

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). Its ultimate holding company is China United Telecom Limited, a company incorporated in the British Virgin Islands with limited liability.

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

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Directors have given careful consideration to the liquidity of the Group in the light of its net current liabilities of HK\$19,638,143 and net deficiency of shareholders' funds of HK\$35,576,522. The Directors are taking active steps to improve the liquidity position of the Group. As disclosed in note 37, since the year end, the Company has disposed of a subsidiary for a net cash consideration of approximately HK\$38.3 million. Also, certain liabilities in the sum of approximately HK\$11.2 million will be conditionally settled by the issue of the Company's shares. In addition, the Company has entered into a non-legally binding letter of intent for the proposed appointment of the Company as the sole distribution agent of television programmes outside the PRC. Further, the Company is in the course of negotiating with a potential investor with respect to a proposed property injection into the Group. Provided that the Company enters into the sole distribution agency agreement and the potential investor completes the proposed property injection, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 34	Employee Benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting years. Accordingly, no prior period adjustment has been required.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

### Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

### Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

### Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

In addition to the above, certain comparative figures in the consolidated income statement and segmental reporting have been restated to conform with the current year's presentation. The Directors consider that the current year's presentation is more appropriate.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of intangible assets and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December every year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

### **Interests in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates on acquisition in so far as it has not already been written off to income, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

### **Revenue recognition**

Brokerage and commission income are recognised on a trade date basis when the services are rendered.

Net realised profit on disposal of other investments is recognised upon execution of a sale/purchase trading order.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

Realised gains and losses on disposal of investment securities are recognised on a trade date basis when a sale and purchase contract is entered into.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Management, handling and consultancy fees are recognised at the time when the services are rendered.

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.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Retirement benefits costs

Payments to the Group's retirement benefits schemes are charged as an expense as they fall due.

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold properties	2%
Motor vehicles	20%
Computers	20% - 50%
Office equipment and furniture	20% - 33 $\frac{1}{3}$ %
Leasehold improvements	Over the shorter of lease term and 20%

In previous years, leasehold improvements were depreciated at 20% to 33 $\frac{1}{3}$ % per annum. With effect from 1st January, 2002, leasehold improvements are to be depreciated at the shorter of lease term and 20% per annum, which reflects the Group's previous experience of the useful lives of its assets. The change in depreciation rate has increased the depreciation charge for the year by approximately HK\$116,000.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### Properties held for development

Properties held for development intended for sale are 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.

### Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Intangible assets**

Intangible assets are stated at revalued amount less amortisation and accumulated impairment losses, if any.

Amortisation is provided to write off the revalued amount of intangible assets on the straight line method over their estimated useful lives.

### **Investments**

Investments are recognised on a trade date basis and are initially measured at cost.

Investment securities, which are held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### **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 losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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 revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as revaluation increase under that other SSAP.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 5. TURNOVER

	2002 HK\$	2001 HK\$
Brokerage and commission income	4,682,436	13,235,638
Dividend income from		
— listed investments	—	29,569
— unlisted investments	647,127	—
Interest income	2,311,545	4,467,921
Management and handling fees income	434,168	528,449
Consultancy fee income	—	647,198
Net realised gain on disposal of other investments	177,530	294,098
Gross proceeds from sales of properties	47,577,194	37,970,635
	<u>55,830,000</u>	<u>57,173,508</u>

## 6. OTHER OPERATING INCOME

	2002 HK\$	2001 HK\$
Allowance for bad debt written back	854,339	167,604
Amount due from an associate written back	—	468,000
Exchange gain	—	143,990
Miscellaneous income	757,526	1,975,330
	<u>1,611,865</u>	<u>2,754,924</u>

## 7. STAFF COSTS

	2002 HK\$	2001 HK\$
Directors' remuneration (Note 8)		
— fees	577,303	275,333
— other emoluments	6,889,704	6,771,015
Salaries, allowances and commission	10,577,556	17,637,957
	<u>18,044,563</u>	<u>24,684,305</u>



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 8. EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

(a) Details of emoluments paid to the directors of the Company are as follows:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Fees for		
— executive directors	<b>117,177</b>	120,000
— non-executive directors	<b>116,774</b>	20,000
— independent non-executive directors	<b>343,352</b>	135,333
	<b>577,303</b>	275,333
Other emoluments for executive directors		
— basic salaries and allowances	<b>6,838,961</b>	6,414,834
— discretionary bonuses	—	300,000
— provident fund contributions	<b>50,743</b>	56,181
	<b>6,889,704</b>	6,771,015
	<b>7,467,007</b>	7,046,348

(b) The emoluments of the directors by number of individuals are within the following bands:

	<b>No. of directors</b>	
	<b>2002</b>	2001
Nil - HK\$1,000,000	<b>13</b>	7
HK\$1,000,001 - HK\$1,500,000	<b>1</b>	1
HK\$1,500,001 - HK\$2,000,000	<b>1</b>	2
	<b>15</b>	10

(c) All of the five individuals with the highest emoluments in the Group in 2001 and 2002, were Directors whose emoluments are included in the disclosure in notes 8(a) and (b) above.





# Notes to the Financial Statements

For the year ended 31st December, 2002

## 9. RETIREMENT BENEFITS SCHEMES

The Group participates only in defined contribution retirement benefits schemes. Contributions are made based on the lower of (i) a percentage of the employee's salaries and (ii) statutory ceiling, if any.

