M Channel Corporation Limited
流動廣告有限公司

Annual Report 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 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Kai *(Chairman)*
Mr. XING Jing *(Deputy Chairman)*
Mr. WONG Kun To *(Deputy Chairman)*
Mr. TONG Chin Shing

Independent Non-Executive Directors

Mr. PANG Hong
Ms. FUNG Wan Yiu, Agnes

AUDIT COMMITTEE

Mr. PANG Hong
Ms. FUNG Wan Yiu, Agnes

COMPANY SECRETARY

Mr. CHAN Dik Keung, William *(AHKSA, FCCA)*

QUALIFIED ACCOUNTANT

Mr. TSANG Chung Sing, Edward *(AHKSA)*

COMPLIANCE OFFICER

Mr. WONG Kun To

AUTHORISED REPRESENTATIVES

Mr. WONG Kun To
Mr. TONG Chin Shing

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 Hunter

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

29/F., Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

WEBSITE ADDRESS

www.m-channel.tv

STOCK CODE

8036

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
Argyle House
41A Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F., 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, 2004.

FINANCIAL REVIEW

In April 2002, the Group acquired the entire interest in Fortune Impact Limited, which was engaged in 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.

The Group's turnover for the year ended March 31, 2004 amounted to approximately HK$10.4 million (2003: HK$35.5 million) representing a decrease of approximately 70.7% over last year. The Group's turnover for the year ended March 31, 2004 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.

Net loss for the year ended March 31, 2004 was approximately HK$74.4 million in comparing to the last corresponding year of approximately HK$253.1 million. The decrease in net loss of approximately HK$178.7 million was mainly attributable to substantial decrease of impairment loss recognised in respect of goodwill and of the out-of-home audio and video display equipment and 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.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Hong Kong Market

During the year under review, the Group was primarily engaged 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 year under review, Hong Kong economy and in particular, the outdoor advertising industry were adversely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS"). As a result of which, consumer spending was significantly reduced and advertisers adopted a more conservative approach in their advertising campaigns by substantially reducing or deferring their advertising spending. Faced with such difficult economic environment, the Group's out-of-home audio and video media business was adversely affected leading to a drastic decline in its turnover during the first quarter of the year under review.

The successful containment of the SARS outbreak in mid 2003, and the subsequent announcement of the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland China as well as the relaxation of government policies in allowing Mainland citizens to travel to Hong Kong more freely has provided Hong Kong with an opportunity to capitalize on its hotel related industry and retail businesses. As Hong Kong began to recover from its economic depression, the Group's business improved as a result and recorded increases in turnover in subsequent quarters 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 600 public buses in Guangzhou, the PRC.

Similar to Hong Kong, the PRC economy was also negatively affected by the outbreak of SARS in some of its major cities during the first quarter of the year. However, the Mainland's economy recovered rapidly as the World Health Organisation (WHO) declared China a safe country for travel in the second quarter of the year. Consequently, the Group's Guangzhou operation was least affected by SARS as compared with Hong Kong. The Group recorded an increase in advertising sales volume comparable to the pre-SARS level by the end of the first quarter. In light of the comparatively stable 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 a view to increase its sales volume and turnover.

According to the findings of an internal evaluation carried out on the operational performance of the Group's business in Harbin, the management was not confident that there would be major improvements on its operational performance in the near future if the operation in Harbin was to be continued. In light of this, the management decided to terminate its operation in Harbin in the last quarter of the year under review.

CHAIRMAN'S STATEMENT

OUTLOOK

With China's accession to the World Trade Organisation (WTO) and the fact that the 2008 Olympic Games will be held in Beijing, the Group anticipates that ample business opportunities will be provided and market sentiment will remain positively high in the PRC. In view of this, the Group intends to penetrate its media business into other out-of-home platforms and markets within China. With its own existing resources, the Group is able to offer more options and selections for advertisers which in turn will 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 explore the possibility of developing wireless technology in the application of audio and video transmission.

Notwithstanding the Group's main focus on the operation of the out-of-home audio and video media business, expansions into other media related businesses are being considered with a view to providing additional profit contributions to the Group as a whole.

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.

Li Kai
Chairman

Hong Kong, June 23, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF THE GROUP'S PERFORMANCE

For the year ended March 31, 2004, the Group recorded a turnover of approximately HK$10.4 million as compared with approximately HK$35.5 million in the last year, representing a decrease of approximately 70.7%. The Group's turnover for the year under review 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.

Loss from operations decreased from approximately HK$260.4 million for the last year to approximately HK$70.1 million for the current year. Net loss for the year ended March 31, 2004 was approximately HK$74.4 million compared with the last corresponding year of approximately HK$253.1 million. The decrease in net loss of approximately HK$178.7 million was mainly attributable to a substantial decrease in impairment loss recognised in respect of goodwill and of the out-of-home audio and video display equipment, which accounted for approximately HK$148.3 million in aggregate. Other reasons for the decrease in net loss were 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 March 31, 2004, the Group had bank and cash balance of approximately HK$0.6 million (2003: HK$13.4 million, of which HK$11.3 million was pledged to a bank to secure banking facilities of RMB11.5 million extended to the Company's subsidiary companies in the PRC). The Group had unsecured borrowings of approximately HK$70.1 million (2003: HK$52.7 million) which mainly comprised of shareholders' loans of approximately HK$28.5 million carrying interest at prevailing market rate and other loans of approximately HK$41.6 million which carry interest at prevailing market rate with approximately HK$1.2 million repayable within one year and HK$40.4 million repayable after one year.

