M Channel Corporation Limited

流 動 廣 告 有 限 公 司

(formerly known as 36.com Holdings Limited)

Annual Report 2003

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms. YEUNG Wing Yan, Wendy *(Chairman)*
Mr. WONG Kun To *(Deputy Chairman)*
Mr. WONG Lai Shun, Benny
Mr. TONG Chin Shing

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

Mr. CHAN Dik Keung, William

QUALIFIED ACCOUNTANT

Mr. CHAN Dik Keung, William

COMPLIANCE OFFICER

Mr. WONG Kun To

AUTHORIZED REPRESENTATIVES

Ms. YEUNG Wing Yan, Wendy
Mr. WONG Kun To

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

LEGAL ADVISERS

Hong Kong Law
Iu, Lai & Li

Bermuda Law
Appleby Spurling & Kempe

REGISTERED OFFICE

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
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WEBSITE ADDRESS

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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
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

CHAIRMAN'S STATEMENT

I am pleased to announce the audited consolidated results of M Channel Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended March 31, 2003.

FINANCIAL REVIEW

In April 2002, the Group acquired the entire interest in Fortune Impact Limited, which is engaged in the operation of the out-of-home audio and video media business in Hong Kong and the People's Republic of China (the "PRC"), at an aggregate consideration of HK$250 million satisfied by the issue of 15,625,000,000 new shares of HK$0.0001 each (prior to 20 into 1 share consolidation in May 2002) at an issue price of HK$0.016 per share in the Company. This transaction was fallen within the definition of reverse acquisition as defined in the Statement of Standard Accounting Practice No. 30 ("SSAP 30") "Business Combination" issued by the Hong Kong Society of Accountants, according to which Fortune Impact Limited, the subsidiary of the Company should be deemed to be the acquirer and the Company would be deemed to be a subsidiary. In the opinion of the directors of the Company, such presentation will have less value to the readers of the financial statements and could not present the value of the transaction, namely, the value of Fortune Impact Limited, acquired by the Company in this transaction. Against this background, the directors present the consolidated financial statements by accounting for the investments in Fortune Impact Limited as an investment in subsidiary just like the accounting treatment of all other subsidiaries of the Group and prepared the consolidated financial statements accordingly. Details of the financial information of Fortune Impact Limited for the three years ended December 31, 2001 are set out on pages 65 and 66 of this annual report.

Following the aforesaid acquisition of the mobile media business in April 2002 and the disposal of the magazine publishing business in May 2002, the Group has been principally engaged in the out-of-home audio and video media business in Hong Kong and the PRC.

The Group's turnover for the year ended March 31, 2003 amounted to approximately HK$35.5 million (2002: HK$32.9 million) representing an increase of approximately 7.9% over last year. Of the total turnover recorded for the year under review, approximately 98.6% of which amounted to approximately HK$35 million 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$8.6 million was recorded for the said disposal. In light of the changes in market conditions, the e-commerce trading and Internet advertising and consultancy businesses of the Group were disposed of in March 2003. A gain of approximately HK$1.1 million was recorded for the said disposal. As a result, there was only a small turnover of approximately HK$0.5 million derived from magazine publishing and Internet advertising and consultancy businesses for the year ended March 31, 2003, representing a substantial decrease of approximately 98.6% as compared to the prior year.

CHAIRMAN'S STATEMENT

FINANCIAL REVIEW *(Continued)*

Net loss for the year under review amounted to approximately HK$253.1 million (2002: HK$100.4 million), representing an increase of approximately 152.1% in comparing to the last year. The increase in net loss of approximately HK$152.7 million was mainly due to substantial increase of depreciation and amortisation expenses during the year and impairment loss recognised in respect of goodwill and out-of-home audio and video display equipment.

BUSINESS REVIEW

Hong Kong Market

Due to the continuous dampened spending sentiments under a slowly recovering economy, and the severe effects brought by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), certain advertisers have substantially lowered their advertising spending and deferred or even cancelled their advertising campaigns. The operation of the out-of-home audio and video media business has become increasingly tough, cost control has become our first priority.

Commencing from December 31, 2002, the Group transferred its audio and video media business assets on the bus platform in Hong Kong to First Place Agents Limited ("First Place") at a 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 the Group, HK$4 million was settled in cash and the balance of approximately HK$7.3 million was settled by way of allocating the broadcasting air-time for audio and video media advertisements on the bus platform. The relief of recurring license fee obligations has brought the Group with substantial reduction in operating cost and the cash received from the said transfer can also ease our heavy financial burden.

The Group currently continue to engage in the out-of-home audio and video media business through a platform of approximately 1,000 public light buses and approximately 140 fixed locations (including within Watson's The Chemist and fast food chain stores).

The PRC Market

In order to have a more stringent cost control and maintain high standard of platform quality, the Group had removed the audio and video equipment on approximately 1,000 non air-conditioned buses in Beijing during the period from October 2002 to March 2003. The Group has recently retreated from Beijing operations as to focus resources towards development of our media business in two major cities, namely Harbin and Guangzhou. Those removed equipment can be re-utilized at any time upon potential markets are identified. Currently, the Group operates approximately 1,100 public buses in the PRC, of which approximately 600 and 500 public buses are operated in Guangzhou and Harbin respectively.

CHAIRMAN'S STATEMENT

OUTLOOK

Although SARS has gradually under control, its negative impact on Hong Kong and the PRC is expected to persist for a short period of time. The operating environment will take time to improve, thus cost-saving measures are necessary by focusing on our resources allocation in order to resist the prevailing adversity.

Firstly, in enhancing the existing platform stability, our maintenance team has started to commence replacement of parts of the equipment for maintaining good visual and audio quality. Secondly, we are focusing in producing high quality programme which expects to draw more eyeballs, especially the information content. With rich content in health care, beauty care, entertainment, travelling and dining, we are here to meet the expectations of our customers and audiences.

Moreover, we are actively heading towards another goal of enhancing the Group's revenue through enlarging the sales team by adding more experienced sales people.

The Group has always dedicated to stay competitive, so stringent cost control measures are implemented. Through strategic consolidation, further reduction of operating costs is expected. The idle equipment arising from our recent retreat from Beijing operations may be available for re-utilisation once potential markets including Hong Kong and the PRC are identified. The advertising medium has become increasingly popular amongst our clients. In anticipation of the slow recovering economy in Hong Kong and the continual boom of the PRC markets, the out-of-home audio and video media business should be promising.

APPRECIATION

On behalf of the Board, I wish to express my sincere appreciation to the shareholders for their continuous support and to all management and staff members for their commitment and dedication throughout the year.

Yeung Wing Yan, Wendy
Chairman

Hong Kong, June 24, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF THE GROUP'S PERFORMANCE

For the year ended March 31, 2003, the Group recorded a turnover of approximately HK$35.5 million as compared with approximately HK$32.9 million in the last year, representing an increase of approximately 7.9%. Of the total turnover recorded for the year under review, approximately 98.6% of which amounted to approximately HK$35 million was derived from the out-of-home audio and video media business acquired by the Group in April 2002.

Loss from operations increased from approximately HK$100.2 million for the last year to approximately HK$260.4 million for the current year. Net loss for the year ended March 31, 2003 was approximately HK$253.1 million in comparing to the last corresponding year of approximately HK$100.4 million. The increase in net loss of approximately HK$152.7 million was mainly attributable to substantial increase of depreciation and amortisation expenses during the year and impairment loss recognized in the out-of-home audio and video display equipment, which were accounted for in aggregate to approximately HK$53.7 million. In addition, the Group recognised an impairment loss in respect of goodwill of HK$150 million.

LIQUIDITY AND FINANCIAL RESOURCES

In April 2002, the Group raised a net amount of approximately HK$45 million 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 year, the Group had fully utilized the said net proceeds to finance its operations.

As at March 31, 2003, the Group had bank and cash balance of approximately HK$13.4 million (2002: HK$0.9 million), of which approximately HK$11.3 million (2002: Nil) was pledged to a bank to secure banking facilities of RMB11.5 million 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 other unsecured borrowings of approximately HK$52.7 million (2002: Nil) which mainly comprised of non-current shareholders' loans and advances of approximately HK$13.2 million with approximately HK$9.2 million carries interest at prevailing market rate, a short-term interest bearing loan from a related party of approximately HK$2.1 million and other loans of approximately HK$37.4 million which carry interest at prevailing market rate with approximately HK$1.2 million repayable within one year and HK$36.2 million repayable after one year.

As at March 31, 2003, the Group had obligations under finance leases of approximately HK$63,000 (2002: HK$143,000), which comprised of short-term portion of HK$25,000 (2002: HK$143,000) and long-term portion of HK$38,000 (2002: Nil).

The Group operates a central cash management system for all subsidiaries. Bank arrangement and long-term borrowing requirements for all subsidiaries are monitored and approved at the holding company level.

MANAGEMENT DISCUSSION AND ANALYSIS

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 million (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 transactions contemplated under 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 Company was conducted. As a result, the subsidiary companies engaging in the business segment of magazine publishing and advertising were disposed of in May 2002 and a gain amounted to approximately HK$8.6 million was recorded for the said disposal.

In light of the changes in market conditions, the subsidiary companies engaging in the business segments of e-commerce trading and Internet advertising and consultancy were also disposed of in March 2003 and a gain of approximately HK$1.1 million was recorded for the said disposal.

