

# NOTES ON THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The nature of operations of the Group and its principal activities have not changed during the year and consisted of securities, futures, bullion and share trading, underwriting, fund management, share margin financing and property development.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- (a) During the year the Group and the Company incurred a loss of HK\$56,490,153 and HK\$12,317,593 respectively at 31st December, 2001 and its current liabilities exceeded its current assets by HK\$18,380,288 and HK\$122,755,770 respectively.

The directors believe that 2002 will be another difficult year for the Group. They foresee that the cash flow from operations may not be sufficient for working capital purposes and to meet the repayments of loans and other liabilities as they fall due.

Notwithstanding this, the directors have prepared the financial statements on a going concern basis, having regard to the following:

- (i) On 20th April, 2002, the Company had entered into a loan agreement with a new investor which has agreed to lend to the Company a sum of HK\$20 million of which HK\$15 million was advanced to the Company on that date. The remaining balance of HK\$5 million will be advanced to the Company, if necessary, upon receipt by the new investor of a drawdown notice served by the Company. The loan will be secured by an equitable charge and a deposit of 92,848,974 ordinary shares beneficially owned by Mr. Evans Carrera Lowe ("Mr. Lowe"), an existing major shareholder of the Company, with the Company's solicitors. Interest is charged at prime lending rate in Hong Kong plus 1% per annum and payable in arrears on 31st July, 2002 or on completion of the Subscription Agreement, whichever is the later, or such other date as may be agreed between the Company and the new investor. It is intended that the loan will be repaid from the proceeds of the subscription as detailed in (ii) below.

The Company has entered into a deed of indemnity and undertaking with Mr. Lowe pursuant to which, subject to the approval of the shareholders at an extraordinary general meeting, should the 92,848,974 ordinary shares deposited with the Company's solicitors as security for the loan be released by the Company's solicitors to the new investor as a result of an event of default of the loan, the Company will (subject to shareholders' consent) issue and allot the same number of ordinary shares to Mr. Lowe.

## NOTES ON THE FINANCIAL STATEMENTS

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

- (ii) Also on 20th April, 2002, the Company had entered into a Subscription Agreement with the new investor and Mr. Lowe pursuant to which the Company has agreed to allot and issue to the new investor to subscribe for 148,125,000 ordinary shares at par value of HK\$0.20 per share. Pursuant to the subscription, three bonus ordinary share's will be issued with every subscription ordinary share. Mr. Lowe will exchange the shareholder's loan of approximately HK\$9.9 million due from the Company for new subscription ordinary shares on the same terms. Upon completion, the new investor will hold 592,500,000 ordinary shares, representing 50.5% of the enlarged issued share capital of the Company. Mr. Lowe, including his existing shareholding, will hold 290,348,974 ordinary shares, representing approximately 24.8% of the enlarged issued share capital of the Company.

The effective subscription price of the shares to be issued under the Subscription Agreement is HK\$0.05 which is arrived at after arms length negotiations between the Company, the new investor and Mr. Lowe.

The Subscription Agreement is conditional upon, among others,

- (i) The approval by the shareholders at an extraordinary general meeting of (i) the Subscription Agreement; (ii) the issue of subscription ordinary shares (iii) the issue of bonus ordinary shares; and (iv) any other transactions contemplated under the Subscription Agreement that require shareholders' approval under the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or the Takeovers Code;
- (ii) The Stock Exchange granting or agreeing to grant approval for the listing and a permission to deal in the subscription ordinary shares and the bonus ordinary shares;
- (iii) The Securities and Futures Commission granting the new investor, Mr. Lowe and parties acting in concert with them a waiver from any obligation under Rule 26 of the Takeovers Code to make a mandatory general offer for all the shares not already owned by the new investor, Mr. Lowe and their respective concert parties. The new investor has stated that it will not waive this condition;
- (iv) The written consent or approval of any applicable governmental or regulatory body to the completion of transaction contemplated by the Subscription Agreement required as a result of any members of the Group being registered pursuant to the provisions of any Ordinance in Hong Kong; and

## NOTES ON THE FINANCIAL STATEMENTS

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

- (v) The approval by the shareholders at an extraordinary general meeting of an increase in the authorised share capital of the Company from HK\$90 million to HK\$400 million by the creation of 1,550 million additional new ordinary shares of par value of HK\$0.20 each and the adoption of a new Articles of Association of the Company.

In the event that any of the above conditions are not satisfied or waived on or before 31st July, 2002 or such later date as may be agreed in writing between the parties to the Subscription Agreement, the Subscription Agreement shall cease and none of the parties thereto shall have any obligations or liabilities under the Subscription Agreement, save for any antecedent breaches of the terms of the Subscription Agreement.

It is also intended that the new investor be granted a two-year option by the Company to subscribe in cash for up to 150,000,000 new ordinary shares and Mr. Lowe will be granted a similar option over 50,000,000 new ordinary shares. The exercise price will be at par value of HK\$0.20 per share. As no bonus ordinary shares will be issued with any ordinary shares to be issued under such options, the option price of HK\$0.20 compares with an effective issue price under the Subscription Agreement of HK\$0.05.

As Mr. Lowe is one of the parties to the Subscription Agreement, the Subscription Agreement constitutes a connected transaction of the Company and is subject to the approval of the shareholders at an extraordinary general meeting.

- (iii) Included in year-end loans and accounts payable at 31st December, 2001, the Group had third party unsecured loans payable of HK\$65,670,131 and accounts payable of HK\$34,110,415 currently under negotiation for renewal of the repayment dates of some of the amounts that were due subsequent to the balance sheet date. The directors are confident that the Group's creditors will agree to extend the repayment dates and continue to grant adequate facilities to the Group for the foreseeable future.

The directors are confident that these various initiatives will be successful and will enable the Group to continue as a going concern and meets its working capital and financing requirements for the foreseeable future. On this basis, the directors consider that it is appropriate to prepare the financial statements on a going concern basis. The financial statements however do not include any adjustments, for example to reclassify non-current assets as current assets, non-current liabilities as current liabilities, reduce the value of all assets to their recoverable amounts and provide for any future liabilities which might arise, that would result if these initiatives are not successful or insufficient.

