



M Channel Corporation Limited
流動廣告有限公司

Half-year Report 2003/2004

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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 (the “GEM Listing Rules”) for the purpose of giving information with regard to M Channel Corporation Limited. The directors of M Channel Corporation Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

The board of directors (the "Board") of M Channel Corporation Limited (the "Company") are pleased to present the unaudited consolidated half-year results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended September 30, 2003.

Financial Review

The Group's turnover for the six months ended September 30, 2003 amounted to approximately HK\$5,607,000 (2002: HK\$18,769,000), representing a decrease of approximately 70.1% as compared to the corresponding period of last year. Loss from operations for the first half year amounted to approximately HK\$20,335,000 (2002: HK\$42,413,000), representing a decrease of approximately 52.1% as compared to the corresponding period of last year. Net loss for the six months ended September 30, 2003 reduced from approximately HK\$34,023,000 for the last corresponding period to approximately HK\$22,486,000, a decrease of approximately 33.9%. The Group's turnover for the past six months was contributed from the out-of-home audio and video media business in Hong Kong and the People's Republic of China (the "PRC") which continues to be the principal revenue source of the Group.

Business Review

Hong Kong Market

In the first quarter of the period under review, Hong Kong economy was adversely affected by the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS"). Under the impact of the outbreak of SARS, Hong Kong economy suffered from prolonged recession and the unemployment rate reached the highest on record. These unfavourable conditions inevitably had an adverse effect on the outdoor advertising industry in Hong Kong. Consumer spending was significantly declined and advertisers had adopted more conservative approach by substantially reducing or deferring their advertising spending. Struck by the impact of SARS and the difficult economic environment, the Group's out-of-home audio and video media business was badly hit with its turnover for the first quarter dropped drastically.

Following the successful containment of the SARS outbreak in June 2003, the local economy and market sentiment has been gradually returning to normal. With the implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and the recent relaxation on government policy to permit the PRC citizens to visit Hong Kong, there are signs showing that Hong Kong economy has started to recover. The Group was able to benefit from the initial recovery with its turnover in Hong Kong for the second quarter increased by 38.4% as compared with the previous 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 160 fixed locations (including within Watson's The Chemist and fast food chain stores) in Hong Kong.

The PRC Market

In the first quarter of the period under review, the PRC economy was also negatively affected by the sudden outbreak of SARS in some of its major cities. As SARS was faded away in the second quarter, there have been strong indications of rapid economic recovery. It is believed that with the PRC's accession to the World Trade Organisation and her hosting of the 2008 Olympic Games in Beijing, there are abundant business opportunities arising in the 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 Guangzhou operation has shown a stable contribution to the Group's turnover. Even when SARS had created a devastating health threat in the PRC, Guangzhou operation was least affected as compared with Hong Kong. Advertising sales volume had already rebounded to pre-SARS level by the end of the first quarter. In light of the steady business environment in Guangzhou, the Group intends to increase its coverage by expanding installation of multi-media telecasting systems on additional number of public buses in Guangzhou in the near term.

With respect to the Harbin market, its performance should have room for further improvement. The Group had implemented certain cost control measures and new marketing strategies in Harbin with an expectation of its operating results could be improved.

Outlook

To minimise the impact of SARS, the Group had implemented certain cost control measures in Hong Kong and the PRC and cost savings effects have been fully reflected. As SARS was faded away in the second quarter, we are now beginning to see a strong rebound in the post-SARS advertising market. The Group anticipates that the overall outdoor advertising market in Hong Kong and the PRC will gradually improve in the future.

In light of the PRC's accession to the World Trade Organisation and her hosting of the 2008 Olympic Games in Beijing, the Group anticipates that the overall business opportunities and market sentiment will remain open in the PRC. In view of this positive market sentiment, the Group will consider to expand its media business to other major cities in the PRC that are in steady economic growth with relatively high spending power for enhancing the Groups' market presence in the PRC.

Apart from focusing on 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 its own existing resources. This could enable the Group to offer more options to the advertisers and increase the Group's revenue sources.

