



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

(Incorporated in Bermuda with limited liability)
(Stock Code: 8036)

UNAUDITED HALF-YEAR RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED SEPTEMBER 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.

As at the date of this announcement, the Board comprised of five directors, of which two are executive directors, namely Mr. Xing Jing and Mr. Wong Kun To; and three are independent non-executive director, namely Mr. Pang Hong, Mr. Cai Yu Sheng and Mr. Li Jing Hai.

* for identification purpose only

FINANCIAL RESULTS

The board of directors (the “Board”) of M Channel Corporation Limited (the “Company”) are pleased to present the unaudited consolidated half-year results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months and three months ended September 30, 2004 together with the comparative unaudited figures for the corresponding periods in 2003 respectively as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004

	NOTES	Three months ended		Six months ended	
		September 30,		September 30,	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover	3	773	3,071	1,966	5,607
Other operating income		250	499	849	769
Distribution costs		(1,065)	(2,064)	(2,252)	(3,971)
Advertising and marketing expenses		–	(386)	–	(510)
Depreciation and amortisation		(2,945)	(4,942)	(5,971)	(9,900)
Rental expenses		(161)	(177)	(314)	(386)
Staff costs		(1,716)	(1,668)	(3,534)	(5,178)
Gain/(loss) on disposal of property, plant and equipment		(16)	23	(98)	(322)
Other operating expenses		(1,011)	(3,500)	(2,356)	(6,444)
Loss from operations	4	(5,891)	(9,144)	(11,710)	(20,335)
Finance costs		(1,145)	(1,060)	(2,381)	(2,151)
Gain on disposal of a subsidiary		1,133	–	1,133	–
Loss before taxation		(5,903)	(10,204)	(12,958)	(22,486)
Taxation	5	–	–	–	–
Loss after taxation		(5,903)	(10,204)	(12,958)	(22,486)
Minority interest		–	–	–	–
Net loss for the period		(5,903)	(10,204)	(12,958)	(22,486)
Loss per share					
– Basic and diluted	6	(0.56) cents	(0.96) cents	(1.22) cents	(2.12) cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT SEPTEMBER 30, 2004

	NOTES	September 30, 2004 HK\$'000 (unaudited)	March 31, 2004 HK\$'000 (audited)
Non-current assets			
Goodwill	7	16,723	20,000
Property, plant and equipment	7	8,733	12,223
Other asset		1,600	2,800
		<u>27,056</u>	<u>35,023</u>
Current assets			
Accounts receivable	8	944	762
Other receivables		6,310	7,371
Amounts due from related companies		12	12
Bank balances and cash		442	640
		<u>7,708</u>	<u>8,785</u>
Current liabilities			
Accounts payable and accrued charges	9	13,144	11,627
Amounts due to related companies		2,796	2,035
Obligations under finance leases – due within one year		–	27
Other borrowings – due within one year	10	71,834	11,650
		<u>87,774</u>	<u>25,339</u>
Net current liabilities		<u>(80,066)</u>	<u>(16,554)</u>
Total assets less current liabilities		(53,010)	18,469
Non-current liabilities			
Obligations under finance leases – due after one year		–	11
Other borrowings – due after one year	10	–	58,510
		<u>(53,010)</u>	<u>(40,052)</u>
Capital and Reserves			
Share capital	11	2,122	2,122
Reserves		(55,132)	(42,174)
		<u>(53,010)</u>	<u>(40,052)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2003	2,122	391,978	89,829	(449,557)	34,372
Loss for the period	—	—	—	(22,486)	(22,486)
At October 1, 2003	2,122	391,978	89,829	(472,043)	11,886
Loss for the period	—	—	—	(51,938)	(51,938)
At March 31, 2004	2,122	391,978	89,829	(523,981)	(40,052)
Loss for the period	—	—	—	(12,958)	(12,958)
At September 30, 2004	<u>2,122</u>	<u>391,978</u>	<u>89,829</u>	<u>(536,939)</u>	<u>(53,010)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004

	Six months ended September 30,	
	2004 <i>HK\$'000</i> (unaudited)	2003 <i>HK\$'000</i> (unaudited)
Net cash used in operating activities	(2,484)	(8,564)
Net cash from (used in) investing activities	3,031	(402)
Net cash from (used in) financing activities	(745)	9,435
Net increase/(decrease) in cash and cash equivalents	(198)	469
Cash and cash equivalents at beginning of the period	640	2,072
Cash and cash equivalents at end of the period, representing bank balances and cash	<u>442</u>	<u>2,541</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

