



M Channel Corporation Limited

流動廣告有限公司

(formerly known as 36.com Holdings Limited)

2002

First Quarterly Report 2002

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This report, for which the directors of M Channel Corporation Limited (“M Channel” or 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. YEUNG Wing Yan, Wendy
(Chairman)

Mr. WONG Kun To

(Deputy Chairman)

Mr. CHEUNG Kwok Wah

Mr. ZHANG Zhen Li

Non-Executive Directors

Mr. YANG Bu Ting

Mr. ZHANG Jia Ji

Independent Non-Executive Directors

Ms. CHOY Hok Man, Constance

Mr. PANG Hong

Audit Committee

Ms. CHOY Hok Man, Constance

Mr. PANG Hong

Company Secretary

Ms. TAM Pui Na, Rafia

Qualified Accountant

Ms. TAM Pui Na, Rafia

Compliance Officer

Mr. WONG Kun To

Authorised Representatives

Ms. YEUNG Wing Yan, Wendy

Mr. WONG Kun To

Auditors

Deloitte Touche Tohmatsu

Sponsor

Worldsec Corporate Finance Limited

Principal Bankers

Hang Seng Bank Limited

The Hongkong and Shanghai

Banking Corporation Limited

Bank of China (Hong Kong) Limited

Legal Advisers

Hong Kong Law

Lu, Lai & Li

Bermuda Law

Appleby Spurling & Kempe

Registered Office

Cedar Hose

41 Cedar Avenue

Hamilton HM 12

Bermuda

Head Office and Principal Place of Business

30th Floor, Paul Y. Centre

51 Hung To Road,

Kwun Tong,

Kowloon,

Hong Kong

Website Address

www.m-channel.tv

Stock Code

8036

Principal Share Registrar and Transfer Office

Reid Management Limited,

4th Floor, Windsor Place,

22 Queen Street,

Hamilton HM 11,

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited,

4th Floor, Hutchison House,

10 Harcourt Road,

Central,

Hong Kong

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of M Channel is pleased to announce the unaudited consolidated results of M Channel and its subsidiaries (collectively referred to as the "Group") for the three months ended June 30, 2002, together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	Three months ended June 30,	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Turnover	6,978	8,270
Gain on disposal of subsidiary companies	1,978	–
Loss before taxation	(19,938)	(19,965)
Taxation	–	–
Minority interests	327	–
Loss attributable to shareholders	(19,611)	(19,965)
Loss per share	(2.22) cents	(16.18) cents
EBITDA	(15,809)	(18,844)

Notes:

1. Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2. Turnover and operating results

Turnover for the three months ended June 30, 2002 represents mainly the income derived from the magazine publishing and advertising business, and the advertising income derived from the provision of out-of-home audio and video media business.

Turnover for the three months ended June 30, 2001 represents advertising income, content and internet service fees, e-commerce income, circulation income, and other media related consultancy services fees.

An analysis of the Group's continuing & discontinued operations for the three months ended June 30, 2002 are as follows:

	Turnover <i>HK\$'000</i>	Loss before taxation <i>HK\$'000</i>
Continuing operations	6,526	(20,541)
Discontinued operations	452	(1,695)
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3. Gain on disposal of subsidiary companies

The business segment of magazine publishing and advertising was discontinued following the disposal of the subsidiary companies engaging in the business of magazine publishing and advertising on May 1, 2002. The revenue recognised relating to this operation from April 1 until April 30 was approximately HK\$452,000 and the operating loss before taxation was approximately HK\$1,695,000. A gain on disposal of subsidiary companies amounted to approximately HK\$1,978,000 has resulted thereon.

4. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the three months ended June 30, 2002 and 2001.

5. Consolidation of shares

Pursuant to the 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 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.

6. Loss per share

The calculation of the basic loss per share for the three months ended June 30, 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$19,611,000 (2001: approximately HK\$19,965,000) and the weighted average number of 883,817,967 (2001: 123,401,300) ordinary shares outstanding, after adjustment for the effect of the consolidation of the Company's shares on May 24, 2002.

No diluted loss per share has been calculated for the three months ended June 30, 2002 and 2001 as the exercise of share options and warrants would result in a decrease in the loss per share for both periods.

7. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended June 30, 2002 (2001: Nil).

8. Movement of reserves

	Share Premium	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At April 1, 2001	95,398	89,829	(96,059)	89,168
Loss for the period	–	–	(19,965)	(19,965)
At June 30, 2001	95,398	89,829	(116,024)	69,203
At April 1, 2002	95,398	89,829	(196,488)	(11,261)
Issue of shares	298,125	–	–	298,125
Share issue expenses	(1,545)	–	–	(1,545)
Loss for the period	–	–	(19,611)	(19,611)
At June 30, 2002	391,978	89,829	(216,099)	265,708

9. Earnings before interest, tax, depreciation and amortisation (“EBITDA”)

EBITDA represents earnings/losses of the Group before interest income, finance costs, taxation, depreciation and amortisation.