## NOTES ON THE FINANCIAL STATEMENTS

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

- (b) These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, modified with respect to the measurement of investment securities and certain other assets.

### 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investment in subsidiaries

These revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

In addition, the adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

#### Leases

Disclosures for all of the Group's and the Company's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised) "Leases". Comparative amounts have been restated in order to achieve a consistent presentation.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

## NOTES ON THE FINANCIAL STATEMENTS

### 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

#### **Impairment (continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### 4. PRINCIPAL ACCOUNTING POLICIES

#### **(a) Basis of consolidation:**

The Group financial statements incorporate the financial statements of Mansion House Group Limited and all its subsidiaries made up to 31st December, 2001 and include the Group's share of the post-acquisition results of associates.

#### **(b) Subsidiaries:**

A subsidiary is a company in which the Group has a long-term equity interest of more than 50% of the issued capital held. Investments in subsidiaries are stated at cost less any identified impairment loss.

#### **(c) Associates:**

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results of associates is included in the consolidated profit and loss account. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets/(liabilities) under the equity method of accounting less any identified impairment loss.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The investments in associates in the Company's balance sheet are stated at cost less any identified impairment loss.

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (d) Property held for development:

Property held for development intended for sale is classified under current assets and stated at the lower of cost and net realisable value. Cost includes land cost, development expenditure, professional fees, financing and other expenses incurred incidental to the development. Net realisable value is determined by reference to professional valuations or directors' estimates based on prevailing market conditions.

#### (e) Goodwill on consolidation:

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

- (i) For acquisitions before 1st January, 2001, positive goodwill is eliminated against reserves.
- (ii) For acquisitions on or after 1st January, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.
- (iii) On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

#### (f) Real estate project costs:

Real estate project costs are amortised according to the stage of completion of the property. Real estate project costs relating to property held for development is included in the consolidated balance sheet under "property held for development" net of amortisation to date and any write off for anticipated irrecoverable amounts.

## NOTES ON THE FINANCIAL STATEMENTS

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (g) Depreciation on fixed assets:

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight line basis at the following rates:

Leasehold properties	2% per annum
Motor vehicles	20% per annum
Computers	20% per annum
Office equipment and furnitures	20% – 33 $\frac{1}{3}$ % per annum
Leasehold improvements	20% – 33 $\frac{1}{3}$ % per annum

#### (h) Assets held under leases:

##### (i) Finance leases:

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease term.

##### (ii) Operating leases:

Leases where substantially all the rewards and risks of ownership of assets, other than legal title, remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Investments:

#### (i) Investment securities:

Investment securities comprised of listed and unlisted equity securities are stated at cost less any identified impairment loss.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

#### (ii) Trading securities:

Trading securities comprised of listed equity securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (j) Deferred taxation:

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

### (k) Translation of foreign currencies:

(i) Foreign currency transactions during the year are translated into Hong Kong dollars at the applicable rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the applicable market rates of exchange ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the profit and loss account.

(ii) For the purposes of consolidating the financial statements of foreign subsidiaries, their assets and liabilities and revenue items are translated at the closing exchange rates. The exchange differences arising on consolidation are dealt with through the exchange fluctuation reserve.



## NOTES ON THE FINANCIAL STATEMENTS

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (l) Revenue recognition:

- (i) Brokerage and commission income recognised in the financial statements represents brokerage income accrued on all broking transactions traded on or before 31st December.
- (ii) Net realised profit on securities trading is recognised upon execution of a sale/purchase trading order.
- (iii) Interest income is recognised on a time proportion basis.
- (iv) Dividend income is recognised when the shareholders' right to receive payment has been established.
- (v) Management, handling and consultancy fees are recognised at the time when the services are rendered.
- (vi) Gain on disposal of interest in associates is recognised when the sales contract become unconditional.
- (vii) When properties are developed for sale, revenue is recognised on the execution of a purchase and sales agreement or when the relevant occupation permit is issued by the relevant building authority, whichever is the later.
- (viii) Amortization and estimated irrecoverable amount on real estate project costs written back is recognised on the excess of amortization made in prior years upon revised estimation made at the balance sheet date.

#### (m) Capitalisation of borrowing costs:

Borrowing costs directly attributable to property held for development, i.e. asset that necessarily takes a substantial period of time to get ready for its intended sale, are capitalised as part of the cost of the asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended sale. The capitalisation rate is based on the interest rate applicable to specific borrowings.

#### (n) Provident fund:

The Group maintains a defined contribution scheme for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions for each year are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable.

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (o) Related parties:

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

#### (p) Cash equivalents:

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

#### (q) Segment reporting:

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include property under development, accounts receivable and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

## NOTES ON THE FINANCIAL STATEMENTS

### 5. VALUE OF TRANSACTIONS/TURNOVER AND REVENUE

- (a) Value of transactions represents the aggregate gross value of transactions in equities and foreign exchange.
- (b) Turnover for the year amounted to HK\$57,173,508 (2000: HK\$89,922,287) comprising mainly of net commissions and brokerage, underwriting commission, dividends and interest earned, management and handling fees received and consultancy fees income, net realised profit on securities trading and gross proceeds from sales of properties.
- (c) The Group's turnover and revenues for the year arose from the following activities:

	2001 HK\$	2000 HK\$
Brokerage and commission income	<b>13,235,638</b>	32,441,663
Dividend income from investment securities	<b>29,569</b>	65,961
Interest income	<b>4,467,921</b>	12,584,484
Management and handling fees received	<b>528,449</b>	674,764
Consultancy fee income	<b>647,198</b>	–
Net realised profit on securities trading	<b>294,098</b>	27,970,723
Gross proceeds from sales of properties	<b>37,970,635</b>	16,184,692
Turnover	<b>57,173,508</b>	89,922,287
Provision for bad debts written back	<b>167,604</b>	17,760
Exchange gain	<b>143,990</b>	554,794
Sundry income	<b>1,975,330</b>	2,897,598
Other revenues	<b>2,286,924</b>	3,470,152
Total revenues for the year	<b>59,460,432</b>	93,392,439

