M Channel Corporation Limited

流　動　廣　告　有　限　公　司

(formerly known as 36.com Holdings Limited)

Half-year 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.

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

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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which 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 GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, 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.

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of M Channel Corporation Limited ("M Channel" or the "Company") and its subsidiaries (collectively referred to as the "M Channel Group" or the "Group") for the six months ended September 30, 2002.

Financial Review

Following the acquisition of the Mobile Media Group in April 2002, the Group has reformed its core business to the out-of-home audio and video media business in Hong Kong and the People's Republic of China ("PRC").

Owing to the increase in recognition of the out-of-home audio and video media business among advertisers, the Group's turnover registered for the three months ended September 30, 2002 increased to HK$11,792,000, which was almost twofold of the turnover recorded for the previous quarter.

For the entire six months period under review, the Group registered a turnover of HK$18,769,000, representing a decrease of approximately 4.2% over the same period of last year. After taking into account of the gain on disposal of subsidiaries of HK$8,571,000 as mentioned below, the loss attributable to shareholders for the period reduced to HK$34,023,000, representing a decrease of approximately 30.4% in comparing to the corresponding period of last year.

Of the total turnover of HK$18,769,000 recorded for the period under review, 97.7% of which amounting to HK$18,328,000 was derived from the out-of-home audio and video media business acquired by the Group in April 2002. The magazine publishing business of the Group was disposed of in May 2002 in view of its unfavorable outlook. A gain of approximately HK$8,571,000 was recorded from the disposal. As a result, there was only a small turnover of HK$441,000 derived from magazine publishing and Internet advertising and consultancy business for the six months ended September 30, 2002, representing a substantial decrease of 97.7% as compared to the corresponding period of prior year.

Business Review

Hong Kong Market

Despite of the sluggish market sentiments in Hong Kong, there had been a steady growth in the turnover derived from the out-of-home audio and video media business for the six months ended September 30, 2002. The response from our advertisers has been encouraging. Although it is considered as an emerging advertising channel that is substantially different from the traditional way of advertising, it has been proven that out-of-home audio and video advertising is an effective way of advertising that offers various advantages to advertisers such as production flexibility and cost effectiveness in comparing to television, newspapers and magazines. In addition, it also serves as an effective compliment to traditional advertising mediums. From a profiling study done by Asia Market Intelligence (company renamed to Synovate recently) in July 2002, the audience reached by the M Channel Group are relatively young, mobile - working full time or studying, majority white collars and have relatively high household income which are ideal target markets for most advertisers.

Over the past year of operations, we have expanded our client base to cover different business sectors. Currently we have installed our multi-media telecasting systems in over 700 buses of New World First Bus, 1,000 public light buses and fixed locations such as over 120 Watson's The Chemist, 10 PARKnSHOP and 20 fast food chain stores.

The PRC Market

Our operations in the PRC market had been progressing smoothly during the period under review. We currently have completed installation in over 2,100 buses in Beijing, Guangzhou, and Harbin. As a pioneer in the out-of-home audio and video media business in the PRC, we strongly believe that there is massive potential growth in the PRC particularly the major cities such as the ones we have already covered in our roll out plan.

According to a research performed by Renmin University of China in July 2002, our mobile platform in Beijing also has similar audience profile as our Hong Kong findings, namely the audience reached by the M Channel Group are well educated, young adults, white collars/ student groups which are highly targeted by merchants in general. Research findings in Guangzhou in the same period also confirmed similar audience profile.

Future Outlook

As stated in the previous quarter's report, M Channel is going through an expansion stage where the focus of future growth will be in the PRC. With a strong foundation already laid in Hong Kong and the expertise and connection network gained in the business, we are optimistic about our future development in the PRC market.

We believe the way forward in consolidating Hong Kong's presence is through the increase in fixed locations and selected transportation carriers' rollout. Over the past year, M Channel has developed a highly reliable and effective advertising platform in Hong Kong with increased recognition among media buyers.

