



MANSION HOUSE GROUP LIMITED
INTERIM REPORT 2003



2003

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 30 June 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2003	2002
	NOTES	HK\$'000	HK\$'000
		(unaudited)	<i>(unaudited)</i>
			<i>(restated)</i>
Turnover	5	1,948	15,713
Cost of properties sold		<u>—</u>	<u>(8,512)</u>
Gross profit		1,948	7,201
Other operating income		605	1,299
Allowance for doubtful loans and bad debts		—	(416)
Depreciation of property, plant and equipment		(1,203)	(1,430)
Amortisation of intangible assets		(136)	—
Staff costs		(6,629)	(7,239)
Other operating expenses	6	<u>(15,008)</u>	<u>(18,466)</u>
Loss from operations		(20,423)	(19,051)
Finance costs		(2,389)	(3,487)
Share of profits/(losses) of associates		38	(91)
Loss on disposal of subsidiaries		<u>(3,692)</u>	<u>—</u>
Loss before taxation		(26,466)	(22,629)
Taxation	7	<u>—</u>	<u>—</u>
Loss after taxation		(26,466)	(22,629)
Minority interests		<u>—</u>	<u>202</u>
Loss for the period		<u>(26,466)</u>	<u>(22,427)</u>
Loss per share	9		
Basic and diluted		<u>(2.16) cents</u>	<u>(6.01) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	30 June 2003 HK\$'000 <i>(unaudited)</i>	31 December 2002 <i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment		8,347	9,644
Interest in associates		1,052	1,014
Intangible assets		1,764	1,900
Investment securities		50	50
Statutory and other deposits		2,911	2,936
Other asset		500	500
		<u>14,624</u>	<u>16,044</u>
Current assets			
Properties held for development		—	44,300
Accounts receivable	10	7,575	11,394
Deposits and prepayments		11,577	2,174
Tax recoverable		—	1,265
Bank balances (general accounts) and cash		6,103	20,462
Bank balances — trust and segregated accounts	11	42,601	35,796
		<u>67,856</u>	<u>115,391</u>
Current liabilities			
Accounts payable	12	45,733	40,276
Other payables and accrued charges	13	22,414	31,088
Loans payable	14	57,152	59,270
Amount due to an associate		633	525
Bank loans and overdrafts	15	1,367	3,871
		<u>127,299</u>	<u>135,030</u>
Net current liabilities		<u>(59,443)</u>	<u>(19,639)</u>
Non-current liabilities			
Loans payable	14	14,589	28,988
Bank loans	15	2,635	2,994
		<u>17,224</u>	<u>31,982</u>
Net liabilities		<u>(62,043)</u>	<u>(35,577)</u>
Capital and reserves			
Share capital	16	245,274	245,274
Reserves	17	(307,317)	(280,851)
		<u>(62,043)</u>	<u>(35,577)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total equity	
	2003 <i>HK\$'000</i> <i>(unaudited)</i>	2002 <i>HK\$'000</i> <i>(unaudited)</i>
As at 1 January	(35,577)	3,811
Exchange difference on translation of overseas subsidiaries	—	(230)
Loss for the six months' period	<u>(26,466)</u>	<u>(22,427)</u>
As at 30 June	<u>(62,043)</u>	<u>(18,846)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Net cash (used in) from operating activities	(13,971)	40,538
Net cash from investing activities	21,381	3,283
Net cash used in financing activities	(21,769)	(28,294)
Net (decrease) increase in cash and cash equivalents	(14,359)	15,527
Cash and cash equivalents at 1 January	20,462	10,071
Cash and cash equivalents at 30 June	6,103	25,598
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as previously reported		47,552
Effect of reclassification of bank balances — trust and segregated accounts		(49,784)
Effect of reclassification of bank loans and overdrafts		27,830
Cash and cash equivalents as restated		
Bank balances (general accounts) and cash	6,103	25,598

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

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 Stock Exchange"). Its ultimate holding company is China United Telecom Limited ("China United"), a company incorporated in the British Virgin Islands with limited liability.

During the period, the Company disposed of its wholly owned subsidiary Mansion House Real Estate Limited ("MHREL") and a loan to it for a cash consideration of approximately HK\$44.3 million. MHREL owns 92% economic interest in Guangdong Wanhua Real Estate Development Co., Ltd. ("GWRED") which principal activity is property development in the People's Republic of China ("the PRC"). The transaction was completed in February 2003.

