



M CHANNEL CORPORATION LIMITED
流動廣告有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8036)

UNAUDITED FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED JUNE 30, 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.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least seven days from the date of its posting.

* For identification purpose only

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited consolidated first quarterly results of M Channel Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") for the three months ended June 30, 2004.

Financial Review

The Group's turnover for the three months ended June 30, 2004 amounted to approximately HK\$1,193,000 (2003: HK\$2,536,000), representing a decrease of approximately 53% over the same period of last year. Loss from operations for the first quarter amounted to approximately HK\$5,819,000 (2003: HK\$11,175,000), representing a decrease of approximately 48% as compared to the corresponding quarter of last year. The decrease in loss from operations of approximately HK\$5,356,000 was mainly due to the substantial reduction in operating costs resulting from the implementation of effective cost control measures. Net loss for the three months ended June 30, 2004 reduced from approximately HK\$12,282,000 for the last corresponding period to approximately HK\$7,055,000 in the current period, a decrease of approximately HK\$5,227,000 or 43%.

Business Review

Hong Kong Market

The Group engaged in out-of-home audio and video media business through a platform of approximately 1,000 public light buses in Hong Kong of which those audio and video equipment installed in approximately 300 non-LPG public light buses were removed for re-utilization by the Group in the future.

According to the internal review carried out by the Group on its business conducted through fixed locations (including those at Watson's the Chemist and fast food chain stores) in Hong Kong, operational performance of such business is unlikely to show significant improvement in the near term. In light of this, in the quarter under review, the management decided to cease its business operation at these fixed locations upon the expiry or termination of the co-operation contracts concerned. The management is of the view that this will not create any material adverse impact on the current operations and business of the Group in Hong Kong.

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

The Group operated its out-of-home audio and video media business through a platform of approximately 600 public buses in Guangzhou, the PRC. As Guangzhou operation has been providing a stable income source to the Group, 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 increasing its sales volume and turnover.

Outlook

With China's accession to the World Trade Organisation (WTO) and the hosting of the 2008 Olympic Games in Beijing, the Group anticipates that ample business opportunities will be available 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 of directors of the Company (the "Board"), I wish to express my sincere appreciation to the shareholders for their continuous support and to all management and staff members for their commitment and dedication throughout the period under review.

Li Kai
Chairman

Hong Kong, August 13, 2004

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2004

The unaudited consolidated results of the Group for the three months ended June 30, 2004, together with the comparative unaudited figures for the corresponding period in 2003 are as follows:

	<i>Notes</i>	Three months ended	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	1,193	2,536
Other operating income		599	435
Distribution costs		(1,186)	(2,055)
Advertising and marketing expenses		–	(125)
Depreciation and amortisation		(3,026)	(5,197)
Rental expenses		(153)	(209)
Staff costs		(1,819)	(3,510)
Loss on disposal of property, plant and equipment		(82)	(345)
Other operating expenses		(1,345)	(2,705)
		<hr/>	<hr/>
Loss from operations	2	(5,819)	(11,175)
Finance costs		(1,236)	(1,107)
		<hr/>	<hr/>
Loss before taxation		(7,055)	(12,282)
Taxation	3	–	–
		<hr/>	<hr/>
Loss after taxation		(7,055)	(12,282)
Minority interest		–	–
		<hr/>	<hr/>
Net loss for the period		<u>(7,055)</u>	<u>(12,282)</u>
		<hr/>	<hr/>
Loss per share - Basic	4	<u>(0.67) cent</u>	<u>(1.16) cent</u>

Notes:

1. Basis of preparation

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

The accounting policies adopted in the unaudited consolidated results for the three months ended June 30, 2004 are consistent with those followed in the annual audited consolidated financial statements for the year ended March 31, 2004.

2. Turnover and operating results

Turnover for the three months ended June 30, 2004 and June 30, 2003 represents the media sales income derived from the provision of out-of-home audio and video media platform.

The comparative figures for the corresponding period in year 2003 have been reclassified to conform with current period's presentation.

3. Taxation

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

4. Loss per share

The calculation of the basic loss per share for the three months ended June 30, 2004 is based on the unaudited consolidated loss of approximately HK\$7,055,000 (2003: HK\$12,282,000) and the weighted average of 1,060,901,300 (2003: 1,060,901,300) ordinary shares in issue during the period.

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

5. Movement of reserves

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2003	391,978	89,829	(449,557)	32,250
Loss for the period	—	—	(12,282)	(12,282)
At June 30, 2003	<u>391,978</u>	<u>89,829</u>	<u>(461,839)</u>	<u>19,968</u>
	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2004	391,978	89,829	(523,981)	(42,174)
Loss for the period	—	—	(7,055)	(7,055)
At June 30, 2004	<u>391,978</u>	<u>89,829</u>	<u>(531,036)</u>	<u>(49,229)</u>

6. Contingent liabilities

In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group as first defendant, in respect of a claim for payment of services fees of approximately HK\$6.6 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 the Company's liability, if any, towards the supplier is uncertain at this current stage.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the three months ended June 30, 2004 (2003: Nil).

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 June 30, 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 were 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 on 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 AND UNDERLYING SHARES OF THE COMPANY

So far as was known to any director or chief executive of the Company, as at June 30, 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 (<i>Notes 1 & 3</i>)	561,364,280	Interest of a controlled corporation	52.91%
Strategic Media International Limited (<i>Notes 1 & 3</i>)	275,863,718	Beneficial owner	26.00%
	285,500,562	Interest of a controlled corporation	26.91%
SMI Corporation Limited (<i>Notes 2 & 3</i>)	285,500,562	Interest of a controlled corporation	26.91%
Joyful Growth Limited (<i>Notes 2 & 3</i>)	285,500,562	Interest of a controlled corporation	26.91%
Asiacreation Management Limited (<i>Notes 2 & 3</i>)	285,500,562	Beneficial owner	26.91%
Dr. Chan Kwok Keung, Charles (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	18.84%
Ms. Ng Yuen Lan, Macy (<i>Note 4</i>)	199,840,625	Interest of the spouse	18.84%

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
Chinaview International Limited (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	18.84%
Galaxyway Investments Limited (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	18.84%
ITC Corporation Limited (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	18.84%
ITC Investment Holdings Limited (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	18.84%
Hero's Way Resources Ltd. (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	18.84%
Prime Capital Corporation Limited (<i>Note 4</i>)	199,840,625	Beneficial owner	18.84%

Notes:

1. Of the 561,364,280 shares, 275,863,718 shares were directly held by Strategic Media International Limited ("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 ("SMI Corporation") of which SMI owned approximately 47.40% of the issued ordinary share capital thereof as at June 30, 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).

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 June 30, 2004, so far as was known to any director or chief executive 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 competes 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.

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

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

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company established an audit committee on May 11, 2000 with written terms of reference that clearly establish the audit committee's authority and duties. At as the date of this announcement, the audit committee comprises two independent non-executive directors of the Company, Mr. Pang Hong and Ms. Fung Wan Yiu, Agnes.

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

The Company's first quarterly report for the three months ended June 30, 2004 had been reviewed by the audit committee, who was of the opinion that such report 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.

On Behalf of the Board
M CHANNEL CORPORATION LIMITED
Li Kai
Chairman

Hong Kong, August 13, 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.