There is no doubt that the PRC has been our target growth engine for the future. Going forward, we foresee more resources will be put into expanding the current platform and refining current operations focus. Having said that, the out-of-home advertising market, especially the audio and video advertising in the PRC remains much under-exploited at the moment, and M Channel is set in the right path to further develop and penetrate the market.

I would like to sincerely thank my fellow dedicated directors, managements and all staff for their highest level of support and commitment to the Company under this turbulent environment. With the support from the above, M Channel will continue to provide high quality programs to the public at large, and value enhancing advertisement solutions to our customers going forward.

Yeung Wing Yan, Wendy
Chairman

Hong Kong, November 12, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

In April 2002, the Group raised a net amount of approximately HK$45,000,000 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 proceeds were used to finance the working capital of the Group and to develop the out-of-home audio and video media business acquired in April 2002. During the first six months of the year, the Group utilized approximately HK$40,000,000 to finance its operations.

As at September 30, 2002, the Group had bank and cash balance of approximately HK$15,947,000, of which HK$11,333,000 was pledged to a bank to secure banking facilities of RMB11,500,000 extended to the Group's subsidiary companies in the PRC. The loans bear interest at prevailing market rate and are repayable within one year. Apart from the bank loans, the Group had a short-term unsecured loan of HK$2,000,000 from ITC Management Limited, a subsidiary company of the substantial shareholder of the Company. The loan bears interest at prevailing market rate and is repayable within one year.

As at September 30, 2002, the Group had obligations under finance leases of approximately HK$1,275,000, which comprised of short-term portion of HK$1,017,000 and long-term portion of HK$258,000.

Material Acquisitions and Disposals of Subsidiaries

On February 21, 2002, the Company entered into the sale and purchase agreements (the "S&P 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 out-of-home audio and video media business in Hong Kong and the PRC, for a consideration of HK$250,000,000 (the "Acquisition"). The consideration was satisfied by the issue of 15,625,000,000 new ordinary shares of the Company (before the 20 into 1 share consolidation in May 2002) at HK$0.016 per share. The S&P Agreements constituted major and connected transactions of the Company, details of which were set out in the circular dated March 28, 2002. The Acquisition was approved by the independent shareholders at the Special General Meeting of the Company held on April 15, 2002 and completed on April 18, 2002. Upon completion of the Acquisition, new management was put in place and an in-depth business review on the business operations and objectives of the Group was conducted. As a result, the subsidiary companies engaging in the business segment of magazine publishing and advertising were disposed of on May 1, 2002 (the "Disposals") and a gain amounted to approximately HK$8,571,000 was recorded for the Disposals.

Segment Information

Following the acquisition of the Mobile Media Group in April 2002, the Group has been principally engaged in the out-of-home audio and video media business in Hong Kong and the PRC. As a result of the change in core business, the Group disposed of its publishing business in May 2002.

During the period under review, the Group's Internet advertising and consultancy business activities had diminished significantly in line with the market trend. The turnover attributed to the business segment was de minimus.

Employee Information

As at September 30, 2002, the Group had a total of 178 employees and the employee costs, including those of the directors, for the six months period ended September 30, 2002 totaled HK$17,460,000. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In addition, employees are entitled to benefits such as mandatory provident scheme, medical scheme and share option schemes.

Charges on Group Assets

As at September 30, 2002, the Group had time deposits of HK$11,333,000 pledged to a bank to secure banking facilities of RMB11,500,000 extended to the Company's subsidiaries in the PRC.

As at September 30, 2002, certain display equipment of the Group with an aggregate net book value of HK$27,827,000 was pledged to a public bus company to secure the due performance of the Group in the operation of out-of-home audio and video media business on transit vehicles which are held by that public bus company.

Gearing Ratio

The gearing ratio of the Group, defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of total assets, was 22.6% as at September 30, 2002.