After the disposals, the Group does not participate in any property development activity. Except for this, the nature of operations of the Group and its principal activities have not changed during the period and consist of securities, options and futures broking and trading, fund management, underwriting, share margin financing and investment holdings.

2. Basis of Preparation

- (a) The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting.
- (b) In preparing the condensed financial statements, the Directors have given careful consideration to the liquidity of the Group in light of its net deficiency of shareholders' funds of HK\$62,043,000. The Directors are taking active steps to improve the liquidity position of the Group. Certain liabilities in the sum of HK\$11,231,018 were settled by the issue of the Company's shares on 4 July 2003. And as disclosed in the Company's Annual Report 2002, the Company had entered into a non-legally binding letter of intent for the sole distribution rights for television programmes outside the PRC, and is in negotiations for a possible injection into the Group of an income generating property development in Beijing, PRC. The negotiations remain at an infant stage. Other than the above, the Directors are also actively pursuing and developing other strategies to further improve the Group's financial position. Based on these, the Directors are satisfied that the Group will be able to meet its financial obligations for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of intangible assets.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002 except as described below.

Basis of consolidation

The consolidated financial statements of the Group have not incorporated the results of GWRED for the period from 1 January 2003 to the date of disposal.

Income taxes

In the current interim period, the Group has adopted, for the first time, the SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method. Pursuant to the method, a liability was recognised in respect of timing difference arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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

4. Business and Geographical Segments

After the disposal of GWRED, two operating segments remain, namely financial services and investment holdings. Financial services comprises securities, options and futures broking and trading, fund management, underwriting and share margin financing services.

4. Business and Geographical Segments *(continued)*

Both financial services and investment holdings are based in Hong Kong. The combined business and geographical segments are shown as follows:

Income statements for the six months ended 30 June 2003

	Hong Kong		PRC		
	Financial	Investment	Property	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External sales	1,948	—	—	—	1,948
Inter-segment sales	581	316	—	(897)	—
Total turnover	<u>2,529</u>	<u>316</u>	<u>—</u>	<u>(897)</u>	<u>1,948</u>
RESULT					
Segment profit (loss)	<u>458</u>	<u>(21,486)</u>	<u>—</u>	<u>—</u>	(21,028)
Other operating income					<u>605</u>
Loss from operations					(20,423)
Finance costs					(2,389)
Share of profits of associates					38
Loss on disposal of subsidiaries					<u>(3,692)</u>
Loss before taxation					(26,466)
Taxation					<u>—</u>
Loss after taxation					(26,466)
Minority interests					<u>—</u>
Loss for the period					<u>(26,466)</u>

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4. Business and Geographical Segments *(continued)*

Income statements for the six months ended 30 June 2002

	Hong Kong		PRC		
	Financial services <i>HK\$'000</i>	Investment holdings <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	4,790	2	10,921	—	15,713
Inter-segment sales	602	2,494	—	(3,096)	—
Total turnover	<u>5,392</u>	<u>2,496</u>	<u>10,921</u>	<u>(3,096)</u>	<u>15,713</u>
RESULT					
Segment loss	<u>(4,314)</u>	<u>(13,971)</u>	<u>(2,065)</u>	<u>—</u>	(20,350)
Other operating income					<u>1,299</u>
Loss from operations					(19,051)
Finance costs					(3,487)
Share of losses of associates					<u>(91)</u>
Loss before taxation					(22,629)
Taxation					<u>—</u>
Loss after taxation					(22,629)
Minority interests					<u>202</u>
Loss for the period					<u>(22,427)</u>

5. Turnover

	Six months ended 30 June	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Brokerage and commission income	1,352	3,287
Interest income	400	1,337
Management and handling fees income	196	235
Gross proceeds from sales of properties	—	10,854
	<u>1,948</u>	<u>15,713</u>

6. Other Operating Expenses

	Six months ended 30 June	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Included in other operating expenses are:		
Compensation for termination of a consultancy agreement	6,355	—
Loss on disposal of property, plant and equipment	—	136
Operating lease rentals in respect of office premises	1,673	2,168
	<u>1,673</u>	<u>2,168</u>

7. Taxation

No provision for Hong Kong Profits Tax and enterprise income tax in PRC has been made as the Group incurred tax losses for each of two periods ended 30 June 2003 and 2002.

As at 30 June 2003, the Group has unused tax losses available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Temporary differences arising in connection with interests in associates are insignificant.