3. SEGMENTAL INFORMATION

Geographical segments

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

For the six months ended September 30, 2004

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	637	1,329	1,966
RESULTS			
Segment result	(2,411)	(6,371)	(8,782)
Other operating income			849
Unallocated corporate expenses			(3,777)
Loss from operations			(11,710)
Finance costs			(2,381)
Gain on disposal of a subsidiary			1,133
Loss before taxation			(12,958)
Taxation			–
Minority interest			–
Net loss for the period			(12,958)

- There are no sales or other transactions between the geographical segments.
- The group's turnover was solely derived from the out-of-home audio and video media business for the six months ended September 30, 2004.

For the six months ended September 30, 2003

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

Business segments

The Group's turnover and results in both Hong Kong and the PRC are solely derived from the provision of out-of-home audio and video media business for the six months ended September 30, 2004. Accordingly, no analysis by business segment is provided.

4. LOSS FROM OPERATIONS

	Six months ended September 30,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Amortisation of goodwill	3,277	6,360
Amortisation of intangible asset	–	70
Depreciation		
Owned assets	1,494	3,446
Leased assets	–	24
	<u> </u>	<u> </u>

5. TAXATION

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

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

6. LOSS PER SHARE

The calculation of the basic loss per share for the three months and six months ended September 30, 2004 is based on the respective loss for the period of approximately HK\$5,903,000 and HK\$12,958,000 (2003: HK\$10,204,000 and HK\$22,486,000) and on the weighted average of 1,060,901,300 ordinary shares (2003: 1,060,901,300 ordinary shares) in issue during the three months and six months ended September 30, 2004 respectively.

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.

7. CAPITAL EXPENDITURE

	Goodwill <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>
Net book value as at April 1, 2004	20,000	12,223
Additions	–	27
Disposals	–	(2,023)
Depreciation/amortisation charge (note 4)	(3,277)	(1,494)
	<hr/>	<hr/>
Net book value as at September 30, 2004	<u>16,723</u>	<u>8,733</u>

8. ACCOUNT RECEIVABLE

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

Included in account receivable of HK\$944,000 (March 31, 2004: HK\$762,000) and their aged analysis is as follows:

	September 30, 2004 <i>HK\$'000</i>	March 31, 2004 <i>HK\$'000</i>
Within 30 days	–	414
Within 31-60 days	–	109
Within 61-90 days	–	67
Over 90 days	944	172
	<hr/>	<hr/>
	<u>944</u>	<u>762</u>

9. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are accounts payable of HK\$13,144,000 (March 31, 2004: HK\$11,627,000) and their aged analysis is as follows:

	September 30, 2004 <i>HK\$'000</i>	March 31, 2004 <i>HK\$'000</i>
Within 30 days	193	644
Within 31-60 days	236	248
Within 61-90 days	320	463
Over 90 days	<u>8,631</u>	<u>4,121</u>
	9,380	5,476
Add: Accrued charges	<u>3,764</u>	<u>6,151</u>
	<u><u>13,144</u></u>	<u><u>11,627</u></u>

10. OTHER BORROWINGS

	September 30, 2004 <i>HK\$'000</i>	March 31, 2004 <i>HK\$'000</i>
Other borrowings (Note a)	42,917	41,640
Loans from related companies (Note b)	<u>28,917</u>	<u>28,520</u>
	<u><u>71,834</u></u>	<u><u>70,160</u></u>

The maturity profile of the above borrowings is as follows:

	September 30, 2004 <i>HK\$'000</i>	March 31, 2004 <i>HK\$'000</i>
Within one year	71,834	11,650
More than one year, not exceeding two years	<u>-</u>	<u>58,510</u>
	<u><u>71,834</u></u>	<u><u>70,160</u></u>

Notes:

- (a) The amounts are unsecured, carry interest at prevailing market rate and will be repaid within one year from the balance sheet date.