Contributions paid to retirement benefits schemes for Directors and staff and charged to the income statement for 2002 amounted to HK\$687,690 (2001: HK\$260,718). 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 2002 amounted to HK\$203,994 (2001: HK\$266,346).

## 10. OTHER OPERATING EXPENSES

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Included in other operating expenses are:		
Auditors' remuneration	680,000	644,591
Loss on disposal of property, plant and equipment	257,404	419,841
Consultancy fees	1,852,333	1,674,767
Operating lease rentals in respect of office premises	<u>4,805,409</u>	<u>3,814,429</u>

## 11. FINANCE COSTS

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	6,773,553	11,395,032
Obligations under finance leases	<u>—</u>	<u>95,433</u>
	<u>6,773,553</u>	<u>11,490,465</u>



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 12. TAXATION

	<b>2002</b>	2001
	<b>HK\$</b>	<b>HK\$</b>
The (charge) credit comprises:		
Hong Kong Profits Tax		
— overprovision in previous years	—	44,987
Tax in the People's Republic of China	—	(2,482,368)
	<u>—</u>	<u>(2,437,381)</u>
	<u>—</u>	<u>(2,437,381)</u>

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for each of the two years ended 31st December, 2002 and 2001.

No provision for enterprise income tax in the People's Republic of China has been made as the Group incurred tax losses for current year. In 2001, enterprise income tax was provided on profits from operations deemed to arise in the People's Republic of China at 33%.

A deferred tax asset of the Group of HK\$38,298,889 (2001: HK\$31,999,035) and of the Company of HK\$17,976,610 (2001: HK\$13,234,245) has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that estimated tax losses will be utilised in the foreseeable future.

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.

### 13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK\$88,865,966 (2001: HK\$56,490,153) and the weighted average number of 709,917,974 (2001: 373,169,481) shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of the Company's options because their exercise prices were higher than the average market price of share for both years.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 14. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into three main operating segments, namely financial services, investment holdings and property development. Financial services comprises securities, options and futures broking and trading, fund management, underwriting and share margin financing services. These segments form the basis on which the Group reports its primary segment information.

Financial services and investment holdings are based in Hong Kong and property development is based in the PRC. The combined business and geographical segments are shown as follows:

Income statement for the year ended 31st December, 2002

	Hong Kong		PRC	Eliminations	Consolidated
	Financial services	Investment holdings	Property development		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
External sales	7,434	819	47,577	—	55,830
Inter-segment sales	3,226	8,221	—	(11,447)	—
Total turnover	10,660	9,040	47,577	(11,447)	55,830
RESULT					
Segment loss	(13,098)	(31,671)	(38,983)	—	(83,752)
Other operating income					1,612
Loss from operations					(82,140)
Finance costs					(6,774)
Share of losses of associates					(189)
Loss before taxation					(89,103)
Taxation					—
Loss after taxation					(89,103)
Minority interests					237
Loss for the year					<u>(88,866)</u>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 14. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet as at 31st December, 2002

	Hong Kong		PRC	Consolidated HK\$'000
	Financial services HK\$'000	Investment holdings HK\$'000	Property development HK\$'000	
<b>ASSETS</b>				
Segment assets	53,676	10,834	64,647	129,157
Interest in associates	—	1,014	—	1,014
				<u>130,171</u>
Unallocated corporate assets				<u>1,265</u>
Consolidated total assets				<u><u>131,436</u></u>
<b>LIABILITIES</b>				
Segment liabilities	38,806	15,644	17,439	71,889
Unallocated corporate liabilities				<u>95,123</u>
Consolidated total liabilities				<u><u>167,012</u></u>

Other information for the year ended 31st December, 2002

	Hong Kong		PRC	Consolidated HK\$'000
	Financial services HK\$'000	Investment holdings HK\$'000	Property development HK\$'000	
Additions to property, plant and equipment	—	15	35	50
Loss on disposal of property, plant and equipment	132	125	—	257
Allowance for doubtful loans and bad debts	3,393	—	61	3,454
Allowance for bad debt written back	854	—	—	854
Depreciation of property, plant and equipment	886	1,302	56	2,244
Amortisation of intangible assets	750	—	—	750
Impairment losses recognised in income statement	—	1,536	36,167	<u>37,703</u>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 14. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Income statement for the year ended 31st December, 2001

	Hong Kong		PRC	Eliminations	Consolidated
	Financial services	Investment holdings	Property development		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>					
External sales	22,559	(3,471)	38,086	—	57,174
Inter-segment sales	5,039	32,218	—	(37,257)	—
Total turnover	<u>27,598</u>	<u>28,747</u>	<u>38,086</u>	<u>(37,257)</u>	<u>57,174</u>
<b>RESULT</b>					
Segment (loss) profit	<u>(30,596)</u>	<u>(30,078)</u>	<u>16,544</u>	<u>—</u>	<u>(44,130)</u>
Other operating income					<u>2,755</u>
Loss from operations					(41,375)
Finance costs					(11,491)
Share of losses of associates					<u>(779)</u>
Loss before taxation					(53,645)
Taxation					<u>(2,437)</u>
Loss after taxation					(56,082)
Minority interests					<u>(408)</u>
Loss for the year					<u><u>(56,490)</u></u>



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 14. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet as at 31st December, 2001