COMMENTS ON SEGMENTAL 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; whereas for the year ended March 31, 2002, the Group was principally engaged in e-commerce trading, Internet advertising and consultancy and magazine publishing and advertising businesses in Hong Kong.

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. On December 30, 2002, the Company announced that an agreement (the "Agreement") was entered into between VisionAd Investment Limited ("VisionAd"), a wholly owned subsidiary of the Company, 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 (the "Transfer"), 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 eight equal monthly installments of HK$0.5 million each 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 during the period from January 1, 2003 until May 31, 2006 following the Transfer. The transactions contemplated under the Agreement constituted a major transaction of the Company, details of which were set out in the circular dated February 7, 2003, and written approval from shareholders representing more than 50% of its voting rights was duly obtained by the Company.

Although the effect of SARS has crippled the entire economy in our region, the Group will continue to seek opportunities for the expansion of the out-of-home audio and video media business into other potential markets including Hong Kong and the PRC once the crisis is over. At present, the Group does not have any definite future plan for material investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE INFORMATION

As at March 31, 2003, the Group had a total of 87 employees (2002: 32 employees) and the employee costs, excluding director's emoluments, for the year ended March 31, 2003 totaled approximately HK$25.1 million (2002: HK$53.3 million). 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.

The Company adopted a new share option scheme (the "New Share Option Scheme") on May 24, 2002 under which the board of directors may at its discretion offer to any director (including non-executive director), employee and the eligible persons prescribed thereunder (the "Eligible Persons") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. The principal purpose of the New Share Option Scheme is to recognise the significant contributions of the Eligible Persons to the growth of the Group.

CHARGES ON GROUP ASSETS

As at March 31, 2003, the Group had time deposits of approximately HK$11.3 million (2002: Nil) pledged to a bank to secure banking facilities of RMB11.5 million extended to the Company's subsidiaries in the PRC.

GEARING RATIO

The gearing ratio of the Group calculated as a ratio of total liabilities to total assets was substantially improved from approximately 3.25 of last year to approximately 0.71 as at March 31, 2003.

FOREIGN EXCHANGE EXPOSURE

For the year ended March 31, 2002, the Group was not exposed to any exchange risk as all its transactions were negotiated and settled in Hong Kong dollars. Due to the change in the Group's core business during the year under review, the functional currencies of the Group's operations were Hong Kong dollars and Renminbi, the directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at March 31, 2002. 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$6.6 million. 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. As at the date of this report, the proceedings are still ongoing. Taking into account the legal advice sought, the directors of the Company are of the opinion that the claim against the Company is unfounded and unmeritorious.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Upon completion of 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 Company 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 business objectives as set out in the prospectus of the Company dated July 18, 2000 (the "Prospectus") with actual business progress up to March 31, 2003:

Business objectives for the period commencing from October 1, 2002 and ending March 31, 2003	Actual progress during the period from October 1, 2002 to March 31, 2003
Hong Kong	**Hong Kong**
• Continue to increase the features on each vertical portal to improve functionality	• The Group had disposed of those subsidiary companies, which were engaged in e-commerce trading and Internet advertising and consultancy, to a third party in March 2003 in light of the changes in market conditions
• Continue to develop e-tailing in target markets	• The Group had disposed of those subsidiary companies, which were engaged in e-commerce trading and Internet advertising and consultancy, to a third party in March 2003 in light of the changes in market conditions
• Continue to increase the depth of content on each vertical portal	• The Group had disposed of those subsidiary companies, which were engaged in e-commerce trading and Internet advertising and consultancy, to a third party in March 2003 in light of the changes in market conditions

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Use of Proceeds

The net proceeds raised from the listing of the Group on 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 Company 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 Group 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 and the Group had fully applied the net proceeds to implement various objectives as set out in the circular of the Company dated March 28, 2002.

BIOGRAPHICAL INFORMATION OF DIRECTORS, COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

EXECUTIVE DIRECTORS

Ms. Yeung Wing Yan, Wendy, aged 40, appointed as an executive director of the Company on April 17, 2002 and appointed as the chairman of the Company on April 30, 2002. Ms. Yeung has over 11 years of experience in the media and communications industry, and in sales and marketing in Hong Kong and the PRC. She is the founder and managing 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 and the PRC. Ms. Yeung graduated from the University of Hawaii at Manoa with a Degree in Business Administration, majoring in marketing.

Mr. Wong Kun To, aged 47, appointed as an executive director of the Company on April 17, 2002. He was also appointed as the compliance officer of the Company on April 18, 2002 and appointed as the deputy chairman of the Company on April 30, 2002. Mr. Wong has over 16 years of experience in business development and investment especially in the media, entertainment and technology industries. He is a member of the Institute of Engineers (U.K.) and the Hong Kong Institute of Engineers. Mr. Wong is the managing director of Star East Holdings Limited ("Star East") and an executive director of ITC Corporation Limited ("ITC Corporation"). The securities of both Star East and ITC Corporation are listed on the Main Board of the Stock Exchange.

Mr. Wong Lai Shun, Benny, aged 42, joined the Group in March 2003 and appointed as an executive director of the Company on May 27, 2003. He is currently also the chief operation officer of a principal operating subsidiary of the Company. Mr. Wong holds a Bachelor's Degree in Art, has 5 years of working experience in the education field and over 10 years of administration experience. He was the chief executive officer of Sing Pao Media Group Limited (now known as Leadership Publishing Group Limited) ("Leadership Publishing") and currently an executive director of Rosedale Hotel Group Limited ("Rosedale Hotel"). The securities of Leadership Publishing and Rosedale are listed on GEM and the Main Board of the Stock Exchange respectively.

Mr. Tong Chin Shing, aged 50, appointed as an executive director of the Company on May 27, 2003. He is responsible for corporate strategic development and financial management of the Group. Mr. Tong holds a Bachelor's Degree in Commerce and is a member of the Society of Management Accountants of Canada. He has over 24 years experience in accounting, auditing, finance and general administration in Hong Kong and Canada.

BIOGRAPHICAL INFORMATION OF DIRECTORS, COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

NON-EXECUTIVE DIRECTORS

Mr. Yang Bu Ting, aged 57, appointed as a non-executive director of the Company on June 20, 2002, has over 21 years of experience in the television and film industries in the PRC. Mr. Yang is currently the chairman of China Film Group Company (中國電影集團公司) which is principally engaged in the film development business in the PRC.

Mr. Zhang Jia Ji, aged 50, appointed as a non-executive director of the Company on June 20, 2002, has over 21 years of experience in the public transportation industry in the PRC. Mr. Zhang is currently the chairman of the National Urban Public Transportation Advertising Committee (全國城市公交廣告委員會) which is a management committee organized by the PRC advertising agencies engaged in outdoor advertising relating transit vehicles, a director of Beijing Bus Joint Stock Company Limited (北京巴士股份有限公司) 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 (北京公交廣告有限責任公司) which is engaged in outdoor advertising business involving bus shelters and bus bodies in Beijing, the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Choy Hok Man, Constance, aged 42, appointed as an independent non-executive director of the Company on April 17, 2002, 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 49, appointed as an independent non-executive director of the Company on April 30, 2002, worked for 18 years in enterprises and government departments in the PRC. After studying for 3 years in the United States, he 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, a company whose securities are listed on the Main Board of the Stock Exchange.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Dik Keung, William, aged 34, appointed as the Company Secretary and Qualified Accountant of the Company on February 1, 2003. Mr. Chan is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. He has over 10 years of working experience in the field of accounting and finance.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the year ended March 31, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 34 to the financial statements.

CHANGE OF COMPANY'S NAME

Pursuant to a special resolution passed at the special general meeting of the Company 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.

FINAL DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year ended March 31, 2003 (2002: Nil).

RESULTS

Details of the Group's results for the year ended March 31, 2003 are set out in the consolidated income statement on page 25 of the annual report.

PRINCIPAL SUBSIDIARIES

During the year, the Group acquired the entire interest in Fortune Impact Limited, which is engaged in the operation of the out-of-home audio and video media business in Hong Kong and the People's Republic of China (the "PRC"), at an aggregate consideration of HK$250,000,000 satisfied by the issue of 15,625,000,000 new shares of HK$0.0001 each (prior to 20 into 1 share consolidation in May 2002) at an issue price of HK$0.016 per share in the Company.

The Group also disposed of its entire interest in Chinese United Press Limited and Topspin Associates Limited, both of which are engaged in magazine publishing and advertising businesses.

The Group further disposed of its entire interests in iFocus Group Limited and its subsidiaries, which are engaged in e-commence trading and Internet advertising and consultancy businesses.

Details of the principal subsidiaries of the Company as at March 31, 2003 are set out in note 34 to the financial statements.

DIRECTORS' REPORT

SHARE CAPITAL AND WARRANTS

During the year, 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 share capital of the Company were consolidated into one share of HK$0.002 each ("Share Consolidation").

The Group issued an aggregate of 15,625,000,000 new shares of HK$0.0001 each (or equivalent to 781,250,000 shares after Share Consolidation) at an issue price of HK$0.016 per share (or equivalent to HK$0.32 per share after Share Consolidation) in the Company to Gold Focus Ltd. and Tiger Princess Co., Ltd. to acquire their entire interests in Fortune Impact Limited at an aggregate consideration of HK$250,000,000, details of which were set out in the circular of the Company dated March 28, 2002.

