**

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, and the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, and the nominal value of the Company's shares issued in exchange therefor.

21. RESERVES *(Continued)*

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due, or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

22. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
	HK$'000	HK$'000
Loss before taxation	**(100,429)**	(78,832)
Interest income	**(1,324)**	(5,419)
Interest expense	**207**	907
Depreciation and amortisation	**8,148**	5,701
Loss on disposal of property, plant and equipment	**3,830**	1,662
Impairment loss recognised in respect of property, plant and equipment	**7,613**	–
Decrease (increase) in accounts receivable	**333**	(274)
Decrease in other receivables	**3,652**	354
Increase (decrease) in accounts payable and accrued charges	**11,710**	(1,219)
Decrease in deferred revenue	**–**	(1,067)
Net cash outflow from operating activities	**(66,260)**	(78,187)

23. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital, share premium and contributed surplus	Obligations under finance leases	Advances from shareholders
	HK$'000	HK$'000	HK$'000
At April 1, 2000	50,315	6,087	40,000
Inception of finance lease contracts	–	4,274	–
Issue of shares	110,520	–	–
Share issue expenses	(15,361)	–	–
Repayment during the year	–	(5,728)	–
Conversion of shareholders' advances	40,000	–	(40,000)
At March 31, 2001	185,474	4,633	–
Repayment during the year	–	(4,490)	–
At March 31, 2002	**185,474**	**143**	**–**

24. MAJOR NON-CASH TRANSACTIONS

(i) During the year, the Group included barter revenue and expenses of approximately HK$2,033,000 (2001: HK$9,030,000) and HK$3,037,000 (2001: HK$9,030,000), respectively, in operating activities.

(ii) The reorganisation of the Group in preparation for the public listing of the Company's shares involved the acquisition of certain subsidiaries by the issuance of new shares in the Company as further explained in note 18.

(iii) During the year ended March 31, 2001, the advances from shareholders in an aggregate amount of HK$40 million owed by CCC to its then shareholders were capitalised and converted into additional share capital of CCC.

(iv) During the year ended March 31, 2001, the Group entered into finance lease arrangements in respect of computer equipment with capital value at the inception of the leases of approximately HK$4,274,000.

25. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong do not operate retirement schemes covering their local permanent employees before December 1, 2000. The amount of provision for long service payments and the related charge to the income statement for the year ended March 31, 2002 are immaterial.

With effect from December 1, 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payables in the future years.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

26. OPERATING LEASE ARRANGEMENTS

	The Group	
	2002	2001
	HK$'000	HK$'000
Minimum lease payments paid under operating leases in respect of premises during the year	**2,972**	1,625

At the balance sheet date, the Group had commitments for future minimum lease payments for premises under non-cancellable operating leases which fall due as follows:

	The Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**1,591**	2,090
In the second to fifth years inclusive	**1,194**	1,567
	2,785	3,657

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

27. OTHER COMMITMENTS

At March 31, 2001, the Group had consultancy fees of HK$450,000 payable under a non-cancellable consultancy agreement which expired on June 30, 2001.

28. PLEDGE OF ASSETS

At March 31, 2001, the Group pledged a time deposit of HK$2,274,000 to a bank to secure a letter of guarantee issued by a bank in favour of the landlord of the Group's office premises.

29. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

		The Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Consultancy fee paid in respect of the provision of advice on the content and the editorial strategy of the Group's magazine publishing and Web-sites	*(i)*	**600**	–
Consultancy fees paid in respect of the provision of advice on the content, editing and servicing of a variety of information on the Group's Web-sites	*(ii)*	**–**	792
Purchases of fixed assets	*(iii)*	**–**	393

29. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) The consultancy fees were paid to a company controlled by Cheng Albert Jinghan, the former director of the Company. The transactions were determined at a rate agreed between the Group and Cheng Albert Jinghan.

(ii) The consultancy fees were paid to a company controlled by Cheng Albert Jinghan, the former director of the Company. The transactions were determined at a rate agreed between the Group and Cheng Albert Jinghan. After the listing of the Company on the GEM of the Stock Exchange on July 28, 2000, these transactions were discontinued.