	Hong Kong		PRC	Consolidated HK\$'000
	Financial services HK\$'000	Investment holdings HK\$'000	Property development HK\$'000	
<b>ASSETS</b>				
Segment assets	131,198	13,084	139,512	283,794
Interest in associates	—	1,203	—	1,203
				<u>284,997</u>
Unallocated corporate assets				430
Consolidated total assets				<u><u>285,427</u></u>
<b>LIABILITIES</b>				
Segment liabilities	95,400	47,255	27,915	170,570
Unallocated corporate liabilities				110,444
Consolidated total liabilities				<u><u>281,014</u></u>
MINORITY INTERESTS				<u><u>602</u></u>

Other information for the year ended 31st December, 2001

	Hong Kong		PRC	Consolidated HK\$'000
	Financial services HK\$'000	Investment holdings HK\$'000	Property development HK\$'000	
Additions to property, plant and equipment	1,390	48	—	1,438
Loss on disposal of property, plant and equipment	419	—	—	419
Allowance for doubtful loans and bad debts	21,260	—	—	21,260
Allowance for bad debt written back	168	—	—	168
Depreciation of property, plant and equipment	801	1,353	88	2,242
Impairment losses recognised in income statement	—	921	—	921

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$	Motor vehicles HK\$	Computers HK\$	Office equipment and furniture HK\$	Leasehold improvements HK\$	Total HK\$
THE GROUP						
COST						
At 1st January, 2002	7,491,505	2,784,733	6,387,315	4,625,048	1,636,898	22,925,499
Additions	—	34,574	—	15,105	—	49,679
Disposals	—	—	(184,503)	(12,440)	(575,603)	(772,546)
Exchange adjustments	—	6,932	—	—	—	6,932
At 31st December, 2002	<u>7,491,505</u>	<u>2,826,239</u>	<u>6,202,812</u>	<u>4,627,713</u>	<u>1,061,295</u>	<u>22,209,564</u>
DEPRECIATION						
At 1st January, 2002	1,035,105	2,089,889	2,788,268	3,815,636	1,060,348	10,789,246
Charge for the year	149,830	314,372	1,199,806	334,481	245,386	2,243,875
Eliminated on disposals	—	—	(39,434)	(10,663)	(418,819)	(468,916)
Exchange adjustments	—	935	—	—	—	935
At 31st December, 2002	<u>1,184,935</u>	<u>2,405,196</u>	<u>3,948,640</u>	<u>4,139,454</u>	<u>886,915</u>	<u>12,565,140</u>
NET BOOK VALUES						
At 31st December, 2002	<u>6,306,570</u>	<u>421,043</u>	<u>2,254,172</u>	<u>488,259</u>	<u>174,380</u>	<u>9,644,424</u>
At 31st December, 2001	<u>6,456,400</u>	<u>694,844</u>	<u>3,599,047</u>	<u>809,412</u>	<u>576,550</u>	<u>12,136,253</u>

At 31st December, 2002, the aggregate net book value of the Group's property, plant and equipment held under finance leases amounted to Nil (2001: HK\$543,841).

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

The Group has pledged all leasehold properties to secure general banking facilities granted to the Group (note 29).



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicles HK\$	Computers HK\$	Office equipment and furniture HK\$	Leasehold improvements HK\$	Total HK\$
THE COMPANY					
COST					
At 1st January, 2002	922,348	4,899,491	2,229,766	56,850	8,108,455
Additions	—	—	15,105	—	15,105
Disposals	—	(149,016)	—	—	(149,016)
At 31st December, 2002	<u>922,348</u>	<u>4,750,475</u>	<u>2,244,871</u>	<u>56,850</u>	<u>7,974,544</u>
DEPRECIATION					
At 1st January, 2002	922,348	2,153,962	2,186,994	39,134	5,302,438
Charge for the year	—	890,717	19,582	9,354	919,653
Eliminated on disposals	—	(23,532)	—	—	(23,532)
At 31st December, 2002	<u>922,348</u>	<u>3,021,147</u>	<u>2,206,576</u>	<u>48,488</u>	<u>6,198,559</u>
NET BOOK VALUES					
At 31st December, 2002	<u>—</u>	<u>1,729,328</u>	<u>38,295</u>	<u>8,362</u>	<u>1,775,985</u>
At 31st December, 2001	<u>—</u>	<u>2,745,529</u>	<u>42,772</u>	<u>17,716</u>	<u>2,806,017</u>

## 16. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	<b>42,007,020</b>	42,008,843
Amounts due from subsidiaries	<b>167,777,795</b>	167,636,224
	<b>209,784,815</b>	209,645,067
Impairment loss recognised	<b>(136,168,820)</b>	(86,408,002)
	<b><u>73,615,995</u></b>	<u>123,237,065</u>



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 16. INTEREST IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest bearing and have no fixed terms of repayment.

The Directors consider that in the light of the recurring operating losses of certain subsidiaries and unfavourable market conditions, the recoverable amount of its interest in subsidiaries has been reduced to the estimated net recoverable value of their identifiable net assets. Accordingly, the total impairment losses of HK\$49,760,818 in respect of the Company's interest in subsidiaries have been recognised in the income statement for the year.

