



2002

**MANSION HOUSE
GROUP LIMITED**

Interim Report



The Board of Directors (“the Directors”) of Mansion House Group Limited (“the Company”) announces the unaudited results of the company and its subsidiaries (“the Group”) for the six months ended 30th June, 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months to 30th June	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Value of transactions		1,393,372	3,625,732
Turnover	2	15,713	22,630
Cost of sales		(8,512)	(7,579)
Gross profit		7,201	15,051
Other revenue		3,799	2,209
Administrative and other operating expenses		(27,551)	(29,612)
Loss from operations	3	(16,551)	(12,352)
Finance costs	4	(3,487)	(6,574)
Share of (loss)/profit of associates		(91)	28
Loss before taxation		(20,129)	(18,898)
Taxation	5	–	(264)
Loss after taxation		(20,129)	(19,162)
Minority interest		202	17
Loss attributable to shareholders		(19,927)	(19,145)
Loss per share (HK cents)	7	(5.34)	(5.13)



CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		10,570	12,136
Interest in associates		596	696
Investment securities		51	51
Other assets		10,971	13,616
		<u>22,188</u>	<u>26,499</u>
CURRENT ASSETS			
Property held for development		109,335	108,533
Loans receivable		—	4,500
Accounts receivable	9	31,423	40,963
Sundry debtors and prepayments		3,530	3,412
Taxation recoverable	5(c)	1,519	430
Cash and cash equivalents	10	75,382	100,582
		<u>221,189</u>	<u>258,420</u>
CURRENT LIABILITIES			
Bank loans and overdrafts	11	28,320	33,839
Accounts payable	12	118,288	136,862
Loans payable	13		
– Directors		11,935	5,718
– Others		46,859	65,670
Sundry creditors and accruals		49,623	30,498
Amount due to directors	14	3,800	2,702
Current portion of obligation under finance lease		—	135
Taxation payable		—	1,376
		<u>258,825</u>	<u>276,800</u>
NET CURRENT LIABILITIES		<u>(37,636)</u>	<u>(18,380)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(15,448)</u>	<u>8,119</u>
NON-CURRENT LIABILITIES			
Bank loans	11	3,364	3,706
MINORITY INTEREST			
		34	602
		<u>(18,846)</u>	<u>3,811</u>
CAPITAL AND RESERVES			
Share capital	15	74,634	74,634
Reserves	16	(93,480)	(70,823)
		<u>(18,846)</u>	<u>3,811</u>



CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Six months to 30th June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Exchange differences on translation of the financial statements of foreign entities	(230)	683
(Losses)/gains not recognised in the consolidated profit and loss account	(230)	683
Loss attributable to shareholders	(19,927)	(19,145)
Total recognised losses	(20,157)	(18,462)



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months to 30th June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(17,507)	20,503
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid	(3,487)	(6,516)
Interest element of finance lease rental payments	–	(58)
Interest received	1,337	4,528
Dividend paid to minority shareholder of a subsidiary	(365)	–
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(2,515)	(2,046)
TAXATION		
Hong Kong profits tax paid	–	(101)
The People's Republic of China tax paid	(2,465)	(127)
Hong Kong profits tax refunded	–	1,244
NET TAX (PAID)/REFUNDED	(2,465)	1,016
INVESTING ACTIVITIES		
Purchase of fixed assets	–	(998)
(Repayment to)/advance from an associate	(9)	14
Refund of deposit with the stock and futures exchanges	145	175
Proceeds from disposal of investment securities	–	33
Proceeds from realisation of investment securities	647	–
Proceeds from disposal of a trading right in The Stock Exchange of Hong Kong Limited	2,500	–
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	3,283	(776)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING CARRIED FORWARD	(19,204)	18,697



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Continued)

	Six months to 30th June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING BROUGHT FORWARD	(19,204)	18,697
FINANCING		
Capital element of finance lease rental payment	(135)	(564)
Repayment of bank loans	(328)	(290)
NET CASH OUTFLOW FROM FINANCING	(463)	(854)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(19,667)	17,843
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	67,219	25,725
CASH AND CASH EQUIVALENTS AT END OF PERIOD	47,552	43,568
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	75,382	109,837
Bank loans and overdrafts	(27,830)	(66,269)
	47,552	43,568



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- (a) The unaudited condensed consolidated interim financial statements of the Group have been prepared in compliance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting".

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st December, 2001.