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 period under review.

Wong Kun To
Chairman

Hong Kong, November 13, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of the Group's Performance

For the six months ended September 30, 2003, the Group recorded a turnover of approximately HK\$5,607,000 as compared with approximately HK\$18,769,000 in the corresponding period of last year, representing a decrease of approximately 70.1%. Owing to the improvement in the operating environment of the out-of-home audio and video media business, the Group's turnover increased from approximately HK\$2,536,000 recorded for the previous quarter to approximately HK\$3,071,000 for the quarter ended September 30, 2003, representing an increase of approximately 21.1%.

Loss from operations decreased from approximately HK\$42,413,000 for the corresponding period of last year to approximately HK\$20,335,000 for the current period under review. Net loss for the six months ended September 30, 2003 was approximately HK\$22,486,000 in comparing to the corresponding period of last year of approximately HK\$34,023,000. The decrease in loss from operations of approximately HK\$22,078,000 and net loss of approximately HK\$11,537,000 were mainly due to the substantial reduction in operating costs resulting from the implementation of 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.

Liquidity and Financial Resources

As at September 30, 2003, the Group had bank and cash balance of approximately HK\$2,541,000 (March 31, 2003: HK\$13,402,000, of which HK\$11,330,000 was pledged to a bank to secure banking facilities of RMB11,500,000 extended to the Company's subsidiary companies in the PRC). The Group had unsecured borrowings of approximately HK\$64,046,000 (March 31, 2003: HK\$52,746,000) which mainly comprised of non-current shareholders' loans of approximately HK\$23,682,000 carrying interest at prevailing market rate and other loans of approximately HK\$40,364,000 which carry interest at prevailing market rate with approximately HK\$1,193,000 repayable within one year and HK\$39,171,000 repayable after one year.

As at September 30, 2003, the Group had obligations under finance leases of approximately HK\$51,000 (March 31, 2003: HK\$63,000), which comprised of short-term portion of approximately HK\$26,000 (March 31, 2003: HK\$25,000) and long-term portion of approximately HK\$25,000 (March 31, 2003: HK\$38,000).

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

Material Acquisitions and Disposals

During the six months ended September 30, 2003, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies. 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. As at September 30, 2003, the Group did not have any concrete future plan for material investments or capital assets.

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. After the disposals of the subsidiary companies engaged in the business of magazine publishing and advertising in May 2002 and the disposals of the subsidiary companies engaged in the businesses of e-commerce trading and Internet advertising and consultancy in March 2003, the Group has been solely engaged in the out-of-home audio and video media business in Hong Kong and the PRC.

Employee Information

As at September 30, 2003, the Group had a total of 64 employees (2002: 178) and the employee costs, including director's emoluments, for the six months ended September 30, 2003 totaled approximately HK\$5,178,000 (2002: HK\$17,460,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. In addition, employees are entitled to benefits such as mandatory provident scheme, medical scheme and share option schemes.

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 invite any director (including non-executive director) or employee of the Company and/or its subsidiaries or any eligible person prescribed thereunder (together the "Eligible Persons") to take up 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 September 30, 2003, the Group had no assets subject to charges (As at March 31, 2003, the Group had time deposits of approximately HK\$11,330,000 pledged to a bank to secure banking facilities of RMB11,500,000 extended to the Company's subsidiary companies in the PRC).

Gearing Ratio

The gearing ratio of the Group calculated as a ratio of total liabilities to total assets was 0.87 as at September 30, 2003 as compared to 0.71 as at March 31, 2003.