Details of the Company's principal subsidiaries as at 31st December, 2002 are as follows:

Name of company (Note 1)	Place of incorporation	Paid up share capital/ registered capital	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
				Directly %	Indirectly %	
Mansion House Securities (F.E.) Limited	Hong Kong	30,000,000 shares of HK\$1 each	Ordinary	100	—	Securities broking and margin financing
MHS Futures Limited	Hong Kong	6,000,000 shares of HK\$1 each	Ordinary	100	—	Financial futures broking
Mansion House Asset Management Limited	Hong Kong	1,000,000 shares of HK\$1 each	Ordinary	100	—	Unit trust management
Mansion House International Limited	Hong Kong	5,000,000 shares of HK\$1 each	Ordinary	100	—	Provision of investment consultancy and corporate advisory services
Mansion House Global Advisors Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	—	Provision of investment consultancy services
Mansion House (Nominees) Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	—	Nominee services and investment holding

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 16. INTEREST IN SUBSIDIARIES (Continued)

Name of company (Note 1)	Place of incorporation	Paid up share capital/ registered capital	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
				Directly %	Indirectly %	
Double Deal Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	—	Property investment
Mansion House Real Estate Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	—	Investment holding
Global Firm Holdings Limited	British Virgin Islands	1 share of US\$1 each	Ordinary	—	100	Investment holding
Guangdong Wanhua Real Estate Development Co., Ltd. (Note 2)	PRC	HK\$72,000,000	N/A	—	92 (Note 3)	Property development
Mansion House Bullion Company (Note 4)	Hong Kong	Nil	N/A	100	—	Inactive
Mansion House Bullion Co. Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	—	Inactive
Mansion House Capital Limited	Hong Kong	1,000 shares of HK\$1 each	Ordinary	100	—	Inactive
Mansion House (China) Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	—	Inactive
Mansion House (U.S.A.) LLC	United States of America	US\$30,000	N/A	—	100	Inactive
Telemedia Holding Group Limited	British Virgin Islands	100 shares of US\$1 each	Ordinary	100	—	Inactive
Telemedia Capital Limited	Hong Kong	10,000 shares of HK\$1 each	Ordinary	51	49	Inactive

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 16. INTEREST IN SUBSIDIARIES (Continued)

Notes:

- (1) Except Guangdong Wanhua Real Estate Development Co., Ltd. which operation is based in the PRC, the operations of all other principal subsidiaries are based in Hong Kong.
- (2) Co-operative joint-venture company incorporated in the PRC.
- (3) It represents economic interest held by the Company.
- (4) Wholly-owned unincorporated business registered in Hong Kong.

## 17. INTEREST IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Unlisted shares, at cost	—	—	2,468,000	2,468,000
Impairment loss recognised	—	—	(1,454,213)	(1,159,991)
Share of net assets	<u>1,013,787</u>	<u>1,202,985</u>	<u>—</u>	<u>—</u>
	<u><b>1,013,787</b></u>	<u>1,202,985</u>	<u><b>1,013,787</b></u>	<u>1,308,009</u>

Details of the Company's associates as at 31st December, 2002 are as follows:

Name of company	Place of incorporation	Paid up share capital	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
				Directly %	Indirectly %	
Gotic Mansion House Investment Management Limited	Hong Kong	2,000,000 shares of HK\$1 each	Ordinary	50	—	Provision of investment advisory services
State Street Mansion House Investment Management Services Limited	Hong Kong	2,936,000 shares of HK\$1 each	Ordinary	50	—	Inactive

The Group's share in the profits or losses of its associates is in proportion to its ownership interest.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 18. INTANGIBLE ASSETS

	<b>THE GROUP</b>
	<i>HK\$</i>
VALUATION	
At 1st January, 2002	8,500,000
Disposal	<u>(2,500,000)</u>
At 31st December, 2002	<u>6,000,000</u>
AMORTISATION	
At 1st January, 2002	—
Provided for the year	750,000
Impairment loss	<u>3,350,000</u>
At 31st December, 2002	<u>4,100,000</u>
NET BOOK VALUES	
At 31st December, 2002	<u><u>1,900,000</u></u>
At 31st December, 2001	<u><u>8,500,000</u></u>

Intangible assets represent trading rights in the exchanges in Hong Kong. They were revalued by the Directors at HK\$8,500,000 as at 31st December, 2001. Starting from 1st January, 2002, trading rights are amortised over 8 years. As at 31st December, 2002, impairment loss of HK\$3,350,000 was recognised by reference to the market value.

Had the trading rights been carried at cost less accumulated amortisation, their carrying amount would have been Nil (2001: Nil).



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 19. INVESTMENT SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Unlisted equity investments, at cost	<b>52,351,500</b>	52,401,500	<b>52,350,000</b>	52,350,000
Impairment loss	<b>(52,351,500)</b>	(52,350,000)	<b>(52,350,000)</b>	(52,350,000)
	—	51,500	—	—
Listed equity investments in Hong Kong, at cost	<b>50,000</b>	—	—	—
	<b>50,000</b>	51,500	—	—
Market value of listed equity investments	<b>280,566</b>	—	—	—

## 20. PROPERTIES HELD FOR DEVELOPMENT

Particulars of the properties held for development at 31st December, 2002 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
Lot Nos. 15 and 19 Xin Kong Road South, Xi Jiao Village, Haizhu District, Guangzhou, Guangdong Province, PRC	68,445	Residential and commercial complex for remaining portion of Phase 1	88	92%	Completed
		Residential, commercial and carport complex for remaining portion of Phase 2	2,134	92%	Completed
		Remaining portion of Phase 3	3,460	92%	Completed
		Remaining portion of Phase 4	223	92%	Completed
		Phase 5	12,709	92%	Completed
		Phase 6	20,680	92%	Site clearance completed

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 20. PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

An independent valuation of the properties held for development was made on 28th February, 2003 by LCH (Asia-Pacific) Surveyors Limited, a chartered surveyor, on an open market basis as at 31st December, 2002 which amounted to approximately HK\$44,300,000 (2001: HK\$119,100,000).