Foreign Exchange Exposure

The functional currencies of the Group's operations are Hong Kong dollars and Renminbi. The directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

Contingent Liabilities

In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group in respect of a claim for payment of services fees of approximately HK$6,593,000. The supplier also filed a claim against the Company as second defendant alleging that the Company had made a verbal guarantee to pay any outstanding sum owed by such former subsidiary company.

The Company is vigorously defending this claim as there was no such alleged guarantee given by the Company. At the date of this report, the proceedings are still ongoing. Taking into account the legal advice sought, the directors are of the opinion that the claim against the Company is unfounded and unmeritorious.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended September 30, 2002 (2001: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Upon completion of the acquisition of the Mobile Media Group on April 18, 2002, new management was put in place and an in-depth business review on the business operations and objectives of the Group was conducted. As a result, the Group had re-formulated its business strategies by ceasing certain business operations which had no particular cost advantages, unable to attain a satisfactory level of operating efficiency and cannot justify their capital requirements. The Group will continue to review its business objectives and strategies and make adjustments as necessary.

The following is a comparison of the business objectives as set out in the prospectus of the Company dated July 18, 2000 (the "Prospectus") with actual business progress up to September 30, 2002:

Business objectives for the period commencing from April 1, 2002 and ending September 30, 2002	**Actual progress during the period from April 1, 2002 to September 30, 2002**
Hong Kong	**Hong Kong**
• Continue to explore possible opportunities for growth through acquisition, especially in the area of content.	• The Group had no plan to proceed with the acquisition of content in light of the changes in market conditions.
• Continue to increase the depth of the content and variety of features on 36.com.	• The Group had revised 36.com several times during the period to increase the depth of its content and variety of features.

Business objectives for the period commencing from April 1, 2002 and ending September 30, 2002	**Actual progress during the period from April 1, 2002 to September 30, 2002**
• Continue to develop e-business and explore extending its e-commerce platform to other portals.	• The Group had no plan to develop e-business and explore extending its e-commerce platform to other portals in light of the changes in market conditions.
North America	**North America**
• Launch broadband version of the Entertainment and e-card portals.	• The Group had no plan to launch broadband version of the Entertainment and e-card portals in North America in light of the changes in market conditions.
PRC	**PRC**
• Launch broadband version of the Entertainment and e-card portals.	• The Group had no plan to launch broadband version of the Entertainment and e-card portals in the PRC in light of the changes in market conditions.
Asia/Australasia	**Asia/Australasia**
• Launch broadband version of the Entertainment and e-card portals.	• The Group had no plan to launch broadband version of the Entertainment and e-card portals in Asia/Australasia in light of the changes in market conditions.

USE OF PROCEEDS

The net proceeds raised from the listing of the Company on the Growth Enterprise Market ("GEM") on July 28, 2000 was approximately HK$95,159,000 and the Group had fully applied the net proceeds to implement various objectives as set out in the Prospectus.

Upon completion of the acquisition of the Mobile Media Group on April 18, 2002, new management was put in place and an in-depth business review on the business operations and objectives of the Group was conducted. As a result, the Group had re-formulated its business strategies by ceasing certain business operations and focusing on the out-of-home audio and video media business in Hong Kong and the PRC. In view of the need to finance its working capital and to develop the out-of-home audio and video media business, the Company raised net proceeds 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.

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF M CHANNEL CORPORATION LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 8 to 20.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended September 30, 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed cash flow statement and condensed statement of changes in equity for the six months ended September 30, 2001 and the condensed consolidated income statements for each of the three months periods ended September 30, 2002 and 2001, disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, November 12, 2002