As at March 31, 2004, the Group had obligations under finance leases of approximately HK$38,000 (2003: HK$63,000), which comprised of short-term portion of approximately HK$27,000 (2003: HK$25,000) and long-term portion of approximately HK$11,000 (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 year ended March 31, 2004, 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 in other potential markets including Hong Kong and the PRC. As at March 31, 2004, the Group did not have any concrete future plan for material investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENTAL INFORMATION

During the year ended March 31, 2004, 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 March 31, 2004, the Group had a total of 48 employees (2003: 87 employees) and the employee costs, excluding director's emoluments, for the year ended March 31, 2004 totaled approximately HK$8.6 million (2003: HK$25.1 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 fund scheme, medical scheme and share option scheme.

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 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 March 31, 2004, the Group had no assets subject to charges (2003: the Group had time deposits of approximately HK$11.3 million pledged to a bank to secure banking facilities of RMB11.5 million 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 1.91 as at March 31, 2004 as compared to 0.71 as at March 31, 2003.

FOREIGN EXCHANGE EXPOSURE

For the year ended March 31, 2004 and March 31, 2003, the functional currencies of the Group's operations were Hong Kong dollars and Renminbi. The directors of the Company consider that the potential risk of foreign exchange exposure of the Group is limited.

MANAGEMENT DISCUSSION AND ANALYSIS

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$6.6 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. By its Re-Amended Statement of Claim filed in January 2004, the supplier shifted the basis for its claim from the alleged guarantee to an undertaking or confirmation by the Company effected by a former director of the Company. The parties have exchanged witness statements. As at the date of this report, the proceedings are still ongoing. In view of the disputes both on facts and points of law, the directors of the Company, after taking into consideration of legal advice, consider that the Company's liability, if any, towards the supplier is uncertain at this current stage.

MAJOR EVENTS

Pursuant to a subscription agreement dated November 6, 2003 (the "Subscription Agreement") entered into between Star East Holdings Limited (now known as SMI Corporation 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 currently owned approximately 47.40% 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.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Li Kai, aged 42, was appointed as the Chairman and an executive director of the Company on June 15, 2004. He graduated from the Post-graduate School of Commerce and Economics of the Chinese Institute of Social Science. Mr. Li has over 15 years of experience in corporate management in the People's Republic of China (the "PRC") and the United States of America (the "USA"). Prior to joining the Company, he was the President of 東方泓泰投資控股有限公司 (Dongfeng Hongtai Investments Holdings Limited), a property investment company in Beijing, the PRC.

Mr. Xing Jing, aged 46, was appointed as the Deputy Chairman and an executive director of the Company on June 15, 2004. He is also the Chairman of SMI Corporation Limited ("SMI Corporation") and an executive director of Leadership Publishing Group Limited ("Leadership Publishing"). The securities of SMI Corporation and Leadership Publishing are listed on the Main Board and the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") respectively. SMI Corporation is a substantial shareholder of the Company. Mr. Xing holds a Master's degree in Computer Programming with the Graduate School of Peking University and has over 15 years' experience in investment and operation of enterprises in information technology industry in the Greater China Region. He is currently the President of Strategic Media International Limited ("SMI"), a substantial shareholder of the Company. Mr. Xing joined SMI Corporation as an executive director in July 2003 and became the Chairman of SMI Corporation in February 2004. He joined Leadership Publishing as a non-executive director in March 2004 and was re-designated as an executive director of Leadership Publishing in May 2004.

Mr. Wong Kun To, aged 48, was 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 was re-appointed as the Deputy Chairman of the Company on June 15, 2004. Mr. Wong has over 17 years of experience in business development and investment especially in the media, entertainment and technology industries. He is a member of the Institution of Civil Engineers (U.K.) and The Hong Kong Institution of Engineers. Mr. Wong is also the managing director of SMI Corporation and an executive director of ITC Corporation Limited ("ITC"). ITC is a substantial shareholder of the Company and the securities of which are listed on the Main Board of the Stock Exchange.

Mr. Tong Chin Shing, aged 51, was appointed as an executive director of the Company on May 27, 2003. He holds a Bachelor's Degree in Commerce and is a member of the Society of Management Accountants of Canada. Mr. Tong has over 25 years of experience in accounting, auditing, finance and general administration in Hong Kong and Canada.

DIRECTORS' PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pang Hong, aged 50, was appointed as an independent non-executive director of the Company on April 30, 2002. He has over 20 years of working experience in enterprises as well as government authorities of the PRC. Mr. Pang was the deputy general manager of Beijing Electrical Industry Corporation and worked with the Liaison Office of Taiwan, Hong Kong, Macao Compatriot and Overseas Chinese Affairs of the National Committee of the Chinese People's Political Consultative Conference as deputy director. After completion of studies for three years in the USA, he moved to, and started his career in Hong Kong in 1991. Mr. Pang is well versed with the investment environments in the PRC and has extensive experience in the management of PRC corporations. He has been a director of numerous Sino-foreign joint venture companies in the PRC. Mr. Pang is also an executive director of PacMOS Technologies Holdings Limited, the securities of which are listed on the Main Board of the Stock Exchange.