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

Details of the movements in the share capital and warrants of the Company during the year are set out in notes 22 and 24 to the financial statements, respectively.

CHANGES IN SUBSTANTIAL SHAREHOLDERS

Following the completion of the issue of new shares for the acquisition of the entire interest in Fortune Impact Limited and further placement of new shares, Gold Focus Ltd., Tiger Princess Co., Ltd and their respective shareholders became the controlling shareholders of the Company. Details of the substantial shareholders as at March 31, 2003 are disclosed under the section headed "Substantial Shareholders".

PROPERTY, PLANT AND EQUIPMENT

During the year, property, plant and equipment with an aggregate net book value of approximately HK$76 million, which mainly attributed to display equipment, was acquired as a result of the acquisition of Fortune Impact Limited.

Following the termination of the sub-licence under the licence, sub-licence and service agreement with a transit vehicle operator in Hong Kong, display equipment installed in the vehicles of this operator with an aggregate net book value of approximately HK$26 million were disposed of to the operator at an aggregate consideration of HK$25 million.

An impairment loss of approximately HK$25.7 million in respect of property, plant and equipment was identified and charged to the consolidated income statement.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

DIRECTORS' REPORT

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 *(Deputy Chairman)*	(appointed on April 17, 2002)
Wong Lai Shun, Benny	(appointed on May 27, 2003)
Tong Chin Shing	(appointed on May 27, 2003)
Cheung Kwok Wah	(appointed on April 17, 2002 and resigned on May 27, 2003)
Zhang Zhen Li	(appointed on June 1, 2002 and resigned on January 21, 2003)
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)

Independent non-executive directors:

Choy Hok Man, Constance	(appointed on April 17, 2002)
Pang Hong	(appointed on April 30, 2002)
Wong Richard Yue Chim	(resigned on April 18, 2002)
Leung Tak Man	(resigned on April 30, 2002)

In accordance with Clause 102(B) of the Company's New Bye-Laws, Messrs. Wong Lai Shun, Benny and Tong Chin Shing will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Clause 99 of the Company's New Bye-Laws, Messrs. Wong Kun To and Pang Hong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

The terms of office of each non-executive director and independent non-executive director is the period up to his/her retirement by rotation as required by the Company's New Bye-Laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting nor the remaining directors of the Company 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, 2003, the interests of the directors and their associates in the share capital of the Company or any of its associated corporations ("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 the SDI Ordinance or as otherwise, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules"), notified to the Company and the Stock Exchange, were as follows:

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

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

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

Save as disclosed above, as at March 31, 2003, none of the directors of the Company or their associates had any interests in any securities of the Company or any of its Associated Corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinary or as otherwise notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 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

Significant related party transactions entered by the Group during the year ended March 31, 2003, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in note 33 to the financial statements.

The Group had entered into the following connected transactions, which are required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules and have previously been announced by the Company during the year ended March 31, 2003:

(a) On February 21, 2002, the Company entered into an agreement ("S&P Agreement I") with Gold Focus Ltd., pursuant to which the Company had conditionally agreed to acquire 92.1% interest in Fortune Impact Limited from Gold Focus Ltd. for a consideration of HK$230,250,000 (the "Acquisition I") and Gold Focus Ltd. became the controlling shareholder of the Company after completion of the S&P Agreement I. The Acquisition I was duly approved by the independent shareholders of the Company in a special general meeting held on April 15, 2002 and the S&P Agreement I was completed on April 18, 2002.

(b) On February 21, 2002, the Company entered into an agreement ("S&P Agreement II") with Tiger Princess Co., Ltd., pursuant to which the Company had conditionally agreed to acquire 7.9% interest in Fortune Impact Limited from Tiger Princess Co., Ltd. for a consideration of HK$19,750,000 (the "Acquisition II") and Tiger Princess Co., Ltd. became the controlling shareholder of the Company together with Gold Focus Ltd. after completion of the S&P Agreement II. The Acquisition II was duly approved by the independent shareholders of the Company in a special general meeting held on April 15, 2002 and the S&P Agreement II was completed on April 18, 2002.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following substantial shareholders interests, being 10% or more of the issued share capital of the Company:

Name of substantial shareholders	Number of shares held	Percentage of issued share capital
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 Ltd. *(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)*	198,625,001	18.72
Tiger Princess Co., Ltd. *(Note 3)*	198,625,001	18.72
Gold Focus Ltd. *(Note 3)*	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 currently 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, as at March 31, 2003, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company except that the Company had received notification from Sun Media Group Holdings Limited ("Sun Media") that pursuant to a conditional agreement dated March 7, 2003 (the "Agreement") made between Sun Media and the Company, whereby the Company agreed to issue new shares (which represented more than 10% of the issued share capital of the Company) for the acquisition of certain assets from Sun Media and the Agreement was subsequently terminated on May 2, 2003.

COMPETING INTERESTS

The directors of the Company believe that none of the directors nor the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that compete or may compete with the business of the Group or any other conflicts of interest which any such persons have or may have with the Group except that 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.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 23 to the financial statements.

The following table discloses movements in the Company's share options held by the directors and former directors during the year:

	Exercisable period	*Notes*	Exercise price per share HK$	Outstanding at April 1, 2002	Consolidation during the year	Number of share options Granted during the year	Surrendered during the year	Lapsed during the year	Outstanding at March 31, 2003
(1) Pre-IPO Share Option Scheme (the "Pre-IPO Plan")									
Former directors									
Ip Saimond	July 12, 2000 to December 31, 2005	*(i), (ii) & (iii)*	0.758	72,602,255	(68,972,143)	–	–	(3,630,112)	–
Yeung Kwok Mung	July 12, 2000 to December 31, 2005	*(i), (ii) & (iii)*	0.758	72,602,255	(68,972,143)	–	–	(3,630,112)	–
Huang Erwin Steve	July 12, 2000 to December 31, 2005	*(i), (ii) & (iii)*	0.758	7,425,231	(7,053,970)	–	–	(371,261)	–
Sub-total				152,629,741	(144,998,256)	–	–	(7,631,485)	–

DIRECTORS' REPORT

SHARE OPTION SCHEMES *(Continued)*

	Exercisable period	Notes	Exercise price per share HK$	Outstanding at April 1, 2002	Consolidation during the year	Number of share options Granted during the year	Surrendered during the year	Lapsed during the year	Outstanding at March 31, 2003
(2) New Share Option Scheme (the "New Scheme")									
Directors									
Yeung Wing Yan, Wendy	May 24, 2002 to May 23, 2012	*(iv) & (v)*	0.26	–	–	10,000,000	(10,000,000)	–	–
Wong Kun To	May 24, 2002 to May 23, 2012	*(iv) & (v)*	0.26	–	–	10,000,000	(10,000,000)	–	–
				–	–	20,000,000	(20,000,000)	–	–
Former directors									
Zhang Zhen Li	May 24, 2002 to May 23, 2012	*(iv) & (v)*	0.26	–	–	10,000,000	(10,000,000)	–	–
Cheung Kwok Wah	May 24, 2002 to May 23, 2012	(iv) & (v)	0.26	–	–	10,000,000	(10,000,000)	–	–
						20,000,000	(20,000,000)		
Sub-total				–	–	40,000,000	(40,000,000)	–	–
Total				152,629,741	(144,998,256)	40,000,000	(40,000,000)	(7,631,485)	–

Notes:

(i) The options were granted pursuant to the Pre-IPO Plan of the Company adopted on July 12, 2000. 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 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) Messrs. Ip Saimond and Yeung Kwok Mung resigned as the executive directors and Mr. Huang Erwin Steve resigned as a non-executive director of the Company on April 18, 2002. The options granted to them under the Pre-IPO Plan lapsed in July 2002.

(iii) Following Share Consolidation, the exercise price of the share options was adjusted to HK$0.758 from the initial exercise price of HK$0.0379. The number of share options was also adjusted as a result of Share Consolidation.

(iv) The options were granted pursuant to the New Scheme of the Company adopted on May 24, 2002.

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

DIRECTORS' REPORT

SHARE OPTION SCHEMES *(Continued)*

Valuation of Share Options

The options granted are not recognised 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 year on the ground that there are serious limitations in the application of the Black-Scholes Option Pricing Model and the Binomial 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 of the Company 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.

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 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 March 31, 2003.

Save as disclosed above, as at March 31, 2003, 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 member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's sales and purchases were attributable to the Group's five largest customers and 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 29 to the financial statements.

BOARD PRACTICES AND PROCEDURES

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 throughout the year.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's New 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 which clearly establish the audit committee's authority and duties in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. At the date of this report, 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.

Five audit committee meetings were held since April 1, 2002 up to the date of this report. The Group's financial statements for the year ended March 31, 2003 have been reviewed by the audit committee, who was of the opinion that such statements complied with the applicable accounting standards except for the failure to account for the acquisition of Fortune Impact Limited as a reverse acquisition in accordance with the requirement of Statement of Standard Accounting Practice No. 30 "Business Combination" issued by the Hong Kong Society of Accountants, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 35 to the financial statements.

AUDITORS

During the year ended March 31, 2002, Messrs. Ernst and Young, who acted as auditors of the Company for the year ended March 31, 2001, 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 of the Company 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 24, 2003

AUDITORS' REPORT

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
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 25 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

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.