8. Dividends

As at 30 June 2003, the Company did not have any reserves available for cash distribution. However, the Company's share premium account may be distributed in the form of fully-paid bonus shares. The Directors do not recommend the payment of an interim dividend (2002: Nil).

9. Loss Per Share

The calculation of basic loss per share is based on the loss for the period of approximately HK\$26,466,000 (2002: HK\$22,427,000) and 1,226,369,481 (2002: 373,169,481) shares in issue during the period.

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 periods.

10. Accounts Receivable

The aged analysis of accounts receivable is as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Less than one month	5,746	3,296
Over one month but less than three months	197	263
Over three months	1,632	7,835
	7,575	11,394

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.

11. Bank Balances — Trust and Segregated Accounts

The amount represents bank balances which are held on behalf of the clients of certain subsidiaries of the Company.

12. Accounts Payable

The aged analysis of accounts payable is as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Less than one month	45,733	37,799
Over three months	—	2,477
	<u>45,733</u>	<u>40,276</u>

13. Other Payables and Accrued Charges

Included in other payables and accrued charges are HK\$4,919,000 (2002: HK\$2,008,000) being fees and other emoluments owing to the Directors and ex-directors.

14. Loans Payable

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Loans payable		
— Directors	2,367	7,767
— A shareholder	3,720	3,720
— A related company	1,063	1,013
— Others	64,591	75,758
	<u>71,741</u>	<u>88,258</u>
Non-current		
— Others	(14,589)	(28,988)
	<u>57,152</u>	<u>59,270</u>
Portion due within one year	<u>57,152</u>	<u>59,270</u>

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

15. Bank Loans and Overdrafts

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Bank overdrafts (unsecured)	429	3,012
Bank loans (secured)	3,573	3,853
	<u>4,002</u>	<u>6,865</u>
Non-current portion		
— Bank loans (secured)	(2,635)	(2,994)
	<u>(2,635)</u>	<u>(2,994)</u>
Portion due within one year	<u>1,367</u>	<u>3,871</u>

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

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
On demand or within one year	1,367	3,871
Over one year but less than two years	745	727
Over two years but less than five years	1,890	2,267
	<u>4,002</u>	<u>6,865</u>

16. Share Capital

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
2,000,000,000 shares	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:		
1,226,369,481 shares	<u>245,274</u>	<u>245,274</u>

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17. Reserves

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Assets revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2002	117,522	1,035	8,500	2,376	(200,256)	(70,823)
Disposal of intangible asset	—	—	(2,500)	—	2,500	—
Exchange difference on translation of overseas subsidiaries	—	—	—	(230)	—	(230)
Loss for the period						
— as originally stated					(19,927)	
— adjustment on disposal of intangible asset					(2,500)	
— as restated	—	—	—	—	(22,427)	(22,427)
As at 30 June 2002 and 1 July 2002	117,522	1,035	6,000	2,146	(220,183)	(93,480)
Impairment loss of intangible assets	—	—	(3,350)	—	—	(3,350)
Exchange difference on translation of overseas subsidiaries	—	—	—	218	—	218
Loss for the period	—	—	—	—	(66,440)	(66,440)
Bonus share issued	(117,465)	(1,035)	—	—	—	(118,500)
Shares issued at premium	758	—	—	—	—	758
Share issue expenses	(57)	—	—	—	—	(57)
As at 31 December 2002	758	—	2,650	2,364	(286,623)	(280,851)
Elimination of translation reserve on disposal of subsidiaries	—	—	—	(2,364)	2,364	—
Loss for the period	—	—	—	—	(26,466)	(26,466)
As at 30 June 2003	<u>758</u>	<u>—</u>	<u>2,650</u>	<u>—</u>	<u>(310,725)</u>	<u>(307,317)</u>

18. 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 (2002: HK\$240,000) given to the Hong Kong Securities Clearing Company Limited in lieu of cash contribution to the CCASS Guarantee Fund.

19. Disposal of Subsidiaries

The net assets of MHREL and GWRED disposed of were as follows:

	<i>HK\$'000</i>
Net assets disposed of	48,031
Loss on disposal	(3,692)
	<hr/>
Total consideration	44,339
	<hr/> <hr/>
Satisfied by:	
Cash	44,339
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration	44,339
Bank balances and cash disposed of	(12,554)
	<hr/>
	31,785
	<hr/> <hr/>

20. Related Party Transactions

The following summarises the significant related party transactions.

