



M Channel Corporation Limited  
流動廣告有限公司

Third 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”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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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 third quarterly results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended December 31, 2003.

### Financial Review

The Group's turnover for the three months ended December 31, 2003 amounted to approximately HK\$2,594,000 (2002: HK\$11,897,000), representing a decrease of approximately 15.5% as compared to the turnover recorded for the previous quarter and a decrease of approximately 78.2% as compared to the corresponding quarter of last year. Loss from operations for the third quarter under review amounted to approximately HK\$11,537,000 (2002: HK\$23,364,000), representing an increase of approximately 26.2% as compared to the previous quarter and a decrease of approximately 50.6% as compared to the corresponding quarter of last year. The increase in loss from operations in the third quarter under review of approximately HK\$2,393,000 as compared to the previous quarter was mainly due to the loss on settlement for a litigation claim against a wholly-owned subsidiary of the Company in Beijing, the People's Republic of China (the "PRC") in December 2003.

The Group's turnover for the nine months ended December 31, 2003 amounted to approximately HK\$8,201,000 (2002: HK\$30,666,000), representing a decrease of approximately 73.3% as compared to the corresponding period of last year. The Group's turnover for the nine months ended December 31, 2003 was contributed from the out-of-home audio and video media business in Hong Kong and the PRC which continues to be the principal revenue source of the Group. 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, loss from operations reduced by approximately 51.5% from approximately HK\$65,777,000 for the corresponding period in 2002 to approximately HK\$31,872,000 for the nine months ended December 31, 2003 and net loss reduced by approximately 39.2% from approximately HK\$57,634,000 for the last corresponding period to approximately HK\$35,068,000 for the nine months ended December 31, 2003.

## **Business Review**

### *Hong Kong Market*

During the period under review, the Group has been engaging 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. In the first quarter of the period under review, Hong Kong economy and especially the outdoor advertising industry were adversely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS"). Consumer spending was significantly declined and advertisers had adopted a more conservative approach by substantially reducing or deferring their advertising spending. Facing the difficult economic environment, the Group's out-of-home audio and video media business was badly struck with its turnover for the first quarter dropped drastically.

Following the successful containment of the SARS outbreak in mid 2003, the announcement of the Mainland and Hong Kong Closer Economic Partnership Arrangement and the relaxed government policy on granting permits to the PRC citizens to visit Hong Kong, the Hong Kong economy has gradually recovered. The Group benefited from the initial recovery with its turnover in Hong Kong for the second and third quarter increased by approximately 38.4% and 10.2% respectively as compared with the first quarter.

### *The PRC Market*

The Group currently operates its out-of-home audio and video 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.

During the first quarter of the period under review, the PRC economy was also negatively affected by the outbreak of SARS in some of its major cities. When SARS started to fade away in the second quarter of the period under review, the economy was rapidly recovered. As such, the Group's Guangzhou operation was least affected as compared with that of Hong Kong, with its advertising sales volume rebounded to pre-SARS level by the end of the first quarter of the period under review. 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.

Regarding the Group's Harbin operation, the performance did not meet our management's requirement and is subject to the Group's internal operational evaluation with the aim to improve its operating results.

## **Outlook**

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 there will be abundant business opportunities and market sentiment will remain positive in the PRC. In view of this, the Group intends to extend its media business to other out-of-home platforms in the PRC by utilizing its own existing resources which would enable the Group to offer more options to the advertisers and increase the Group's revenue sources.

In order to further enhance the Group's market presence in the out-of-home audio and video media business in the PRC, the Group will attempt to explore and develop wireless technology in the process of audio and video transmission.

Apart from focusing on the operation of the out-of-home audio and video media business, the Group will also consider to expand its media business to other related areas with profitable prospects.