Ms. Fung Wan Yiu, Agnes, aged 39, was appointed as an independent non-executive director of the Company on July 21, 2003. She is also an independent non-executive director of China Strategic Holdings Limited, an associated corporation of ITC and the securities of which are listed on the Main Board of the Stock Exchange. Ms. Fung graduated from the University of Hong Kong with a Bachelor of Law Degree and was admitted as a solicitor in Hong Kong and Singapore. She is a partner of Messrs. Vincent T.K. Cheung, Yap & Co. and has been practising in the legal field for nearly 15 years.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the year ended March 31, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the financial statements.

CHANGES IN SUBSTANTIAL SHAREHOLDERS

Following the completion of the offer made by Strategic Media International Limited ("SMI") in February 2004, SMI and parties acting in concert with SMI became the controlling shareholders of the Company. Details of the substantial shareholders as at March 31, 2004 are disclosed under the section headed "Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares of the Company".

RESULTS

Details of the Group's results for the year ended March 31, 2004 are set out in the consolidated income statement on page 19 of the annual report.

FINAL DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year ended March 31, 2004 (2003: Nil).

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 22 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group disposed of the display equipment at its carrying value of approximately HK$4.5 million to a supplier as settlement of the claim for outstanding unpaid balance.

An impairment loss of approximately HK$9.1 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:

Li Kai *(Chairman)*	(appointed on June 15, 2004)
Xing Jing *(Deputy Chairman)*	(appointed on June 15, 2004)
Wong Kun To *(Deputy Chairman)*	
Tong Chin Shing	(appointed on May 27, 2003)
Cheung Kwok Wah	(resigned on May 27, 2003)
Yeung Wing Yan, Wendy	(resigned on July 7, 2003)
Wong Lai Shun, Benny	(appointed on May 27, 2003 and resigned on February 27, 2004)

Non-executive directors:

Yang Bu Ting	(resigned on July 7, 2003)
Zhang Jia Ji	(resigned on July 7, 2003)

Independent non-executive directors:

Pang Hong	
Fung Wan Yiu, Agnes	(appointed on July 21, 2003)
Choy Hok Man, Constance	(resigned on July 4, 2003)

In accordance with Bye-law 102(B) of the Company's New Bye-laws, Ms. Fung Wan Yiu, Agnes, Mr. Li Kai and Mr. Xing Jing will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 99 of the Company's New Bye-laws, Mr. Pang Hong will retire by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

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

None of the directors being proposed for re-election at the forthcoming annual general meeting nor the remaining director 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 CONTRACTS

Save as disclosed in note 32 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.

DIRECTORS' REPORT

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at March 31, 2004, 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 (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) ("Associated Corporations") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules Governing the Listing of Securities in the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES OF THE COMPANY

So far as was known to any director or chief executive of the Company, as at March 31, 2004, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long Positions in shares of the Company

Name of Shareholder	Number of shares held in the Company	Capacity in which such shares are being held	Approximate percentage of the issued share capital of the Company
Mr. Qin Hui *(Notes 1 & 3)*	561,364,280	Interest of a controlled corporation	52.91%
SMI *(Notes 1 & 3)*	275,863,718	Beneficial owner	26.00%
	285,500,562	Interest of a controlled corporation	26.91%
SMI Corporation Limited (Formerly known as Star East Holdings Limited) *(Notes 2 & 3)*	285,500,562	Interest of a controlled corporation	26.91%
Joyful Growth Limited *(Notes 2 & 3)*	285,500,562	Interest of a controlled corporation	26.91%

DIRECTORS' REPORT

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES OF THE COMPANY *(Continued)*

Long Positions in shares of the Company *(Continued)*

Name of Shareholder	Number of shares held in the Company	Capacity in which such shares are being held	Approximate percentage of the issued share capital of the Company
Asiacreation Management Limited *(Notes 2 & 3)*	285,500,562	Beneficial owner	26.91%
Dr. Chan Kwok Keung, Charles *(Note 4)*	199,840,625	Interest of a controlled corporation	18.84%
Ms. Ng Yuen Lan, Macy *(Note 4)*	199,840,625	Interest of the spouse	18.84%
Chinaview International Limited *(Note 4)*	199,840,625	Interest of a controlled corporation	18.84%
Galaxyway Investments Limited *(Note 4)*	199,840,625	Interest of a controlled corporation	18.84%
ITC Corporation Limited *(Note 4)*	199,840,625	Interest of a controlled corporation	18.84%
ITC Investment Holdings Limited *(Note 4)*	199,840,625	Interest of a controlled corporation	18.84%
Hero's Way Resources Ltd. *(Note 4)*	199,840,625	Interest of a controlled corporation	18.84%
Prime Capital Corporation Limited *(Note 4)*	199,840,625	Beneficial owner	18.84%

Notes:

1. Of the 561,364,280 shares, 275,863,718 shares were directly held by SMI, of which Mr. Qin Hui held the entire issued share capital thereof, and 285,500,562 shares were indirectly held by SMI Corporation Limited (Formerly known as Star East Holdings Limited) ("SMI Corporation") of which SMI owned approximately 50.24% of the issued ordinary share capital as at March 31, 2004. Mr. Qin Hui was therefore deemed to be interested in all the 561,364,280 shares.

2. Asiacreation Management Limited ("Asiacreation") was a direct wholly-owned subsidiary of Joyful Growth Limited which was in turn wholly owned by SMI Corporation.