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002

		Three months ended September 30,		Six months ended September 30,	
		2002	2001	**2002**	2001
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*	***(unaudited)***	*(unaudited)*
Turnover	*3*	**11,792**	11,319	**18,769**	19,589
Other operating income		**994**	390	**1,577**	1,090
Cost of merchandise sold		**–**	(434)	**–**	(1,166)
Distribution costs		**(10,219)**	–	**(17,613)**	–
Advertising and marketing expenses		**(350)**	(2,660)	**(1,629)**	(4,786)
Rental expenses		**(1,205)**	(1,067)	**(2,476)**	(1,429)
Printing and other production costs		**(219)**	(9,226)	**(627)**	(13,448)
Depreciation and amortisation		**(9,343)**	(1,845)	**(13,329)**	(3,191)
Staff costs		**(9,399)**	(20,993)	**(17,460)**	(37,151)
Other operating expenses		**(2,794)**	(4,373)	**(9,625)**	(8,212)
Loss from operations	*4*	**(20,743)**	(28,889)	**(42,413)**	(48,704)
Finance costs		**(262)**	(60)	**(359)**	(210)
Gain on disposal of subsidiaries		**6,593**	–	**8,571**	–
Loss before minority interests		**(14,412)**	(28,949)	**(34,201)**	(48,914)
Minority interests		**–**	–	**178**	–
Loss for the period		**(14,412)**	(28,949)	**(34,023)**	(48,914)
Loss per share	*6*				
– Basic		**(1.4)¢**	(23.5)¢	**(3.5)¢**	(39.6)¢

CONDENSED CONSOLIDATED BALANCE SHEET

AT SEPTEMBER 30, 2002

	NOTES	**30.9.2002 HK$'000 (unaudited)**	31.3.2002 HK$'000 (audited)
Non-Current Assets			
Property, plant and equipment	*7*	**88,551**	2,166
Intangible assets	*8*	**206,412**	–
		294,963	2,166
Current Assets			
Trade and other receivables	*9*	**16,175**	1,838
Amounts due from related companies		**491**	–
Pledged bank deposits		**11,333**	–
Bank balances and cash		**4,614**	897
		32,613	2,735
Current Liabilities			
Trade and other payables	*10*	**28,006**	15,772
Amounts due to related companies		**2,612**	–
Bank and other borrowings	*11*	**12,849**	–
Obligations under finance leases – due within one year		**1,017**	143
		44,484	15,915
Net Current Liabilities		**(11,871)**	(13,180)
		283,092	(11,014)
Capital and Reserves			
Share capital	*12*	**2,122**	247
Reserves		**251,296**	(11,261)
		253,418	(11,014)
Non-Current Liabilities			
Other payables		**29,416**	–
Obligations under finance leases – due after one year		**258**	–
		283,092	(11,014)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002

	Share capital	**Share premium**	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At April 1, 2001	247	95,398	89,829	(96,059)	89,415
Loss for the period	–	–	–	(48,914)	(48,914)
At October 1, 2001	247	95,398	89,829	(144,973)	40,501
Loss for the period	–	–	–	(51,515)	(51,515)
At March 31, 2002	247	95,398	89,829	(196,488)	(11,014)
Issue of shares	1,875	298,125	–	–	300,000
Share issue expenses	–	(1,545)	–	–	(1,545)
Loss for the period	–	–	–	(34,023)	(34,023)
At September 30, 2002	**2,122**	**391,978**	**89,829**	**(230,511)**	**253,418**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002

	Six months ended September 30,	
	2002	2001
	HK$'000	HK$'000
	(unaudited)	*(unaudited)*
Net cash used in operating activities	**(34,447)**	(41,915)
Net cash used in investing activities	**(24,155)**	(7,217)
Net cash from (used in) financing activities	**62,319**	(3,907)
Net increase (decrease) in cash and cash equivalents	**3,717**	(53,039)
Cash and cash equivalents at beginning of the period	**897**	78,386
Cash and cash equivalents at end of the period, represented by bank balances and cash	**4,614**	25,347

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2002, except as described below.

Media sales income from the provision of out-of-home audio and video media business is recognised when the related advertisements are telecasted or commercials are appeared before the public.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the financial statements, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current period, the Group adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes/short-term loans that are financing in nature. Cash flows of subsidiaries outside Hong Kong have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The adoption of this revised SSAP has resulted in the change of format of presentation and no material effect on the results for the current period or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES – continued

Discontinuing operations

SSAP 33 "Discontinuing Operations" is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's magazine publishing and advertising activities as a discontinuing operation in the current period, details of which are disclosed at note 3.