AUDITORS' REPORT

Qualified opinion arising from disagreement about accounting treatment

As explained in note 26 to the financial statements, during the year the Company acquired Fortune Impact Limited, the consideration being in the form of 15,625,000,000 new shares of the Company, representing approximately 6 times the issued share capital of the Company before this share issue. Accordingly, this acquisition constitutes a reverse acquisition as defined in Statement of Standard Accounting Practice No. 30 ("SSAP 30") "Business Combination" issued by the Hong Kong Society of Accountants. In preparing the consolidated financial statements, Fortune Impact Limited has been accounted for as a subsidiary acquired during the year. However, SSAP 30 requires that, instead of being accounted for as a subsidiary, Fortune Impact Limited should be treated as the acquirer in preparation of the consolidated financial statements of the Company. If the consolidated financial statements had been prepared in accordance with reverse acquisition accounting treatment required by SSAP 30, the goodwill and net assets of the Group as at March 31, 2003 would have been reduced by approximately HK$33 million and the loss of the Group for the year then ended would have been reduced by approximately HK$149 million.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at March 31, 2003 and except for the failure to account for the acquisition of Fortune Impact Limited as a reverse acquisition in accordance with the requirement of SSAP 30, in our opinion, the financial statements give a true and fair view of the state of affair of the Group as at March 31, 2003 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 24, 2003

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2003

	Notes	2003 HK$'000	2002 HK$'000
Turnover	5	**35,485**	32,865
Other operating income	6	**2,899**	1,613
Distribution costs		**(34,518)**	–
Cost of merchandise sold		**–**	(2,582)
Printing and other production costs		**(732)**	(22,715)
Advertising and marketing expenses		**(2,318)**	(10,086)
Software acquisition and hardware maintenance costs		**–**	(288)
Depreciation and amortisation		**(27,997)**	(8,148)
Rental expenses		**(3,930)**	(2,972)
Staff costs		**(28,660)**	(58,259)
Loss on disposal of property, plant and equipment		**(2,916)**	(3,830)
Impairment loss recognised in respect of goodwill	13	**(150,000)**	–
Impairment loss recognised in respect of property, plant and equipment	12	**(25,689)**	(7,613)
Other operating expenses		**(22,020)**	(18,207)
Loss from operations	7	**(260,396)**	(100,222)
Finance costs	8	**(2,576)**	(207)
Gain on disposal of subsidiaries		**9,725**	–
Loss before minority interest		**(253,247)**	(100,429)
Minority interest		**178**	–
Loss for the year		**(253,069)**	(100,429)
Loss per share			
– Basic and diluted	11	**HK$(0.25)**	HK$(0.81)

CONSOLIDATED BALANCE SHEET

At March 31, 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current assets			
Property, plant and equipment	12	**32,126**	2,166
Goodwill	13	**50,878**	–
Intangible asset	14	**81**	–
Other asset	15	**5,200**	–
		88,285	2,166
Current assets			
Accounts receivable	17	**6,350**	942
Other receivables		**8,927**	896
Amounts due from related companies	18	**37**	–
Pledged time deposits	31	**11,330**	–
Bank balances and cash		**2,072**	897
		28,716	2,735
Current liabilities			
Accounts payable and accrued charges	19	**16,137**	15,772
Amounts due to related companies	18	**2,834**	–
Obligations under finance leases – due within one year	20	**25**	143
Bank and other borrowings - due within one year	21	**14,075**	–
		33,071	15,915
Net current liabilities		**(4,355)**	(13,180)
Total assets less current liabilities		**83,930**	(11,014)
Non-current liabilities			
Obligations under finance leases – due after one year	20	**38**	–
Bank and other borrowings – due after one year	21	**49,520**	–
		34,372	(11,014)
Capital and Reserves			
Share capital	22	**2,122**	247
Reserves		**32,250**	(11,261)
		34,372	(11,014)

The financial statements on pages 25 to 64 were approved and authorised for issue by the Board of Directors on June 24, 2003 and are signed on its behalf by:

Yeung Wing Yan, Wendy
DIRECTOR

Tong Chin Shing
DIRECTOR

BALANCE SHEET

At March 31, 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current asset			
Interests in subsidiaries	16	**34,000**	690
Current assets			
Other receivables		**131**	–
Bank balances and cash		**8**	110
		139	110
Non-current liabilities			
Accrued charges		**2,151**	2,293
Amounts due to subsidiaries	16	**–**	257
		2,151	2,550
Net current liabilities		**(2,012)**	(2,440)
		31,988	(1,750)
Capital and Reserves			
Share capital	22	**2,122**	247
Reserves	25	**29,866**	(1,997)
		31,988	(1,750)

Yeung Wing Yan, Wendy
DIRECTOR

Tong Chin Shing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2003

	Share capital HK$'000 *(Note 22)*	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
THE GROUP					
At April 1, 2001	247	95,398	89,829	(96,059)	89,415
Loss for the year	–	–	–	(100,429)	(100,429)
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 year	–	–	–	(253,069)	(253,069)
At March 31, 2003	2,122	391,978	89,829	(449,557)	34,372

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.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2003

	Notes	2003 HK$'000	2002 HK$'000
OPERATING ACTIVITIES			
Loss from operations		**(260,396)**	(100,222)
Adjustment for:			
Interest income		**(215)**	(1,324)
Depreciation and amortisation		**27,997**	8,148
Loss on disposal of property, plant and equipment		**2,916**	3,830
Impairment loss of property, plant and equipment		**25,689**	7,613
Gain on waiver of obligation		**(1,175)**	–
Impairment loss recognised in respect of goodwill		**150,000**	–
Operating cash flow before movements in working capital		**(55,184)**	(81,955)
(Increase) decrease in accounts receivable		**(670)**	333
Decrease in other receivables		**3,904**	3,652
Decrease in amounts due from related companies		**395**	–
Increase in accounts payable and accrued charges		**1,506**	11,710
Increase in amounts due to related companies		**3,224**	–
Cash used in operations		**(46,825)**	(66,260)
Interest received		**215**	1,324
NET CASH USED IN OPERATING ACTIVITIES		**(46,610)**	(64,936)
INVESTING ACTIVITIES			
Acquisition of subsidiaries	*26*	**5,589**	–
Proceeds from disposal of property, plant and equipment		**260**	1,896
Purchases of property, plant and equipment		**(26,973)**	(12,026)
(Increase) decrease in pledged time deposits		**(11,330)**	2,274
Purchases of programme rights		**(449)**	–
Disposal of subsidiaries	*27*	**(386)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(33,289)**	(7,856)
FINANCING			
Proceeds from issue of shares		**50,000**	–
New bank and other borrowings raised		**35,388**	–
Interest paid		**(2,567)**	(6)
Share issue expenses		**(1,545)**	–
Repayment of obligations under finance leases		**(193)**	(4,490)
Interest on finance lease rental payments		**(9)**	(201)
NET CASH GENERATED FROM (USED IN) FINANCING		**81,074**	(4,697)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,175**	(77,489)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**897**	78,386
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
– representing bank balances and cash		**2,072**	897

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda and its shares 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 out-of-home audio and video media business in Hong Kong and the People's Republic of China (the "PRC"). The activities of its principal subsidiaries are set out in note 34.

2. BASIS OF PREPARATION

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK$4,355,000 as at March 31, 2003. The directors are of the opinion that, after taking into account the expected cash inflow to be generated from the media and advertising sales derived from the out-of-home audio and video media business, the availability of banking facilities and other facilities granted by its substantial shareholders, ITC Corporation Limited and Star East Holdings Limited, and the net proceeds to be received from the disposal of certain display equipment in the next twelve months from the balance sheet date, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED 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, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, and in adoption of the following new and revised accounting policies has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries operate outside Hong Kong at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Cash Flow Statements

In the current year, the Group has 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, which was previously presented under a separate heading, is classified as operating 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. Cash flows of overseas operations and subsidiaries 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 or prior year.

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 Polices". 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 operation of e-commerce trading, Internet advertising and consultancy, and magazine publishing and advertising as discontinuing operations in the current year. Details of which are disclosed in note 5.

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participating only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Purchased programme rights

Purchased programme rights are measured initially at cost and amortised over the licence period.

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 and intangible 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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%
Production equipment	20%
Display 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leased 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 original principal at the inception of the respective leases, 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 schemes

Payment to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense as they fall due.

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 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.

Foreign currencies

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments

Geographical segments by location of operations for the year ended March 31, 2003:

	Hong Kong HK$'000	PRC HK$'000	Elimination HK$'000	Total HK$'000
TURNOVER				
External	31,005	4,480	–	35,485
Inter-segment	15	–	(15)	–
Total	31,020	4,480	(15)	35,485
RESULTS				
Segment result	(59,821)	(39,085)	–	(98,906)
Other operating income				2,899
Unallocated corporate expenses				(164,389)
Loss from operations				(260,396)
Finance costs				(2,576)
Gain on disposal of subsidiaries				9,725
Loss before minority interest				(253,247)
Minority interest				178
Loss for the year				(253,069)
CONSOLIDATED BALANCE SHEET				
ASSETS				
Segment assets	31,047	35,076		66,123
Unallocated corporate assets				50,878
Consolidated total assets				117,001
LIABILITIES				
Segment liabilities	45,754	35,561		81,315
Unallocated corporate liabilities				1,314
Consolidated total liabilities				82,629
OTHER INFORMATION				
Capital additions	59,332	44,511		103,843
Depreciation and amortisation of property, plant and equipment	11,128	6,237		17,365
Impairment loss recognised in respect of property, plant and equipment	9,499	16,190		25,689
Amortisation of intangible asset	571	13		584
Amortisation of goodwill	–	–		10,048
Impairment loss recognised in respect of goodwill	–	–		150,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

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

Revenue from the Group's discontinued e-commerce trading, Internet advertising and consultancy, and magazine publishing and advertising operations of HK$446,000 (2002: HK$32,865,000) was derived principally from Hong Kong.