## NOTES ON THE FINANCIAL STATEMENTS

### 6. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

	2001 HK\$	2000 HK\$
Staff costs	<b>24,684,305</b>	33,622,204
Operating lease rentals		
– land and buildings	<b>3,814,429</b>	1,188,791
Amortization and write off of estimated irrecoverable amount on real estate project costs	–	11,855,781
Depreciation		
– owned fixed assets	<b>2,024,047</b>	1,748,158
– leased fixed assets	<b>217,536</b>	477,473
Unrealised loss on trading securities	–	588,257
Consultancy fees	<b>1,674,767</b>	1,214,259
Auditors' remuneration	<b>644,591</b>	523,470
Loss on disposal and write off of fixed assets	<b>419,841</b>	59,907

### 7. FINANCE COSTS

	2001 HK\$	2000 HK\$
Interest on bank loans, overdrafts and other loans repayable within five years	<b>11,395,032</b>	13,104,083
Interest on obligation under finance lease	<b>95,433</b>	165,058
	<b>11,490,465</b>	13,269,141

## NOTES ON THE FINANCIAL STATEMENTS

### 8. DIRECTORS' EMOLUMENTS

	2001 HK\$	2000 HK\$
Fees		
– executive	120,000	109,945
– non-executive	155,333	40,000
Basic salaries, housing allowances, other allowances and benefits in kind	6,414,834	7,406,768
Provident fund contributions	56,181	–
Discretionary bonuses and/or performance-related bonuses	300,000	–
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	<b>7,046,348</b>	<b>7,556,713</b>

None of the director waived or agreed to waive his emolument in respect of the year ended 31st December, 2001 and 2000.

The emoluments of the directors fell within the following bands:

HK\$	Number of directors	
	2001	2000
Nil – 1,000,000	7	5
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	–	1
	<b>10</b>	<b>8</b>

## NOTES ON THE FINANCIAL STATEMENTS

### 9. MANAGEMENT EMOLUMENTS

Of the Group's five highest paid individuals, all (2000: four) are directors whose remuneration has been disclosed in note 8. The aggregate of the emoluments in respect of the other one individual in 2000 is as follows:

	2001 HK\$	2000 HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	–	627,750
Provident fund contribution	–	–
Discretionary bonuses and/or performance-related bonus	–	–
Compensation for loss of office	–	–
Inducement for joining the group	–	–
	<u>–</u>	<u>627,750</u>

### 10. PROVIDENT FUND

The net contribution charged to the profit and loss account for 2001 was HK\$260,718 (2000: HK\$223,162). Any forfeited employer contributions in respect of employees who leave the scheme prior to such contributions vesting fully will be used by the Group to reduce contributions. The forfeited contributions utilised by the Group in 2001 amounted to HK\$266,346 (2000: HK\$469,518).

### 11. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2001 HK\$	2000 HK\$
Hong Kong profits tax		
– current year	–	(1,966)
– over/(under)provision in respect of prior years	<b>44,987</b>	(17,371)
Tax in The People's Republic of China	<b>(2,482,368)</b>	–
Share of tax on results of associates	–	(357)
	<u><b>(2,437,381)</b></u>	<u>(19,694)</u>

## NOTES ON THE FINANCIAL STATEMENTS

### 11. TAXATION (continued)

No provision for Hong Kong profits tax has been made in the financial statements as the Group incurred a loss for the year (2000: 16% on estimated assessable profits).

Tax in The People's Republic of China represents enterprise income tax which is provided on profits from operations deemed to arise in The People's Republic of China at 33% (2000: 33%).

- (b) The potential tax benefits of the Group of HK\$31,999,035 (2000: HK\$24,262,004) and of the Company of HK\$13,234,245 (2000: HK\$9,857,795) arising from the losses carried forward as at the balance sheet date have not been recognised in these financial statements.

Other than the above, there was no other significant amount of unprovided deferred taxation in respect of the Group and the Company at the balance sheet date.

- (c) Taxation recoverable represents the excess of provisional profits tax paid over the estimated tax liabilities.

### 12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the loss attributable to shareholders, HK\$12,317,593 (2000: HK\$119,275,347) has been dealt with in the financial statements of the Company.

### 13. LOSS PER SHARE

#### (a) Basic loss per share:

The calculation of basic loss per share is based on the loss after taxation and minority interest of HK\$56,490,153 (2000: HK\$102,129,386) and the weighted average number of 373,169,481 (2000: 353,023,743) shares in issue during the year.

#### (b) Diluted loss per share:

Diluted loss per share is not presented as the effect of dilution, on the assumption that all outstanding share options were to be exercised, is insignificant.

## NOTES ON THE FINANCIAL STATEMENTS

### 14. SEGMENT REPORTING

The Group comprises the following major geographical segment:

	Hong Kong SAR		The People's Republic of China		Inter-segment elimination		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
External segment revenue	19,202,873	73,737,595	37,970,635	16,184,692	-	-	57,173,508	89,922,287
Segment result	(20,365,161)	4,483,052	7,460,682	4,683,109	-	-	(12,904,479)	9,166,161
Unallocated operating income and expenses							(28,470,384)	(97,951,651)
Loss from operations							(41,374,863)	(88,785,490)
Finance costs							(11,490,465)	(13,269,141)
Share of losses of associates							(779,212)	(55,061)
Taxation							(2,437,381)	(19,694)
Minority interest							(408,232)	-
Loss attributable to shareholders							(56,490,153)	(102,129,386)
Depreciation for the year	2,153,606	2,050,513	87,977	175,118			2,241,583	2,225,631
Amortisation and estimated irrecoverable amount on real estate project costs (written back)/written off	-	-	(4,697,017)	11,855,781			(4,697,017)	11,855,781
Segment assets	149,950,612	229,018,952	138,103,574	119,484,917	(3,134,626)	(5,112,045)	284,919,560	343,391,824
Total assets							284,919,560	343,391,824
Segment liabilities	241,337,357	251,597,638	42,303,764	37,172,181	(3,134,626)	(5,112,045)	280,506,495	283,657,774
Total liabilities							280,506,495	283,657,774
Capital expenditures incurred during the year	1,437,562	5,530,816	-	-			1,437,562	5,530,816