3. SEGMENTAL INFORMATION

Business 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 substantial portion of the activities of the Group during both periods were based in Hong Kong and substantial portion of the turnover and loss for the periods were derived from Hong Kong.

3. SEGMENTAL INFORMATION – continued

Business segments – continued

An analysis of the Group's turnover and contribution to operating results by business segment is presented below:

For the six months ended September 30, 2002

	Media and advertising sales *HK$'000*	Magazine publishing and advertising *HK$'000* *(note)*	Internet advertising and consultancy *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External	18,328	437	4	–	18,769
Inter-segment	–	15	–	(15)	–
	18,328	452	4	(15)	18,769
RESULT					
Segment result	(36,715)	(1,695)	(328)	–	(38,738)
Other operating income					1,577
Unallocated corporate expenses					(5,252)
Loss from operations					(42,413)
Finance costs					(359)
Gain on disposal of subsidiaries					8,571
Loss before minority interests					(34,201)
Minority interests					178
Loss for the period					(34,023)

3. SEGMENTAL INFORMATION – continued

Business segments – continued

For the six months ended September 30, 2001

	Magazine publishing and advertising *HK$'000* *(note)*	Internet advertising and consultancy *HK$'000*	E-commerce trading *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External	14,528	4,495	566	–	19,589
Inter-segment	–	–	–	–	–
	14,528	4,495	566	–	19,589
RESULT					
Segment result	(40,376)	(7,805)	(931)	–	(49,112)
Other operating income					1,090
Unallocated corporate expenses					(682)
Loss from operations					(48,704)
Finance costs					(210)
Loss for the period					(48,914)

Note: The business segment of magazine publishing and advertising was regarded as a discontinued operation following the disposal of subsidiaries engaging in the business of magazine publishing and advertising in May 2002.

4. LOSS FROM OPERATIONS

	Six months ended September 30, **2002** ***HK$'000***	2001 *HK$'000*
Loss from operations has been arrived at after charging:		
Depreciation		
Owned assets	**6,778**	681
Leased assets	**1,608**	2,510
Amortisation of intangible assets	**4,943**	–

5. TAXATION

No provision for Hong Kong Profits Tax or taxation in other jurisdictions has been made in the condensed consolidated financial statements as the Group had no assessable profit for both periods.

No recognition of the potential deferred taxation assets relating to tax losses has been made as the recoverability of these potential deferred taxation assets is uncertain.

6. LOSS PER SHARE

The calculation of the basic loss per share for the three months and six months ended September 30, 2002 is based on the respective loss for the period of approximately HK$14,412,000 and HK$34,023,000 (2001: HK$28,949,000 and HK$48,914,000) and on the adjusted weighted average of 1,060,901,300 and 972,957,311 ordinary shares (2001: adjusted 123,401,300 ordinary shares) in issue during the three months and six months ended September 30, 2002 respectively, after adjustment for the effect of the consolidation of the Company's shares as set out in note 12.

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

7. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, property, plant and equipment of approximately HK$76 million were acquired as a result of the acquisition of subsidiaries. The Group also incurred expenditure of approximately HK$20 million on property, plant and equipment for the purpose of expanding the Group's business in which the addition of approximately HK$2 million was acquired by the way of finance leases.