3. A conditional agreement dated March 26, 2004 entered into between SMI and Asiacreation for the disposal of a total of 285,500,562 shares in the Company by Asiacreation to SMI (the "Proposed Disposal"). The Proposed Disposal has been approved by the independent shareholders of SMI Corporation at the special general meeting held on May 11, 2004. The completion of the Proposed Disposal is subject to the fulfilment of the conditions as set out in the circular of SMI Corporation issued on April 23, 2004 on or before October 31, 2004 (or such later date as the parties may agree in writing).

DIRECTORS' REPORT

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES OF THE COMPANY *(Continued)*

Notes: (Continued)

4. 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 33.58% 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.

Save as disclosed above, as at March 31, 2004, so far as was known to the directors or chief executives of the Company, there was no 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 23 to the financial statements. No share options were granted to the Company's directors during the year.

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 28 to the financial statements.

DIRECTORS' REPORT

BOARD PRACTICES AND PROCEDURES

The Company had complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the financial year.

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 that clearly establish the audit committee's authority and duties. At the date of this report, 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 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.

Five audit committee meetings were held since April 1, 2003 up to the date of this report. The Group's financial statements for the year ended March 31, 2004 had 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 the Statement of Standard Accounting Practice No. 30 "Business Combination" issued by the Hong Kong Society of Accountants.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Li Kai
Chairman

Hong Kong, June 23, 2004

AUDITORS' REPORT

Deloitte.
德勤

TO THE MEMBERS OF M CHANNEL CORPORATION LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 19 to 57 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements regarding the liquidity of the Group and the active steps being taken by the directors to reschedule the Group's outstanding debt balances and obtain additional funding from investors. Provided that the Group's outstanding debt balances can be rescheduled and additional funding can be secured, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure by the Group to meet in full its financial obligations as they fall due. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this report.

Qualified opinion arising from disagreement about accounting treatment

As explained in note 25 to the financial statements, during the year ended March 31, 2003, 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 constituted 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 had been accounted for as a subsidiary acquired during that 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 liabilities of the Group as at March 31, 2004 would have been decreased by approximately HK$7 million and increased by approximately HK$7 million, respectively, and the loss of the Group for the year then ended would have been reduced by approximately HK$26 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, 2004 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, 2004 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 23, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover	5	**10,384**	35,485
Other operating income	6	**1,289**	2,899
Distribution costs		**(7,891)**	(34,518)
Printing and other production costs		**–**	(732)
Advertising and marketing expenses		**(797)**	(2,318)
Depreciation and amortisation		**(21,309)**	(27,997)
Rental expenses		**(702)**	(3,930)
Staff costs		**(9,036)**	(28,660)
Loss on disposal of property, plant and equipment		**(504)**	(2,916)
Loss on settlement for litigation claim		**(2,739)**	–
Impairment loss recognised in respect of property, plant and equipment	12	**(9,064)**	(25,689)
Impairment loss recognised in respect of goodwill	13	**(18,347)**	(150,000)
Other operating expenses		**(11,424)**	(22,020)
Loss from operations	7	**(70,140)**	(260,396)
Finance costs	8	**(4,284)**	(2,576)
Gain on disposal of subsidiaries		**–**	9,725
Loss before minority interest		**(74,424)**	(253,247)
Minority interest		**–**	178
Loss for the year		**(74,424)**	(253,069)
Loss per share			
– Basic and diluted	11	**HK$(0.07)**	HK$(0.25)

CONSOLIDATED BALANCE SHEET

At March 31, 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current assets			
Property, plant and equipment	12	**12,223**	32,126
Goodwill	13	**20,000**	50,878
Intangible asset	14	**–**	81
Other asset	15	**2,800**	5,200
		35,023	88,285
Current assets			
Accounts receivable	17	**762**	6,350
Other receivables		**7,371**	8,927
Amounts due from related companies	18	**12**	37
Pledged time deposits	30	**–**	11,330
Bank balances and cash		**640**	2,072
		8,785	28,716
Current liabilities			
Accounts payable and accrued charges	19	**11,627**	16,137
Amounts due to related companies	18	**2,035**	2,834
Obligations under finance leases – due within one year	20	**27**	25
Bank and other borrowings – due within one year	21	**11,650**	14,075
		25,339	33,071
Net current liabilities		**(16,554)**	(4,355)
Total assets less current liabilities		**18,469**	83,930
Non-current liabilities			
Obligations under finance leases – due after one year	20	**11**	38
Bank and other borrowings – due after one year	21	**58,510**	49,520
		(40,052)	34,372
Capital and Reserves			
Share capital	22	**2,122**	2,122
Reserves		**(42,174)**	32,250
		(40,052)	34,372

The financial statements on pages 19 to 57 were approved and authorised for issue by the Board of Directors on June 23, 2004 and are signed on its behalf by:

Li Kai
DIRECTOR

Wong Kun To
DIRECTOR

BALANCE SHEET

At March 31, 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current asset			
Interests in subsidiaries	16	**20,000**	34,000
Current assets			
Other receivables		**215**	131
Bank balances and cash		**2**	8
		217	139
Current liability			
Accrued charges		**1,637**	2,151
Net current liability		**(1,420)**	(2,012)
		18,580	31,988
Capital and Reserves			
Share capital	22	**2,122**	2,122
Reserves	24	**16,458**	29,866
		18,580	31,988

Li Kai
DIRECTOR

Wong Kun To
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2004

	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, 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
Loss for the year	–	–	–	(74,424)	(74,424)
At March 31, 2004	2,122	391,978	89,829	(523,981)	(40,052)