## NOTES ON THE FINANCIAL STATEMENTS

### 15. FIXED ASSETS

#### (a) The Group

	Leasehold properties held in Hong Kong HK\$	Motor vehicles HK\$	Computers HK\$	Office equipment and furnitures HK\$	Leasehold improvements HK\$	Total HK\$
Cost						
At 31st December, 2000	7,491,505	2,779,091	6,099,898	4,878,296	1,686,926	22,935,716
Additions	-	-	456,260	167,589	813,713	1,437,562
Disposals	-	(4,484)	(168,843)	(423,697)	(863,748)	(1,460,772)
Exchange adjustments	-	10,126	-	2,860	7	12,993
At 31st December, 2001	7,491,505	2,784,733	6,387,315	4,625,048	1,636,898	22,925,499
Accumulated depreciation						
At 31st December, 2000	885,275	1,778,132	1,623,109	3,619,496	1,494,651	9,400,663
Charge for the year	149,830	305,513	1,200,153	397,910	188,177	2,241,583
Amount written back	-	-	(34,994)	(204,630)	(622,487)	(862,111)
Exchange adjustments	-	6,244	-	2,860	7	9,111
At 31st December, 2001	1,035,105	2,089,889	2,788,268	3,815,636	1,060,348	10,789,246
Net book value						
At 31st December, 2001	6,456,400	694,844	3,599,047	809,412	576,550	12,136,253
At 31st December, 2000	6,606,230	1,000,959	4,476,789	1,258,800	192,275	13,535,053

At 31st December, 2001, the aggregate net book value of the Group's fixed assets held under finance leases amounted to HK\$543,841 (2000: HK\$2,234,353).

The leasehold properties held in Hong Kong are deemed to be held under medium-term leases.

## NOTES ON THE FINANCIAL STATEMENTS

### 15. FIXED ASSETS (continued)

#### (b) The Company

	Motor vehicles	Computers and furnitures	Office equipment	Leasehold improvements	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost					
At 31st December, 2000	922,348	5,053,566	2,205,070	42,600	8,223,584
Additions	–	–	33,726	14,250	47,976
Disposals	–	(154,075)	(9,030)	–	(163,105)
At 31st December, 2001	922,348	4,899,491	2,229,766	56,850	8,108,455
Accumulated depreciation					
At 31st December, 2000	922,348	1,255,202	2,161,513	28,714	4,367,777
Charge for the year	–	929,575	28,297	10,420	968,292
Amount written back	–	(30,815)	(2,816)	–	(33,631)
At 31st December, 2001	922,348	2,153,962	2,186,994	39,134	5,302,438
Net book value					
At 31st December, 2001	–	2,745,529	42,772	17,716	2,806,017
At 31st December, 2000	–	3,798,364	43,557	13,886	3,855,807

At 31st December, 2001, the aggregate net book value of the Company's fixed assets held under finance leases amounted to HK\$Nil (2000: HK\$1,472,976).

## NOTES ON THE FINANCIAL STATEMENTS

### 16. INTEREST IN SUBSIDIARIES

	2001 HK\$	2000 HK\$
Unlisted shares, at cost	<b>42,008,843</b>	42,008,843
Amounts due from subsidiaries	<b>167,636,224</b>	161,685,705
	<b>209,645,067</b>	203,694,548
Impairment loss	<b>(86,408,002)</b>	(75,556,461)
	<b>123,237,065</b>	128,138,087
Amounts due to subsidiaries	<b>(15,454,515)</b>	(39,831,036)
	<b>107,782,550</b>	88,307,051

Amounts due from/(to) subsidiaries are unsecured and have no fixed terms for repayment. Certain amounts bear interest at commercial lending rates.

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Issued/registered and paid up capital	% of shareholding held at 31st December, 2001			Principal activities
			By the Group	By the Company	Class of shares held	
Mansion House Securities (F.E.) Limited	Hong Kong	30,000,000 shares of HK\$1 each	100	100	Ordinary	Securities broking and margin financing
Mansion House Investment Management Services Limited	Hong Kong	1,000,000 shares of HK\$1 each	100	100	Ordinary	Unit trust management
Mansion House Securities (Overseas) Limited	Bahamas	1,000 shares of B\$1 each	100	100	Ordinary	International investment projects
Mansion House (Nominees) Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Nominee services and investment holding

## NOTES ON THE FINANCIAL STATEMENTS

### 16. INTEREST IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and operation	Issued/registered and paid up capital	% of shareholding held at 31st December, 2001			Principal activities
			By the Group	By the Company	Class of shares held	
*Mansion House Bullion Company	Hong Kong	Nil	100	100	N/A	Bullion dealer
Mansion House International Limited	Hong Kong	5,000,000 shares of HK\$1 each	100	100	Ordinary	Provision of investment consultancy and corporate advisory services
MHS Futures Limited	Hong Kong	6,000,000 shares of HK\$1 each	100	100	Ordinary	Commodities and financial futures broking
Mansion House Bullion Company Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Dormant
Mansion House Global Advisors Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Provision of investment consultancy services
Mansion House Real Estate Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Provision of property agency services and real estate investment
Mansion House Capital Limited	Hong Kong	1,000 shares of HK\$1 each	100	100	Ordinary	Dormant
Mansion House (China) Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Dormant
Double Deal Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Property investment
Guangdong Wanhua Real Estate Development Company Limited	The People's Republic of China	RMB77,893,400	92	–	N/A	Property development

## NOTES ON THE FINANCIAL STATEMENTS

### 16. INTEREST IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and operation	Issued/registered and paid up capital	% of shareholding held at 31st December, 2001			Principal activities
			By the Group	By the Company	Class of shares held	
Mansion House (U.S.A.) LLC	United States of America	US\$30,000	100	–	N/A	Dormant
Petaluma Management Limited	British Virgin Islands	1 share of US\$1 each	100	100	N/A	Securities investment
Winica Consultants Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Dormant
E-House Limited	Hong Kong	2 shares of HK\$1 each	100	–	Ordinary	Dormant
Global Firm Holdings Limited	British Virgin Islands	1 share of US\$1 each	100	–	N/A	Investment holding
MH Topgoal Financial Advisory Limited	Macau	MOP500,000	60	–	Ordinary	Dormant

\* Wholly-owned unincorporated business registered in Hong Kong.