The assets and liabilities of the Group at March 31, 2002 were all located in Hong Kong. Accordingly, no analysis of the Group's turnover and contribution to operating results, assets and liabilities, capital additions or depreciation and amortisation is presented.

Business segments

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

For the year ended March 31, 2003

	Continuing operation	Discontinuing operations				
	Media and advertising sales HK$'000	Internet advertising and consultancy HK$'000 *(Note a)*	Magazine publishing and advertising HK$'000 *(Note b)*	Subtotal HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External	35,039	9	437	446	–	35,485
Inter-segment	–	–	15	15	(15)	–
Total	35,039	9	452	461	(15)	35,485
RESULTS						
Segment result	(256,694)	(565)	(1,695)	(2,260)	–	(258,954)
Other operating income						2,899
Unallocated corporate expenses						(4,341)
Loss from operations						(260,396)
Finance costs						(2,576)
Gain on disposal of subsidiaries						9,725
Loss before minority interest						(253,247)
Minority interest						178
Loss for the year						(253,069)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

For the year ended March 31, 2002

	Discontinuing operations				
	E-commerce trading	**Internet advertising and consultancy**	**Magazine publishing and advertising**	**Elimination**	**Consolidated**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note a)	*(Note a)*	*(Note b)*		
TURNOVER					
External	743	5,068	27,054	–	32,865
Inter-segment	–	–	257	(257)	–
Total	743	5,068	27,311	(257)	32,865
RESULTS					
Segment result	(15)	(21,226)	(61,447)	–	(82,688)
Other operating income					1,613
Unallocated corporate expenses					(19,147)
Loss from operations					(100,222)
Finance costs					(207)
Loss before minority interest					(100,429)
Minority interest					–
Loss for the year					(100,429)

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

Notes:

(a) In March 2003, the Group disposed of its interest in iFocus Group Limited ("iFocus"). iFocus and its subsidiaries were mainly engaged in e-commerce trading and Internet advertising and consultancy businesses.

Upon the completion of the disposal, the Group had no interest in e-commerce trading and Internet advertising and consultancy businesses and the business segments of e-commerce trading and Internet advertising and consultancy were regarded as discontinuing operations during the year.

(b) In May 2002, the Group disposed of its interests in Chinese United Press Limited ("CUPL") and Topspin Associates Limited ("Topspin"). CUPL and Topspin were mainly engaged in magazine publishing and advertising business.

Upon the completion of the disposal, the Group had no interest in CUPL and Topspin and the business segment of magazine publishing and advertising was regarded as a discontinuing operation during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

The aggregate carrying amounts of the assets and liabilities of the discontinuing operations at the date of discontinuance are as follows:

	2003			
	E-commerce trading	**Internet advertising and consultancy**	**Magazine publishing and advertising**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	–	1,061	1,341	2,402
Total liabilities	–	(1,115)	(10,112)	(11,227)
Operating cash outflow	(9)	(175)	(306)	(490)
Cash inflow in respect of investing activities	–	173	–	173
Cash outflow in respect of financing activities	–	–	(94)	(94)
Net operating cash outflow	(9)	(2)	(400)	(411)

6. OTHER OPERATING INCOME

	2003	2002
	HK$'000	HK$'000
Interest income	**215**	1,324
Gain on waiver of obligation *(Note)*	**1,175**	–
Sundry income	**1,509**	289
	2,899	1,613

Note: The amount represents the waiver of the Group's outstanding obligation to a creditor during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

7. LOSS FROM OPERATIONS

	2003 HK$'000	2002 HK$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– directors' remuneration *(note 9(a))*	**3,537**	4,946
– other staff costs	**24,157**	51,350
– severance payments	**–**	156
– retirement benefits scheme contributions, excluding directors'	**966**	1,807
	28,660	58,259
Auditors' remuneration	**552**	400
Amortisation of goodwill	**10,048**	–
Amortisation of intangible asset	**584**	–
Depreciation and amortisation		
Owned assets	**17,166**	7,962
Leased assets	**199**	186

8. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on:		
– finance leases	**9**	201
– bank borrowings	**547**	6
– other borrowings	**1,778**	–
– loans from related parties	**242**	–
	2,576	207

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

9. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	2003	2002
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**–**	230
	–	230
Other emoluments:		
– Executive directors		
Salaries and other benefits	**3,510**	4,680
Retirement benefits scheme contributions	**27**	36
	3,537	4,716
Total directors' remuneration	**3,537**	4,946

For the year ended March 31, 2003, three executive directors received remuneration of approximately HK$2,143,000, HK$862,000, and HK$532,000 respectively.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

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

(b) Employees' emoluments

During the year, the five highest paid individuals in the Group included two (2002: 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:

	2003	2002
	HK$'000	HK$'000
Salaries and other benefits	**2,417**	1,542
Retirement benefits schemes contributions	**36**	22
	2,453	1,564

	Number of employees	
	2003	2002
Nil to HK$1,000,000	**3**	2

10. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the year.

No provision for tax in other jurisdictions for the year has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

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$253,069,000 (2002: HK$100,429,000) and on the adjusted weighted average of 1,017,236,917 (2002: adjusted 123,401,300) 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 22.

The computation of diluted loss per share has not assumed the exercise of the share options and warrants as their exercise would result in a decrease in the loss per share for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Furniture and fixtures	Motor vehicles	Production equipment	Office equipment	Computer equipment	Display equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP								
COST								
At April 1, 2002	4,115	531	–	–	935	16,037	–	21,618
Acquisition of subsidiaries	975	240	139	2,733	243	1,031	70,731	76,092
Additions	107	133	640	283	327	370	25,226	27,086
Disposals	(888)	(473)	(60)	–	(857)	(993)	(36,209)	(39,480)
Disposal of subsidiaries	(4,115)	(87)	–	–	(163)	(15,115)	–	(19,480)
At March 31, 2003	194	344	719	3,016	485	1,330	59,748	65,836
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At April 1, 2002	4,115	122	–	–	118	15,097	–	19,452
Provided for the year	568	164	127	672	165	1,215	14,454	17,365
Impairment loss recognised	–	–	–	–	–	–	25,689	25,689
Eliminated on disposals	(374)	(139)	(8)	–	(226)	(1,631)	(8,054)	(10,432)
Disposal of subsidiaries	(4,115)	(81)	–	–	(9)	(14,159)	–	(18,364)
At March 31, 2003	194	66	119	672	48	522	32,089	33,710
NET BOOK VALUES								
At March 31, 2003	–	278	600	2,344	437	808	27,659	32,126
At March 31, 2002	–	409	–	–	817	940	–	2,166

During the year, the Group terminated the agreement with a transit vehicle operator in Hong Kong, the display equipment installed in the vehicles of the operator was disposed of to the operator for an aggregate consideration of HK$25 million satisfied by receivables of HK$4 million, waiver of licence fee payable of approximately HK$13.7 million and a right to use of broadcasting commercial airtime, of a certain period of time amounting to HK$7.3 million, details of which are set out in note 15.

The directors of the Company also reviewed the carrying value of certain display equipment of the Group with reference to their value in use in the light of the nature and change in technology of display equipment and in the related business, an impairment loss of approximately HK$25.7 million was identified and charged to the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At March 31, 2003, the net book value of the Group's motor vehicle includes an amount of approximately HK$98,000 in respect of assets held under finance lease.

At March 31, 2002, the net book value of the Group's computer equipment included an amount of approximately HK$211,000 in respect of assets held under finance lease.

13. GOODWILL

	THE GROUP HK$'000
GROSS AMOUNT	
Arising on acquisition during the year and balance at March 31, 2003	210,926
AMORTISATION AND IMPAIRMENT	
Provided for the year	10,048
Impairment loss recognised during the year	150,000
At March 31, 2003	160,048
CARRYING AMOUNT	
At March 31, 2003	50,878
At March 31, 2002	–

Goodwill is amortised on a straight line basis of 5 years.

During the year, the Group acquired the entire interest in Fortune Impact Limited and resulted in a goodwill of approximately HK$210,926,000. At the balance sheet date, the directors reviewed the performance of the out-of-home audio and video media business and revised their estimation of the future performance of the business and recognised an impairment in goodwill of HK$150 million in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

14. INTANGIBLE ASSET

THE GROUP

	Purchase programme rights HK$'000
COST	
Acquisition of subsidiaries	216
Additions	449
At March 31, 2003	665
AMORTISATION	
Provided for the year and at March 31, 2003	584
NET BOOK VALUE	
At March 31, 2003	81
At March 31, 2002	–

Purchased programme rights were acquired from third parties and are amortised over the licence period.

