



M Channel Corporation Limited
流動廣告有限公司
(formerly known as 36.com Holdings Limited)

Third Quarterly Report 2002/2003

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

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This report, for which the directors of M Channel Corporation Limited 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 M Channel Corporation Limited. The directors of M Channel Corporation Limited, 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

The board of directors (the "Board") of M Channel Corporation Limited (the "Company") is pleased to announce the third quarterly results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended December 31, 2002.

Financial Review

The Group's turnover for the three months ended December 31, 2002 amounted to approximately HK\$11.9 million (2001: HK\$9.3 million), representing an increase of approximately 0.9% over the turnover recorded for the previous quarter and an increase of approximately 27.7% over the corresponding quarter of last year. Loss from operations for the third quarter amounted to approximately HK\$23.4 million (2001: HK\$20.5 million), representing an increase of approximately 12.6% as compared to the previous quarter and an increase of approximately 13.8% as compared to the corresponding quarter of last year.

For the entire nine months period under review, the Group registered a turnover of approximately HK\$30.7 million (2001: HK\$28.9 million), representing an increase of approximately 6.1% over the corresponding period of last year. Loss attributable to shareholders for the nine months period amounted to approximately HK\$57.6 million (2001: HK\$69.5 million), representing a decrease of approximately 17.0% when compared to the corresponding period of last year.

Business Review

Hong Kong Market

With continuous sluggish market sentiments in Hong Kong, the out-of-home audio and video media business in Hong Kong continued to operate under difficult circumstances and the Group's business sustained a loss during the period under review.

On December 30, 2002, the Company announced that an agreement (the "Agreement") was entered into between VisionAd Investment Limited ("VisionAd"), its wholly owned subsidiary, and First Place Agents Limited ("First Place") under which the parties involved had agreed in principle to terminate the sub-licence under the licence, sub-licence and service agreement dated August 15, 2001 with effect from December 31, 2002 and the transfer of the audio and video business assets on the bus platform operated by VisionAd in Hong Kong to First Place for a total consideration of HK\$25 million, of which approximately HK\$13.7 million would be applied for settling outstanding sub-licence fees indebted to First Place by VisionAd, HK\$4 million would be paid by First Place in cash by 8 equal monthly installments commencing from April 1, 2003, and approximately HK\$7.3 million would be settled by First Place by way of allocating broadcasting air-time on the bus platform of a net worth of the same amount to VisionAd. The transactions contemplated under the Agreement constituted a major transaction of the Company under the Rules Governing the

Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and written approval from shareholders representing more than 50% of its voting rights was duly obtained by the Company. A circular containing, inter alia, details of the Agreement was sent to the shareholders of the Company on February 7, 2003.

The allocation of broadcasting air-time on the bus platform in Hong Kong by First Place to VisionAd under the Agreement will benefit the Group's other platforms such as public light buses and fixed locations. In addition, the termination of the existing sub-licence will enable the Group to reduce its recurring licence fee obligation, hence lessening its financial burden in the long run.

Upon completion of the Agreement, the Group continues to engage in the out-of-home audio and video media business through a platform of approximately 1,000 mini buses and over 30 fixed locations (including within supermarkets, shopping centers, fast food chain stores and clinics) in Hong Kong.

The People's Republic of China ("PRC") Market

The Group currently engages in the out-of-home audio and video media business in the PRC through a platform of over 1,600 buses in Guangzhou, Beijing and Harbin. During the period under review, audio and video equipment installed by the Group in about 500 buses without air-conditioning in Beijing were removed for re-utilization by the Group later.

Future Outlook

Due to limited financial resources, the Group may need to re-engineer and concentrate on the development of its out-of-home audio and video media business in the PRC, which will remain our target growth engine for the future. As a pioneer in the out-of-home audio and video media business in the PRC, we believe there is potential growth especially in those major cities already covered by the Group's platform. We intend to increase the Group's coverage in Guangzhou by expanding installation of LCD monitors on additional number of buses. As for Beijing, we are currently reviewing the Group's operation there and certain cost reduction measures may be implemented in the near term to streamline the business; whilst for Harbin, we are going to restructure the marketing and sales effort so as to strengthen its competitiveness in that city.