8. INTANGIBLE ASSETS

Intangible assets mainly represents goodwill of approximately HK$211 million which was arisen as a result of the acquisition of subsidiaries during the period.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK$8,847,000 (31.3.2002: HK$942,000) and their aged analysis is as follows:

	30.9.2002	31.3.2002
	HK$'000	*HK$'000*
Within 30 days	**5,242**	440
Within 31-60 days	**856**	35
Within 61-90 days	**1,851**	1
Over 90 days	**898**	466
	8,847	942

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$13,956,000 (31.3.2002: HK$7,812,000) and their aged analysis is as follows:

	30.9.2002	31.3.2002
	HK$'000	*HK$'000*
Within 30 days	**2,355**	478
Within 31-60 days	**2,718**	556
Within 61-90 days	**3,928**	29
Over 90 days	**4,955**	6,749
	13,956	7,812

11. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank borrowings of approximately HK$11 million. The loan is secured by the bank deposits of approximately HK$11 million, bears interest at prevailing market rate and is repayable within one year.

The Group also obtained another loan of approximately HK$2 million from a subsidiary of a substantial shareholder. The loan is unsecured, bears interest at 2% over Hong Kong Dollar prime rate per annum and is repayable within one year.

12. SHARE CAPITAL

	Number of shares *'000*	Value *HK$'000*
Authorised:		
Ordinary shares of HK$0.0001 each at April 1, 2001 and October 1, 2001 and March 31, 2002	5,000,000	500
Increase during the period *(Note a)*	95,000,000	9,500
Consolidation of shares *(Note a)*	(95,000,000)	–
Ordinary shares of HK$0.002 each at September 30, 2002	**5,000,000**	**10,000**
Issued and fully paid:		
Ordinary shares of HK$0.0001 each at April 1, 2001 and October 1, 2001 and March 31, 2002	2,468,026	247
Issue of new shares *(Note b)*	18,750,000	1,875
Consolidation of shares *(Note a)*	(20,157,125)	–
Ordinary shares of HK$0.002 each at September 30, 2002	**1,060,901**	**2,122**

Notes:

(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) On April 18, 2002, 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 an aggregate of 15,625,000,000 new ordinary shares of HK$0.0001 each at an issue price of HK$0.016 per share.

On April 19, 2002, the Company placed an aggregate of 3,125,000,000 new ordinary shares of HK$0.0001 each at an issue price of HK$0.016 per share to independent third parties.

13. CAPITAL COMMITMENTS

	30.9.2002	31.3.2002
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of plant and equipment	**2,942**	–

At September 30, 2002, the Group also entered into agreements with certain operators of transit vehicles in the People's Republic of China ("PRC"), subject to certain conditions, to install certain display equipment with an estimated cost of approximately HK$62 million (31.3.2002: Nil) on the transit vehicles in PRC within a period of two to ten years.

14. LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the period:

	Six months ended September 30,	
	2002	2001
	HK$'000	*HK$'000*
Premises	**2,402**	1,429
Vehicle locations for display equipments	**13,901**	–
Others	**565**	–
	16,868	1,429

(a) Lease commitment

At the balance sheet date, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	30.9.2002	31.3.2002
	HK$'000	*HK$'000*
Within one year	**3,111**	1,591
In the second to fifth year inclusive	**5,170**	1,194
	8,281	2,785

Leases are negotiated for an average term of 6 years and rentals are fixed for an average of 3 years.

14. LEASE COMMITMENTS – continued

(b) Other commitments

During the period, the Group entered into agreements with operators of transit vehicles, public light buses, supermarkets, shopping centres, fast food chain stores and clinics to install display equipment into respective vehicles, buses and stores at fixed locations for a period ranging from three to ten years from the date the display equipment installed at a rate determined either at the higher of a minimum annual guaranteed payment and a share of the media sales income, or solely at a share of the media sales income, or a fixed monthly rental payment.

Based on the number of display equipment already installed and the related minimum annual guaranteed payment, the Group had commitments payable as follows:

	30.9.2002	31.3.2002
	HK$'000	*HK$'000*
Within one year	**36,081**	–
In the second to fifth year inclusive	**66,870**	–
Over five years	**16,769**	–
	119,720	–

15. PLEDGE OF ASSETS

At September 30, 2002, certain display equipment with an aggregate net book value of approximately HK$28 million (31.3.2002: Nil) was pledged to a public bus company to secure the due performance of the Group in the operation of out-of-home audio and video advertising business on transit vehicles which are held by that public bus company. In addition, bank deposits of approximately HK$11 million (31.3.2002: Nil) were pledged to bank to secure banking facilities granted to the Group.