Foreign Exchange Exposure

For the six months ended September 30, 2003 and September 30, 2002, 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

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. As 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 of approximately RMB2,863,000 allegedly sold to the said PRC subsidiary of the Group, and late payment penalties of approximately RMB2,135,000 in relation thereof. In late August 2003, the said PRC supplier revised and increased its claim for late payment penalties to approximately RMB3,767,000. The PRC subsidiary of the Group disputes its liability regarding the alleged outstanding payment and penalties and has appointed a legal adviser in the PRC to handle the legal proceedings on its behalf. A hearing date for trial of this matter in the local court in the PRC has already been fixed for late November 2003.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

	Notes	Three months ended September 30,		Six months ended September 30,	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Turnover	3	3,071	11,792	5,607	18,769
Other operating income		499	994	769	1,160
Distribution costs		(2,064)	(11,251)	(3,971)	(19,298)
Printing and other production costs		-	(219)	-	(627)
Advertising and marketing expenses		(386)	(350)	(510)	(1,629)
Depreciation and amortisation		(4,942)	(9,343)	(9,900)	(13,329)
Rental expenses		(177)	(1,205)	(386)	(2,476)
Staff costs		(1,668)	(9,399)	(5,178)	(17,460)
Gain/(loss) on disposal of property, plant and equipment		23	-	(322)	417
Other operating expenses		(3,500)	(1,762)	(6,444)	(7,940)
Loss from operations	4	(9,144)	(20,743)	(20,335)	(42,413)
Finance costs		(1,060)	(262)	(2,151)	(359)
Gain on disposal of subsidiaries		-	6,593	-	8,571
Loss before taxation		(10,204)	(14,412)	(22,486)	(34,201)
Taxation	5	-	-	-	-
Loss after taxation		(10,204)	(14,412)	(22,486)	(34,201)
Minority interest		-	-	-	178
Net loss for the period		(10,204)	(14,412)	(22,486)	(34,023)
Loss per share					
- Basic and diluted	6	(1.0) cents	(1.4) cents	(2.1) cents	(3.5) cents

**CONDENSED CONSOLIDATED BALANCE SHEET
AT SEPTEMBER 30, 2003**

	Notes	September 30, 2003 HK\$'000 (unaudited)	March 31, 2003 HK\$'000 (audited)
Non-current assets			
Goodwill	7	44,518	50,878
Intangible asset	7	11	81
Property, plant and equipment	7	28,535	32,126
Other asset		4,000	5,200
		<u>77,064</u>	<u>88,285</u>
Current assets			
Trade and other receivables	8	10,907	15,277
Amounts due from related companies		18	37
Pledged time deposits		–	11,330
Bank balances and cash		2,541	2,072
		<u>13,466</u>	<u>28,716</u>
Current liabilities			
Trade and other payables	9	11,807	16,137
Amounts due to related companies		2,740	2,834
Obligations under finance leases			
– due within one year		26	25
Bank and other borrowings			
– due within one year	10	1,193	14,075
		<u>15,766</u>	<u>33,071</u>
Net current liabilities		<u>(2,300)</u>	<u>(4,355)</u>
Total assets less current liabilities		<u>74,764</u>	<u>83,930</u>
Non-current liabilities			
Obligations under finance leases			
– due after one year		25	38
Bank and other borrowings			
– due after one year	10	62,853	49,520
		<u>11,886</u>	<u>34,372</u>
Capital and Reserves			
Share capital	11	2,122	2,122
Reserves		9,764	32,250
		<u>11,886</u>	<u>34,372</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2002	247	95,398	89,829	(196,488)	(11,014)
Issue of shares	1,875	298,125	-	-	300,000
Share issue expenses	-	(1,545)	-	-	(1,545)
Loss for the period	-	-	-	(34,023)	(34,023)
At October 1, 2002	2,122	391,978	89,829	(230,511)	253,418
Loss for the period	-	-	-	(219,046)	(219,046)
At March 31, 2003	2,122	391,978	89,829	(449,557)	34,372
Loss for the period	-	-	-	(22,486)	(22,486)
At September 30, 2003	2,122	391,978	89,829	(472,043)	11,886

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

	Six months ended	
	September 30,	
	2003	2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(8,564)	(34,447)
Net cash used in investing activities	(402)	(24,155)
Net cash from financing activities	9,435	62,319
Net increase in cash and cash equivalents	469	3,717
Cash and cash equivalents at beginning of the period	2,072	897
Cash and cash equivalents at end of the period, representing bank balances and cash	2,541	4,614