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, 2004

	Notes	2004 HK$'000	2003 HK$'000
OPERATING ACTIVITIES			
Loss from operations		**(70,140)**	(260,396)
Adjustment for:			
Interest income		**(54)**	(215)
Depreciation and amortisation		**21,309**	27,997
Loss on disposal of property, plant and equipment		**504**	2,916
Loss on settlement for litigation claim		**2,739**	–
Impairment loss of property, plant and equipment		**9,064**	25,689
Allowance for bad and doubtful debts		**2,581**	–
Gain on waiver of obligation		**(370)**	(1,175)
Impairment loss recognised in respect of goodwill		**18,347**	150,000
Operating cash flow before movements in working capital		**(16,020)**	(55,184)
Decrease (increase) in accounts receivable		**3,196**	(670)
Decrease in other receivables		**1,688**	3,904
Decrease in amounts due from related companies		**25**	395
(Decrease) increase in accounts payable and accrued charges		**(2,365)**	1,506
(Decrease) increase in amounts due to related companies		**(799)**	3,224
Cash used in operations		**(14,275)**	(46,825)
Interest received		**54**	215
NET CASH USED IN OPERATING ACTIVITIES		**(14,221)**	(46,610)
INVESTING ACTIVITIES			
Decrease (increase) in pledged time deposits		**11,330**	(11,330)
Proceeds from disposal of property, plant and equipment		**438**	260
Purchases of property, plant and equipment		**(1,235)**	(26,973)
Acquisition of subsidiaries	*25*	**–**	5,589
Disposal of subsidiaries	*26*	**–**	(386)
Purchases of programme rights		**–**	(449)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**10,533**	(33,289)
FINANCING			
New bank and other borrowings raised		**17,414**	35,388
Repayment of bank and other borrowings raised		**(10,849)**	–
Interest paid		**(4,281)**	(2,567)
Repayment of obligations under finance leases		**(25)**	(193)
Interest on finance lease rental payments		**(3)**	(9)
Proceeds from issue of shares		**–**	50,000
Share issue expenses		**–**	(1,545)
NET CASH FROM FINANCING		**2,256**	81,074
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,432)**	1,175
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,072**	897
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
– representing bank balances and cash		**640**	2,072

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

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 33.

2. BASIS OF PREPARATION

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK$16,554,000 and deficiency in shareholders' funds of approximately HK$40,052,000 as at March 31, 2004. The directors of the Company are currently exploring various options for rescheduling the Group's outstanding debt balances and obtaining additional funding from investors to the Group. Provided that the Group's outstanding debt balances can be rescheduled and additional funding from investors can be secured, the directors are satisfied that 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 HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" under the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Turnover

Turnover represents media sales income received and receivable during the year.

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.

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 accumulated 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	$33^1/_3$%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

Lease 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserves. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

5. GEOGRAPHICAL SEGMENTS

Geographical segments by location of operations for the year ended March 31, 2004:

	Hong Kong	**PRC**	**Total**
	HK$'000	HK$'000	HK$'000
TURNOVER			
External	5,589	4,795	10,384
RESULTS			
Segment results	(19,703)	(19,672)	(39,375)
Other operating income			1,289
Unallocated corporate expenses			(32,054)
Loss from operations			(70,140)
Finance costs			(4,284)
Loss before minority interest			(74,424)
Minority interest			–
Loss for the year			(74,424)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

5. GEOGRAPHICAL SEGMENTS *(Continued)*

	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000
CONSOLIDATED BALANCE SHEET			
ASSETS			
Segment assets	13,473	10,335	23,808
Unallocated corporate assets			20,000
Consolidated total assets			43,808
LIABILITIES			
Segment liabilities	7,747	3,973	11,720
Unallocated corporate liabilities			72,140
Consolidated total liabilities			83,860
OTHER INFORMATION			
Capital additions	11	1,224	1,235
Depreciation and amortisation of property, plant and equipment	2,480	4,138	6,618
Impairment loss recognised in respect of property, plant and equipment	2,982	6,082	9,064
Loss on settlement for litigation claim	–	2,739	2,739
Amortisation of intangible asset	74	7	81
Amortisation of other asset in respect of expiry of commercial airtime	2,079	–	2,079
Allowance for bad and doubtful debts	1,000	1,581	2,581
Amortisation of goodwill	–	–	12,531
Impairment loss recognised in respect of goodwill	–	–	18,347

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

5. GEOGRAPHICAL SEGMENTS *(Continued)*

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

	Hong Kong	**PRC**	**Elimination**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER				
External	31,005	4,480	–	35,485
Inter-segment	15	–	(15)	–
Total	31,020	4,480	(15)	35,485
RESULTS				
Segment results	(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)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

5. GEOGRAPHICAL SEGMENTS *(Continued)*

	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000
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	12,392	3,279	15,671
Unallocated corporate liabilities			66,958
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

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

No analysis of financial information by business segment is presented as the Group is engaged solely in the out-of-home audio and video media business for the year ended March 31, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

6. OTHER OPERATING INCOME

	2004	2003
	HK$'000	HK$'000
Interest income	**54**	215
Gain on waiver of obligation *(Note)*	**370**	1,175
Sundry income	**865**	1,509
	1,289	2,899

Note: The amount represents the waiver of the Group's outstanding obligations to certain creditors during the year.