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

	<i>Notes</i>	September 30, 2004	March 31, 2004
		HK\$'000	HK\$'000
ITC Management Limited	<i>(i)</i>	18,500	18,103
Star East Management Limited	<i>(ii)</i>	10,417	10,417
		28,917	28,520

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 be repaid within one year from the balance sheet date.
- (ii) Star East Management Limited is a subsidiary of SMI Corporation Limited, a substantial shareholder of the Company. The loan is unsecured, carries interest at prevailing market rate and will be repaid within one year from the balance sheet date.

11. SHARE CAPITAL

	Number of Shares	Value
	'000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.002 each at April 1, 2004 and September 30, 2004	5,000,000	10,000
Issued and fully paid:		
Ordinary shares of HK\$0.002 each at April 1, 2004 and September 30, 2004	1,060,901	2,122

12. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the period:

	Six months ended September 30, 2004	2003
	HK\$'000	HK\$'000
Premises	314	386
Locations for display equipment	1,757	2,763
	2,071	3,149

(a) *Lease commitment*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	September 30, 2004 HK\$'000	March 31, 2004 HK\$'000
Within one year	15	106
In the second to fifth year inclusive	—	15
	<u>15</u>	<u>121</u>

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

(b) *Other commitments*

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, buses and stores at fixed locations for a period ranging from three to ten years from the date the display equipment installed at a rate determined either at the higher of a minimum annual guaranteed payment and a share of the media sales income, or solely at a share of the media sales income, or a fixed monthly rental payment.

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

	September 30, 2004 HK\$'000	March 31, 2004 HK\$'000
Within one year	1,377	2,658
In the second to fifth year inclusive	6,343	7,010
Over five years	194	241
	<u>7,914</u>	<u>9,909</u>

13. PLEDGE OF ASSETS

At March 31, 2004 and September 30, 2004, no assets of the Group was pledged.

14. CONTINGENT LIABILITIES

- a) In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group as first defendant, in respect of a claim for payment of services fees of approximately HK\$6.6 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 agreement or confirmation by the Company effected by a former director of the Company. The parties have exchanged witness statements and are now waiting for the trial which is due to commence on 26 April 2005. In view of the disputes both on facts and points of law, the director 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.

- b) In September 2004, a Writ of Summons has been issued against the Company and its Subsidiary by Composers and Authors Society of Hong Kong Limited (“CASH”) regarding royalty fees in the sum of approximately HK\$1,247,000.00 in respect of musical works allegedly performed in public by the Company. The Company has sought legal advice on the claim and intends to dispute both liability and quantum in the proceedings. The Company considers that the liability, if any, towards CASH is uncertain at this current stage.

15. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	September 30,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Substantial shareholders and their associates:		
Interest expenses	703	749

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

16. POST BALANCE SHEET EVENT

The company has been served with a Winding-up Petition issued out of the High Court on 18 October 2004. The petitioner was a printing service company. The Winding-up Petition was received after a statutory demand has been issued against the Company by the petitioner on 10 September 2004 in respect of the services fees in the sum of approximately HK\$390,000. On 4 November 2004, a settlement has been reached with the petitioner whereby the Company will pay a sum of HK\$300,000 in full and final settlement of all outstanding service fees due to the petitioner. Consequently, the solicitor of the petitioner has been instructed to apply for a withdrawal of the Winding-up Petition against the Company made on 18 October 2004.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the six months ended September 30, 2004 amounted to approximately HK\$1,966,000 (2003: HK\$5,607,000), representing a decrease of approximately 64.9 % over the same period of last year. Loss from operations for the first half year amounted to approximately HK\$11,710,000 (2003: HK\$20,335,000), representing a decrease of approximately 42.4% as compared to the corresponding period of last year. The decrease in loss from operations of approximately HK\$8,625,000 was mainly due to the substantial reduction in operating costs resulting from the implementation of effective cost control measures. Net loss for the six months ended September 30, 2004 reduced from approximately HK\$22,486,000 for the last corresponding period to approximately HK\$12,958,000 in the current period, a decrease of approximately HK\$9,528,000 or 42.4%. The Group's turnover for the past six months was contributed from the out-of-home audio and video media business in Hong Kong and the People's Republic of China (the "PRC") which continues to be the principal revenue source of the Group.

Business Review

The PRC Market

The Group operates 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 is planning to increase its coverage by expanding installation of multi-media telecasting systems on additional number of public buses in Guangzhou with a view to increase its sales volume and turnover.