- (a) The Group granted the following related-party loans on 20 October 1998 to enable the borrowers to reduce the outstanding balances in their margin accounts. These loans are approved by shareholders in the extraordinary general meeting held on 23 July 1999 as required by the Listing Rules.

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 30 June 2003 (unaudited)	HK\$73,769,288	HK\$7,074,379
Balance at 31 December 2002 (audited)	HK\$73,769,288	HK\$7,074,379
Provision at 30 June 2003	HK\$73,769,288	HK\$7,074,379

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 (2002: HK\$80,843,667) has been made. The Group is in the process of demanding repayment of the loans.

20. 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 30 June 2003 (unaudited)	HK\$9,065,067 <u><u> </u></u>	HK\$9,003,457 <u><u> </u></u>
Balance at 31 December 2002 (audited)	HK\$8,795,445 <u><u> </u></u>	HK\$8,735,667 <u><u> </u></u>
Provision at 30 June 2003	HK\$9,065,067 <u><u> </u></u>	HK\$8,570,057 <u><u> </u></u>

The loans are in default and a total provision of HK\$17,635,124 (2002: HK\$17,322,292) has been made. The Group is in the process of demanding repayment of the loans.

21. Post Balance Sheet Events

- (a) On 4 July 2003, the Company has issued 24,957,815 shares to certain directors and creditors to set off against the debts of HK\$11,231,018 owed to them.
- (b) As at 30 June 2003, the leasehold properties with net book values of HK\$6,290,678 (31 December 2002: HK\$6,306,570) are pledged to secure the bank loans of HK\$3,572,562 (31 December 2002: HK\$3,852,554). On 2 July 2003, a wholly owned subsidiary of the Company, Double Deal Limited, entered into a disposal agreement with a third party to dispose these leasehold properties for a cash consideration of HK\$4.5 million. Details of the transactions were announced on 2 July and 23 July 2003, and further details will be set out in a circular to be issued.
- (c) On 19 July 2003, a wholly owned subsidiary of the Company, MHS Futures Limited, ceased its operations for provision of financial futures and options broking service.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results

The Group recorded an unaudited loss attributable to shareholders of approximately HK\$26,466,000 for the six months ended 30 June 2003 compared with a loss attributable to shareholders of approximately HK\$22,427,000 for the corresponding period in 2002.

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2003, the Group had cash and cash equivalents of approximately HK\$6,103,000 (31 December 2002: HK\$20,462,000). The amount of bank loans, finance lease and hire purchase as at 30 June 2003 is approximately HK\$4,002,000 (31 December 2002: HK\$6,865,000).

The Group's gearing ratio is 1.75 as at 30 June 2003 as compared with 1.27 as at 31 December 2002. The gearing ratio is calculated by dividing total liabilities by total assets.

Capital Structure

On 4 April 2003, the Company entered into a subscription agreement with Mr. Evans Carrera Lowe, Ms. Irene Wai Yin So, Mr. Philip Tai Yip Poon, Mr. David King Chuen Lung, Mr. Lu Ruifeng, Dr. Gu Qinhua Joseph and P. C. Woo & Co. to subscribe for an aggregate of 24,957,815 shares at a subscription price of HK\$0.45 per share. The completion of the subscription agreement took place on 4 July 2003. The consideration for the shares was set off against debts amounting to HK\$11,231,018 due to the subscribers.

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 in Hong Kong dollars and subject to fixed and floating interest rates.

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

The Group is not exposed to significant capital market risk as no significant proprietary trading is conducted by the Group.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the period, other than the disposal of the entire issued share capital of MHREL. MHREL owns 92% economic interest in GWRED. The transaction was completed in February 2003.

Employees

As at 30 June 2003, the Group employed 37 (31 December 2002: 45) staff in Hong Kong. Remuneration is reviewed annually and a discretionary bonus will be declared based on the performance of the staff. The 2002 share option scheme adopted by the Company at its extraordinary general meeting held on 27 June 2002 ("the 2002 Share Option Scheme") is in operation.

Charge on the Group's Assets

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 (31 December 2002: HK\$5,000,000 and interest) of which HK\$3,572,562 (2002: HK\$3,852,554) was utilised as at the balance sheet date. An agreement for the sale of these properties to a third party was entered into on 1 August 2003.