7. LOSS FROM OPERATIONS

	2004	2003
	HK$'000	HK$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– directors' remuneration *(Note 9(a))*	**439**	3,537
– other staff costs	**8,107**	24,157
– severance payments	**271**	–
– retirement benefits scheme contributions, excluding directors'	**219**	966
	9,036	28,660
Amortisation of goodwill	**12,531**	10,048
Amortisation of intangible asset	**81**	584
Amortisation of other asset in respect of expiry of commercial airtime	**2,079**	–
Depreciation and amortisation		
Owned assets	**6,595**	17,166
Leased assets	**23**	199
	21,309	27,997
Auditors' remuneration	**410**	552
Allowance for bad and doubtful debts	**2,581**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

8. FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest on:		
– finance leases	**3**	9
– bank borrowings	**141**	547
– other borrowings	**2,561**	1,778
– loans from related companies	**1,579**	242
	4,284	2,576

9. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	2004 HK$'000	2003 HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**100**	–
	100	–
Other emoluments:		
Executive directors		
Salaries and other benefits	**337**	3,510
Retirement benefits scheme contributions	**2**	27
	339	3,537
Total directors' remuneration	**439**	3,537

For the year ended March 31, 2004, one executive director received remuneration of approximately HK$339,000 and two independent non-executive directors each received directors' fee of HK$50,000 (2003: Nil).

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.

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, 2004

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

(b) Employees' emoluments

During the year, the five highest paid individuals in the Group included one (2003: two) director(s) 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:

	2004	2003
	HK$'000	HK$'000
Salaries and other benefits	**1,955**	2,417
Retirement benefits scheme contributions	**47**	36
	2,002	2,453

	Number of employees	
	2004	2003
Nil to HK$1,000,000	**4**	3

10. TAXATION

Hong Kong Profits Tax rate was changed from 16% to 17.5% with effect from 2003/2004 year of assessment. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

10. TAXATION *(Continued)*

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2004 HK$'000	2003 HK$'000
Loss before taxation	**(74,424)**	(253,247)
Taxation at the income tax rate of 17.5% (2003: 16%) *(Note)*	**(13,024)**	(40,519)
Tax effect of expense not deductible for tax purpose	**7,553**	31,042
Tax effect of income not taxable for tax purpose	**(9)**	(1,878)
Tax effect of tax loss not recognised	**6,440**	13,933
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(960)**	(2,578)
Tax expense for the year	**–**	–

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

At the balance sheet date, the Group has unused tax losses of approximately HK$173 million (2003: HK$142 million) available for offset against future profits. No deferred tax assets has been recognised due to the unpredictability of future profit streams.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of approximately HK$74,424,000 (2003: HK$253,069,000) and on 1,060,901,300 (2003: the weighted average of 1,017,236,917 after adjustment for the effect of the consolidation of the Company's shares as set out in note 22) ordinary shares in issue during the year.

The computation of diluted loss per share has not been presented for both years because the exercise of the share options and warrants would result in a decrease in the loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Production equipment HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Display equipment HK$'000	Total HK$'000
THE GROUP								
COST								
At April 1, 2003	194	344	719	3,016	485	1,330	59,748	65,836
Additions	340	1	–	5	3	26	860	1,235
Disposal for settlement	–	–	–	–	–	–	(8,450)	(8,450)
Disposals	–	(112)	(338)	(61)	(36)	(279)	(1,610)	(2,436)
At March 31, 2004	534	233	381	2,960	452	1,077	50,548	56,185
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At April 1, 2003	194	66	119	672	48	522	32,089	33,710
Provided for the year	340	57	88	645	98	433	4,957	6,618
Impairment loss recognised	–	15	–	–	15	5	9,029	9,064
Eliminated on disposal for settlement	–	–	–	–	–	–	(3,936)	(3,936)
Eliminated on disposals	–	(37)	(68)	(29)	(12)	(164)	(1,184)	(1,494)
At March 31, 2004	534	101	139	1,288	149	796	40,955	43,962
NET BOOK VALUES								
At March 31, 2004	–	132	242	1,672	303	281	9,593	12,223
At March 31, 2003	–	278	600	2,344	437	808	27,659	32,126

As announced on December 17, 2003, pursuant to 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) on December 15, 2003, the Group was required to deliver certain display equipment to a PRC supplier for settlement of its claim for outstanding balance payment of goods purchased by the Group. Accordingly, the display equipment with the net book value of approximately HK$4.5 million was disposed of by the Group for the above settlement.

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 light of the nature and change in technology of display equipment and in the related business, an impairment loss of approximately HK$9 million (2003: HK$25.7 million) was identified and charged to the consolidated income statement.

At March 31, 2004, the net book value of the Group's motor vehicle includes an amount of approximately HK$75,000 (2003: HK$98,000) in respect of assets held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

13. GOODWILL

	THE GROUP
	HK$'000
GROSS AMOUNT	
At April 1, 2003 and at March 31, 2004	210,926
AMORTISATION AND IMPAIRMENT	
At April 1, 2003	160,048
Provided for the year	12,531
Impairment loss recognised during the year	18,347
At March 31, 2004	190,926
CARRYING AMOUNT	
At March 31, 2004	20,000
At March 31, 2003	50,878

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

For the year ended March 31, 2003, the Group acquired the entire interest in Fortune Impact Limited and resulted in a goodwill of approximately HK$210,926,000. At March 31, 2004, the directors reviewed their estimation of the future performance of the out-of-home audio and video media business and recognised an impairment in goodwill of approximately HK$18 million (2003: HK$150 million) in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