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

## 21. LOANS RECEIVABLE

	THE GROUP	
	2002	2001
	HK\$	HK\$
Loans receivable	<b>80,843,667</b>	85,408,775
Less: Allowance for doubtful loans	<b>(80,843,667)</b>	(80,908,775)
	<u>—</u>	<u>4,500,000</u>

Details of loans receivable are set out in note 35(a).

## 22. ACCOUNTS RECEIVABLE

	THE GROUP	
	2002	2001
	HK\$	HK\$
Margin clients	<b>1,650,862</b>	8,104,411
Cash clients	<b>2,138,456</b>	13,112,732
Brokers, dealers and clearing houses	<b>1,059,883</b>	1,188,047
Others	<b>6,544,686</b>	18,557,565
	<u><b>11,393,887</b></u>	<u>40,962,755</u>



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 22. ACCOUNTS RECEIVABLE (Continued)

The aged analysis of accounts receivable is as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Less than one month	3,295,850	25,922,002
Over one month but less than three months	263,103	1,718,722
Over three months	7,834,934	13,322,031
	<u>11,393,887</u>	<u>40,962,755</u>

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 and options contracts are one day after trade date.

Receivable from margin clients are secured by margin clients' pledged securities, repayable on demand and bear interest with reference to commercial rates.

## 23. ACCOUNTS PAYABLE

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Margin clients	2,317,134	3,809,169	—	—
Cash clients	35,329,882	94,726,029	—	—
Brokers, dealers and clearing houses	151,647	298,064	—	—
Others	2,477,187	38,029,071	—	34,110,415
	<u>40,275,850</u>	<u>136,862,333</u>	<u>—</u>	<u>34,110,415</u>

Included in accounts payable to cash clients is Nil (2001: HK\$1,887,055) payable to directors for transactions in securities.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 23. ACCOUNTS PAYABLE (Continued)

The aged analysis of accounts payable is as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Less than one month	<b>37,798,663</b>	126,984,733	—	3,276,295
Over one month but less than three months	—	166,336	—	30,663,300
Over three months	<b>2,477,187</b>	9,711,264	—	170,820
	<b><u>40,275,850</u></b>	<b><u>136,862,333</u></b>	<b><u>—</u></b>	<b><u>34,110,415</u></b>

### 24. OTHER PAYABLES AND ACCRUED CHARGES

Included in other payables and accrued charges are HK\$2,008,000 (2001: Nil) being fees and other emoluments owing to the Directors.

### 25. LOANS PAYABLE

	THE GROUP AND THE COMPANY	
	2002 HK\$	2001 HK\$
Loans payable		
— Directors	<b>7,767,048</b>	5,717,611
— A shareholder	<b>3,720,279</b>	—
— A related company	<b>1,012,657</b>	—
— Others	<b>75,758,528</b>	65,670,131
	<b>88,258,512</b>	71,387,742
Non-current		
— Others	<b>(28,988,308)</b>	—
Portion due within one year	<b><u>59,270,204</u></b>	<b><u>71,387,742</u></b>

Non-current portion of loans payable is due over one year but less than two years.





# Notes to the Financial Statements

For the year ended 31st December, 2002

## 25. LOANS PAYABLE (Continued)

Loans payable are unsecured.

Included in loans payable to others is HK\$43,620,220 (2001: HK\$65,670,131) which bears interest ranging from 3% to 7% (2001: 3% to 12%) per annum. Except for these, all loans payable are interest free.

## 26. AMOUNTS DUE TO AN ASSOCIATE/SUBSIDIARIES

The amounts are unsecured, interest bearing and have no fixed terms of repayment.

## 27. AMOUNTS DUE TO DIRECTORS

The amounts due to Directors are unsecured and interest free.

## 28. OBLIGATIONS UNDER FINANCE LEASES

	<b>THE GROUP</b>			
	<b>Minimum</b>		<b>Present value</b>	
	<b>lease payments</b>		<b>of minimum</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Amounts payable under finance leases				
Within one year	—	138,361	—	134,841
In the second to fifth years inclusive	—	—	—	—
	<u>—</u>	<u>138,361</u>	<u>—</u>	<u>134,841</u>
Less: Future finance charges	—	(3,520)	—	—
	<u>—</u>	<u>(3,520)</u>	<u>—</u>	<u>—</u>
Present value of obligations	<u>—</u>	<u>134,841</u>	—	134,841
Current portion of obligations under finance leases			<u>—</u>	<u>(134,841)</u>
Non-current portion of obligations under finance leases			<u>—</u>	<u>—</u>



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 29. BANK LOANS AND OVERDRAFTS

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bank overdrafts				
— secured	—	4,810,459	—	—
— unsecured	<b>3,012,048</b>	5,838,288	<b>3,012,048</b>	5,838,288
Bank loans (secured)	<b>3,852,554</b>	26,896,593	—	—
	<b>6,864,602</b>	37,545,340	<b>3,012,048</b>	5,838,288
Non-current portion				
— Bank loans (secured)	<b>(2,994,055)</b>	(3,705,837)	—	—
Portion due within one year	<b>3,870,547</b>	33,839,503	<b>3,012,048</b>	5,838,288

The maturity profile of bank loans and overdrafts is as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
On demand or within one year	<b>3,870,547</b>	33,839,503	<b>3,012,048</b>	5,838,288
Over one year but less than two years	<b>726,721</b>	634,813	—	—
Over two years but less than five years	<b>2,267,334</b>	1,904,439	—	—
Over five years	—	1,166,585	—	—
	<b>6,864,602</b>	37,545,340	<b>3,012,048</b>	5,838,288

The Group's leasehold properties (note 15) have been pledged to secure general banking facilities granted to the Group to the extent of HK\$5,000,000 (2001: HK\$5,000,000) of which HK\$3,852,554 (2001: HK\$4,340,650) was utilised at the balance sheet date.