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

As consistent with the basis adopted in the preparation of the Group's annual financial statements for the year ended March 31, 2003, the directors present the condensed consolidated financial statements for the period ended September 30, 2003 by accounting for the investments in Fortune Impact Limited, the then investment holding company of the Mobile Media Group (as defined in the circular issued on March 28, 2002) acquired by M Channel Corporation Limited on April 18, 2002, as an investment in subsidiary just like the accounting treatment of all other subsidiaries of the Group and prepared the condensed consolidated financial statements accordingly.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. PRINCIPAL ACCOUNTING POLICIES

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

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2003, except as described below.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENTAL INFORMATION

Geographical segments

For management purposes, the Group is currently organised into the following geographical segments. These segments are the basis on which the Group reports its primary segmental information.

For the six months ended September 30, 2003

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	<u>3,072</u>	<u>2,535</u>	<u>5,607</u>
RESULTS			
Segment result	<u>(7,808)</u>	<u>(6,346)</u>	(14,154)
Other operating income			769
Unallocated corporate expenses			<u>(6,950)</u>
Loss from operations			(20,335)
Finance costs			<u>(2,151)</u>
Loss before taxation			(22,486)
Taxation			–
Minority interest			–
Net loss for the period			<u>(22,486)</u>

- There are no sales or other transactions between the geographical segments.
- The Group's turnover was solely derived from the out-of-home audio and video media business for the six months ended September 30, 2003.

3. SEGMENTAL INFORMATION – continued**Geographical segments** – continued

For the six months ended September 30, 2002

	Hong Kong HK\$'000	PRC HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER				
External	17,362	1,407	–	18,769
Inter-segment	15	–	(15)	–
Total	17,377	1,407	(15)	18,769
RESULTS				
Segment result	(26,068)	(10,940)	–	(37,008)
Other operating income				1,160
Unallocated corporate expenses				(6,565)
Loss from operations				(42,413)
Finance costs				(359)
Gain on disposal of subsidiaries				8,571
Loss before taxation				(34,201)
Taxation				–
Minority interest				178
Net loss for the period				(34,023)

- Inter-segment sales are charged at terms determined and agreed between group companies.
- Approximately 98% of the Group's turnover was derived from the out-of-home audio and video media business for the six months ended September 30, 2002.
- 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.

3. SEGMENTAL INFORMATION – continued**Business segments**

The Group's turnover and results in both Hong Kong and the PRC are solely derived from the provision of out-of-home audio and video media business for the six months ended September 30, 2003. Accordingly, no analysis by business segment is provided.

4. LOSS FROM OPERATIONS

	Six months ended	
	September 30,	
	2003	2002
	HK\$'000	HK\$'000

Loss from operations has been arrived at after charging:

Amortisation of goodwill	6,360	4,775
Amortisation of intangible asset	70	168
Depreciation		
Owned assets	3,446	6,778
Leased assets	24	1,608
	6,360	6,778

5. TAXATION

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

No deferred tax asset has been recognised relating to tax losses as the recoverability of this potential deferred tax asset is uncertain.

6. LOSS PER SHARE

The calculation of the basic loss per share for the three months and six months ended September 30, 2003 is based on the respective loss for the period of approximately HK\$10,204,000 and HK\$22,486,000 (2002: HK\$14,412,000 and HK\$34,023,000) and on the weighted average of 1,060,901,300 ordinary shares (2002: adjusted 1,060,901,300 and 972,957,311 ordinary shares) in issue during the three months and six months ended September 30, 2003 respectively.

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.