15. OTHER ASSET

The amount represents value of broadcasting commercial airtime. The Group has right to use or sell commercially for the period from January 1, 2003 to May 31, 2006. Certain limit of airtime has to be used or sold by the Group monthly and the unused or unsold airtime fall due to use in the next twelve months amounted to HK$2.1 million are classified under current assets. The amount of airtime is charged to consolidated income statement over the specified period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**250,000**	60,093
Less: Impairment losses recognised	**(216,000)**	(59,403)
	34,000	690
Amounts due from subsidiaries	**42,247**	95,028
Less: Allowances on amounts due from subsidiaries	**(42,247)**	(95,028)
	–	–
	34,000	690
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$216 million (2002: HK$59 million) has been recognised in the income statement for the year.

Details of the Company's principal subsidiaries at March 31, 2003 are set out in note 34.

17. 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	
	2003	2002
	HK$'000	HK$'000
Accounts receivable:		
Within 30 days	**1,331**	440
Within 31 – 60 days	**2,091**	35
Within 61 – 90 days	**1,627**	1
Over 90 days	**1,301**	466
	6,350	942

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

18. AMOUNTS DUE FROM/TO RELATED COMPANIES

(a) Amounts due from related companies

The amounts represent the balances due from a substantial shareholder and the companies which a substantial shareholder has beneficial interests.

(b) Amounts due to related companies

The amounts represent the balances due to the companies which a director or certain substantial shareholders have beneficial interests.

All the above amounts are unsecured, non-interest bearing and repayable on demand.

19. ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Accounts payable:		
Within 30 days	**1,718**	478
Within 31 – 60 days	**469**	556
Within 61 – 90 days	**828**	29
Over 90 days	**4,037**	6,749
	7,052	7,812
Add: Accrued charges	**9,085**	7,960
	16,137	15,772

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

20. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		**Present value of minimum lease payments**	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases are repayable as follows:				
Within one year	**28**	149	**25**	143
More than one year, but not exceeding two years	**39**	–	**38**	–
	67	149	**63**	143
Less: Future finance charges	**(4)**	(6)	**–**	–
Present value of lease obligations	**63**	143	**63**	143
Less: Amount due within one year and shown under current liabilities			**(25)**	(143)
Amount due after one year			**38**	–

The average lease term is 3 years (2002: 2 years). For the year ended March 31, 2003, the effective borrowing rate was 5% (2002: 11%). Interest rate is 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 were secured by personal guarantees and indemnities given by Mr. Cheng Albert Jinghan, the former director of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

21. BANK AND OTHER BORROWINGS

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Bank borrowings	**10,849**	–
Other borrowings *(Note a)*	**37,429**	–
Loans from related companies *(Note b)*	**11,273**	–
Amount due to a related company *(Note c)*	**4,044**	–
	63,595	–
Secured	**10,849**	–
Unsecured	**52,746**	–
	63,595	–

The maturity profile of the above borrowings is as follows:

Within one year	**14,075**	–
More than one year, not exceeding two years	**49,520**	–
	63,595	–
Less: Amount due within one year included under current liabilities	**(14,075)**	–
Amount due after one year	**49,520**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

21. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The amounts are unsecured, carry interest at prevailing market rate and will not be repaid within one year from the balance sheet date except for the amount of approximately HK$1,153,000 which is repayable within one year from the balance sheet date.

(b) Details of the loans from related companies are as follows:

		THE GROUP	
		2003	2002
	Notes	**HK$'000**	HK$'000
ITC Management Limited	*(i)*	**9,200**	–
Alfaway International Limited	*(ii)*	**2,073**	–
		11,273	–

Notes:

(i) ITC Management Limited is a subsidiary of ITC Corporation Limited, a substantial shareholder of the Company. The loan is unsecured, carries interest at prevailing market rate and will not be repaid within one year from the balance sheet date.

(ii) The Company is an investee company of a jointly controlled entity of Star East Holdings Limited, a substantial shareholder of the Company. The amount is unsecured, carries interest at prevailing market rate and is repayable within one year from the balance sheet date.

(c) The amount represents the balance due to Star East Management Limited which is a subsidiary of Star East Holdings Limited, a substantial shareholder of the Company. The amount due to Star East Management Limited is unsecured, non-interest bearing and will not be repaid within one year from the balance sheet date.

22. SHARE CAPITAL

	Number of shares	Value
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.0001 each at April 1, 2001 and March 31, 2002	5,000,000	500
Increase during the year *(Note a)*	95,000,000	9,500
Consolidation of shares *(Note a)*	(95,000,000)	–
Ordinary shares of HK$0.002 each at March 31, 2003	5,000,000	10,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

22. SHARE CAPITAL *(Continued)*

	Number of shares '000	Value HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.0001 each at April 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 March 31, 2003	1,060,901	2,122

Notes:

(a) 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 95,000,000,000 shares of HK$0.0001 each and every 20 issued and unissued shares of HK$0.0001 each in the share capital of the Company were consolidated into one share of HK$0.002 each ("Share Consolidation") 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 media business at an aggregate consideration of HK$250,000,000. The consideration was satisfied by the issue of an aggregate of 15,625,000,000 new shares of HK$0.0001 each at an issue price of HK$0.016 per share in the Company.

On April 18, 2002, the Company placed an aggregate of 3,125,000,000 new shares of HK$0.0001 each at an issue price of HK$0.016 per share in the Company to independent third parties.

23. SHARE OPTIONS

(a) 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 subscription 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 the Pre-IPO Plan may be exercised at any time during a period of ten years commencing from the date of adoption of the Pre-IPO Plan.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

23. SHARE OPTIONS *(Continued)*

(a) PRE-IPO SHARE OPTION SCHEME (the "Pre-IPO Plan") *(Continued)*

No employee shall be granted an option, 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 Pre-IPO Plan.

No further options will be granted under the Pre-IPO Plan as disclosed in page 248 of the prospectus of the Company dated July 18, 2000. There were no outstanding options granted under the Pre-IPO Plan as at March 31, 2003.

A summary of the movement of share options under the Pre-IPO Plan is as follows:

For the year ended March 31, 2003

				Number of share options			
Exercisable period	**Date of grant**	*Notes*	**Exercise price per share** *HK$*	**Outstanding at April 1, 2002**	**Consolidation during the year**	**Lapsed during the year**	**Outstanding at March 31, 2003**
Former directors							
July 12, 2000 to December 31, 2005	July 12, 2000	*(i) & (ii)*	0.758	152,629,741	(144,998,256)	(7,631,485)	–
Employees							
July 12, 2000 to July 31, 2004	July 12, 2000	*(i) & (iii)*	1.818	15,539,081	(14,762,127)	(776,954)	–
				168,168,822	(159,760,383)	(8,408,439)	–

For the year ended March 31, 2002

				Number of share options			
Exercisable period	**Date of grant**	*Notes*	**Exercise price per share** *HK$*	**Outstanding at April 1, 2001**	**Consolidation during the year**	**Lapsed during the year**	**Outstanding at March 31, 2002**
Former directors							
July 12, 2000 to December 31, 2005	July 12, 2000	*(ii)*	0.0379	216,981,740	–	(64,351,999)	152,629,741
Employees							
July 12, 2000 to December 31, 2005	July 12, 2000	*(ii)*	0.0379	3,795,118	–	(3,795,118)	–
July 12, 2000 to July 31, 2004	July 12, 2000	*(iii)*	0.0909	38,907,686	–	(23,368,605)	15,539,081
				259,684,544	–	(91,515,722)	168,168,822

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

23. SHARE OPTIONS *(Continued)*

(a) PRE-IPO SHARE OPTION SCHEME (the "Pre-IPO Plan") *(Continued)*

Notes:

(i) Following Share Consolidation, the exercise prices of the share options were adjusted to HK$0.758 and HK$1.818 from their initial exercise prices of HK$0.0379 and HK$0.0909, respectively. The number of share options was also adjusted as a result of Share Consolidation.

(ii) 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 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.

(iii) 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 GEM of the Stock Exchange.

(b) 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 such companies, to subscribe for shares in the Company for the primary purpose of providing incentives to directors and eligible 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 may be exercised at any time during a period which cannot 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 quotations 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 of the Company.

No employee shall be granted an option, 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 Option Scheme.