- (b) During the period, the Group incurred a loss of approximately HK\$19,927,000 as at 30th June, 2002. Its current liabilities exceeded its current assets by approximately HK\$37,636,000 and it had a net liabilities of approximately HK\$18,846,000 at 30th June, 2002.

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 entered into a loan agreement with a new investor which 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 loan was 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. The loan was repaid from the proceeds of the subscription as detailed in (ii) below.

The Company entered into a deed of indemnity and undertaking with Mr. Lowe pursuant to which, with the approval of the shareholders at the extraordinary general meeting held on 20th June, 2002, 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. Upon the completion of the subscription as detailed in (ii) below, the deed of indemnity and undertaking and the equitable charge of 92,848,974 ordinary shares were released.

- (ii) Also on 20th April, 2002, the Company entered into a Subscription Agreement with the new investor and Mr. Lowe pursuant to which the Company agreed to allot and issue to the new investor 148,125,000 ordinary shares at par value of HK\$0.20 per share upon completion of the subscription. Pursuant to the subscription, three bonus ordinary shares were issued with every subscription ordinary share. At the same time, Mr. Lowe exchanged a shareholder's loan of approximately HK\$9.9 million due from the Company to him for new ordinary shares on the same terms. Upon completion on 6th August, 2002, the new investor holds 592,500,000 ordinary shares, representing 50.5% of the enlarged issued share capital of the Company. Mr. Lowe, including his existing shareholding, holds 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 issued under the Subscription Agreement is HK\$0.05 which was arrived at after arms length negotiations between the Company, the new investor and Mr. Lowe.

The Subscription Agreement was completed on 6th August, 2002, upon the satisfaction of the following conditions:

- (a) Approval by the shareholders at the extraordinary general meeting held on 20th June, 2002 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;
- (b) Approval from the Stock Exchange for the listing and permission to deal in the subscription ordinary shares and the bonus ordinary shares;



- (c) Granting of a waiver by the Securities and Futures Commission to the new investor, Mr. Lowe and parties acting in concert with them, 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;
- (d) Written consent and approval of the applicable governmental or regulatory body of completion of 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
- (e) Approval by the shareholders at the extraordinary general meeting held on 20th June, 2002 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.

On 26th August, 2002, the new investor was granted a two-year option by the Company to subscribe in cash for up to 150,000,000 new ordinary shares and Mr. Lowe was granted a similar option over 50,000,000 new ordinary shares. The exercise price is at par value of HK\$0.20 per share. As no bonus ordinary shares are issued with any ordinary shares 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. Such transaction was approved by the shareholders at the extraordinary general meeting on 20th June, 2002.



(iii) (a) *Share capital structure upon completion*

Upon completion of the transactions detailed in (1)(b) above, the share capital of the Company is as follows:

	Number of ordinary shares of HK\$0.20 each	HK\$
Balance as at 30th June, 2002	373,169,481	74,633,896
Shares issued upon completion	790,000,000	158,000,000
Shares issued to the Group's investment advisor, Somerley Limited, as partial consideration of services rendered	<u>9,000,000</u>	<u>1,800,000</u>
	<u>1,172,169,481</u>	<u>234,433,896</u>

(b) *Proforma consolidated net assets of the Group*

Assuming the above capital injection detailed in (1)(b) were completed on 30th June, 2002, the proforma consolidated net assets of the Group are as follows:

	HK\$
Share capital	<u>234,433,896</u>
Reserves	
Balance as at 30th June, 2002	(93,480,136)
Less: Professional fee to Somerley Limited	(1,800,000)
Utilisation of capital redemption reserve for bonus issue	(1,035,200)
Utilisation of share premium for bonus issue	<u>(117,464,800)</u>
	<u>(213,780,136)</u>
Proforma consolidated net assets at 30th June, 2002	<u>20,653,760</u>



- (iv) The Group signed an agreement with a major creditor on 29th July, 2002 for rescheduling of debt amounting to approximately HK\$84 million to four instalments, the last instalment repayable on 31st March, 2003.
- (v) Included in period-end loans payable at 30th June, 2002 are third party unsecured loans payable of HK\$7,540,392 currently under negotiation for rescheduling of repayment dates of some amounts due subsequent to the balance sheet date. The Directors are confident that the creditors will agree to reschedule the repayment dates and continue to grant adequate facilities to the Group for the foreseeable future.

Based on the foregoing, the Directors are confident of the Group's ability to continue as a going concern and meet 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.