The Hong Kong Market

During the period under review, the Group engaged in the 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. Notwithstanding the substantial reduction in turnover, the Group will continue to explore into other potential customers and seeking new business opportunities by strengthening of management team and formulation of various corporate strategies.

Outlook

Following the entry of the PRC into the World Trade Organisation and China's capital was awarded the right to host the 2008 Olympic Games, the Group anticipates that ample business opportunities will be available and market sentiment will remain positively high in the PRC. The Group has set ahead various strategies in consolidating resources, strengthening management and exploring business opportunities. The Group is planning to explore its media business into other out-of-home platforms and markets within China and believed that it can offer more options and selections for customers which will in turn increase the Group's market share.

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 is seeking to 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.

Liquidity and Financial Resources

As at September 30, 2004, the Group had bank and cash balance of approximately HK\$442,000 (March 31, 2004: HK\$640,000). The Group had unsecured borrowings of approximately HK\$71,800,000 (March 31, 2004: HK\$70,100,000) which mainly comprised of shareholders' loans and other loans carrying interest at prevailing market rate in the sum of approximately HK\$28,900,000 and HK\$42,900,000 respectively repayable within one year.

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

In September, 2004, the Group had disposed of a subsidiary engaged in advertising business at fixed locations in Hong Kong and a gain amounted to approximately HK\$1,133,000 was recorded for the said disposal. Save as aforesaid, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies for the six months ended September 30, 2004. As at September 30, 2004, the Group did not have any concrete future plan for material investments or acquisition of material capital assets.

Segmental Information

During the six months ended September 30, 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 September 30, 2004, the Group had a total of 38 employees (2003: 64) and the employee costs, including director's emoluments, for the six months ended September 30, 2004 totaled approximately HK\$3,534,000 (2003: HK\$5,178,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. In addition, employees are entitled to benefits such as mandatory provident scheme, medical scheme and share option schemes.

The Company adopted a new share option scheme (the "New Share Option Scheme") on May 24, 2002, under which the board of directors may at its discretion offer to any director (including non-executive director), employee and the eligible persons prescribed thereunder (together the "Eligible Persons") of the Company and/or its subsidiaries 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

The Group had no assets subject to charges as at September 30, 2004 and March 31, 2004.

Gearing Ratio

The gearing ratio of the Group calculated as a ratio of total liabilities to total assets was 2.52 as at September 30, 2004 as compared to 1.91 as at March 31, 2004.

Foreign Exchange Exposure

For the six months ended September 30, 2004 and September 30, 2003, the functional currencies of the Group's operations were Hong Kong dollars and Renminbi. The directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

Contingent Liabilities

- a) In September 2002, a supplier initiated legal proceedings against a former subsidiary of the Group as first defendant, in respect of a claim for payment of services fees of approximately HK\$6.6 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 agreement or confirmation by the Company effected by a former director of the Company. The parties have exchanged witness statements and are now waiting for the trial which is due to commence on 26 April 2005. In view of the disputes both on facts and points of law, the director 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.

- b) In September 2004, a Writ of Summons has been issued against the Company and its Subsidiary by Composers and Authors Society of Hong Kong Limited (“CASH”) regarding royalty fees in the sum of approximately HK\$1,247,000.00 in respect of musical works allegedly performed in public by the Company. The Company has sought legal advice on the claim and intends to dispute both liability and quantum in the proceedings. The Company considers that the liability, if any, towards CASH is uncertain at this current stage.

OUTSTANDING SHARE OPTIONS

The Company adopted the New Share Option Scheme on May 24, 2002, under which the Board may at its discretion invite any Eligible Person to take up options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. The principal purpose of the New Share Option Scheme is to recognise the significant contributions of the Eligible Persons to the growth of the Company.

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

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 September 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 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 September 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%
Chinaview International Limited (<i>Note 4</i>)	199,840,625	Interest of a controlled corporation	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
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 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 September 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 September 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 practice 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 three independent non-executive director of the Company, namely, Mr. Pang Hong, Mr. Cai Yu Sheng and Mr. Li Jing Hai.

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

The Company's half-year report for the six months ended September 30, 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 Institute of Certified Public Accountants.

On Behalf of the Board
M CHANNEL CORPORATION LIMITED
Wong Kun To
Deputy Chairman

Hong Kong, November 12, 2004

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.