16. CONTINGENT LIABILITIES

In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group in respect of a claim for payment of services fees of approximately HK$6,593,000. The supplier also filed a claim against the Company as second defendant alleging that the Company had made a verbal guarantee to pay any outstanding sum owed by such former subsidiary company.

The Company is vigorously defending this claim as there was no such alleged guarantee given by the Company. At the date of this report, the proceedings are still ongoing. Taking into account the legal advice sought, the directors are of the opinion that the claim against the Company is unfounded and unmeritorious.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at September 30, 2002, the interests of the directors and chief executives and their respective associates in the equity or debt securities of the Company or any of 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 Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") were as follows:

(i) Directors' Interests in Shares

	Number of shares held in the Company				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
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 are 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.

Save as disclosed above, as at September 30, 2002, none of the directors and chief executives or any of their respective associates had any other interests in the shares of the Company.

(ii) Directors' Rights to Acquire Shares

Pursuant to the share option scheme (the "New Share Option Scheme") adopted by the Company on May 24, 2002, certain directors were granted share options to subscribe for shares of the Company, details of which as at September 30, 2002 were as follows:

Name of directors	Date of grant	Number of share options outstanding as at September 30, 2002	Exercisable period	Subscription price per share of the Company *HK$*
Ms. Yeung Wing Yan, Wendy	May 24, 2002	10,000,000	May 24, 2002 to May 23, 2012	0.26
Mr. Wong Kun To	May 24, 2002	10,000,000	May 24, 2002 to May 23, 2012	0.26
Mr. Cheung Kwok Wah	May 24, 2002	10,000,000	May 24, 2002 to May 23, 2012	0.26
Mr. Zhang Zhen Li	May 24, 2002	10,000,000	May 24, 2002 to May 23, 2012	0.26

Save as disclosed above, during the six months period ended September 30, 2002, none of the directors and chief executives or any of their respective spouses or children under 18 years of age was granted any other rights to subscribe for shares of the Company, nor had exercised such rights.

Save as disclosed above, as at September 30, 2002, none of the directors and chief executives or any of their associates had any other interests in the equity or debt securities of the Company or any of its Associated Corporation as recorded in the register of the Company required to be kept under section 29 of the SDI Ordinance.

OUTSTANDING SHARE OPTIONS

As at September 30, 2002, options to subscribe for an aggregate of 56,011,000 shares of the Company granted pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on July 12, 2000 and the New Share Option Scheme were outstanding. Details of which were as follows:

(i) Share Option Scheme

As at September 30, 2002, options to subscribe for an aggregate of 11,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding and these options related to the options granted to two persons who were employees of the Group at the date of grant. Details of which as at September 30, 2002 were as follows:

		Number of share options						
Date of grant	**Outstanding as at April 1, 2002**	**Granted during the period**	**Exercised during the period**	**Cancelled during the period**	**Lapsed during the period**	**Outstanding as at September 30, 2002**	**Exercisable period**	**Subscription price per share of the Company** *HK$*
August 15, 2000	839,497	–	–	–	830,497 *(note 1)*	9,000	September 30, 2000 to December 31, 2005 *(note 2)*	3.74
October 25, 2000	2,625	–	–	–	625 *(note 1)*	2,000 *(note 3)*	December 31, 2000 to December 31, 2005 *(note 4)*	1.44

Notes:

1. Options were lapsed following the cessation of employment of certain grantee(s).

2. Options became exercisable as to 8.33% of the number of shares issuable under the options (rounded down to the nearest whole number) on or after each of the 12 consecutive Reference Date commencing from September 30, 2000 (in addition to any part(s) of the conversion right which has/have become exercisable but not yet been exercised). The "Reference Date" means each of March 31, June 30, September 30 or December 31.