CHAIRMAN'S STATEMENT**Business Review and Future Outlook**

For the period under review, the Group registered a turnover of approximately HK\$6,978,000, representing a decrease of 15.62% from the corresponding period of last year. The loss attributable to shareholders amounted to approximately HK\$19,611,000, representing a decrease of 1.77% as compared to the same period of prior year.

Several major corporate restructuring exercises were completed during the first quarter ended June 30, 2002.

In view of the prevailing fierce competition and unfavorable outlook of the Internet and publishing market, the Group has reformed its core business through the acquisition of the Mobile Media Group in April 2002 to focus on the out-of-home audio and video media business in Hong Kong and China. New management was put in place. To cope with the change in 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.

In view of the need to develop the new business acquired, 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 publishing business of the Group including the CUP magazine was disposed of in May 2002 as a result of the restructuring exercise. A gain of approximately HK\$1,978,000 was recorded for the disposal of the publishing unit of the Group.

Despite the slow moving advertising market under the current economic climate, there had been an upward movement in the turnover registered from the out-of-home audio and video media business for the first quarter ended June 30, 2002. Looking ahead, the directors remain optimistic about the potential growth in the business's turnover given the cyclical nature of the advertising market. The increase in summer time advertising spending provides encouraging signals to us that the market has been picking up. M Channel will continue to strive for the excellence in serving our clients by providing innovative effective solutions to their products' promotion and sales.

In Hong Kong we will continue to expand through the signing up of more strategic partners in the area of fixed locations installation (i.e. restaurants, retail chains, etc.) as well as expanding through other transportation carriers. M Channel currently has full coverage of over 700 buses of New World First Bus, and over 1,000 public light buses are covered with M Channel's infotainment content. We are highly confident in building up a solid operating foundation in Hong Kong and at the same time exploring the market potential in China.

We believe the future prospects of growth revolved around the China market. Currently, M Channel has coverage of over 2,000 buses in China. These include 1,000 buses in Beijing, 500 buses in Guangzhou and 500 buses in Harbin. Being the first mover in the out-of-home audio and video advertising arena in China, we signed on with strategic bus operators in major cities in order to provide us with the edge in gaining solid market share early on. The market potential in China is hugely untapped in this out-of-home audio and video advertising platform, and M Channel is set in the right direction to exploit the market.

Considering M Channel is still in the investment phase and the initial investment cost is still being incurred, we have achieved a strong positioning in this initial phase.

On behalf of the Board, I would like to take this opportunity to express my gratitude towards my follow dedicated directors, management and all staff for their highest level of commitment to the Company.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at June 30, 2002, the interests of the directors and chief executive of the Company and their respective associates in the shares of the Company and its associated corporations ("Associated Corporations") (within the meaning of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register of the Company required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company pursuant to the GEM Listing Rules were as follows:

Name of Director	Number of issued ordinary shares of HK\$0.002 each in the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Ms. Yeung Wing Yan, Wendy	-	-	205,625,001 (note 1)	-	205,625,001

Note:

(1) Of the 205,625,001 shares, 61,718,750 shares were directly held by Tiger Princess Co., Ltd., of which Ms. Yeung Ying Yan, Wendy holds the entire issued share capital thereof, and 143,906,251 shares were held by Gold Focus Ltd., a wholly-owned subsidiary of Tiger Princess Co., Ltd. Ms. Yeung Wing Yan, Wendy was therefore deemed to be interested in all the 205,625,001 shares.

None of the directors and chief executive of the Company and their respective associates had any interests in the warrants of the Company.

Save as disclosed above, as at June 30, 2002, none of the directors and chief executive of the Company and their respective associates had any other interests in the securities in, or debentures of, the Company or any of its Associated Corporations which had been entered in the register of the Company required to be kept under section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE EQUITY OR DEBT SECURITIES

Details of the share options outstanding as at June 30, 2002 granted by the Company under the new share option scheme ("New Share Option Scheme") adopted by the Company on May 24, 2002 to certain directors to subscribe for shares of the Company which are exercisable from May 24, 2002 to May 23, 2012 at the subscription price of HK\$0.26 per share as recorded in the register of the Company required to be kept under section 29 of the SDI Ordinance were as follows:

Name of Director	Date of Grant	Subscription Price HK\$	Held at 01.04.2002	Number of share options	
				Cancelled/ Lapsed during the period	Held at 30.06.2002
Ms. Yeung Wing Yan, Wendy	24.05.2002	0.26	-	-	10,000,000
Mr. Wong Kun To	24.05.2002	0.26	-	-	10,000,000
Mr. Cheung Kwok Wah	24.05.2002	0.26	-	-	10,000,000
Mr. Zhang Zhen Li	24.05.2002	0.26	-	-	10,000,000

No options had been exercised under the New Share Option Scheme during the three months period ended June 30, 2002.