2. SEGMENT REPORTING

The Group comprises the following major geographical segments:

	Hong Kong SAR		The People's Republic of China		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30th June 2002 (Unaudited) HK\$'000	30th June 2001 (Unaudited) HK\$'000	30th June 2002 (Unaudited) HK\$'000	30th June 2001 (Unaudited) HK\$'000	30th June 2002 (Unaudited) HK\$'000	30th June 2001 (Unaudited) HK\$'000
External segment revenue	4,792	13,222	10,921	9,408	15,713	22,630
Segment result	(12,134)	(10,419)	(7,569)	(1,933)	(19,703)	(12,352)
Unallocated operating income					3,152	-
Loss from operations					(16,551)	(12,352)
Finance costs					(3,487)	(6,574)
Share of (loss)/profit of associates					(91)	28
Taxation					-	(264)
Minority interest					202	17
Loss attributable to shareholders					(19,927)	(19,145)
Depreciation for the period	1,388	1,309	42	47	1,430	1,356
Amortisation on real estate project costs written off	-	-	1,338	745	1,338	745



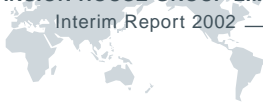
3. LOSS FROM OPERATIONS

This is arrived at after charging and crediting the following:

	Six months ended 30th June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Charging:		
Staff costs	7,239	14,057
Operating lease rentals – land and buildings	2,168	2,244
Depreciation	1,430	1,356
Auditors' remuneration	259	252
Fixed assets written off	136	450
Provision for doubtful loans and bad debts	416	–
Amortisation on real estate project costs	1,338	745
	1,338	745
Crediting:		
Interest income	1,337	4,528
Gain on realisation of investment securities	647	–
Profit on disposal of a trading right in The Stock Exchange of Hong Kong Limited	2,500	–
	2,500	–

4. FINANCE COSTS

	Six months ended 30th June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans repayable within five years	3,487	6,516
Interest on obligation under finance lease	–	58
	3,487	6,574



5. TAXATION

Taxation in the condensed consolidated profit and loss account represents:

	Six months ended 30th June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Hong Kong profits tax		
– current year	–	–
Tax in The People’s Republic of China	–	264
	<hr/>	<hr/>
	–	264
	<hr/>	<hr/>

- (a) No provision for Hong Kong profits tax has been made as the Group sustained a loss for the current period.
- (b) 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% (2001: 33%).
- (c) Taxation recoverable represents the excess of provisional profits tax paid over the estimated tax liabilities.

6. INTERIM DIVIDEND

The Directors has resolved not to pay an interim dividend for the six months ended 30th June, 2002 (2001: HK\$Nil).

7. LOSS PER SHARE

- (a) The calculation of loss per share is based on the loss attributable to shareholders of approximately HK\$19,927,000 (2001: HK\$19,145,000) and the weighted average of 373,169,481 shares (2001: 373,169,481 shares) in issue during the period.
- (b) 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.



8. ADDITION TO FIXED ASSETS

During the period, the Group acquired fixed assets amounting to HK\$Nil (31st December, 2001 : HK\$1,437,562).

9. ACCOUNTS RECEIVABLE

The aged analysis of accounts receivable is as follows:

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
Less than 1 month	23,703	25,922
1-3 months	944	1,719
Over 3 months	6,776	13,322
	31,423	40,963

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities are two days after trade date.

Loans to share margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates.

10. CASH AND CASH EQUIVALENTS

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
Deposits with financial institutions	49,784	93,027
Cash at banks and in hand	25,598	7,555
	75,382	100,582

Deposits with financial institutions at the balance sheet date included HK\$49,783,965 (31st December, 2001: HK\$90,510,644) which were specifically designated as clients' segregated funds by its subsidiaries.



11. BANK LOANS AND OVERDRAFTS

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
Bank loans	22,399	26,896
Bank overdrafts	9,285	10,649
	31,684	37,545
Portion due within one year classified as current liabilities	(28,320)	(33,839)
Long term portion	3,364	3,706
The long term portion of bank loans are repayable within a period of:		
More than one year but not exceeding two years	654	635
More than two years but not exceeding five years	1,962	1,904
More than five years	748	1,167
	3,364	3,706

Clients' securities with a total market value of HK\$5,772,917 (31st December, 2001: HK\$31,308,223) 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 (31st December, 2001: 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 (31st December, 2001: HK\$28,380,000).