(iii) The purchases of fixed assets were paid to iASPEC Technologies (H.K.) Limited ("iASPEC"), in which Tsang Moses Kwok Tai, the former non-executive director of the Company, had a 12% beneficial equity interest. Tsang Moses Kwok Tai is also a director of the holding company of iASPEC. These transactions were made according to the published prices and conditions offered by the major suppliers of the Group.

In addition to the above related party transactions, during the year ended March 31, 2001, Cheng Albert Jinghan provided personal guarantees and indemnities to the lessor for the finance lease facilities granted to the Group. Such personal guarantees and indemnities were released and replaced by the Company subsequent to its listing on the GEM on July 28, 2000 except for the remaining finance lease as disclosed in note 17.

In the opinion of the directors, the above transactions were carried out in the ordinary course of business of the Group.

30. SUBSIDIARIES

Details of the Company's subsidiaries at March 31, 2002 are as follows:

Name	Place of incorporation *(note b)*	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company *(note a)*	Principal activities
iFocus Group Limited ("iFocus")	British Virgin Islands	US$1	100%	Investment holding
Cyber Communications Corporation Ltd.	British Virgin Islands	US$12,960	100%	Vertical portal operator
Cybercom Marketing Limited	British Virgin Islands	US$8,000	100%	Media sales
Topspin Associates Limited	British Virgin Islands	US$50,000	100%	Investment holding
Chinese United Press Limited (formerly Cup Limited)	Hong Kong	HK$2	100%	Magazine publishing and advertising

Notes:

(a) Except for iFocus, all other subsidiaries are indirectly held by the Company.

(b) These companies operate in Hong Kong.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

31. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

(a) Pursuant to special resolutions passed at the special general meeting held on April 15, 2002, the Company increased its authorised share capital from HK$500,000 to HK$10,000,000 by the creation of 95,000,000,000 shares of HK$0.0001 each and every 20 issued and unissued shares of HK$0.0001 each in the capital of the Company were consolidated into one share of HK$0.002 each which became effective on May 24, 2002.

(b) The Group acquired the entire issued share capital of Fortune Impact Limited which is engaged in the operation of out-of-home audio and video advertising business at the aggregate consideration of HK$250,000,000. The consideration was satisfied by the issue of 15,625,000,000 ordinary shares of HK$0.0001 each (or equivalent to 781,250,000 shares after the consolidation) at an issue price of HK$0.016 per share (or equivalent to HK$0.32 per share after the consolidation).

The Company placed 3,125,000,000 new ordinary shares of HK$0.0001 each (or equivalent to 156,250,000 after the consolidation) at an issue price of HK$0.016 per share (or equivalent to HK$0.32 per share after the consolidation) to independent third parties. The net proceeds from the placement were approximately HK$45 million.

(c) Pursuant to a special resolution passed at the special general meeting held on April 22, 2002, the name of the Company was changed to M Channel Corporation Limited and 流動廣告有限公司 was adopted as the Chinese translation of the new name of the Company with effect from April 23, 2002.

(d) The Group's interest in Chinese United Press Limited, which is mainly engaged in magazine publishing and advertising, was disposed of to a third party. Upon the completion of the disposal, the business segment of magazine publishing and advertising will be regarded as discontinued operation in the coming year.

Financial Summary

	For the year ended March 31,			
	1999	2000	2001	**2002**
	HK$'000	HK$'000	HK$'000	**HK$'000**
OPERATING RESULTS				
Turnover	–	2,814	24,164	**32,865**
Loss for the year	(125)	(17,094)	(78,863)	**(100,429)**

	As at March 31,		
	2000	2001	**2002**
	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES			
Total assets	85,579	98,110	**4,901**
Total liabilities	(12,460)	(8,695)	**(15,915)**
Balance (deficiency) of shareholders' funds	73,119	89,415	**(11,014)**

Notes:

1. The results for the year ended March 31, 1999 has been extracted from the Company's prospectus dated July 18, 2000 and includes proforma adjustments relating to the elimination of certain profit and loss items in respect of transactions unrelated to the on-going business of the Group.

2. The proforma consolidated balance sheet as at March 31, 2000 has been extracted from the published financial information of the Company for the year ended March 31, 2000 prepared for the purpose of the listing of the Company's share on the GEM which is included in the Company's prospectus dated July 18, 2000.