



M Channel Corporation Limited  
流 動 廣 告 有 限 公 司

03/04

FIRST QUARTERLY REPORT

First Quarterly Report 2003/2004

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

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*This report, for which the directors of M Channel Corporation Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to M Channel Corporation Limited. The directors of M Channel Corporation Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## CHAIRMAN'S STATEMENT

I am pleased to announce the first quarterly results of M Channel Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the three months ended June 30, 2003.

### Financial Review

The Group's turnover for the three months ended June 30, 2003 amounted to approximately HK\$2,536,000 (2002: HK\$6,978,000), representing a decrease of approximately 63.6% over the same period of last year. Loss from operations for the first quarter amounted to approximately HK\$11,191,000 (2002: HK\$21,819,000), representing a decrease of approximately 48.7% as compared to the corresponding quarter of last year. The decrease in loss from operations of approximately HK\$10,628,000 was mainly due to the substantial reduction in operating costs resulting from effective cost control measures and the termination of the sub-licence under the licence, sub-licence and service agreement with First Place Agents Limited on December 31, 2002. Net loss for the three months ended June 30, 2003 reduced from approximately HK\$19,611,000 for the last corresponding period to approximately HK\$12,282,000 in the current period, a decrease of approximately HK\$7,329,000 or 37.4%.

### Business Review

#### *Hong Kong Market*

The outbreak of the Severe Acute Respiratory Syndrome ("SARS") during the period under review had given a massive damage to many businesses and the economy of Hong Kong. The negative impact had significantly slowed down the economic recovery pace in the region. Consumer confidence was dampened considerably and advertisers had substantially lowered their advertising spending and deferred or even temporarily cancelled their advertising campaigns. The Group's out-of-home audio and video media business had been directly exposed to these unprecedented effects. The operation of our media business was unexpectedly difficult and the Group's turnover decreased remarkably.

Fortunately, the Group had implemented certain cost control policies prior to the SARS outbreak in Hong Kong and the effects had been initially reflected. Although the turnover of the period under review decreased drastically due to the SARS attack, loss from operations was reduced because of our effective cost control measures. As the effect of certain cost control policies had yet to be reflected, it is expected that the operating results would be improved in the next quarter.

The Group currently continues 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) in Hong Kong.

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

Currently, the Group's out-of-home audio and video media business in the PRC remains focusing in two markets, namely Guangzhou and Harbin. The Group operates its media business through a platform of approximately 1,100 public buses in the PRC, of which approximately 600 and 500 public buses are operated in Guangzhou and Harbin respectively. The turnover from the Guangzhou market has shown a steady growth trend. Even during the time when SARS was imposing great threats, the impact on Guangzhou's turnover was relatively moderate. Advertising sales volume had almost rebounded to pre-SARS level by the end of the period under review. The management is confident that Guangzhou's turnover could further increase during the advertising peak season in summer. With respect to the Harbin market, its performance was comparatively less well and the Group had already implemented certain cost control policies and new marketing strategies, with an expectation that the operating results in Harbin could be improved.

### **Outlook**

The Group has commenced its implementation of cost control measures since January this year and certain effects have been immediately reflected. We anticipate that the operating cost could be further lowered in the next quarter. In addition, the operating environment of the out-of-home advertising business is expected to show signs of improvement after the SARS was over. After restructuring of the Group's sales team, it is anticipated that there is room for turnover growth and the operating results could be further improved in the next quarter.

Apart from focusing in the operation of the out-of-home audio and video media business, the Group will also attempt to explore other outdoor advertising projects with profitable prospects by utilising the Group's existing resources. This could enable the Group to offer more options to the advertisers and increase its revenue streams.

### **Appreciation**

On behalf of the board of directors (the "Board") of the Company, 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 period under review.

**Wong Kun To**  
*Chairman*

Hong Kong, August 13, 2003

**FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2003**

The unaudited consolidated results of the Group for the three months ended June 30, 2003, together with the comparative unaudited figures for the corresponding period in 2002 are as follows:

		<b>Three months ended June 30,</b>	
	<i>Notes</i>	<b>2003 HK\$'000</b>	2002 HK\$'000
Turnover	2	<b>2,536</b>	6,978
Other operating income		<b>270</b>	165
Distribution costs		<b>(1,906)</b>	(8,507)
Printing and other production costs		-	(381)
Advertising and marketing expenses		<b>(125)</b>	(1,200)
Depreciation and amortisation		<b>(4,958)</b>	(6,593)
Rental expenses		<b>(209)</b>	(1,251)
Staff costs		<b>(3,510)</b>	(8,199)
(Loss)/gain on disposal of property, plant and equipment		<b>(345)</b>	417
Other operating expenses		<b>(2,944)</b>	(3,248)
Loss from operations	2	<b>(11,191)</b>	(21,819)
Finance costs		<b>(1,091)</b>	(97)
Gain on disposal of subsidiaries		-	1,978
Loss before taxation		<b>(12,282)</b>	(19,938)
Taxation	3	-	-
Loss after taxation		<b>(12,282)</b>	(19,938)
Minority interest		-	327
Net loss for the period		<b>(12,282)</b>	(19,611)
Loss per share			
– Basic and diluted	4	<b>(1.16) cents</b>	(2.22) cents

Notes:

### 1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

The accounting policies adopted in the unaudited consolidated results for the three months ended June 30, 2003 are consistent with those followed in the annual audited consolidated financial statements for the year ended March 31, 2003.

### 2. Turnover and operating results

Turnover for the three months ended June 30, 2003 represents the media sales income derived from the provision of out-of-home audio and video media.

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

An analysis of the Group's continuing and discontinuing operations for the three months ended June 30, 2003, together with the comparative unaudited figures for the corresponding period in 2002 is as follows:

	Three months ended June 30,		Three months ended June 30,	
	2003	2002	2003	2002
	Continuing operations		Discontinuing operations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2,536	6,523	-	455
Loss from operations	<u>(11,191)</u>	<u>(19,819)</u>	<u>-</u>	<u>(2,000)</u>

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

The Group also disposed of its subsidiaries engaging in the businesses of e-commerce trading and Internet advertising and consultancy in March 2003. Upon the completion of the disposal, the business segments of e-commerce trading and Internet advertising and consultancy were regarded as discontinuing operations.

The comparative figures for the corresponding period in year 2002 have been reclassified to conform with current period's presentation.

### 3. Taxation

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

#### 4. Loss per share

The calculation of the basic loss per share for the three months ended June 30, 2003 is based on the unaudited consolidated loss of approximately HK\$12,282,000 (2002: HK\$19,611,000) and the weighted average of 1,060,901,300 (2002: 883,817,967) ordinary shares in issue during the period.

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 periods.

#### 5. Movement of reserves

	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At April 1, 2002	95,398	89,829	(196,488)	(11,261)
Issue of shares	298,125	–	–	298,125
Share issue expenses	(1,545)	–	–	(1,545)
Loss for the period	–	–	(19,611)	(19,611)
	<u>391,978</u>	<u>89,829</u>	<u>(216,099)</u>	<u>265,708</u>
	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At April 1, 2003	391,978	89,829	(449,557)	32,250
Loss for the period	–	–	(12,282)	(12,282)
	<u>391,978</u>	<u>89,829</u>	<u>(461,839)</u>	<u>19,968</u>

#### 6. Contingent liabilities

In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group as first defendant, in respect of a claim for payment of services fees of approximately HK\$6,593,000. The supplier also filed a claim against the Company as second defendant alleging that the Company had made a verbal guarantee to pay any outstanding sum owed by such former subsidiary. The Company has vigorously defended this claim as there was no such alleged guarantee given by the Company. At the date of this report, the proceedings are still ongoing.

In early August 2003, a supplier in the PRC initiated legal proceedings against a wholly-owned subsidiary of the Group in the PRC in respect of claims for outstanding payment of goods purchased of approximately RMB2,863,000 and late payment penalties of approximately RMB2,135,000. The Company disputes its liability regarding the alleged outstanding payment and penalties and has just appointed a legal adviser in the PRC to consider the claims and handle the legal proceedings on its behalf. The Company is yet to receive the legal advice on the merits or evidence of the legal proceedings.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended June 30, 2003 (2002: Nil).

## DISCLOSURE OF INTERESTS

### Directors and Chief Executives

As at June 30, 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations ("Associated Corporations") (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") were as follows:

#### (A) Interest in the Company

##### *Long Positions in Shares of the Company*

Name of director	Number of shares held in the Company	Capacity in which shares are held	Type of interest	Approximate percentage of issued share capital
Ms. Yeung Wing Yan, Wendy	187,625,001	Interest of a controlled corporation (Note)	Corporate	17.69%

Note: Of the 187,625,001 shares, 60,718,750 shares were directly held by Tiger Princess Co., Ltd., of which Ms. Yeung Wing Yan, Wendy held the entire issued share capital thereof, and 126,906,251 shares were held by Gold Focus Ltd., a wholly owned subsidiary of Tiger Princess Co., Ltd. Ms. Yeung Wing Yan, Wendy was therefore deemed to be interested in all the 187,625,001 shares.