12. ACCOUNTS PAYABLE

The aged analysis of accounts payable is as follows:

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
Less than 1 month	114,520	126,985
1-3 months	–	166
Over 3 months	3,768	9,711
	118,288	136,862

13. LOANS PAYABLE

Loans payable which are unsecured, bear interest at rates ranging from approximately 3.625% to 6.25% (31st December, 2001: 3% to 12%) per annum and are repayable within two months from the balance sheet date. These loans were rolled over subsequent to the balance sheet date.

14. AMOUNT DUE TO DIRECTORS

These represent interest free advances which are unsecured and have no fixed terms of repayment.

15. SHARE CAPITAL

(a) *Authorised:*

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
2,000,000,000 (31st December, 2001: 450,000,000) ordinary shares of HK\$0.20 each	400,000	90,000



(b) Issued and fully paid:

	Number of ordinary shares of HK\$0.20 each	Nominal value HK\$
Balance as at 31st December, 2001 and 30th June, 2002	373,169,481	74,633,896

16. RESERVES

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
Share premium account:		
Balance as at 31st December, 2001 and 30th June, 2002	117,522	117,522
Capital redemption reserve:		
Balance as at 31st December, 2001 and 30th June, 2002	1,035	1,035
Accumulated deficit:		
Balance as at 31st December, 2001	(200,256)	(143,766)
Loss for the period	(19,927)	(56,490)
Balance as at 30th June, 2002	(220,183)	(200,256)
Assets revaluation reserve:		
Balance as at 31st December, 2001	8,500	8,850
Amount written back on disposal of trading right in the stock exchange	(2,500)	-
Surplus on revaluation of trading rights in the Hong Kong Futures Exchange Limited and The Stock Exchange of Hong Kong Limited	-	(350)
Balance as at 30th June, 2002	6,000	8,500
Exchange fluctuation reserve:		
Balance as at 31st December, 2001	2,376	1,459
Exchange differences arising from translation of the financial statements of overseas subsidiaries	(230)	917
Balance as at 30th June, 2002	2,146	2,376
Total reserves	(93,480)	(70,823)



17. 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:

	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
Within one year	3,694	3,633
In the second to fifth years, inclusive	873	2,526
	<u>4,567</u>	<u>6,159</u>

18. CONTINGENT LIABILITIES

Apart from those disclosed in note (1)(b)(i), the Group has the following contingent liabilities:

- (a) 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 (31st December, 2001: HK\$80,000,000).
- (b) One of the Group's subsidiaries entered into an agreement with Seastar Properties Limited, 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 (31st December, 2001: HK\$6,000,000) to Seastar Properties Limited.



19. RELATED PARTY TRANSACTIONS

During the period, 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 30th June, 2002 (unaudited)	<u>HK\$73,769,288</u>	<u>HK\$7,074,379</u>
Balance at 31st December, 2001 (audited)	<u>HK\$77,934,917</u>	<u>HK\$7,473,858</u>

A total provision of HK\$80,843,667 (31st December, 2001: HK\$80,908,775) has been made against these related-party loans.



(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 30th June, 2002 (unaudited)	<u>HK\$6,861,483</u>	<u>HK\$5,306,537</u>
Balance at 31st December, 2001 (audited)	<u>HK\$8,273,947</u>	<u>HK\$10,795,784</u>
Provision at 30th June, 2002 (unaudited)	<u>HK\$6,818,763</u>	<u>HK\$4,623,857</u>
Provision at 31st December, 2001 (audited)	<u>HK\$4,676,116</u>	<u>HK\$6,123,884</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results

The Group recorded an unaudited loss attributable to shareholders of approximately HK\$19,927,000 for the six months ended 30th June, 2002 compared with a loss attributable to shareholders of approximately HK\$19,145,000 for the corresponding period in 2001. The value of transaction for the period declined 62% to approximately HK\$1,393,372,000 on the comparable figure last period.

Liquidity, Financial Resources and Gearing Ratio

As at 30th June, 2002, the Group had cash and cash equivalents of approximately HK\$75,382,000 (31st December, 2001: HK\$100,582,000). The amount of bank loans, finance lease and hire purchase as at 30th June, 2002 is approximately HK\$31,684,000 (31st December, 2001: HK\$37,680,000).

The Group's gearing ratio is 107.73% as at 30th June, 2002 as compared with 98.45% as at 31st December, 2001. The gearing ratio is calculated by dividing total liabilities by total assets.