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 (31 December 2002: HK\$240,000) given to the Hong Kong Securities Clearing Company Limited in lieu of cash contribution to the CCASS Guarantee Fund.

REVIEW OF OPERATION

The first half of 2003 was still a difficult and challenging period. The Group's brokerage operations was dealt a severe blow by the unfortunate outbreak of SARS (Severe Acute Respiratory Syndrome), and continued to suffer the effects of a sluggish economy, battered investor confidence, and the end of minimum commissions on 30 April 2003.

Despite the difficult market conditions, the Group's asset management business continued to perform satisfactorily, and the Mansion House Hong Kong Trust performed largely in line with the Hang Seng Index.

As a result of an internal review, the futures brokerage operations were suspended in July 2003, and the management will re-evaluate its future at a later date.

The value of landed properties owned by a subsidiary had been declining as a result of the downturn of the property market in Hong Kong. In order to lower interest costs and improve profitability of the Group, the management considered it appropriate to sell the landed properties. Accordingly, the subsidiary signed a formal sale and purchase agreement on 1 August 2003 with a third party. The transaction is expected to complete on 6 October 2003.

LOOKING FORWARD

The shareholders of China United, being the major shareholder of the Group, have interests, experience and contacts in the media and telecommunications sectors in the PRC which are valuable resources that the Group may capitalise on for future growth. The Directors will explore potential diversification into these sectors by the Group if beneficial. In this regard, the Company has entered into a non-legally binding letter of intent for the sole distribution rights for television programmes in regions other than the PRC in May 2003.

In addition, following the successful disposal of the Guangzhou property development, the Company is in negotiations for a possible injection into the Group of an income generating property development in Beijing, PRC. The negotiations remain at an infant stage.

It is the intention of the Directors to strive to improve the Group's profits and enhance shareholder value, whether by expansion, diversification or otherwise.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(1) Long positions

(a) Ordinary shares of HK\$0.2 each of the Company

Name of director	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Leung Shi Wing	Held by controlled corporation (<i>note</i>)	619,500,000	50.515%
Ms. So Wai Yin, Irene	Beneficial owner	8,309,567	0.678%
Mr. Norman Carrera Lowe	Beneficial owner	50,300	0.004%
		<u>627,859,867</u>	<u>51.197%</u>

Note: Mr. Leung Shi Wing is deemed to be interested in 619,500,000 shares held by China United due to his 50% shareholding interest in China United.

(b) Share options

Name of director	Capacity	Number of options held	Number of shares underlying
Mr. Leung Shi Wing	Held by controlled corporation (<i>note</i>)	123,000,000	123,000,000
Ms. So Wai Yin, Irene	Beneficial owner	2,000,000	2,000,000
Mr. Norman Carrera Lowe	Beneficial owner	350,000	350,000

Note: Mr. Leung Shi Wing is deemed to be interested in 123,000,000 outstanding options held by China United due to his 50% shareholding interest in China United. Pursuant to an option agreement dated 6 August 2002 entered into between the Company and China United, the Company granted an option to China United to subscribe for an aggregate of 150,000,000 shares at a subscription price of HK\$0.20 per share and such option is exercisable within a period of 2 years from the date of such option agreement. On 7 October 2002, China United exercised its option in part and subscribed for 27,000,000 shares. As at 30 June 2003, options to subscribe for 123,000,000 shares remained outstanding.

(2) Short positions

As at 30 June 2003, none of the directors and chief executives of the Company or their respective associates had short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTIONS

Upon the adoption of the 2002 Share Option Scheme on 27 June 2002, the operation of the share option scheme adopted on 4 February 1998 (“the 1998 Share Option Scheme”) was terminated such that no further options can thereafter be granted under the 1998 Share Option Scheme but in all other respects, the provisions of the 1998 Share Option Scheme remain in full force and effect.

In addition, on 6 August 2002, the Company granted options to two substantial shareholders to subscribe for an aggregate of 200,000,000 new shares. On 7 October 2002, one of the substantial shareholders exercised its option in part and subscribed for 27,000,000 shares. As at 30 June 2003, options to subscribe for 173,000,000 shares remained outstanding.