At 31st December, 2001, clients' securities with a total market value of HK\$31,308,223 were pledged to banks to secure loans and overdraft facilities granted to the Group. At 31st December, 2002, none of the clients' securities were pledged.

At 31st December, 2001, certain portion of the properties held for development had been mortgaged to a bank in the PRC for loans and overdrafts granted to a subsidiary in the amount of HK\$28,380,000. At 31st December, 2002, none of the properties held for development were mortgaged.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 30. SHARE CAPITAL

	Number of shares		Share capital	
	2002	2001	2002 HK\$	2001 HK\$
Ordinary shares of HK\$0.20 each				
Authorised:				
At the beginning of the year	<b>450,000,000</b>	450,000,000	<b>90,000,000</b>	90,000,000
Increase during the year	<b>1,550,000,000</b>	—	<b>310,000,000</b>	—
At the end of the year	<b><u>2,000,000,000</u></b>	<u>450,000,000</u>	<b><u>400,000,000</u></b>	<u>90,000,000</u>
Issued and fully paid:				
At the beginning of the year	<b>373,169,481</b>	373,169,481	<b>74,633,896</b>	74,633,896
Bonus shares issued by capitalisation of share premium account and capital redemption reserve	<b>592,500,000</b>	—	<b>118,500,000</b>	—
Exercise of share options	<b>27,000,000</b>	—	<b>5,400,000</b>	—
Issued by private placements	<b>233,700,000</b>	—	<b>46,740,000</b>	—
At the end of the year	<b><u>1,226,369,481</u></b>	<u>373,169,481</u>	<b><u>245,273,896</u></b>	<u>74,633,896</u>

During the year, the authorised share capital was increased from HK\$90,000,000 to HK\$400,000,000 and a total of 853,200,000 shares, including 592,500,000 bonus shares and 27,000,000 shares arising from exercise of share options, were issued to new investors and an existing shareholder at prices ranging from HK\$0.20 to HK\$0.25 per share. Aggregate cash consideration of HK\$26,165,840 (net of issuing expense of HK\$57,160) was raised. The proceeds were used to provide working capital and to reduce the liabilities of the Group. The new shares rank pari passu with the existing shares in all respects. Details of these transactions are set out in the Company's circular dated 28th May, 2002 and the Company's announcement dated 2nd October, 2002.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 31. RESERVES

	Share premium account <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Assets revaluation reserve <i>HK\$</i>	Translation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP						
As at 1st January, 2001	117,521,960	1,035,200	8,850,000	1,459,183	(143,766,189)	(14,899,846)
Deficit on revaluation of intangible assets	—	—	(350,000)	—	—	(350,000)
Exchange difference on translation of overseas subsidiaries	—	—	—	916,902	—	916,902
Loss for the year	—	—	—	—	(56,490,153)	(56,490,153)
As at 1st January, 2002	117,521,960	1,035,200	8,500,000	2,376,085	(200,256,342)	(70,823,097)
Disposal of intangible asset	—	—	(2,500,000)	—	2,500,000	—
Impairment loss of intangible assets	—	—	(3,350,000)	—	—	(3,350,000)
Exchange difference on translation of overseas subsidiaries	—	—	—	(12,195)	—	(12,195)
Loss for the year	—	—	—	—	(88,865,966)	(88,865,966)
Bonus shares issued	(117,464,800)	(1,035,200)	—	—	—	(118,500,000)
Shares issued at premium	758,000	—	—	—	—	758,000
Shares issue expenses	(57,160)	—	—	—	—	(57,160)
As at 31st December, 2002	<u>758,000</u>	<u>—</u>	<u>2,650,000</u>	<u>2,363,890</u>	<u>(286,622,308)</u>	<u>(280,850,418)</u>



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 31. RESERVES (Continued)

The accumulated losses of the Group include HK\$1,454,213 (2001: HK\$1,265,015) retained by associates of the Group.

	Share premium account <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY				
As at 1st January, 2001	117,521,960	1,035,200	(190,204,978)	(71,647,818)
Loss for the year	—	—	(12,317,593)	(12,317,593)
As at 1st January, 2002	117,521,960	1,035,200	(202,522,571)	(83,965,411)
Loss for the year	—	—	(86,384,986)	(86,384,986)
Bonus shares issued	(117,464,800)	(1,035,200)	—	(118,500,000)
Shares issued at premium	758,000	—	—	758,000
Shares issue expenses	(57,160)	—	—	(57,160)
As at 31st December, 2002	<u>758,000</u>	<u>—</u>	<u>(288,907,557)</u>	<u>(288,149,557)</u>

## 32. CONTINGENT LIABILITIES

A subsidiary of the Company has provided a letter of indemnity to a bank in respect of the bank guarantee of HK\$240,000 (2001: HK\$240,000) given to the Hong Kong Securities Clearing Company Limited in lieu of cash contribution to the CCASS Guarantee Fund.