Yeung Wing Yan, Wendy
Chairman

Hong Kong, February 12, 2003

QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED DECEMBER 31, 2002

The unaudited consolidated results of the Group for the three months and nine months ended December 31, 2002, together with the comparative unaudited figures for the corresponding period in 2001 are as follows:

	Notes	Three months ended December 31		Nine months ended December 31	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1	11,897	9,313	30,666	28,902
Other operating income		387	98	617	1,188
Cost of merchandise sold		-	(156)	-	(1,322)
Distribution costs		(9,947)	-	(27,560)	-
Advertising and marketing expenses		(632)	(3,593)	(2,261)	(8,379)
Rental expenses		(1,226)	(1,247)	(3,702)	(2,676)
Printing and other production costs		-	(5,783)	(627)	(19,231)
Depreciation and amortisation		(8,096)	(2,191)	(21,425)	(5,382)
Staff costs		(8,905)	(14,493)	(26,365)	(51,644)
Other operating expenses		(6,842)	(2,474)	(15,120)	(10,686)
Loss from operations		(23,364)	(20,526)	(65,777)	(69,230)
Finance costs		(247)	(18)	(606)	(228)
Gain on disposal of subsidiaries		-	-	8,571	-
Loss before taxation		(23,611)	(20,544)	(57,812)	(69,458)
Taxation	2	-	-	-	-
Loss after taxation		(23,611)	(20,544)	(57,812)	(69,458)
Minority interests		-	-	178	-
Loss attributable to shareholders		(23,611)	(20,544)	(57,634)	(69,458)
Loss per share					
- Basic	4	(2.2) cents	(16.6) cents	(5.7) cents	(56.3) cents

Notes:

1. Turnover and operating results

Turnover for the nine months ended December 31, 2002 represents mainly the media sales income derived from the provision of out-of-home audio and video media business, magazine publishing and advertising business, and Internet advertising and consultancy business.

Turnover for the nine months ended December 31, 2001 represents mainly the income derived from magazine publishing and advertising, Internet advertising and consultancy, and e-commerce trading.

An analysis of the Group's continuing and discontinued operations for the nine months ended December 31, 2002, together with the comparative unaudited figures for the corresponding period in 2001 is as follows:

	Nine months ended December 31		Nine months ended December 31	
	2002	2001	2002	2001
	Continuing operations		Discontinued operation	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	30,229	5,960	437	22,942
Loss from operations	(64,082)	(15,818)	(1,695)	(53,412)

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.

2. Taxation

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

3. Consolidation of shares

Pursuant to special resolutions passed at the special general meeting held on April 15, 2002, the Company increased its authorized 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.

4. Loss per share

The calculation of the basic loss per share for the three months and nine months ended December 31, 2002 is based on the respective unaudited consolidated loss attributable to shareholders for the period of approximately HK\$23,611,000 and HK\$57,634,000 (2001: HK\$20,544,000 and HK\$69,458,000) and on the adjusted weighted average of 1,060,901,300 and 1,002,378,573 ordinary shares (2001: adjusted 123,401,300 ordinary shares) in issue during the three months and nine months ended December 31, 2002 respectively, 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 either period as the exercise of the share options and warrants would result in a decrease in the loss per share for both periods.

5. Movement of reserves

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2001	95,398	89,829	(96,059)	89,168
Loss for the period	–	–	(69,458)	(69,458)
At December 31, 2001	95,398	89,829	(165,517)	19,710
	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	–	–	(57,634)	(57,634)
At December 31, 2002	391,978	89,829	(254,122)	227,685

6. Contingent liabilities

In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group as first defendant, 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.

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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended December 31, 2002 (2001: Nil).

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at December 31, 2002, the interests of the directors and chief executives of the Company and their associates in the equity or debt securities 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:

(i) Directors' Interests in Shares

Name of director	Number of shares held in the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Ms. Yeung Wing Yan, Wendy	–	–	198,625,001 (Note)	–	198,625,001

Note: Of the 198,625,001 shares, 61,718,750 shares were directly held by Tiger Princess Co., Ltd., of which Ms. Yeung Wing Yan, Wendy held the entire issued share capital thereof, and 136,906,251 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 198,625,001 shares.

