M CHANNEL CORPORATION LIMITED

流動廣告有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8036)

AUDITED FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED MARCH 31, 2004

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This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement 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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* *For identification purpose only*

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 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.

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.

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 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, which were accounted for in aggregate to approximately HK$148.3 million. 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 into 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.

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's remunerates its employees based on their performance, experience and prevailing industry practice. In addition, employees are entitled to benefits such as mandatory provident scheme, medical scheme and share option schemes.

The Company adopted a new share option scheme (the "New Share Option Scheme") on May 24, 2002 under which the board of directors may at its discretion 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.

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 announcement, 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.

AUDITED CONSOLIDATED FINAL RESULTS FOR THE YEAR ENDED MARCH 31, 2004

The audited consolidated results of the Group for the year ended March 31, 2004, together with the comparative figures for the corresponding year in 2003 are as follows:

	NOTES	2004 HK$'000	2003 HK$'000
Turnover	3&4	**10,384**	35,485
Other operating income		**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 goodwill		**(18,347)**	(150,000)
Impairment loss recognised in respect of property, plant and equipment		**(9,064)**	(25,689)
Other operating expenses		**(11,424)**	(22,020)
Loss from operations	4	**(70,140)**	(260,396)
Finance costs		**(4,284)**	(2,576)
Gain on disposal of subsidiaries		**–**	9,725
Loss before taxation		**(74,424)**	(253,247)
Taxation	5	**–**	–
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	6	**HK$(0.07)**	HK$(0.25)

Notes:

1. **Extract of 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 below 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

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 affairs 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.

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. **Turnover**

Turnover for the year ended March 31, 2004 represents the media sales income derived from the provision of out-of-home audio and video media.

Turnover for the year ended March 31, 2003 represents the media sales income derived from the provision of out-of-home audio and video media, magazine publishing and advertising, and Internet advertising and consultancy.

4. **Segmental information**

Geographical segments

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

For the year ended March 31, 2004

	Hong Kong *HK$'000*	**PRC** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER	**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 taxation			**(74,424)**
Taxation			**–**
Minority interest			**–**
Loss for the year			**(74,424)**

There are no sales or other transactions between the geographical segments.

The Group's turnover was solely derived from the out-of-home audio and video media business for the year ended March 31, 2004.

For the year ended March 31, 2003

	Hong Kong *HK$'000*	PRC *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'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 taxation				(253,247)
Taxation				–
Minority interest				178
Loss for the year				(253,069)

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

Business segments

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

5. Taxation

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

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

6. 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 consolidation of the Company's shares) 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.

7. Movement of reserves

	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At April 1, 2002	95,398	89,829	(196,488)	(11,261)
Issue of shares	298,125	–	–	298,125
Share issue expenses	(1,545)	–	–	(1,545)
Loss for the year	–	–	(253,069)	(253,069)
At March 31, 2003	391,978	89,829	(449,557)	32,250
Loss for the year	–	–	(74,424)	(74,424)
At March 31, 2004	391,978	89,829	(523,981)	(42,174)

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).

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.

BOARD PRACTICES AND PROCEDURES

The Company had complied with Rules 5.34 to 5.45 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited throughout the year.

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. The audit committee comprises two independent non-executive directors of the Company, Mr. Pang Hong and Ms. Fung Wan Yiu, Agnes.

The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report and quarterly reports and provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

Five audit committee meetings were held since April 1, 2003 up to the date of this announcement. The audited financial statements of the Group for the year ended March 31, 2004 had been reviewed by the audit committee, who was of the opinion that such financial 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 SSAP 30 "Business Combination" issued by the Hong Kong Society of Accountants.

By Order of the Board
M CHANNEL CORPORATION LIMITED
Li Kai
Chairman

Hong Kong, June 23, 2004

As at the date of this announcement, the Board comprised of six directors, of which four are Executive Directors, namely Mr. Li Kai, Mr. Xing Jing, Mr. Wong Kun To and Mr. Tong Chin Shing; and two are Independent Non-executive Directors, namely Mr. Pang Hong and Ms. Fung Wan Yiu, Agnes.

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