3. A grantee ceased employment on September 26, 2002. Options granted to her to subscribe for 2,000 shares of the Company under the Share Option Scheme will be lapsed in December 2002.

4. Options became exercisable as to 8.33% of the number of shares issuable under the options (rounded down to the nearest whole number) on or after each of the 12 consecutive Reference Date commencing from December 31, 2000 (in addition to any part(s) of the conversion right which has/have become exercisable but not yet been exercised). The "Reference Date" means each of March 31, June 30, September 30 or December 31.

(ii) New Share Option Scheme

As at September 30, 2002, options to subscribe for an aggregate of 40,000,000 shares of the Company which were granted to certain directors of the Company and options to subscribe for an aggregate of 16,000,000 shares of the Company which were granted to certain continuous contract employees of the Group pursuant to the New Share Option Scheme were outstanding. Details of which as at September 30, 2002 were as follows:

(a) Directors

	Number of share options							
Date of grant	Outstanding as at April 1, 2002	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at September 30, 2002	Exercisable period	Subscription price per share of the Company *HK$*
May 24, 2002	–	40,000,000	–	–	–	40,000,000 *(note 1)*	May 24, 2002 to May 23, 2012	0.26 *(note 2)*

(b) Continuous contract employees

	Number of share options							
Date of grant	Outstanding as at April 1, 2002	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at September 30, 2002	Exercisable period	Subscription price per share of the Company *HK$*
May 24, 2002	–	16,000,000	–	–	–	16,000,000 *(notes 4)*	May 24, 2002 to May 23, 2012 *(note 3)*	0.26 *(note 2)*

Notes:

1. Options to subscribe for 10,000,000 shares of the Company were granted to each of Ms. Yeung Wing Yan, Wendy, Mr. Wong Kun To, Mr. Cheung Kwok Wah and Mr. Zhang Zhen Li, details of which were also disclosed in the section headed "Directors' Interests in Equity or Debt Securities".

2. As at May 23, 2002, the date before the options were granted, the closing price per share of the Company was HK$0.24.

3. 50% of the options could be exercised immediately on the date of grant and 50% of the options could be exercised after six months from the date of grant i.e. November 24, 2002.

4. A grantee ceased employment on September 20, 2002. Options granted to her to subscribe for 1,000,000 shares of the Company under the New Share Option Scheme will be lapsed in December 2002.

Valuation of Share Options

The options granted are not recognized in the financial statements until they are exercised. The directors of the Company consider that it is not appropriate to state the value of the share options granted to the employees during the period on the ground that there are serious limitations in the application of the Black & Scholes Model and the Binominal Model in the valuation of employee share options, especially there are a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the employee share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

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 September 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 of substantial shareholders	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 are 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 September 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

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.

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 business.

Save as disclosed above, none of the directors or the management shareholders of the Company or any of their respective associates had any business or interest that competes or may compete with the businesses of the Group and any other conflicts of interest which any such persons have or may have with the Group.

SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated July 17, 2000 entered into between Worldsec Corporate Finance Limited ("Worldsec") and M Channel (formerly known as 36.com Holdings Limited), Worldsec has received, and will continue to receive, fees for acting as the Company's retained sponsor for the period from July 28, 2000 to March 31, 2003.

As at September 30, 2002, Mr. Cheong Ying Chew, Henry, one of the directors of Worldsec, held 990,300 shares of the Company.

Save as disclosed above, as at September 30, 2002, neither Worldsec nor any of its directors, employees or associates had 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 members of the Group.

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

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

BOARD PRACTICES AND PROCEDURES

During the six months period ended September 30, 2002, the Company had complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

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 primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors of the Company, 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 provides advice and comments thereon to the Board. The audit committee had reviewed with the auditors of the Company, in draft form, the Group's unaudited accounts for the six months ended September 30, 2002.

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

Hong Kong, November 12, 2002