##### *Long Positions in Underlying Shares of the Company*

The Company adopted a new share option scheme (the "New Share Option Scheme") on May 24, 2002, under which the Board may at its discretion offer to any director (including non-executive director) and employee of the Company and/or its subsidiaries and eligible persons prescribed thereunder options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. No options were granted to the directors or chief executives of the Company during the period under review or outstanding as at June 30, 2003.

##### *Short Positions in the Company*

None as recorded.



**(B) Interest in Associated Corporations***Long Positions in Shares of Associated Corporations*

None as recorded.

*Long Positions in Underlying Shares of Associated Corporations*

None as recorded.

*Short Positions in Associated Corporations*

None as recorded.

Save as disclosed above, as at June 30, 2003, none of the directors or chief executives of the Company or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

**Substantial Shareholders and Other Persons**

As at June 30, 2003, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

*Long Positions in Shares of the Company*

<b>Name of shareholder</b>	<b>Number of shares held in the Company</b>	<b>Capacity in which shares are held</b>	<b>Approximate percentage of issued share capital</b>
Dr. Chan Kwok Keung, Charles	199,840,625	Interest of a controlled corporation (Note 1)	18.84%
Ms. Ng Yuen Lan, Macy	199,840,625	Interest of the spouse (Note 1)	18.84%
Chinaview International Limited	199,840,625	Interest of a controlled corporation (Note 1)	18.84%
Galaxyway Investments Limited	199,840,625	Interest of a controlled corporation (Note 1)	18.84%

<b>Name of shareholder</b>	<b>Number of shares held in the Company</b>	<b>Capacity in which shares are held</b>	<b>Approximate percentage of issued share capital</b>
ITC Corporation Limited	199,840,625	Interest of a controlled corporation (Note 1)	18.84%
ITC Investment Holdings Limited	199,840,625	Interest of a controlled corporation (Note 1)	18.84%
Hero's Way Resources Ltd.	199,840,625	Interest of a controlled corporation (Note 1)	18.84%
Prime Capital Corporation Limited	199,840,625	Beneficial owner (Note 1)	18.84%
Star East Holdings Limited	285,500,562	Interest of a controlled corporation (Note 2)	26.91%
Joyful Growth Limited	285,500,562	Interest of a controlled corporation (Note 2)	26.91%
Asiacreation Management Limited	285,500,562	Beneficial owner (Note 2)	26.91%
Ms. Yeung Wing Yan, Wendy	187,625,001	Interest of a controlled corporation (Note 3)	17.69%
Tiger Princess Co., Ltd.	60,718,750 126,906,251	Beneficial owner Interest of a controlled corporation (Note 3)	5.73% 11.96%
Gold Focus Ltd.	126,906,251	Beneficial owner (Note 3)	11.96%

*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 34.82% of the issued ordinary share capital of ITC Corporation Limited. Chinaview International Limited was in turn wholly owned by Dr. Chan Kwok Keung, Charles ("Dr. Charles Chan"). Ms. Ng Yuen Lan, Macy, the spouse of Dr. Charles Chan, was deemed to be interested in the same interests in the shares as Dr. Charles Chan.
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 187,625,001 shares, 60,718,750 shares were directly held by Tiger Princess Co., Ltd., of which Ms. Yeung Wing Yan, Wendy held the entire issued share capital thereof, and 126,906,251 shares were held by Gold Focus Ltd., a wholly owned subsidiary of Tiger Princess Co., Ltd. Ms. Yeung Wing Yan, Wendy was therefore deemed to be interested in all the 187,625,001 shares.

*Long Positions in Underlying Shares of the Company*

None as recorded.

*Short Positions in the Company*

None as recorded.

Save as disclosed above, as at June 30, 2003, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company and was required to be recorded in the register required to be kept by the Company under Section 336 of the SFO.

**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 competes or may compete with the business of the Group and any other conflicts of interest which any such persons have or may have with the Group.

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

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

## **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 period under review.

## **AUDIT COMMITTEE**

The Company established an audit committee on May 11, 2000 with written terms of reference that clearly establish the audit committee's authority and duties in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee comprises two independent non-executive directors of the Company, Mr. Pang Hong and Ms. Fung Wan Yiu, Agnes.

The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report 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.

The Company's first quarterly report for the three months ended June 30, 2003 had been reviewed by the audit committee, who was of the opinion that such report complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By Order of the Board  
**M CHANNEL CORPORATION LIMITED**  
**Wong Kun To**  
*Chairman*

Hong Kong, August 13, 2003