7. CAPITAL EXPENDITURE

	Goodwill <i>HK\$'000</i>	Intangible asset <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>
Net book value as at April 1, 2003	50,878	81	32,126
Additions	–	–	627
Disposals	–	–	(748)
Depreciation/amortisation charge (Note 4)	(6,360)	(70)	(3,470)
Net book value as at September 30, 2003	<u>44,518</u>	<u>11</u>	<u>28,535</u>

8. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$2,938,000 (March 31, 2003: HK\$6,350,000) and their aged analysis is as follows:

	September 30, 2003 <i>HK\$'000</i>	March 31, 2003 <i>HK\$'000</i>
Within 30 days	1,110	1,331
Within 31-60 days	417	2,091
Within 61-90 days	266	1,627
Over 90 days	1,145	1,301
	<u>2,938</u>	<u>6,350</u>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$5,888,000 (March 31, 2003: HK\$7,052,000) and their aged analysis is as follows:

	September 30, 2003 <i>HK\$'000</i>	March 31, 2003 <i>HK\$'000</i>
Within 30 days	430	1,718
Within 31-60 days	408	469
Within 61-90 days	871	828
Over 90 days	4,179	4,037
	<u>5,888</u>	<u>7,052</u>

10. BANK AND OTHER BORROWINGS

	September 30, 2003 HK\$'000	March 31, 2003 HK\$'000
Bank borrowings	–	10,849
Other borrowings (Note a)	40,364	37,429
Loans from related companies (Note b)	23,682	11,273
Amount due to a related company	–	4,044
	64,046	63,595

The maturity profile of the above borrowings is as follows:

	September 30, 2003 HK\$'000	March 31, 2003 HK\$'000
Within one year	1,193	14,075
More than one year, not exceeding two years	62,853	49,520
	64,046	63,595

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\$1,193,000 which is repayable within one year from the balance sheet date.
- (b) Details of the loans from related companies are as follows:

		September 30, 2003 HK\$'000	March 31, 2003 HK\$'000
	Notes		
ITC Management Limited	(i)	17,512	9,200
Star East Management Limited	(ii)	6,170	–
Alfaway International Limited	(iii)	–	2,073
		23,682	11,273

10. BANK AND OTHER BORROWINGS – continued

(b) – continued

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) Star East Management Limited is a subsidiary of Star East Holdings 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.
- (iii) The company is an investee company of a jointly controlled entity of Star East Holdings Limited. The amount was fully repaid during the period.

11. SHARE CAPITAL

	Number of shares '000	Value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.0001 each at April 1, 2002	5,000,000	500
Increase during the year (Note a)	95,000,000	9,500
Consolidation of shares (Note a)	(95,000,000)	–
	<hr/>	<hr/>
Ordinary shares of HK\$0.002 each at March 31, 2003 and September 30, 2003	<hr/> 5,000,000	<hr/> 10,000
	<hr/>	<hr/>
	Number of shares '000	Value HK\$'000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.0001 each at April 1, 2002	2,468,026	247
Issue of new shares (Note b)	18,750,000	1,875
Consolidation of shares (Note a)	(20,157,125)	–
	<hr/>	<hr/>
Ordinary shares of HK\$0.002 each at March 31, 2003 and September 30, 2003	<hr/> 1,060,901	<hr/> 2,122
	<hr/>	<hr/>

11. SHARE CAPITAL – continued

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 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.

12. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the period:

	Six months ended September 30,	
	2003	2002
	HK\$'000	HK\$'000
Premises	386	2,402
Locations for display equipment	2,763	13,901
Others	–	565
	<u>3,149</u>	<u>16,868</u>

(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:

	September 30, 2003	March 31, 2003
	HK\$'000	HK\$'000
Within one year	287	434
In the second to fifth year inclusive	–	86
	<u>287</u>	<u>520</u>

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.

12. OPERATING LEASE ARRANGEMENTS – continued**(b) Other commitments**

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

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

	September 30, 2003 HK\$'000	March 31, 2003 HK\$'000
Within one year	5,018	4,914
In the second to fifth year inclusive	11,878	13,281
Over five years	3,392	4,010
	<u>20,288</u>	<u>22,205</u>

- (ii) At September 30, 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\$19 million (March 31, 2003: HK\$24 million) on the transit vehicles in the PRC within a period of two to ten years.

13. CAPITAL COMMITMENT

	September 30, 2003 HK\$'000	March 31, 2003 HK\$'000
Contracted but not provided for in respect of display equipment	1,736	–

14. PLEDGE OF ASSETS

At March 31, 2003, the Group pledged time deposits to a bank of approximately HK\$11,330,000 to secure short-term bank loans granted to the Group.