## 33. OPERATING LEASE COMMITMENTS

At 31st December, 2002, the Group and the Company had total commitments for future minimum lease payment under non-cancellable operating leases in respect of office premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Within one year	<b>3,034,861</b>	4,280,067	<b>3,034,861</b>	4,046,482
In the second to fifth year inclusive	—	3,034,861	—	3,034,861
	<u><b>3,034,861</b></u>	<u>7,314,928</u>	<u><b>3,034,861</b></u>	<u>7,081,343</u>

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 34. SHARE OPTIONS

- A. The Company operates share option schemes under which eligible persons are entitled to benefit in respect of their services to the Group.

#### (a) 1998 Share Option Scheme

The major terms of the 1998 Share Option Scheme are summarised as follows:

- (i) The purpose is to provide incentives to the participants.
- (ii) The participants include any full-time employee (including full-time executive directors) of the Group.
- (iii) The maximum number of shares of the Company ("Shares") in respect of which options may be granted (together with Shares issued pursuant to options exercised and Shares in respect of which any option remains outstanding) under the 1998 Share Option Scheme and any other share option schemes of the Company remaining outstanding will not exceed 10% of the issued share capital of the Company from time to time excluding any Shares issued pursuant to the 1998 Share Option Scheme.
- (iv) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the 1998 Share Option Scheme.
- (v) The option period shall be a period to be notified by the Board to each grantee and shall not exceed a period of 5 years commencing on the expiry of 6 months after the date on which the option is accepted and beyond 3rd February, 2008.
- (vi) The acceptance of an offer to an option shall be made within 28 days from the date of grant together with a non-refundable payment of HK\$1.00 from the grantee.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 34. SHARE OPTIONS *(Continued)*

- (vii) The exercise price of an option must be the higher of:
- a price being not less than 80% of the average closing price of the Share on the SEHK for the 5 trading days immediately preceding the grant; and
  - the nominal value of the Share.
- (viii) The duration of the 1998 Share Option Scheme was originally effective for 10 years until 3rd February, 2008. On 27th June, 2002, the shareholders of the Company resolved to terminate the 1998 Share Option Scheme. The options granted under the 1998 Share Option Scheme are still exercisable in accordance with the terms of the 1998 Share Option Scheme.

### **(b) Share option scheme adopted on 27th June, 2002 (“2002 Share Option Scheme”)**

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 27th June, 2002, the Company adopted the 2002 Share Option Scheme to replace the 1998 Share Option Scheme. All the options granted under the 1998 Share Option Scheme remain valid and unchanged and shall be treated in accordance with the terms under the 1998 Share Option Scheme. No option has been granted under the 2002 Share Option Scheme since its adoption on 27th June, 2002. The major terms of the 2002 Share Option Scheme are summarised as follows:

- (i) The purpose is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company as a whole.
- (ii) The participants include any employee, director or consultant of the Group, whether full time or otherwise.



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 34. SHARE OPTIONS (Continued)

- (iii) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the adoption date of the 2002 Share Option Scheme and such limit may be refreshed by shareholders of the Company in general meeting. However, the overall limit on the number of Shares which may be issued upon exercise of all options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes must not exceed 30% of the Shares of the Company in issue from time to time.
- (iv) Unless approved by the shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted to a participant (including both exercised and outstanding options) in any 12 months period must not exceed 1% of the Shares in issue.
- (v) The option period shall be a period to be notified by the Board to each grantee at the time of making an offer which shall not expire later than 10 years from the date of grant.
- (vi) Acceptance of an option shall be made within 21 days from the date of grant together with a non-refundable payment of HK\$10.00 from the grantee.
- (vii) The exercise price of an option must be at least the highest of:
- the closing price of the Share as stated in the SEHK's daily quotations sheet on the date of grant which must be a business day;
  - the average closing price of the Share as stated in the SEHK's daily quotations sheets for the 5 business days immediately preceding the date of grant; and
  - the nominal value of the Share.
- (viii) The 2002 Share Option Scheme shall be valid and effective for 10 years from the date of adoption.





# Notes to the Financial Statements

For the year ended 31st December, 2002

## 34. SHARE OPTIONS (Continued)

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings during the year.

Name of Scheme	Date of grant	Exercise period	Exercise price HK\$	Outstanding as at 1.1.2001	Granted in 2001	Lapsed in 2001	Outstanding as at 31.12.2001	Lapsed in 2002	Outstanding as at 31.12.2002
<b>Directors</b>									
1998 Share Option Scheme	18.6.1997	18.6.1998 - 17.6.2002	1.22	200,000	—	—	200,000	(200,000)	—
	11.1.1999	11.7.2001 - 10.7.2004	0.49	50,000	—	—	50,000	—	50,000
	13.1.1999	13.7.1999 - 12.7.2004	0.49	3,000,000	—	—	3,000,000	(2,000,000)	1,000,000
	13.1.1999	13.7.2001 - 12.7.2004	0.49	3,500,000	—	(300,000)	3,200,000	(2,200,000)	1,000,000
	1.3.2001	1.9.2001 - 31.8.2006	0.38	—	1,300,000	—	1,300,000	(1,000,000)	300,000
				<u>6,750,000</u>	<u>1,300,000</u>	<u>(300,000)</u>	<u>7,750,000</u>	<u>(5,400,000)</u>	<u>2,350,000</u>
<b>Employees</b>									
1998 Share Option Scheme	11.1.1999	11.7.2001 - 10.7.2004	0.49	20,000	—	—	20,000	(20,000)	—
	11.1.1999	11.7.2001 - 10.7.2004	0.49	640,000	—	(170,000)	470,000	(170,000)	300,000
	1.3.2001	1.9.2001 - 31.8.2006	0.38	—	1,700,000	(200,000)	1,500,000	(800,000)	700,000
				<u>660,000</u>	<u>1,700,000</u>	<u>(370,000)</u>	<u>1,990,000</u>	<u>(990,000)</u>	<u>1,000,000</u>
				<u>7,410,000</u>	<u>3,000,000</u>	<u>(670,000)</u>	<u>9,740,000</u>	<u>(6,390,000)</u>	<u>3,350,000</u>