Capital Structure

The Company has not issued any additional shares during the period. However, the Company increased its authorised share capital from HK\$90 million to HK\$400 million by the creation of 1,550 million new shares of HK\$0.20 each ranking pari passu in all respects with the existing shares of HK\$0.20 each in the share capital of the Company at its Extraordinary General Meeting held on 20th June, 2002.

Also on 20th April, 2002, the Company had entered into a subscription agreement with a new investor and Mr. Lowe pursuant to which the Company has agreed to allot and issue to the new investor 148,125,000 ordinary shares at par value of HK\$0.20 per share. Pursuant to the subscription, three bonus ordinary shares will be issued with every subscription ordinary share. At the same time, Mr. Lowe will exchange a shareholder's loan of approximately HK\$9.9 million due from the Company to him for new subscription ordinary shares on the same terms. All conditions precedent to the subscription agreement were satisfied and the completion of the subscription agreement took place on 6th August, 2002, upon which the paid-up capital of the Company increased to HK\$234,433,896.



Treasury Policies

The business activities of the Group are mainly funded by bank facilities, non-bank borrowings and cash generated from operating activities. The Group's bank facilities and non-bank borrowings are mainly denominated either in Hong Kong dollars or Reminbi and subject to floating interest rate. During the period, the Group closely negotiated with lenders to restructure the borrowings so that the assets of the Group will be financed by medium and/or long-term debts.

Foreign currency risk should not be significant to the Group since substantial investments and borrowings are either denominated in Hong Kong dollars or Reminbi which are quite stable during the period. No complex financial instruments have been employed for hedging purposes by the Group.

The Group is exposed to the capital market risk as a result of its stock borrowing arrangement made with a third party.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the review period, Mansion House Securities (Overseas) Limited, an inactive subsidiary incorporated in Bahamas, was closed down. Apart from this, there was no material acquisition or disposal of subsidiaries and associated companies by the Group during the period.

Employees

As at 30th June, 2002, the Group employed 54 (31st December, 2001: 58) staff in Hong Kong. Remuneration is reviewed annually and a discretionary bonus is declared based on the performance of the staff. Also, the 2002 share option scheme adopted by the Company at its Extraordinary General Meeting held on 27th June, 2002 is in operation.

Charge on the Group's Assets

As at 30th June, 2002, clients' securities with a total market value of HK\$5,772,917 (31st December, 2001: HK\$31,308,223) were pledged to banks to secure loans and overdraft facilities 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 (31st December, 2001: 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 (31st December, 2001: HK\$28,380,000).

Contingent Liabilities

Apart from those disclosed in note (1)(b)(i), the Group has the following contingent liabilities.

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 (31st December, 2001: HK\$80,000,000).

One of the Group's subsidiaries entered into an agreement with Seastar Properties Limited, 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 (31st December, 2001: HK\$6,000,000) to Seastar Properties Limited.

REVIEW OF OPERATION

Brokerage

As a substantial part of the Group's income is derived from brokerage income and margin loan interest income, the performance of the Group is heavily influenced by external factors including, in particular, market sentiment, the trading volume of the market and movements in interest rates. The sharp reduction in trading interest had an important bearing on our equity and commodity brokerage business. The value of transactions of the Group for the period declined 62% to approximately HK\$1,393,372,000 on the comparable figure last period. Until there are clear signs of recovery in the US and in Hong Kong, trading activities may remain subdued in the second half of 2002.



Further to a deferral of the abolition of minimum brokerage commissions for one year until 1st April, 2003 and a consultation paper issued by the Hong Kong Exchanges and Clearing Limited on extension of trading hours for stocks and Hong Kong stock-related futures and options, we are prepared to turn these challenges into our opportunities.

Corporate Finance

We have continued to provide advisory services to our clients in Hong Kong and China, on a retainer and success fee basis. Throughout the period, we have been actively pursuing investment management business in China by pursuing strategic alliances with several renowned financial institutions of different regions. In addition, we have entered a Business Cooperation Agreement with Chongqing International Trust & Investment Corporation of Chongqing Municipal for establishing a sino-foreign joint venture on investment management services, and for establishing an investment company in Hong Kong. In Shanghai, we are in discussions with a securities company to form a strategic alliance to capture the enormous capital market opportunities therein. We shall continue our efforts to strengthen our presence in China in view of the high yet stable return in the long run.