14. INTANGIBLE ASSET

THE GROUP

	Purchase programme rights HK$'000
COST	
At April 1, 2003 and at March 31, 2004	665
AMORTISATION	
At April 1, 2003	584
Provided for the year	81
At March 31, 2004	665
NET BOOK VALUE	
At March 31, 2004	–
At March 31, 2003	81

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 which was a part of consideration for the disposal of the display equipment to a transit vehicle operator in Hong Kong during the year ended March 31, 2003. The Group has right to use or sell commercially for the period from January 1, 2004 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 approximately HK$2.4 million (2003: 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, 2004

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**250,000**	250,000
Less: Impairment losses recognised	**(230,000)**	(216,000)
	20,000	34,000
Amounts due from subsidiaries	**39,572**	42,247
Less: Allowances on amounts due from subsidiaries	**(39,572)**	(42,247)
	–	–
	20,000	34,000

In the opinion of the directors, the amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The directors of the Company consider that in 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$14 million (2003: HK$216 million) has been recognised in the income statement for the year.

Details of the Company's principal subsidiaries at March 31, 2004 are set out in note 33.

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	
	2004	2003
	HK$'000	HK$'000
Accounts receivable:		
Within 30 days	**414**	1,331
Within 31 – 60 days	**109**	2,091
Within 61 – 90 days	**67**	1,627
Over 90 days	**172**	1,301
	762	6,350

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

18. AMOUNTS DUE FROM/TO RELATED COMPANIES

(a) Amounts due from related companies

The amounts represent the balances due from 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	
	2004	2003
	HK$'000	HK$'000
Accounts payable:		
Within 30 days	**644**	1,718
Within 31 – 60 days	**248**	469
Within 61 – 90 days	**463**	828
Over 90 days	**4,121**	4,037
	5,476	7,052
Add: Accrued charges	**6,151**	9,085
	11,627	16,137

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

20. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		**Present value of minimum lease payments**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases are repayable as follows:				
Within one year	**28**	28	**27**	25
More than one year, but not exceeding two years	**12**	39	**11**	38
	40	67	**38**	63
Less: Future finance charges	**(2)**	(4)	**–**	–
Present value of lease obligations	**38**	63	**38**	63
Less: Amount due within one year and shown under current liabilities			**(27)**	(25)
Amount due after one year			**11**	38

The average lease term is 3 years (2003: 3 years). For the year ended March 31, 2004, the effective borrowing rate was 5% (2003: 5%). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

21. BANK AND OTHER BORROWINGS

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Bank borrowings	**–**	10,849
Other borrowings *(Note a)*	**41,640**	37,429
Loans from related companies *(Note b)*	**28,520**	11,273
Amount due to a related company *(Note c)*	**–**	4,044
	70,160	63,595
Secured	**–**	10,849
Unsecured	**70,160**	52,746
	70,160	63,595

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
The maturity profile of the above borrowings is as follows:		
Within one year	**11,650**	14,075
More than one year, not exceeding two years	**58,510**	49,520
	70,160	63,595
Less: Amount due within one year included under current liabilities	**(11,650)**	(14,075)
Amount due after one year	**58,510**	49,520

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$1,233,000 which is repayable within one year from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

21. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

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

		THE GROUP	
		2004	2003
	Notes	**HK$'000**	HK$'000
ITC Management Limited	*(i)*	**18,103**	9,200
Star East Management Limited	*(ii)*	**10,417**	–
Alfaway International Limited	*(iii)*	**–**	2,073
		28,520	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) Star East Management Limited is a subsidiary of SMI Corporation. The loan is unsecured, carries interest at prevailing market rate and is repayable within one year from the balance sheet date.

(iii) The Company was an investee company of a jointly controlled entity of SMI Corporation, a substantial shareholder of the Company. The amount was fully repaid during the year.

(c) At March 31, 2003, the amount due to Star East Management Limited was unsecured, non-interest bearing and was not repayable 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, 2002	5,000,000	500
Increase during the year	95,000,000	9,500
Consolidation of shares	(95,000,000)	–
Ordinary shares of HK$0.002 each at March 31, 2003 and 2004	5,000,000	10,000
Issued and fully paid:		
Ordinary shares of HK$0.0001 each at April 1, 2002	2,468,026	247
Issue of new shares	18,750,000	1,875
Consolidation of shares	(20,157,125)	–
Ordinary shares of HK$0.002 each at March 31, 2003 and 2004	1,060,901	2,122

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

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.

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 the prospectus of the Company dated July 18, 2000. There were no outstanding options granted under the Pre-IPO Plan as at March 31, 2004 and March 31, 2003.

A summary of the movement of share options under the Pre-IPO Plan for the year ended March 31, 2003 is as follows:

			Number of share options			
Exercisable period	Date of grant	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	0.758	152,629,741	(144,998,256)	(7,631,485)	–
Employees						
July 12, 2000 to July 31, 2004	July 12, 2000	1.818	15,539,081	(14,762,127)	(776,954)	–
			168,168,822	(159,760,383)	(8,408,439)	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

23. SHARE OPTIONS *(Continued)*

(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 be 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; or (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, 2004 and March 31, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

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 for the year ended March 31, 2003 is as follows:

Exercisable period	Date of grant	Exercise price per share HK$	Number of share options: Outstanding at April 1, 2002	Consolidation during the year	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)	–

(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 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 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 options schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

23. SHARE OPTIONS *(Continued)*

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

Options 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 be 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 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, 2004 and March 31, 2003.