The Option Scheme was terminated upon the adoption of the new share option scheme on May 24, 2002 and no further options will be granted under the Option Scheme. However, the options which have been granted during the life of the Option Scheme shall continue to be exercisable in accordance with their terms of issue and, in all other respects, the provisions of the Option Scheme shall remain in full force and effect. There were no outstanding options granted under the Option Scheme as at March 31, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

23. SHARE OPTIONS *(Continued)*

(b) SHARE OPTION SCHEME (the "Option Scheme") *(Continued)*

A summary of the movement of share options under the Option Scheme held by the employees is as follows:

For the year ended March 31, 2003

Exercisable period	Date of grant	Exercise price per share HK$ (Note)	Number of share options: Outstanding at April 1, 2002	Consolidation during the year (note)	Lapsed during the year	Outstanding at March 31, 2003
August 15, 2000 to December 31, 2005	August 15, 2000	3.74	16,789,958	(15,950,461)	(839,497)	–
September 11, 2000 to December 31, 2005	September 11, 2000	3.36	554,165	(526,457)	(27,708)	–
October 25, 2000 to December 31, 2005	October 25, 2000	1.44	52,500	(49,875)	(2,625)	–
November 24, 2000 to December 31, 2005	November 24, 2000	1.16	221,658	(210,576)	(11,082)	–
March 28, 2001 to December 31, 2005	March 28, 2001	1.00	10,000,000	(9,500,000)	(500,000)	–
Total for employees			27,618,281	(26,237,369)	(1,380,912)	–

For the year ended March 31, 2002

Exercisable period	Date of grant	Exercise price per share HK$ (Note)	Number of share options: Outstanding at April 1, 2001	Consolidation during the year	Lapsed during the year	Outstanding at March 31, 2002
August 15, 2000 to December 31, 2005	August 15, 2000	0.187	26,096,667	–	(9,306,709)	16,789,958
September 11, 2000 to December 31, 2005	September 11, 2000	0.168	910,000	–	(355,835)	554,165
October 25, 2000 to December 31, 2005	October 25, 2000	0.072	128,333	–	(75,833)	52,500
November 24, 2000 to December 31, 2005	November 24, 2000	0.058	923,333	–	(701,675)	221,658
December 20, 2000 to December 31, 2005	December 20, 2000	0.058	10,000	–	(10,000)	–
February 23, 2001 to December 31, 2005	February 23, 2001	0.050	40,000,000	–	(40,000,000)	–
March 28, 2001 to December 31, 2005	March 28, 2001	0.050	10,000,000	–	–	10,000,000
Total for employees			78,068,333	–	(50,450,052)	27,618,281

Note: Following Share Consolidation, the exercise prices of the share options were adjusted to HK$3.74, HK$3.36, HK$1.44, HK$1.16 and HK$1.00 from their initial exercise prices of HK$0.187, HK$0.168, HK$0.072, HK$0.058 and HK$0.050 respectively. The number of share options was also adjusted as a result of Share Consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

23. SHARE OPTIONS *(Continued)*

(c) NEW SHARE OPTION SCHEME (the "New Scheme")

On May 24, 2002, the Company adopted the New Scheme under which the board of directors may at its discretion offer to any director (including non-executive director), employee and the eligible persons prescribed thereunder (the "Eligible Persons") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the New Scheme. The principal purpose of the New Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital as at May 24, 2002, i.e. 106,090,100 shares unless a fresh approval from the shareholders of the Company has been obtained. However, 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 issued share capital of the Company from time to time.

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

Option granted under the New Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The subscription price for the shares under the New Scheme shall be a price determined by the board of directors of the Company at its absolute discretion but shall not be less than the highest of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The New Scheme will remain in force for a period of 10 years commencing on May 24, 2002, 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, in all other respects, the provisions of the New Scheme shall remain in full force and effect. There were no outstanding options granted under the New Scheme as at March 31, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

23. SHARE OPTIONS *(Continued)*

(c) NEW SHARE OPTION SCHEME (the "New Scheme") *(Continued)*

A summary of the movement of share options under the New Scheme is as follows:

For the year ended March 31, 2003

			Number of share options				
Exercisable period	Date of grant	Exercise price *HK$*	Outstanding at April 1, 2002	Granted during the year	Lapsed during the year	Surrendered during the year	Outstanding at March 31, 2003
Directors							
May 24, 2002 to May 23, 2012	May 24, 2002	0.26	–	20,000,000	–	(20,000,000)	–
Former directors							
May 24, 2002 to May 23, 2012	May 24, 2002	0.26	–	20,000,000	–	(20,000,000)	–
Employees							
May 24, 2002 to May 23, 2012	May 24, 2002	0.26	–	16,000,000	(2,000,000)	(14,000,000)	–
			–	56,000,000	(2,000,000)	(54,000,000)	–

Total consideration received during the year for taking up the options granted under the New Scheme is amounted to HK$16 (2002: Nil).

No charge is recognised in the income statement in respect of the value of options granted in the year (2002: Nil).

24. WARRANTS

At March 31, 2002, 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 new shares of HK$0.0001 each for an aggregate proceeds of HK$122,800,000 before the related share issue expense. The warrants were expired on July 27, 2002. During the period from April 1, 2002 to July 27, 2002, none of the warrants had been exercised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

25. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY				
At April 1, 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)
Issue of shares	298,125	–	–	298,125
Share issue expenses	(1,545)	–	–	(1,545)
Loss for the year	–	–	(264,717)	(264,717)
At March 31, 2003	391,978	59,922	(422,034)	29,866

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 over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company shall not declare or pay a dividend or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

26. ACQUISITION 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 shares of the Company (before Share Consolidation) at an issue price of 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 of the Company dated March 28, 2002.

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Net assets acquired:		
Property, plant and equipment	**76,092**	–
Intangible asset	**216**	–
Accounts receivable	**4,738**	–
Other receivables	**6,225**	–
Amounts due from related companies	**432**	–
Bank balances and cash	**5,589**	–
Accounts payable and accrued charges	**(25,833)**	–
Other borrowings	**(28,207)**	–
Minority interest	**(178)**	–
Net assets	**39,074**	–
Goodwill arising on acquisition	**210,926**	–
Total consideration	**250,000**	–
Satisfied by:		
Allotment of Shares *(Note)*	**250,000**	–
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Bank balances and cash acquired	**5,589**	–

The subsidiaries acquired during the year contributed HK$35,039,000 to the Group's turnover and HK$257,136,000 to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

26. ACQUISITION OF SUBSIDIARIES *(Continued)*

Note: The shares were issued at HK$0.016 per share which represents a discount of approximately 20% to the closing price of HK$0.02 per share as quoted on the Stock Exchange on April 17, 2002, being the trading day immediately before the completion of the transaction for the acquisition of Fortune Impact Limited. In view of the current market conditions and low trading volume of the Company's share on the Stock Exchange, the directors consider the market value at the date of completion of the transaction is not a reliable indicator of the fair value of the consideration of the transaction. Accordingly, the fair value of the transaction has been determined with reference to valuation made by a financial advisor. In arriving the amount of the valuation, a multiple of the estimated EBITDA of Fortune Impact Limited for the period ended December 31, 2002 had been applied. Details of approaches and analysis in preparation of the valuation report are set out in the circular of the Company dated March 28, 2002. This resulted in a difference of approximately HK$62.5 million between the published price and the fair value of the equity instrument.

27. DISPOSAL OF SUBSIDIARIES

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Net assets disposed of:		
Property, plant and equipment	**1,116**	–
Other receivables	**900**	–
Bank balances and cash	**386**	–
Accounts payable and accrued charges	**(11,227)**	–
Net liabilities	**(8,825)**	–
Gain on disposal of subsidiaries	**9,725**	–
	900	–
Satisfied by:		
Amount due to a related company	**390**	–
Assignment of other receivables	**510**	–
	900	–
Analysis of net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Bank balances and cash disposed of	**(386)**	–

The subsidiaries disposed of during the year contributed HK$446,000 (2002: HK$32,865,000) to the Group's turnover and loss of HK$3,260,000 (2002: HK$82,688,000) to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

28. MAJOR NON-CASH TRANSACTIONS

(a) As explained in note 26, the Group acquired the entire share capital of Fortune Impact Limited at a consideration of HK$250 million which was satisfied by the issue of an aggregate of 15,625,000,000 new shares of HK$0.0001 each at an issue price of HK$0.016 per share in the Company.

(b) As explained in note 12, the Group disposed of the display equipment with an aggregate net book value of approximately HK$26 million to a transit vehicle operator at a consideration of approximately HK$25 million which was satisfied by: (i) receivables of HK$4 million, (ii) right to use and sell broadcasting commercial airtime with the value of HK$7.3 million, and (iii) the settlement of accounts payable of approximately HK$13.7 million.

(c) During the year ended March 31, 2003, the Group entered into finance lease arrangements in respect of motor vehicle with capital value at the inception of the leases of approximately HK$113,000 (2002: computer equipment of HK$4,274,000).

29. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

30. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the year:

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Premises	**3,930**	2,972
Locations for display equipment	**26,887**	–
	30,817	2,972

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

30. OPERATING LEASE ARRANGEMENTS *(Continued)*

(a) Lease commitment

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

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Within one year	**434**	1,591
In the second to fifth years inclusive	**86**	1,194
	520	2,785

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 with fixed rentals.

(b) Other commitments

(i) During the year, the Group entered into agreements with operators of transit vehicles, public light buses, shopping centres, fast food chain stores and clinics to install display equipment into respective vehicles 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 sale income, or solely at a share of the media sale income, or a fixed monthly rental payment.

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

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Within one year	**4,914**	–
In the second to fifth year inclusive	**13,281**	–
Over five years	**4,010**	–
	22,205	–

(ii) At March 31, 2003, the Group also entered into agreements with certain operators of transit vehicles in the PRC, subject to certain conditions, to install certain display equipment with an estimated cost of approximately HK$24 million (2002: Nil) on the transit vehicles in the PRC within a period of two to ten years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

31. PLEDGE OF ASSETS

At March 31, 2003, the Group pledged time deposits to a bank of HK$11,330,000 to secure short-term bank loans granted to the Group. At March 31, 2002, no assets of the Group was pledged.

32. 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 has vigorously defended the claim because the Company has never given any such guarantee.

At the date of this report, the proceedings are still ongoing. Taking into account the legal advice sought, the directors of the Company are of the opinion that the supplier's claim is apparently unmeritorious, and accordingly, no provision for any potential liability has been made in the financial statements.