Asset Management

Our asset management division is actively pursuing business cooperation opportunities with our different partners in the fund management area apart from managing the existing Hong Kong authorised unit trust. One such initiative is the discretionary asset management service offered to our high net-worth clients. Our goal for the fund management division is to develop a strong fund management business with our partners so that we will be well positioned when China officially opens the door for equity fund management.

Real Estate

Phase five of the property project in Guangzhou has been completed and the sales were satisfactory. Preliminary work on building of the final phase (phase six) has commenced and construction is expected to begin shortly.



LOOKING FORWARD

Continued high unemployment and deflationary pressure in Hong Kong are expected to continue to undermine consumer confidence and investor sentiment. The future ahead will continue to be challenging given the economic uncertainties.

Nonetheless, the recent economic indicators suggest that the US economy should be on the path of recovery, though the speed or robustness of that recovery is still uncertain. With China's accession to the World Trade Organisation and its intention to enter into a closer economic partnership arrangement with Hong Kong, Hong Kong will become even more attractive as a two-way gateway between China and the rest of the world. Hong Kong will continue to play an important role in channeling funds and talents between China and the rest of the world. The gradual integration of the territory with its motherland must lead to more participation of Hong Kong in China's continued economic developments. In keeping with the Group's plans for China, we have a new strategic investor, China United Telecom Limited ("China United"), who shares the Group's view in its expansion plans, and who will not only strengthen the profile of the Group, but also provide the necessary working capital to achieve our common goal.

Despite the unsatisfactory performance of the Group in the first half of 2002, China United considers that as more economic indicators suggest that the global economy is at the beginning of recovery, market sentiment in Hong Kong will gradually be restored and thereafter the turnover in the securities markets. China United is also of the view that Hong Kong will continue to be an important financial centre of the PRC and a major fund raising platform for many PRC companies. China United also believes that the Group could capitalise on its directors' experience in the securities related business and contacts in the PRC to expand the Group's client base, especially in the PRC, to take advantage of the economic boom after the PRC's accession into the World Trade Organisation.

China United intends that the Company should expedite the sale of its property development project in the PRC (held as a current asset) and reduce its level of short-term borrowings as soon as possible. China United has no concrete plans to inject any assets or business into the Group or to redeploy any fixed assets of the Group and intends to retain the existing employees of the Company and its subsidiaries. However, it will conduct a review on the operations and financial position of the Group after completion of the subscription agreement to consider whether and if so how the present operations of the Group may need strengthening.



It will also consider whether it would be advisable for the Group to diversify into other areas, if suitable opportunities arise, to broaden and expand the income stream and net asset base of the Group. The shareholders of China United have interests in the media and telecommunications sector in the PRC and will examine whether there may be benefits to the Company in entering these sectors in due course to capitalise on the expertise and contacts of China United's shareholders.

The Group firmly believes that these arrangements will be able to add value to the shareholders as well as the Group's reputation and business as a prominent local investment house.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2002, the Directors of the Company had disclosed the following interests in the share capital of the Company as recorded in the Register maintained under Section 29(1) of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance").

Name of Director	Number of Shares	
	Personal Interests	Corporate Interests
Mr. Evans Carrera Lowe	28,643,027	71,590,387*
Ms. Irene Wai Yin So	8,809,567	—
Mr. Eric Carrera Lowe	156,218	—
Mr. Alan George Thompson	698,779	—
Mr. Nelson Hing Fung Chan	—	—
Mr. Joseph Qin Hua Gu	—	—
Mr. Ruifeng Lu	—	—
Mr. David King Chuen Lung	—	—
Mr. Henry Hin Wing Lai	—	—
Mr. Mark Bakal	—	—

* *These shares are held through Global Source Company Limited, Supreme Grass Limited and Lowe Holdings Company Limited Inc., all of which are companies beneficially owned by Mr. Evans Carrera Lowe.*

Save as disclosed above, none of the Directors of the Company, chief executive or any of their associates, had any interest in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.



Save as disclosed above and in the next section relating to “Share Option Scheme”, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the period.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “1998 Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 4th February, 1998. Owing to the recent changes of the Listing Rules in relation to share option schemes, the Company has adopted a new share option scheme (the “2002 Scheme”) and terminated the 1998 Scheme pursuant to the ordinary resolutions passed at an extraordinary general meeting of the Company held on 27th June, 2002. Upon termination of the 1998 Scheme, no further options may be offered but in all other respects the provisions of the 1998 Scheme shall remain in force. Any outstanding options under the 1998 Scheme shall continue to be subject to the provisions of the 1998 Scheme and the adoption of the 2002 Scheme will not in any event affect the terms of the grant of such outstanding options. The 2002 Scheme shall remain in force for a period of 10 years commencing on 27th June, 2002 after which period no further options may be granted thereunder.