At September 30, 2003, no asset of the Group was pledged.

15. CONTINGENT LIABILITIES

- (a) 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.

- (b) 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 of approximately RMB2,863,000 allegedly sold to the said PRC subsidiary of the Group, and late payment penalties of approximately RMB2,135,000 in relation thereof. In late August 2003, the said PRC supplier revised and increased its claim for late payment penalties to approximately RMB3,767,000. The PRC subsidiary of the Group disputes its liability regarding the alleged outstanding payment and penalties and has appointed a legal adviser in the PRC to handle the legal proceedings on its behalf. A hearing date for trial of this matter in the local court in the PRC has already been fixed for late November 2003.

16. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	September 30,	
	2003	2002
	HK\$'000	HK\$'000
Substantial shareholders and their associates:		
Interest expenses	749	1

Interest is charged at prevailing marketing rate in accordance with the respective loan agreements.

17. POST BALANCE SHEET EVENT

Pursuant to a subscription agreement entered into between Star East Holdings Limited ("Star East"), a substantial shareholder of the Company, and its own substantial shareholder, Strategic Media International Limited ("SMI") on November 6, 2003 (the "Subscription Agreement"), SMI has conditionally agreed to subscribe for 1,575,000,000 new ordinary shares of Star East ("Star East Shares") at a price of HK\$0.04 per Star East Share. Upon the completion of the Subscription Agreement (the "Subscription Completion"), SMI will own 2,675,000,000 Star East Shares, representing approximately 45.14% of the enlarged issued share capital of Star East immediately after the Subscription Completion. Pursuant to Rule 26 of the The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), SMI, through its offeror agents, will make a mandatory conditional general offer to acquire all the Star East Shares not already owned by SMI or parties acting in concert with it immediately after and subject to the Subscription Completion and to cancel all outstanding share options of Star East (other than those held by SMI or parties acting in concert with it).

Subject to and after the Subscription Completion, SMI, through its offeror agents, will also extend a voluntary conditional general offer to acquire all the outstanding issued ordinary shares of the Company (the "Shares") (other than those Shares then already owned by SMI or parties acting in concert with it including Star East, as, by virtue of the Takeovers Code, Star East is regarded as an associated company of SMI and will be presumed to be acting in concert with SMI insofar as the M Channel General Offer is concerned) (the "M Channel General Offer") in accordance with the Takeovers Code at a price of HK\$0.015 per Share.

SMI has stated its intention to maintain the listing of the Shares on GEM following the closing of the M Channel General Offer. Based on the offer price of HK\$0.015 per Share pursuant to the M Channel General Offer, the entire issued share capital of the Company (consisting of 1,060,901,300 Shares) is valued at approximately HK\$15.9 million. An announcement containing, inter alia, details of the M Channel General Offer was issued by the Company on November 6, 2003.

INTERIM DIVIDEND

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

OUTSTANDING SHARE OPTIONS

The Company adopted the New Share Option Scheme on May 24, 2002, under which the Board may at its discretion invite any Eligible Person to take up 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 Company.

No options were granted to the Eligible Persons during the period under review or outstanding at the beginning and at the end of the period under review.

DISCLOSURE OF INTERESTS

Directors and Chief Executives

As at September 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 GEM Listing Rules were as follows:

(A) Interest in the Company

Long Positions in Shares of the Company

None as recorded.

Long Positions in Underlying Shares of the Company

None as recorded.

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 September 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 September 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

Name of shareholder	Number of shares held in the Company	Capacity in which shares are held	Approximate percentage of issued share capital
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%
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%

Name of shareholder	Number of shares held in the Company	Capacity in which shares are held	Approximate percentage of issued share capital
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	Beneficial owner	5.73%
	126,906,251	Interest of a controlled corporation (Note 3)	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 approximately 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, a former director of the Company, 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 September 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 half-year report for the six months ended September 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, November 13, 2003