A summary of the movement of share options under the New Scheme for the year ended March 31, 2003 is as follows:

			Number of share options				
Exercisable period	Date of grant	Exercise price per share *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)	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

23. SHARE OPTIONS *(Continued)*

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

Total consideration received during the year ended March 31, 2003 for taking up the options granted under the New Scheme was amounted to HK$16.

No charge was recognised in the income statement in respect of the value of options granted during the year ended March 31, 2003.

24. RESERVES

	Share premium HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
THE COMPANY				
At April 1, 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
Loss for the year	–	–	(13,408)	(13,408)
At March 31, 2004	391,978	59,922	(435,442)	16,458

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, 2004

25. 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 the 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	
	2004	2003
	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

25. ACQUISITION OF SUBSIDIARIES *(Continued)*

The subsidiaries acquired during the year ended March 31, 2003 contributed HK$35,039,000 to the Group's turnover and HK$257,136,000 to the Group's loss from operations.

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 to the Company. In arriving at 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.

26. DISPOSAL OF SUBSIDIARIES

	THE GROUP	
	2004	2003
	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 and outflow of cash and cash equivalent in respect of disposal of subsidiaries	–	(386)

The subsidiaries disposed of during the year ended March 31, 2003 contributed HK$446,000 to the Group's turnover and loss of HK$3,260,000 to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

27. MAJOR NON-CASH TRANSACTIONS

(a) As explained in note 12, the Group settled the outstanding claim from a PRC supplier by the delivery of certain display equipment with the net book value of approximately HK$4.5 million to that PRC supplier. Accordingly, the accounts payable due to that PRC supplier of approximately HK$1.8 million was settled.

(b) As explained in note 25, 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 ordinary shares of HK$0.0001 each at an issue price of HK$0.016 per share in the Company for the year ended March 31, 2003.

(c) During the year ended March 31, 2003, the Group disposed of the display equipment with the 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) receivable 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 for the year ended March 31, 2003.

(d) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

29. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the year:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Premises	**687**	3,930
Locations for display equipment	**5,465**	26,887
	6,152	30,817

(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	
	2004	2003
	HK$'000	HK$'000
Within one year	**106**	434
In the second to fifth years inclusive	**15**	86
	121	520

Leases are negotiated for an average term of 2 years with fixed rentals.

(b) Other commitments

(i) During the year ended March 31, 2003, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

29. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) Other commitments *(Continued)*

(i) *(Continued)*

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

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Within one year	**2,658**	4,914
In the second to fifth year inclusive	**7,010**	13,281
Over five years	**241**	4,010
	9,909	22,205

(ii) At March 31, 2004, 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$9 million (2003: 24 million) on the transit vehicles in PRC within a period of two to ten years.

30. PLEDGE OF ASSETS

At March 31, 2004, no assets of the Group was pledged. 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.

31. 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$6.6 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. By its Re-Amended Statement of Claim filed in January 2004, the supplier shifted the basis for its claim from the alleged guarantee to an undertaking or confirmation by the Company effected by a former director of the Company. The parties have exchanged witness statements. As at the date of this report, the proceedings are still ongoing. In view of the disputes both on facts and points of law, the directors of the Company, after taking into consideration of legal advise, consider that the Company's liability, if any, towards the supplier is uncertain at this current stage.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

32. RELATED PARTY TRANSACTIONS

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

	Notes	**2004 HK$'000**	2003 HK$'000
Substantial shareholders and their associates:			
Artistes of performance fee paid	*(a)*	**–**	159
Purchase of property, plant and equipment	*(a)*	**–**	505
Advertising income received	*(a)*	**–**	1,788
Rental expenses	*(a)*	**205**	296
Interest expenses	*(b)*	**1,579**	230
Management fee paid	*(a)*	**553**	357
Advertising expenses	*(a)*	**–**	537
Consultancy fee paid	*(a)*	**–**	780
Disposal of property, plant and equipment	*(a)*	**39**	–
Companies in which a director has beneficial interest:			
Advertising and promotion fee paid	*(a)*	**–**	303
Purchase of property, plant and equipment	*(a)*	**–**	60
Former director:			
Interest expenses	*(b)*	**–**	12

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 ended March 31, 2003, the Group had provided certain broadcasting airtime to certain associates of a substantial shareholder of the Company free of charge.

During the year ended March 31, 2003, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at March 31, 2004 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	Hong Kong	Ordinary shares HK$2	100	Advertising services
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
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

33. 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
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
廣州保稅區東魅電子設備有限公司 (“廣州東魅”)	PRC	Registered capital HK$4,700,000	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:

(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 PRC, all other subsidiaries are limited companies incorporated in the respective jurisdiction.

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.

FINANCIAL SUMMARY

	For the year ended March 31,				
	2000	2001	2002	2003	**2004**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
OPERATING RESULTS					
Turnover	2,814	24,164	32,865	35,485	**10,384**
Loss from ordinary activities attributable to shareholders	(17,094)	(78,863)	(100,429)	(253,069)	**(74,424)**

ASSETS AND LIABILITIES

	As at March 31,				
	2000	2001	2002	2003	**2004**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	85,579	98,110	4,901	117,001	**43,808**
Total liabilities	(12,460)	(8,695)	(15,915)	(82,629)	**(83,860)**
Balance (deficiency) of shareholders' funds	73,119	89,415	(11,014)	34,372	**(40,052)**

Note: 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 shares on the GEM which is included in the Company's prospectus dated July 18, 2000.