## **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, February 13, 2004

### THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED DECEMBER 31, 2003

The unaudited consolidated results of the Group for the three months and nine months ended December 31, 2003, together with the comparative unaudited figures for the corresponding periods in 2002 are as follows:

	Notes	Three months ended December 31		Nine months ended December 31	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	2	<b>2,594</b>	11,897	<b>8,201</b>	30,666
Other operating income		-	387	<b>769</b>	617
Distribution costs		<b>(1,871)</b>	(11,340)	<b>(5,842)</b>	(30,638)
Printing and other production costs		-	-	-	(627)
Advertising and marketing expenses		<b>(158)</b>	(632)	<b>(668)</b>	(2,261)
Depreciation and amortisation		<b>(4,892)</b>	(8,096)	<b>(14,792)</b>	(21,425)
Rental expenses		<b>(170)</b>	(1,226)	<b>(556)</b>	(3,702)
Staff costs		<b>(1,771)</b>	(8,905)	<b>(6,949)</b>	(26,365)
Loss on disposal of property, plant and equipment		<b>(50)</b>	(1,275)	<b>(372)</b>	(858)
Loss on settlement for litigation claim	3	<b>(2,739)</b>	-	<b>(2,739)</b>	-
Other operating expenses		<b>(2,480)</b>	(4,174)	<b>(8,924)</b>	(11,184)
Loss from operations	2	<b>(11,537)</b>	(23,364)	<b>(31,872)</b>	(65,777)
Finance costs		<b>(1,045)</b>	(247)	<b>(3,196)</b>	(606)
Gain on disposal of subsidiaries		-	-	-	8,571
Loss before taxation		<b>(12,582)</b>	(23,611)	<b>(35,068)</b>	(57,812)
Taxation	4	-	-	-	-
Loss after taxation		<b>(12,582)</b>	(23,611)	<b>(35,068)</b>	(57,812)
Minority interest		-	-	-	178
<b>Net loss for the period</b>		<b>(12,582)</b>	(23,611)	<b>(35,068)</b>	(57,634)
<b>Loss per share</b>					
- Basic and diluted	5	<b>(1.2) cents</b>	(2.2) cents	<b>(3.3) cents</b>	(5.7) 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 and nine months ended December 31, 2003 are consistent with those followed in the preparation of the annual audited consolidated financial statements for the year ended March 31, 2003.

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

## 2. Turnover and operating results

Turnover for the nine months ended December 31, 2003 represents the media sales income derived from the provision of out-of-home audio and video media.

Turnover for the nine months ended December 31, 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 nine months ended December 31, 2003, together with the comparative unaudited figures for the corresponding period in 2002 is as follows:

	Nine months ended December 31, 2003		Nine months ended December 31, 2002	
	Continuing operations	Discontinuing operations	Continuing operations	Discontinuing operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	8,201	30,220	–	446
Loss from operations	<u>(31,872)</u>	<u>(63,147)</u>	<u>–</u>	<u>(2,630)</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.

### 3. Loss on settlement for litigation claim

Pursuant to the “民事調解書” (Civil Mediation Order)\* issued by 北京市第二中級人民法院 (Beijing No. 2 Intermediate People’s Court)\*, a local court in Beijing, the PRC on December 15, 2003 regarding the legal proceedings against a wholly-owned subsidiary (the “PRC Subsidiary”) of the Company in the PRC, the PRC Subsidiary was required to pay the court fee of approximately RMB31,000 (or in equivalent approximately HK\$29,000) and deliver a total of 1,764 units of LCD equipment and 600 units of VCD equipment with a total net book value of approximately HK\$4,514,000 to 北京清華同仁科技有限責任公司 (Beijing Tsinghua Edification Technology Co., Ltd.)\*, a supplier in the PRC (the “PRC Supplier”), for settlement of the claims against the PRC Subsidiary of approximately RMB6,630,000, inclusive of the account payable due to the PRC Supplier of approximately RMB1,912,000 (or in equivalent approximately HK\$1,804,000). As a result, the Group incurred a net loss on this settlement of approximately HK\$2,739,000.

### 4. Taxation

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

### 5. Loss per share

The calculation of the basic loss per share for the three months and nine months ended December 31, 2003 is based on the respective loss for the period of approximately HK\$12,582,000 and HK\$35,068,000 (2002: HK\$23,611,000 and HK\$57,634,000) and on the weighted average of 1,060,901,300 ordinary shares (2002: adjusted 1,060,901,300 and 1,002,378,573 ordinary shares) in issue during the three months and nine months ended December 31, 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 the period ended December 31, 2002. There was no dilution effect on loss per share for the period ended December 31, 2003 as no share options or warrants have been granted during the said period or outstanding at the beginning and at the end of the said period.