## NOTES ON THE FINANCIAL STATEMENTS

### 17. INTEREST IN ASSOCIATES

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Unlisted shares, at cost	–	–	<b>2,468,000</b>	2,000,000
Impairment loss	–	–	<b>(1,159,991)</b>	(890,603)
	–	–	<b>1,308,009</b>	1,109,397
Share of net assets other than goodwill	<b>1,202,985</b>	1,514,197	–	–
	<b>1,202,985</b>	1,514,197	<b>1,308,009</b>	1,109,397
Amount due to an associate	<b>(507,321)</b>	(407,187)	<b>(507,321)</b>	(407,187)
	<b>695,664</b>	1,107,010	<b>800,688</b>	702,210

Amount due to an associate is unsecured and has no fixed terms for repayment. Interest is charged at commercial lending rate.

Particulars of the associates are as follows:

Name of company	Place of incorporation and operation	% of shareholding held at 31st December, 2001			Class of shares held	Principal activities
		Attributable to the Group	Owned directly	Owned by subsidiary		
Gothic Mansion House Investment Management Limited	Hong Kong	50	50	–	Ordinary	Provision of investment advisory services
State Street Mansion House Investment Management Services Limited	Hong Kong	50	50	–	Ordinary	Dormant

The Group's share of the post-acquisition losses of the associates at the balance sheet date was HK\$1,265,015 (2000: HK\$485,803).

## NOTES ON THE FINANCIAL STATEMENTS

### 18. INVESTMENT SECURITIES

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Unlisted equity investments, at cost	<b>52,401,500</b>	52,401,500	<b>52,350,000</b>	52,350,000
Impairment loss	<b>(52,350,000)</b>	(51,429,227)	<b>(52,350,000)</b>	(51,429,227)
	<b>51,500</b>	972,273	–	920,773
Listed equity investments in Hong Kong, at cost	–	39,616	–	–
	<b>51,500</b>	1,011,889	–	920,773
Market value of listed equity investments	–	33,701	–	–

### 19. LOANS RECEIVABLE

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Loans receivable	<b>85,408,775</b>	85,408,775	–	–
Less: Provision for doubtful loans	<b>(80,908,775)</b>	(72,000,000)	–	–
	<b>4,500,000</b>	13,408,775	–	–

The loans which were rescheduled in 1999 are partially secured and bear interest at prime rate plus 1% and are repayable by 14 equal installments payable semi-annually with the last installment due in May, 2006. The loans were in default since 2000 and the Group is in the process of demanding the loans. Therefore, the loans are classified as current assets.

## NOTES ON THE FINANCIAL STATEMENTS

### 20. OTHER ASSETS

- (i) Other assets comprise statutory deposits and directors' valuation of trading rights in respect of securities and commodities dealings and are held for long term purposes. The trading rights in the futures and stock exchanges and the memberships of gold and silver exchanges of the Group have been revalued by the directors by reference to market values at 31st December, 2001 at a total valuation HK\$10,553,773 (2000: HK\$10,903,773). The deficit on revaluation of HK\$350,000 during the year has been debited (2000: surplus on revaluation of HK\$8,850,000 credited) to assets revaluation reserve.
  
- (ii) The carrying amount of the trading rights and membership stated in (i) above that would have been included in the financial statements had the revalued intangible assets been carried under the benchmark treatment as required by SSAP 29 "Intangible Assets" is HK\$6,571 (2000: HK\$7,059). Such assets have been revalued annually by the alternative method in accordance with SSAP 29 and therefore no amortisation is required.



## NOTES ON THE FINANCIAL STATEMENTS

### 21. PROPERTY HELD FOR DEVELOPMENT

Particulars of the property held for development at the balance sheet date are as follows:

Location	Total original site area sq.m.	Use	Gross sale-able floor area sq.m.	Percentage of interest attributable to the Group	Stage of completion	Estimated date of completion
Lot Nos. 15 and 19 Xin Kong Road South, Xi Jiao Village, Haizhu District, Guangzhou, Guangdong Province, The People's Republic of China.	68,445	Residential and commercial complex for remaining portion of Phase 1	365	92%	Completed	N/A
		Residential, commercial and carport complex for remaining portion of Phase 2	2,134	92%	Completed	N/A
		Remaining portion of Phase 3	3,268	92%	Completed	N/A
		Remaining portion of Phase 4	1,849	92%	Completed	N/A
		Phase 5	22,138	92%	Completed	N/A
		Phase 6	42,013	92%	Site clearance completed	N/A

An independent valuation of the property held for development and intended for sale, made on 24th April, 2002 by S. H. Ng & Co., Ltd., a chartered surveyor, on open market basis as at 31st December, 2001 amounts to HK\$119,100,000 (2000: HK\$115,000,000 as at 31st March, 2001)

The property held for development is held under medium-term lease for the commercial complex and long-term lease for residential units.

## NOTES ON THE FINANCIAL STATEMENTS

### 22. ACCOUNTS RECEIVABLE

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Brokers and dealers:				
– Hong Kong	<b>882,975</b>	11,861,757	–	–
– Foreign	<b>305,072</b>	246,304	–	–
Clients	<b>21,217,143</b>	89,494,727	–	–
Others	<b>18,557,565</b>	–	–	–
	<b>40,962,755</b>	101,602,788	–	–

The aged analysis of accounts receivable is as follows:

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Less than one month	<b>25,922,002</b>	22,823,011	–	–
Over one month but less than three months	<b>1,718,722</b>	33,816,497	–	–
Over three months	<b>13,322,031</b>	44,963,280	–	–
	<b>40,962,755</b>	101,602,788	–	–

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities are two days after trade date, and accounts receivable arising from the ordinary course of business of dealing in futures contracts are one day after trade date.