33. RELATED PARTY TRANSACTIONS

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

	Notes	**2003** **HK$'000**	2002 HK$'000
Substantial shareholders and their associates:			
Artistes performance fee paid	*(a)*	**159**	–
Purchase of property, plant and equipment	*(a)*	**505**	–
Advertising income received	*(a)*	**1,788**	–
Rental expenses	*(a)*	**296**	–
Interest expenses	*(b)*	**230**	–
Management fee paid	*(a)*	**357**	–
Advertising expenses	*(a)*	**537**	–
Consultancy fee paid	*(a)*	**780**	–
Companies in which a director has beneficial interest:			
Advertising and promotion fee paid	*(a)*	**303**	–
Purchase of property, plant and equipment	*(a)*	**60**	–
Director/Former director:			
Interest expenses	*(b)*	**12**	–
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	*(a)*	**–**	600

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

33. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(a) The transaction was entered into on terms determined and agreed by the Group and relevant parties.

(b) Interest is charged at prevailing market rate in accordance with the respective loan agreements.

During the year, the Group had provided certain broadcasting airtime to certain associates of a substantial shareholder of the Company free of charge.

During the year, the Group disposed of its wholly-owned subsidiary, Topspin Associates Limited, to an associate of a substantial shareholder of the Company at a consideration of HK$390,000 and an assignment of other receivables of HK$510,000. The transaction was entered into on terms determined and agreed by the Group and relevant party.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 18 and 21.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at March 31, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration *(Note b)*	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company *(Note a)* %	Principal activities
M Channel Advertising Limited (formerly Mobile Magic Media Group Limited/ M Channel Marketing Limited)	Hong Kong	Ordinary shares HK$2	100	Media planning and placement
Mobile Media (Beijing) Limited	Hong Kong	Ordinary shares HK$2	100	Investment holding
Mobile Media (China) Limited	British Virgin Islands	Ordinary shares US$1	100	Investment holding for China operations
Mobile Media (Content) Limited	Hong Kong	Ordinary shares HK$2	100	Content provision and licencing

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

34. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration *(Note b)*	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company *(Note a)* %	Principal activities
Mobile Media (Fixed Network) Limited	Hong Kong	Ordinary shares HK$2	100	Operation of advertising related business at fixed locations in Hong Kong
Mobile Media (Guangzhou) Limited	Hong Kong	Ordinary shares HK$2	100	Investment holding
Mobile Media Holdings Limited	British Virgin Islands	Ordinary shares US$100	100	Investment holding
Mobile Media (Hong Kong) Limited	British Virgin Islands	Ordinary shares US$1	100	Investment holding for Hong Kong operations
Mobile Media Management Limited	Hong Kong	Ordinary shares HK$2	100	Provision of management services
Mobile Media (Minibus) Limited	Hong Kong	Ordinary shares HK$100	100	Operation of advertising related business on minibuses in Hong Kong
Visionad Investment Limited	British Virgin Islands	Ordinary shares US$10	100	Investment holding
Visionad Limited	Hong Kong	Ordinary shares HK$2	100	Operation of advertising related business in Hong Kong
廣州保税區東魅電子設備有限公司 ("廣州東魅")	PRC	Registered capital HK$1,700,000	100	Operation of advertising related business on transit vehicles in Guangzhou
北京東魅廣告電子設備有限公司 ("北京東魅")	PRC	Registered capital HK$6,350,000	100	Operation of advertising related business on transit vehicles in Beijing

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

34. SUBSIDIARIES *(Continued)*

Notes:

(a) Except for Mobile Media Holdings Limited, all other subsidiaries are indirectly held by the Company.

(b) Except for廣州東魅 and 北京東魅 which are foreign owned enterprises in the PRC, all other subsidiaries are limited companies incorporated in the respective jurisdictions.

None of the subsidiaries had any debt securities 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.

35. POST BALANCE SHEET EVENTS

Pursuant to a conditional agreement dated March 7, 2003 (the "Agreement") made between Sun Media Group Holdings Limited ("Sun Media") and the Company, whereby the Company agreed to issue new shares for the acquisition of certain assets from Sun Media (the "Proposed Acquisition"). In addition, on the same date, the Company entered into a conditional placing agreement with the placing agent. The Proposed Acquisition was conditional upon, inter alia, the completion of the said placement.

On May 2, 2003, the Company announced that in light of the prolonged weak stock market sentiment which was aggravated by the Severe Acute Respiratory Syndrome incident, the Company and the placing agent mutually agreed to terminate the placing agreement with effect from May 2, 2003. In view of the aforesaid termination, the Company and Sun Media also agreed to terminate the Agreement with effect from May 2, 2003.

FINANCIAL SUMMARY

(a) M Channel Corporation Limited

	For the year ended March 31,				
	1999	2000	2001	2002	**2003**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
OPERATING RESULTS					
Turnover	–	2,814	24,164	32,865	**35,485**
Loss from ordinary activities attributable to shareholders	(125)	(17,094)	(78,863)	(100,429)	**(253,069)**

ASSETS AND LIABILITIES

	As at March 31,			
	2000	2001	2002	**2003**
	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	85,579	98,110	4,901	**117,001**
Total liabilities	(12,460)	(8,695)	(15,915)	**(82,629)**
Balance (deficiency) of shareholders' funds	73,119	89,415	(11,014)	**34,372**

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.

(b) Fortune Impact Limited

	For the year ended December 31,		
	1999	**2000**	**2001**
	HK$'000	HK$'000	HK$'000
OPERATING RESULTS			
Turnover			
Continuing operations – media sales	–	196	2,573
Discontinued operations – trading of goods	7,029	–	–
Cost of sales			
Discontinued operations – trading of goods	(12,594)	–	–
Other revenue	–	–	221
Operating expenses	–	(552)	(5,452)
Distribution costs	–	(747)	(1,983)
Administrative expenses	(2,372)	(185)	(22,419)
Loss from operations	(7,937)	(1,288)	(27,060)

FINANCIAL SUMMARY

(b) Fortune Impact Limited *(Continued)*

ASSETS AND LIABILITIES

	As at December 31,		
	1999	**2000**	**2001**
	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS			
Intangible asset	–	–	95
Plant and equipment	–	3,794	55,895
	–	3,794	55,990
CURRENT ASSETS			
Trade receivables	–	88	1,620
Other receivables	–	7	7,121
Amounts due from related parties	–	–	747
Bank balances and cash	20	49	4,112
	20	144	13,600
CURRENT LIABILITIES			
Other payables and accrued charges	13	3,375	42,651
Amounts due to related parties	–	–	3,324
Amount due to former ultimate holding company	24,910	–	–
Amount due to former intermediate holding company	–	746	–
Amounts due to former fellow subsidiaries	–	1,102	–
	24,923	5,223	45,975
NET CURRENT LIABILITIES	(24,903)	(5,079)	(32,375)
TOTAL ASSETS LESS CURRENT LIABILITIES	(24,903)	(1,285)	23,615
NON-CURRENT LIABILITY			
Amount due to minority interests	–	–	808
	(24,903)	(1,285)	22,807

Notes: The results of Fortune Impact Limited for the three years ended December 31, 2001 and the proforma consolidated balance sheet of Fortune Impact Limited as at each of the three years ended December 31, 2001 have been extracted from the Company's Circular dated March 28, 2002.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the members of M Channel Corporation Limited (the "Company") will be held at the Conference Room at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday July 30, 2003 at 11:00 a.m. for the following purposes:–

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company and its subsidiaries for the year ended March 31, 2003.

2. To re-elect retiring directors and to authorise the board of directors to fix the directors' remuneration.

3. To re-appoint auditors and authorise the board of directors to fix their remuneration.

4. As special business, to consider and, if thought fit, pass the following resolutions with or without amendment(s) as ordinary resolutions:

   (A) "**THAT**:

   (i) subject to paragraph (iii) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (iii) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); (b) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any bonds, debentures, notes or securities which are convertible into shares of the Company; or (c) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to the eligible persons prescribed thereunder of shares or rights to acquire shares of the Company; or (d) any scrip dividend or similar arrangement

NOTICE OF ANNUAL GENERAL MEETING

providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the New Bye-Laws of the Company in force from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the authority pursuant to paragraph (i) of this resolution shall be limited accordingly; and

(iv) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the New Bye-Laws of the Company, or any other applicable laws to be held; and

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company)."

(B) "**THAT**:

(i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its shares on GEM or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

(ii) the aggregate nominal amount of the shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (i) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this resolution; and the authority granted pursuant to paragraph (i) of this resolution shall be limited accordingly; and

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the New Bye-Laws of the Company, or any other applicable laws to be held; and

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors by this resolution."

(C) "**THAT** conditional upon resolutions numbered 4(A) and 4(B) as set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to the said resolution numbered 4(A) be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the said resolution numbered 4(B), provided that such an amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this resolution."

5. To transact any other ordinary business of the Company.

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

Hong Kong, June 24, 2003

NOTICE OF ANNUAL GENERAL MEETING

Registered office:
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Head office and principal place of business:
29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the head office and principal place of business of the Company at 29th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the meeting or any adjournment thereof should he so wishes.

3. An explanatory statement containing further details regarding resolution numbered 4(B) above as required by the GEM Listing Rules will be dispatched to the members of the Company together with the 2003 Annual Report of the Company.