- B. On 6th August, 2002, the Company granted options to the substantial shareholders, China United Telecom Limited and Mr. Evans Carrera Lowe to subscribe for 150,000,000 and 50,000,000 new shares respectively at a subscription price of HK\$0.20 per share and such options are exercisable within a period of 2 years from the date of grant. Details of these transactions are set out in the Company's circular dated 28th May, 2002. On 7th October, 2002, China United Telecom Limited exercised its option in part and subscribed for 27,000,000 shares. As at 31st December, 2002, 173,000,000 shares remain to be issued pursuant to such option agreements.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 35. RELATED PARTY TRANSACTIONS

The following summarises the significant related party transactions.

- (a) The Group granted the following related-party loans on 20th October, 1998 to enable the borrowers to reduce the outstanding balances in their margin accounts. These loans were 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. So Wai Yin, Irene	Company controlled by Ms. So Wai Kwan, Sheila, sister of a director, Ms. So Wai Yin, Irene
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 31st December, 2002	<u>HK\$73,769,288</u>	<u>HK\$7,074,379</u>
Balance at 31st December, 2001	<u>HK\$77,934,917</u>	<u>HK\$7,473,858</u>
Provision at 31st December, 2002	<u>HK\$73,769,288</u>	<u>HK\$7,074,379</u>

These loans were rescheduled in 1999 with the last instalment due in May, 2006. However, the loans have been in default since 2000 and a total provision of HK\$80,843,667 (2001: HK\$80,908,775) has been made. The Group is in the process of demanding repayment of the loans.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 35. RELATED PARTY TRANSACTIONS (Continued)

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

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. So Wai Yin, Irene	Company controlled by Ms. So Wai Kwan, Sheila, sister of a director, Ms. So Wai Yin, Irene
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 31st December, 2002	<u>HK\$8,795,445</u>	<u>HK\$8,735,667</u>
Balance at 31st December, 2001	<u>HK\$8,273,947</u>	<u>HK\$10,795,784</u>
Provision at 31st December, 2002	<u>HK\$8,795,445</u>	<u>HK\$8,526,847</u>

The loans are in default and a total provision of HK\$17,322,292 (2001: HK\$10,800,000) has been made. The Group is in the process of demanding repayment of the loans.



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 35. RELATED PARTY TRANSACTIONS (Continued)

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

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Directors		
— Mr. Evans Carrera Lowe (resigned on 6th August, 2002)	<b>343</b>	22,502
— Others	<b>148</b>	44,787
Related parties to the directors:		
Noblesse Ventures Inc.	<b>6,629</b>	40,496
Pharmatech Management Limited	—	4,600
Dynamic Assets Limited	—	10,678
Supreme Grass Limited (Note)	—	3,428
	<b>7,120</b>	126,491

Note: Supreme Grass Limited is beneficially owned by Mr. Evans Carrera Lowe.

(d) The Company paid interest for a loan from the following director:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Mr. Evans Carrera Lowe (resigned on 6th August, 2002)	<b>275,654</b>	—

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

### 36. NON-CASH TRANSACTIONS

During the year, the Company issued 133,375,000 shares as fully paid for settlement of other payables and accrued charges, amounts due to a director and loans payable of HK\$1,800,000, HK\$2,502,014 and HK\$22,372,986 respectively.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 37. POST BALANCE SHEET EVENTS

- (a) Subsequent to 31st December, 2002, the Company disposed of its wholly owned subsidiary Mansion House Real Estate Limited and a loan to it for a cash consideration of approximately HK\$44.3 million. Mansion House Real Estate Limited owns 92% economic interest in Guangdong Wanhua Real Estate Development Co., Ltd. which principal activity is property development. The transaction was completed in February 2003. In addition, approximately HK\$6 million compensation was paid by the Company for termination of a real estate project consultancy agreement. Details of the transactions are set out in the Company's circular dated 28th February, 2003.
- (b) On 4th April, 2003, the Company entered into a subscription agreement whereby the Company will issue 24,957,815 shares to certain Directors and creditors, on a conditional basis, to set off against the debts of HK\$11,231,018 owed to them. Details of the transaction are set out in the Company's circular dated 16th May, 2003.
- (c) On 29th May, 2003, the Company has entered into a non-legally binding letter of intent for the proposed appointment of the Company as the sole distribution agent of television programmes outside the PRC. Detailed terms of the proposed appointment have not yet been agreed upon.
- (d) As disclosed in the Company's announcement dated 30th May, 2003, the Company is in the course of negotiating with a potential investor in respect of a proposed property injection into the Group. The negotiations are still at an infant stage.