Included in accounts receivable-clients are loans to share margin clients which are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates.

## NOTES ON THE FINANCIAL STATEMENTS

### 23. TRADING SECURITIES

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Equity securities listed in				
– Hong Kong	–	763,492	–	632,192
– Overseas	–	513,442	–	513,442
	–	1,276,934	–	1,145,634
Market value	–	1,276,934	–	1,145,634

### 24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Deposits with financial institutions	<b>93,027,067</b>	82,337,579	–	–
Cash and bank balances	<b>7,555,446</b>	11,734,568	<b>475,277</b>	336,620
	<b>100,582,513</b>	94,072,147	<b>475,277</b>	336,620

Deposits with financial institutions at the balance sheet date included HK\$90,510,644 (2000: HK\$78,828,953) which were specifically designated as clients' segregated funds by its subsidiaries.

### 25. AMOUNT DUE TO DIRECTORS

This represents interest free advances which are unsecured and have no fixed terms of repayment.

## NOTES ON THE FINANCIAL STATEMENTS

### 26. BANK LOANS AND OVERDRAFTS

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank loans	<b>26,896,593</b>	18,730,435	–	–
Bank overdrafts	<b>10,648,747</b>	54,404,721	<b>5,838,288</b>	5,761,708
	<b>37,545,340</b>	73,135,156	<b>5,838,288</b>	5,761,708
Portion due within one year classified as current liabilities	<b>(33,839,503)</b>	(68,729,405)	<b>(5,838,288)</b>	(5,761,708)
Long term portion	<b>3,705,837</b>	4,405,751	–	–
The long term portion of bank loans are repayable within a period of:				
More than one year but not exceeding two years	<b>634,813</b>	560,223	–	–
More than two years but not exceeding five years	<b>1,904,439</b>	1,847,470	–	–
More than five years	<b>1,166,585</b>	1,998,058	–	–
	<b>3,705,837</b>	4,405,751	–	–

Clients' securities with a total market value of approximately HK\$31,308,223 (2000: Client's and the Group's securities of HK\$162,797,661) at the balance sheet date were pledged to banks to secure loans and overdraft facilities granted to the Group.

The Group's leasehold properties have been pledged in favour of a bank to secure a loan granted to the Group to the extent of HK\$5,000,000 and interest (2000: HK\$5,000,000 and interest).

Certain portion of the property held for development has been mortgaged to a bank in The People's Republic of China for loans granted to a subsidiary in the amount of HK\$28,380,000 (2000: HK\$12,605,042).

## NOTES ON THE FINANCIAL STATEMENTS

### 27. ACCOUNTS PAYABLE

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Brokers and dealers:				
– Hong Kong	295,600	8,705,549	–	–
– Foreign	2,464	1,234,709	–	–
Clients	130,758,558	84,854,921	–	–
Amounts due to directors for transactions in securities	1,887,055	735,705	–	–
Others	3,918,656	–	34,110,415	–
	<b>136,862,333</b>	95,530,884	<b>34,110,415</b>	–

Clients payable are unsecured and bear interest at rates ranging from approximately 0.1% to 3.9% per annum.

The aged analysis of accounts payable is as follows:

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Less than one month	126,984,733	9,752,593	3,276,295	–
Over one month but less than three months	166,336	78,802,621	30,663,300	–
Over three months	9,711,264	6,975,670	170,820	–
	<b>136,862,333</b>	95,530,884	<b>34,110,415</b>	–

### 28. LOANS PAYABLE

Loans payable which are unsecured, bear interest at rates ranging from approximately 3% to 12% per annum and are repayable within one month from the balance sheet date. These loans were either repaid or roll-overed subsequent to the balance sheet date. Total third party and directors' loans payable amounts to approximately HK\$50 million and HK\$11.8 million respectively at the date the financial statements were approved and authorised for issue by the board of directors.

## NOTES ON THE FINANCIAL STATEMENTS

### 29. OBLIGATION UNDER FINANCE LEASE

Commitments under finance lease at the balance sheet date were as follows:

	The Group				The Company			
	Minimum lease payments		Present value of minimum lease payments		Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Amounts payable within one year	138,361	1,282,656	134,841	1,187,223	-	950,580	-	886,396
Amounts payable in the second to fifth years inclusive	-	138,361	-	134,841	-	-	-	-
Total minimum lease payments	138,361	1,421,017	134,841	1,322,064	-	950,580	-	886,396
Future finance charges	(3,520)	(98,953)	-	-	-	(64,184)	-	-
Present value of minimum lease payments	134,841	1,322,064	134,841	1,322,064	-	886,396	-	886,396
Current portion of obligation under finance lease			(134,841)	(1,187,223)			-	(886,396)
Long-term portion of obligation under finance lease			-	134,841			-	-

It is the Group's policy to lease certain of its motor vehicles and computers under finance leases. The average lease term is 3 years. The average effective borrowing rate is 11.8%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

### 30. SHARE CAPITAL

	2001 HK\$	2000 HK\$
<b>(a) Authorised</b>		
450,000,000 ordinary shares of HK\$0.20 each	90,000,000	90,000,000
<b>(b) Issued and fully paid</b>		
373,169,481 ordinary shares of HK\$0.20 each	74,633,896	74,633,896

## NOTES ON THE FINANCIAL STATEMENTS

### 30. SHARE CAPITAL (continued)

#### (c) Employee share option scheme

Under the Group's employee share option scheme, the directors may grant options to any eligible employees of the Group including directors of the Company and its subsidiaries to subscribe for shares in the Company.