The Directors consider that it is in line with modern commercial practice and the Listing Rules that directors, including executive directors, non-executive directors, independent non-executive directors, employees and consultants of the Group should be given incentives in the form of options to subscribe for Shares. The Directors realise that qualified and skilled persons are in demand and believe that having a new share option scheme with terms compatible with modern practice in place and the Listing Rules is one of the most attractive means to attract and retain those high-calibre persons to contribute to the continuous development of the Group. The 2002 Scheme allows participants to take up options at HK\$10 per option to subscribe for Shares at an exercise price equal to at least the highest of (i) the closing price of the Shares on the Stock Exchange on the date of grant; (ii) the average closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share.



The following share options were outstanding at 1st January, 2002 and 30th June, 2002, granted under the Company's 1998 Scheme:

Name or category of participant	Date granted	Period during which options exercisable	Price per share to be paid on exercise of option HK\$	Number of shares issuable under outstanding options as at 1st January, 2002	Number of shares issuable under outstanding options as at 30th June, 2002
Directors					
Mr. Evans Carrera Lowe	13th January, 1999	13th July, 1999 to 12th July, 2004	0.49	1,700,000	1,700,000
	13th January, 1999	13th July, 2001 to 12th July, 2004	0.49	1,700,000	1,700,000
Mr. Philip Tai Yip Poon	13th January, 1999	13th July, 1999 to 12th July, 2004	0.49	300,000	-
	13th January, 1999	13th July, 2001 to 12th July, 2004	0.49	300,000	-
Ms. Irene Wai Yin So	13th January, 1999	13th July, 1999 to 12th July, 2004	0.49	1,000,000	1,000,000
	13th January, 1999	13th July, 2001 to 12th July, 2004	0.49	1,000,000	1,000,000
Mr. Eric Carrera Lowe	18th June, 1997	18th June, 1998 to 17th June, 2002	1.22	100,000	-
	13th January, 1999	13th July, 2001 to 12th July, 2004	0.49	200,000	200,000
Mr. Nelson Hing Fung Chan	27th February, 2001	27th August, 2001 to 26th August, 2006	0.38	1,000,000	1,000,000
Other employees					
In aggregate	11th January, 1999	11th July, 1999 to 10th July, 2004	0.49	20,000	20,000
	11th January, 1999	11th July, 2001 to 10th July, 2004	0.49	760,000	420,000
	1st March, 2001	1st September, 2001 to 31st August, 2006	0.38	1,500,000	1,300,000

During the period, no share options have been granted and exercised under the 1998 Scheme.

The 600,000 share options at a subscription price of HK\$0.49 held by Mr. Philip Tai Yip Poon lapsed during the period upon his retirement at the Annual General Meeting of the Company held on 27th June, 2002.



The 100,000 share options at a subscription price of HK\$1.22 held by Mr. Eric Carrera Lowe lapsed and expired on 17th June, 2002.

The 340,000 share options at a subscription price of HK\$0.49 held by two employees and the 200,000 share options at a subscription price of HK\$0.38 held by an employee lapsed during the period upon their resignation from the Company.

As at 30th June, 2002, all of the outstanding options under the 1998 Scheme remained outstanding. Up to 30th June, 2002, no option has been granted pursuant to the 2002 Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that, other than the interest disclosed above in respect of Mr. Evans Carrera Lowe, the Company has not been notified of any other interests representing 10% or more of the company's issued share capital.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

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

AUDIT COMMITTEE

The Audit Committee has met in September 2002 to review the system of internal control and its compliance and the interim report for the period ended 30th June, 2002.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period under review, in compliance with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

As at 30th June, 2002, the Group recorded an amount after provision of HK\$27,665, HK\$15,055 and HK\$682,680 due from Dynamic Assets Limited, Pharmatech Management Limited and Noblesse Ventures Inc. respectively. The amounts due result from share margin loans. The amounts due are partly secured and interest is charged at 1% over Hong Kong prime rate.

By order of the Board
Leung Shi Wing
Chairman

Hong Kong, 16th September, 2002