\* For identification purpose only



**6. Movement of reserves**

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At April 1, 2002	95,398	89,829	(196,488)	(11,261)
Issue of shares	298,125	–	–	298,125
Share issue expenses	(1,545)	–	–	(1,545)
Loss for the period	–	–	(57,634)	(57,634)
	<u>391,978</u>	<u>89,829</u>	<u>(254,122)</u>	<u>227,685</u>
At December 31, 2002	<u>391,978</u>	<u>89,829</u>	<u>(449,557)</u>	<u>32,250</u>
At April 1, 2003	391,978	89,829	(449,557)	32,250
Loss for the period	–	–	(35,068)	(35,068)
	<u>391,978</u>	<u>89,829</u>	<u>(484,625)</u>	<u>(2,818)</u>
<b>At December 31, 2003</b>	<b><u>391,978</u></b>	<b><u>89,829</u></b>	<b><u>(484,625)</u></b>	<b><u>(2,818)</u></b>

**7. Contingent liabilities**

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

**MAJOR EVENTS SUBSEQUENT**

Pursuant to a subscription agreement dated November 6, 2003 (the "Subscription Agreement") entered into between Star East Holdings Limited ("Star East"), a substantial shareholder of the Company, and Strategic Media International Limited ("SMI"), SMI has conditionally agreed to subscribe for 1,575,000,000 new ordinary shares of Star East at a price of HK\$0.04 per share.

Following the completion of the Subscription Agreement on December 19, 2003, SMI, through its offeror agents, had extended a voluntary conditional cash offer (the "Offer") to acquire all the outstanding issued ordinary shares of the Company (the "Shares") (other than those Shares already owned by SMI or parties acting in concert with it including Star East) in accordance with the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") at a price of HK\$0.015 per Share. The Offer was conditional upon SMI having received acceptances under the Offer, which, together with the Shares already owned or acquired by it and parties acting in concert with it before or during the offer period, would result in SMI and parties acting in concert with it holding more than 50% of the voting rights in the Company.

As at January 30, 2004, SMI had received valid acceptances in respect of 273,861,218 Shares in aggregate under the Offer, representing approximately 25.81% of the voting rights in the Company. When aggregated with the existing 285,500,562 Shares held by Star East of which SMI owned approximately 50.24% of the issued ordinary share capital thereof, SMI and parties acting in concert with it, or presumed to be acting in concert with it, were interested in a total of 559,361,780 Shares, representing approximately 52.73% of the voting rights in the Company. Accordingly, the Offer had become unconditional. In accordance with Rule 15.3 of the Takeovers Code, the Offer remained open for acceptance until 4:00 p.m. on Friday, February 13, 2004.

As at the close of the Offer on February 13, 2004, SMI had received valid acceptances in respect of 275,863,718 Shares in aggregate under the Offer, representing approximately 26.00% of the voting rights in the Company. When aggregated with the existing 285,500,562 Shares held by Star East, SMI and parties acting in concert with it, or presumed to be acting in concert with it, became interested in a total of 561,364,280 Shares, representing approximately 52.91% of the voting rights in the Company.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended December 31, 2003 (2002: Nil).

## **DISCLOSURE OF INTERESTS**

### **Directors and Chief Executives**

As at December 31, 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 December 31, 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 December 31, 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 such shares are being 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%

Name of shareholder	Number of shares held in the Company	Capacity in which such shares are being held	Approximate percentage of issued share capital
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%
Mr. Qin Hui	285,500,562	Interest of a controlled corporation (Note 2)	26.91%
Strategic Media International Limited	285,500,562	Interest of a controlled corporation (Note 2)	26.91%
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 as at December 31, 2003. 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. Strategic Media International Limited owned approximately 45.14% of the issued share capital of Star East Holdings Limited as at December 31, 2003. Strategic Media International Limited was in turn wholly owned by Mr. Qin Hui.
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 December 31, 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 third quarterly report for the nine months ended December 31, 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, February 13, 2004