During the year, the movement in the number of options outstanding under the aforesaid share option scheme was as follows:

	<b>Number of shares granted under the share option scheme</b>
Balance as at 31st December, 2000	8,650,000
Granted during the year	3,000,000
Cancelled during the year	<u>(2,270,000)</u>
Balance as at 31st December, 2001	<u><u>9,380,000</u></u>

At 31st December, 2001, details of the outstanding share options granted are as follows:

<b>Option exercise period</b>	<b>Share options granted</b>	<b>Subscription price per share (subject to adjustment)</b>	<b>Granted to</b>
		HK\$	
18.06.1998 to 17.06.2002	100,000	1.22	A Director
18.06.1998 to 17.06.2002	100,000	1.22	An Employee
13.07.2001 to 12.07.2004	3,200,000	0.49	Directors
13.07.1999 to 12.07.2004	3,000,000	0.49	Directors
11.07.2001 to 10.07.2004	460,000	0.49	Employees
11.07.1999 to 10.07.2004	20,000	0.49	An Employee
01.09.2001 to 31.08.2006	1,500,000	0.38	An Employee
01.09.2001 to 31.08.2006	<u>1,000,000</u>	0.38	A Director
	<u><u>9,380,000</u></u>		

## NOTES ON THE FINANCIAL STATEMENTS

### 31. RESERVES

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Share premium account:				
Balance brought forward	<b>117,521,960</b>	65,598,508	<b>117,521,960</b>	65,598,508
Premium on issue of shares	–	51,923,452	–	51,923,452
Balance carried forward	<b>117,521,960</b>	117,521,960	<b>117,521,960</b>	117,521,960
Capital redemption reserve:				
Balance brought forward and carried forward	<b>1,035,200</b>	1,035,200	<b>1,035,200</b>	1,035,200
Accumulated deficit:				
Balance brought forward	<b>(143,766,189)</b>	(41,636,803)	<b>(190,204,978)</b>	(70,929,631)
Loss for the year	<b>(56,490,153)</b>	(102,129,386)	<b>(12,317,593)</b>	(119,275,347)
Balance carried forward	<b>(200,256,342)</b>	(143,766,189)	<b>(202,522,571)</b>	(190,204,978)
Assets revaluation reserve:				
Balance brought forward	<b>8,850,000</b>	13,999,997	–	–
Release upon disposal of shares on the Hong Kong Exchanges and Clearing Limited	–	(13,999,997)	–	–
(Deficit)/surplus on revaluation of trading rights in the Hong Kong Futures Exchange Limited and The Stock Exchange of Hong Kong Limited	<b>(350,000)</b>	8,850,000	–	–
Balance carried forward	<b>8,500,000</b>	8,850,000	–	–
Exchange fluctuation reserve:				
Balance brought forward	<b>1,459,183</b>	(2,623,224)	–	–
Exchange differences arising from translation of the financial statements of overseas subsidiaries	<b>916,902</b>	4,082,407	–	–
Balance carried forward	<b>2,376,085</b>	1,459,183	–	–
Total reserves	<b>(70,823,097)</b>	(14,899,846)	<b>(83,965,411)</b>	(71,647,818)
Losses accumulated in:				
Company and subsidiaries	<b>(198,991,327)</b>	(143,280,386)		
Associates	<b>(1,265,015)</b>	(485,803)		
	<b>(200,256,342)</b>	(143,766,189)		



## NOTES ON THE FINANCIAL STATEMENTS

### 32. CONTINGENT LIABILITIES

- (a) As at the balance sheet date, the Company has given guarantees to banks in respect of banking facilities granted by the banks to subsidiaries to the extent of HK\$80,000,000 (2000: HK\$20,000,000).
- (b) During the year, one of the Group's subsidiary entered into an agreement with Seastar Properties Limited ("Seastar"), the project consultant for the real estate development in The People's Republic of China, which requires that in the event the subsidiary fails to complete the real estate project or sells its interest in the real estate project, the subsidiary has to pay liquidated damages of HK\$6,000,000 (2000: HK\$Nil) to Seastar.

### 33. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of approximately two years.

As at the balance sheet date, the total commitments for minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due are as follows:

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Within one year	<b>3,633,409</b>	3,665,987	<b>542,169</b>	533,943
In the second to fifth year inclusive	<b>2,525,533</b>	5,856,774	<b>406,628</b>	948,798
	<b>6,158,942</b>	9,522,761	<b>948,797</b>	1,482,741

### 34. CAPITAL COMMITMENTS

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Capital expenditures contracted but not provided for in the financial statements	–	45,790	–	–

## NOTES ON THE FINANCIAL STATEMENTS

### 35. NOTES TO THE CASH FLOW STATEMENT

#### (a) Reconciliation of loss before taxation to net cash inflow/(outflow) from operating activities

	2001 HK\$	2000 HK\$
Loss before taxation	<b>(53,644,540)</b>	(102,109,692)
Gain on disposal of interest in associates	–	(4,407,084)
Amortisation and estimated irrecoverable amount on real estate project cost written back	<b>(4,697,017)</b>	–
Impairment loss on investment securities	<b>920,773</b>	51,429,227
Amount due from an associate (written back)/written off	<b>(468,000)</b>	468,000
Provision for shortfall of insurance claim relating to litigation settled in 2001 including legal costs	<b>2,300,000</b>	7,600,000
Provision for doubtful loans and bad debts	<b>21,259,501</b>	38,454,424
Share of losses of associates	<b>779,212</b>	55,061
Depreciation	<b>2,241,583</b>	2,225,631
Loss/(profit) on disposal of investment securities	<b>7,049</b>	(246,502)
Investment securities written off	–	263
Loss on disposal and write off of fixed assets	<b>419,841</b>	59,907
Club membership written off	–	300,000
Cost of exchange memberships in respect of securities and commodities dealings disposed of	–	1,342,008
Dividend income from investment securities	<b>(29,569)</b>	(65,961)
Interest expenses	<b>11,490,465</b>	13,269,141
Interest received	<b>(280,538)</b>	(602,797)
Exchange differences arising on consolidation	<b>906,130</b>	4,241,589
Increase in property held for development	<b>(6,101,500)</b>	(23,921,413)
Decrease in accounts receivable	<b>48,289,307</b>	83,609,972
(Increase)/decrease in sundry debtors and prepayments	<b>(6,272)</b>	2,232,727
Decrease in trading securities	<b>1,276,934</b>	840,426
Increase/(decrease) in accounts payable	<b>41,331,449</b>	(114,651,054)
Increase/(decrease) in loans payable		
– Directors	<b>5,717,611</b>	–
– Others	<b>(13,237,117)</b>	(20,816,962)
Decrease in sundry creditors and accruals	<b>(5,574,006)</b>	(3,859,275)
Increase in amount due to directors	<b>1,712,014</b>	990,000
Net cash inflow/(outflow) from operating activities	<b>54,613,310</b>	(63,562,364)