Save as disclosed above, as at December 31, 2002, none of the directors and chief executives of the Company 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 adopted by the Company on May 24, 2002, certain directors were granted share options to subscribe for shares of the Company and the said share options were subsequently surrendered by the said directors to the Company on December 20, 2002 and the same were duly cancelled on the same date, details of which as at December 31, 2002 were as follows:

Name of directors	Date of grant	Outstanding as at October 1, 2002	No. of underlying shares comprised in the options				Outstanding as at December 31, 2002	Exercisable period	Subscription price per share of the Company HK\$
			Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period			
Ms. Yeung Wing Yan, Wendy	May 24, 2002	10,000,000	-	-	10,000,000	-	-	May 24, 2002 to May 23, 2012	0.26
Mr. Wong Kun To	May 24, 2002	10,000,000	-	-	10,000,000	-	-	May 24, 2002 to May 23, 2012	0.26
Mr. Cheung Kwok Wah	May 24, 2002	10,000,000	-	-	10,000,000	-	-	May 24, 2002 to May 23, 2012	0.26
Mr. Zhang Zhen Li (Note)	May 24, 2002	10,000,000	-	-	10,000,000	-	-	May 24, 2002 to May 23, 2012	0.26

Note: Mr. Zhang Zhen Li has tendered his resignation as an executive director of the Company with effect from January 21, 2003.

Save as disclosed above, during the nine months period ended December 31, 2002, none of the directors and chief executives of the Company 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, none of the directors and chief executives of the Company or any of their respective 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.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2002, the register of substantial shareholders of the Company required to be kept under section 16(1) of the SDI Ordinance shows that 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 <i>(Note 1)</i>	199,840,625	18.84%
Chinaview International Limited <i>(Note 1)</i>	199,840,625	18.84%
Galaxyway Investments Limited <i>(Note 1)</i>	199,840,625	18.84%
ITC Corporation Limited <i>(Note 1)</i>	199,840,625	18.84%
ITC Investment Holdings Limited <i>(Note 1)</i>	199,840,625	18.84%
Hero's Way Resources Ltd. <i>(Note 1)</i>	199,840,625	18.84%
Prime Capital Corporation Limited <i>(Note 1)</i>	199,840,625	18.84%
Star East Holdings Limited <i>(Note 2)</i>	285,500,562	26.91%
Joyful Growth Limited <i>(Note 2)</i>	285,500,562	26.91%
Asiacreation Management Limited <i>(Note 2)</i>	285,500,562	26.91%
Ms. Yeung Wing Yan, Wendy <i>(Note 3)</i>	198,625,001	18.72%
Tiger Princess Co., Ltd. <i>(Note 3)</i>	198,625,001	18.72%
Gold Focus Ltd. <i>(Note 3)</i>	136,906,251	12.90%

Notes:

1. Prime Capital Corporation Limited was a wholly owned subsidiary of Hero's Way Resources Ltd. Hero's Way Resources Ltd. was a wholly owned subsidiary of ITC Investment Holdings Limited which was, in turn, a wholly owned subsidiary of ITC Corporation Limited. Galaxyway Investments Limited, a wholly owned subsidiary of Chinaview International Limited, owned more than one-third of the issued ordinary share capital of ITC Corporation Limited. Chinaview International Limited was in turn wholly owned by Dr. Chan Kwok Keung, Charles.
2. Asiacreation Management Limited was a direct wholly owned subsidiary of Joyful Growth Limited which was in turn wholly owned by Star East Holdings Limited.
3. Of the 198,625,001 shares, 61,718,750 shares were directly held by Tiger Princess Co., Ltd., of which Ms. Yeung Wing Yan, Wendy held the entire issued share capital thereof, and 136,906,251 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 198,625,001 shares.

Save as disclosed above, as at December 31, 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 businesses in the PRC.

Save as disclosed above, as at December 31, 2002, 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 business of the Group and any other conflicts of interest which any such persons have or may have with the Group.

SPONSOR'S INTERESTS

On November 28, 2002, the Company terminated the sponsor agreement dated July 17, 2000 entered into between the Company and Worldsec Corporate Finance Limited with effect from November 28, 2002. Following the termination of the said sponsor agreement, the Company immediately appointed Kim Eng Capital (Hong Kong) Limited ("Kim Eng") as a sponsor to the Company.

Pursuant to the new sponsor agreement dated November 28, 2002 entered into between Kim Eng and the Company, Kim Eng has received, and will continue to receive, fees for acting as the Company's retained sponsor for the period from November 28, 2002 to 31 March 2003.

Save as disclosed above, as at December 31, 2002, to the best knowledge of Kim Eng, neither Kim Eng 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 nine months period ended December 31, 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 nine months period ended December 31, 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 and 5.24 of the GEM Listing Rules. The audit committee comprises two independent non-executive directors of the Company, Ms. Choy Hok Man, Constance and Mr. Pang Hong.

The primary duties of the audit committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

Hong Kong, February 12, 2003