Save as disclosed above, at no time during the three months period ended June 30, 2002 was the Company or any of its Associated Corporations a party to any arrangement to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of the securities in, or debentures of, the Company or any other body corporate and none of the directors and chief executive of the Company and their respective spouses or children under 18 years of age was granted any right to subscribe for any securities in, or debentures of, the Company or any of its Associated Corporations.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders of the Company required to be kept under section 16(1) of the SDI Ordinance shows that as at June 30, 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name	Number of shares held in the Company	Approximate percentage of total issued shares of the Company
Dr. Chan Kwok Keung, Charles (note 1)	199,840,625	18.84%
Chinaview International Limited (note 1)	199,840,625	18.84%
Galaxyway Investments Limited (note 1)	199,840,625	18.84%
ITC Corporation Limited (note 1)	199,840,625	18.84%
ITC Investment Holdings Limited (note 1)	199,840,625	18.84%
Hero's Way Resources Limited (note 1)	199,840,625	18.84%
Prime Capital Corporation Limited (note 1)	199,840,625	18.84%
Star East Holdings Limited (note 2)	285,500,562	26.91%
Joyful Growth Limited (note 2)	285,500,562	26.91%
Asiacreation Management Limited (note 2)	285,500,562	26.91%
Ms. Yeung Wing Yan, Wendy (note 3)	205,625,001	19.38%
Tiger Princess Co., Ltd. (note 3)	205,625,001	19.38%
Gold Focus Ltd. (note 3)	143,906,251	13.56%

Notes:

(1) Prime Capital Corporation Limited is a wholly-owned subsidiary of Hero's Way Resources Ltd. Hero's Way Resources Ltd. is a wholly-owned subsidiary of ITC Investment Holdings Limited which is, in turn, a wholly-owned subsidiary of ITC Corporation Limited. Galaxyway Investments Limited, a wholly-owned subsidiary of Chinaview International Limited, owns more than one-third of the issued ordinary share capital of ITC Corporation Limited. Chinaview International Limited is in turn wholly owned by Dr. Chan Kwok Keung, Charles.

- (2) Asiacreation Management Limited is a direct wholly-owned subsidiary of Joyful Growth Limited which is in turn wholly owned by Star East Holdings Limited.
- (3) Of the 205,625,001 shares, 61,718,750 shares were directly held by Tiger Princess Co., Ltd., of which Ms. Yeung Wing Yan, Wendy holds the entire issued share capital thereof, and 143,906,251 shares were held by Gold Focus Ltd., a wholly-owned subsidiary of Tiger Princess Co., Ltd. Ms. Yeung Wing Yan, Wendy was therefore deemed to be interested in all the 205,625,001 shares.

Save as disclosed above, as at June 30, 2002, the Company had not been notified of any other interests amounting to 10% or more of the Company's issued share capital required to be disclosed pursuant to the SDI Ordinance.

COMPETING INTERESTS

None of the directors and the management shareholders of the Company and any of their respective associates had any business or interest that competes or may compete with the business of the Group and any other conflicts of interest which any such persons have or may have with the Group during the three months ended June 30, 2002 except the following:

- (1) Mr. Wong Kun To, an executive director of the Company, is an executive director of a group of companies which is principally engaged in the provision of internet business consultancy services; and
- (2) Mr. Zhang Jia Ji, a non-executive director of the Company, is a director of a company which is principally engaged in the bus panel advertising and outdoor bus shelter advertising businesses.

SPONSOR'S INTERESTS

As updated and notified by the sponsor of the Company, Worldsec Corporate Finance Limited ("Worldsec"), neither Worldsec nor its directors, employees or associates had any material benefit or 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 members of the Group during the three months ended June 30, 2002, other than: (i) by a sponsor agreement entered into between Worldsec and the Company on July 17, 2000, pursuant to which Worldsec will continue to receive fees for acting as the Company's retained sponsor for the period from July 28, 2000 to March 31, 2003; and (ii) Mr. Cheong Ying Chew, Henry, one of the directors of Worldsec, held 990,300 shares of the Company which represented approximately 0.09% of the Company's issued share capital as at June 30, 2002.

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

During the three months ended June 30, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an audit committee on May 11, 2000 with written terms of reference which clearly establish the audit committee's authority and duties in compliance with rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises two independent non-executive directors of the Company, namely Ms. Choy Hok Man, Constance and Mr. Pang Hong.

The audit committee reviews, in draft form, the Company's annual report and accounts, half-year report and quarterly reports and provide advice and comments thereon to the Company's Board.

By Order of the Board
M CHANNEL CORPORATION LIMITED
Yeung Wing Yan, Wendy
Chairman

Hong Kong, August 8, 2002