



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8036)

THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 31 DECEMBER 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.

* For identification purpose only

HIGHLIGHTS

- Turnover for the nine months ended 31 December 2004 amounted to approximately HK\$2,584,000 representing a decrease of approximately 68.5% over the corresponding period in 2003.
- Net loss for the nine months ended 31 December 2004 amounted to approximately HK\$18,328,000 representing a decrease of approximately 47.7% over the corresponding period in 2003.
- Loss per share for the nine months ended 31 December 2004 was approximately HK1.7 cents.
- The Board does not recommend the payment of any dividend for the nine months ended 31 December 2004.

FINANCIAL RESULTS

The board of directors (the “Board”) of M Channel Corporation Limited (the “Company”) are pleased to present the unaudited consolidated third quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 December 2004 together with the comparative unaudited figures for the corresponding periods in 2003 respectively as follows:

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 31 DECEMBER 2004

	NOTES	Three months ended 31 December		Nine months ended 31 December	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	2	618	2,594	2,584	8,201
Other operating income		–	–	849	769
Distribution costs		(608)	(1,871)	(2,860)	(5,842)
Advertising and marketing expenses		–	(158)	–	(668)
Depreciation and amortisation		(2,546)	(4,892)	(8,517)	(14,792)
Rental expenses		(88)	(170)	(402)	(556)
Staff costs		(934)	(1,771)	(4,468)	(6,949)
Gain/(loss) on disposal of property, plant and equipment		68	(50)	(30)	(372)
Loss on settlement for litigation Claim		–	(2,739)	–	(2,739)
Other operating expenses		(725)	(2,480)	(3,081)	(8,924)
Loss from operations		(4,215)	(11,537)	(15,925)	(31,872)
Finance costs		(1,155)	(1,045)	(3,536)	(3,196)
Gain on disposal of a subsidiary		–	–	1,133	–
Loss before taxation		(5,370)	(12,582)	(18,328)	(35,068)
Taxation	3	–	–	–	–
Loss after taxation		(5,370)	(12,582)	(18,328)	(35,068)
Minority interest		–	–	–	–
Net loss for the period		<u>(5,370)</u>	<u>(12,582)</u>	<u>(18,328)</u>	<u>(35,068)</u>
Loss per share					
– Basic and diluted	4	<u>(0.5) cents</u>	<u>(1.2) cents</u>	<u>(1.7) cents</u>	<u>(3.3) cents</u>

NOTES TO THE ACCOUNTS

1. Basis of preparation

The unaudited consolidated results of the Group have been prepared in accordance with the Statement of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Turnover

Turnover for the nine months ended 31 December 2004 and 2003 represents the media sales income derived from the provision of out-of-home audio and video media platform.

The Group's out-of-home audio and video media business in Hong Kong has been terminated in October 2004. An analysis of the Group's turnover by geographical segments for the three months and nine months ended 31 December 2004 is as follows:

	Three months ended 31 December 2004		Nine months ended 31 December 2004	
	Hong Kong HK\$'000	PRC HK\$'000	Hong Kong HK\$'000	PRC HK\$'000
Turnover (out-of-home audio and video media business)	<u>16</u>	<u>602</u>	<u>653</u>	<u>1,931</u>

3. Taxation

No provision for Hong Kong Profits Tax or taxation in other jurisdictions has been made 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.

4. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31 December 2004 is based on the respective loss for the period of approximately HK\$5,370,000 and HK\$18,328,000 (2003: HK\$12,582,000 and HK\$35,068,000) 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 nine months ended 31 December 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.

5. Movement of reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	391,978	89,829	(449,557)	32,250
Loss for the period	—	—	(35,068)	(35,068)
At 31 December 2003	<u>391,978</u>	<u>89,829</u>	<u>(484,625)</u>	<u>(2,818)</u>
At 1 April 2004	391,978	89,829	(523,981)	(42,174)
Loss for the period	—	—	(18,328)	(18,328)
At 31 December 2004	<u>391,978</u>	<u>89,829</u>	<u>(542,309)</u>	<u>(60,502)</u>

6. 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 in 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.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the nine months ended 31 December 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the nine months ended 31 December 2004, the Group recorded a turnover of approximately HK\$2,584,000 (2003: HK\$8,201,000) representing a decrease of approximately 68.5% as compared to that of corresponding period in 2003. Loss from operations were reduce to approximately HK\$15,925,000 as compared to HK\$31,872,000 of the previous corresponding period, representing a decrease of approximately 50%. The decrease in loss from operations of approximately HK\$15,947,000 was mainly due to the substantial reduction in operating costs resulting from the implementation of effective cost control measures. Net loss amounted to approximately HK\$18,328,000 (2003: HK\$35,068,000) representing an improvement of approximately 47.7% over the same period in 2003. The Group's turnover for the past nine 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").

Business Review

The PRC Market

During the period under review, 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

In the third quarterly period under review, the directors decided to terminate the Group's out-of-home audio and video media business in Hong Kong because such business is unlikely to show significant improvement in the near term. However, the Group is now seeking new business and investment opportunities, formulation of various corporate strategies and strengthening the management team with a view to maximize the wealth of shareholders.

Outlook

Following the entry of the PRC into the World Trade Organisation and the hosting of the 2008 Olympic Games in China's capital, 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.

OUTSTANDING SHARE OPTIONS

The Company adopted the New Share Option Scheme on 24 May 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 31 December 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 31 December 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%
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 48.79% of the issued ordinary share capital thereof as at 31 December 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 26 March 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 11 May 2004. As at 31 December 2004, the Proposed Disposal has not yet completed.
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 33.57% 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 31 December 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

Currently, the Board is not aware of any Director or the management shareholder of the Company (as defined under the GEM Listing Rules) having any interests in a business which competes or may compete with the business of the Group.

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

During the nine months 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 11 May 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 one independent non-executive director of the Company, namely, Mr. Pang Hong.

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

The Company's third quarterly report for the nine months ended 31 December 2004 had been reviewed by the member of 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, 7 February 2005

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:

Mr. Xing Jing (*Deputy Chairman*)

Mr. Wong Kun To (*Deputy Chairman*)

Independent Non-executive Director:

Mr. Pang Hong

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.