## NOTES ON THE FINANCIAL STATEMENTS

### 35. NOTES TO THE CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$	Obligation under finance lease HK\$	Bank loans HK\$	Minority interest HK\$
Balance at 1st January, 2000	128,770,404	706,893	1,681,469	–
Cash inflow from financing	–	–	5,000,000	–
Inception of finance lease	–	1,732,913	–	–
Repayment during the year	–	(1,117,742)	(1,893,486)	–
Share allotment in settlement of acquisition of investment securities	52,350,000	–	–	–
Share allotment during the year	11,035,452	–	–	–
Balance at 31st December, 2000	192,155,856	1,322,064	4,787,983	–
Cash inflow from financing	–	–	–	194,034
Share of profit during the year	–	–	–	408,232
Repayment during the year	–	(1,187,223)	(606,036)	–
Balance at 31st December, 2001	192,155,856	134,841	4,181,947	602,266

#### (c) Major non-cash transactions

During the year, the Group increased its investment cost in an associate, State Street Mansion House Investment Management Services Limited, by HK\$468,000, which was settled by capitalization of an interest free loan advanced to that associate in order to maintain its 50% shareholding in the associate.

## NOTES ON THE FINANCIAL STATEMENTS

### 35. NOTES TO THE CASH FLOW STATEMENT (continued)

(d) **Reconciliation of the balances of cash and cash equivalents in respect of short term bank loans and overdrafts**

	<b>2001</b>	2000
	<b>HK\$</b>	HK\$
Bank loans and overdrafts	<b>33,839,503</b>	68,729,405
Bank loans over three months to maturity	<b>(476,110)</b>	(382,232)
Bank loans and overdrafts within three months to maturity	<b>33,363,393</b>	68,347,173

(e) **Summary of the effects of dissolution of a subsidiary**

	<b>2001</b>	2000
	<b>HK\$</b>	HK\$
Net assets disposed of:		
Amount due from ultimate holding company	–	5,416,621
Discharged by:		
Elimination against group accumulated deficit	–	5,416,621

## NOTES ON THE FINANCIAL STATEMENTS

### 36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:-

- (a) The Group has granted on 20th October, 1998 the following related-party loans to enable the borrowers to reduce their margin accounts in prudent levels. These loans are approved by shareholders in the extraordinary general meeting held on 23rd July, 1999 as required by the Listing Rules of The Stock Exchange of Hong Kong Limited.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. So Shu Ching, Jason, brother of a director, Ms. Irene Wai Yin So	Company controlled by Ms. Sheila So Wai Kwan, sister of a director, Ms. Irene Wai Yin So
Lender:	A wholly owned subsidiary, Mansion House Capital Limited	A wholly owned subsidiary, Mansion House Capital Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Partially secured by marketable securities and unlisted shares	Partially secured by marketable securities and unlisted shares
– repayment terms	By 14 equal instalments payable semi-annually with the last instalment due in May, 2006	By 14 equal instalments payable semi-annually with the last instalment due in May, 2006
Balance at 31.12.2001	<u>HK\$77,934,917</u>	<u>HK\$ 7,473,858</u>
Balance at 31.12.2000	<u>HK\$77,934,917</u>	<u>HK\$ 7,473,858</u>

A total provision of HK\$80,908,775 (2000: HK\$72,000,000) has been made against these related-party loans.

## NOTES ON THE FINANCIAL STATEMENTS

### 36. RELATED PARTY TRANSACTIONS (continued)

(b) The Group has also provided margin financing to the following related parties:

Borrower:	Mr. So Shu Ching, Jason and companies controlled by him	Noblesse Ventures Inc.
Relationship:	Brother of a director, Ms. Irene Wai Yin So	Company controlled by Ms. Sheila So Wai Kwan, sister of a director, Ms. Irene Wai Yin So
Lender:	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Marketable securities	Marketable securities
Balance at 31.12.2001	<u>HK\$ 8,273,947</u>	<u>HK\$10,795,784</u>
Balance at 31.12.2000	<u>HK\$14,882,866</u>	<u>HK\$25,851,951</u>
Provision at 31.12.2001	<u>HK\$ 4,676,116</u>	<u>HK\$ 6,123,884</u>

## NOTES ON THE FINANCIAL STATEMENTS

### 36. RELATED PARTY TRANSACTIONS (continued)

(c) The Group received commission income for securities transactions from related parties as follows:

	2001 HK\$	2000 HK\$
Directors		
– Mr. Evans Carrera Lowe	22,502	111,022
– Others	44,787	93,956
Related parties to the directors:		
Pharmatech Management Limited	4,600	–
Dynamic Assets Limited	10,678	–
Supreme Grass Limited	3,428	17,021
Noblesse Ventures Inc.	40,496	753
	<b>126,491</b>	<b>222,752</b>

(d) The Group accrued interest income from related parties as follows:

	2001 HK\$	2000 HK\$
Related parties to the directors:		
Noblesse Ventures Inc.	–	1,401,377
Pharmatech Management Limited	–	1,357,468
Dynamic Assets Limited	–	2,275,150
	<b>–</b>	<b>5,033,995</b>

## NOTES ON THE FINANCIAL STATEMENTS

### 36. RELATED PARTY TRANSACTIONS (continued)

- (e) As detailed in note 2(a) on the financial statements, Mr. Evans Carrera Lowe, a substantial shareholder of the Company, is one of the parties to the Subscription Agreement which constitutes a connected transaction and is subject to the approval of the shareholders at an extraordinary general meeting.

In the opinion of the directors, the above-mentioned transactions were conducted on normal commercial terms.

### 37. POST BALANCE SHEET EVENTS

Other than as disclosed in note 2(a) on the financial statements, one of the Group's subsidiaries has disposed of one of its trading rights to an independent party at a consideration of HK\$2,500,000, resulting to no gain or loss to the Group.