The following table discloses details of options outstanding under the Company's share option scheme and movements during the period:

	Date of grant	Number of share options outstanding as at 1 January 2003	Lapsed during the period	Number of share options outstanding as at 30 June 2003	Exercise price HK\$	Exercise period
Directors						
1998 Share Option Scheme						
Mr. Norman Carrera Lowe	11.1.1999	50,000	—	50,000	0.49	11.7.2001 — 10.7.2004
	1.3.2001	300,000	—	300,000	0.38	1.9.2001 — 31.8.2006
Ms. So Wai Yin, Irene	13.1.1999	1,000,000	—	1,000,000	0.49	13.7.1999 — 12.7.2004
	13.1.1999	1,000,000	—	1,000,000	0.49	13.7.2001 — 12.7.2004
Total — Directors		<u>2,350,000</u>	<u>—</u>	<u>2,350,000</u>		
Employees						
1998 Share Option Scheme						
	11.1.1999	300,000	—	300,000	0.49	11.7.2001 — 10.7.2004
	1.3.2001	700,000	(100,000)	600,000	0.38	1.9.2001 — 31.8.2006
Total — Employees		<u>1,000,000</u>	<u>(100,000)</u>	<u>900,000</u>		
Total — all categories		<u>3,350,000</u>	<u>(100,000)</u>	<u>3,250,000</u>		

SUBSTANTIAL SHAREHOLDERS

- (a) As at 30 June 2003, persons (other than a director or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance were as follows:

Name of shareholder	Number of Shares	Nature of interest	Approximate percentage of interest
China United <i>(Note 1)</i>	619,500,000	Beneficial owner	50.515%
Leung Shi Wing <i>(Note 2)</i>	619,500,000	Interest of controlled corporation	50.515%
High Reach Assets Limited <i>(Note 3)</i>	197,500,000	Beneficial owner	16.104%
Evans Carrera Lowe <i>(Notes 4 and 5)</i>	24,543,027 260,690,387	Beneficial owner Interest of controlled corporations	2.001% 21.257%

Notes:

- The Company entered into an option agreement with China United on 6 August 2002 pursuant to which the Company granted an option to China United to subscribe for an aggregate of 150,000,000 shares at a subscription price of HK\$0.20 per share and such option is exercisable within a period of 2 years from the date of such option agreement. As at 30 June 2003, options to subscribe for 123,000,000 shares remained outstanding.
- Mr. Leung Shi Wing beneficially owns 50% of the entire issued share capital of China United and is deemed, by virtue of the Securities and Futures Ordinance, to be interested in all the 619,500,000 shares and the 123,000,000 outstanding options mentioned in note 1 above both held by China United.
- The entire issued share capital of High Reach Assets Limited is beneficially owned by Mr. Evans Carrera Lowe.

4. Mr. Evans Carrera Lowe's interests in these shares comprise 24,543,027 shares registered under his name and 260,690,387 shares held through his controlled corporations, as to 197,500,000 shares held through High Reach Assets Limited, 44,227,947 shares held through Global Source Company Limited, 11,434,800 shares held through Supreme Grass Limited and 7,527,640 shares held through Lowe Holdings Company Limited, Inc. Mr. Evans Carrera Lowe is deemed, by virtue of the Securities and Futures Ordinance, to be interested in 285,233,414 shares in aggregate, amounting to approximately 23.258% of the entire issued shares of the Company.
 5. The Company entered into an option agreement with Mr. Evans Carrera Lowe on 6 August 2002 pursuant to which the Company granted an option to Mr. Evans Carrera Lowe to subscribe for an aggregate of 50,000,000 shares at a subscription price of HK\$0.20 per share and such option is exercisable within a period of 2 years from the date of such option agreement. As at 30 June 2003, none of the options granted to Mr. Evans Carrera Lowe under the said subscription agreement have been exercised.
- (b) Save as disclosed, the directors and chief executive of the Company are not aware of any other person who, as at 30 June 2003, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities other than as an agent for clients of its subsidiaries.

AUDIT COMMITTEE

The Audit Committee met in September 2003 to review the system of internal control and its compliance, and the results of the Group for the six months ended 30 June 2003.

CORPORATE GOVERNANCE

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 six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

As at 30 June 2003, the amounts due from Dynamic Assets Limited ("DAL"), Pharmatech Management Limited ("PML") and Noblesse Ventures Inc. ("NVI") before and after provision are summarised below.

	DAL	PML	NVI
	before (after)	before (after)	before (after)
	provision	provision	provision
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Margin loans (<i>Note 1</i>)	5,870,418 (Nil)	3,194,649 (Nil)	9,003,457 (433,400)
Other loans (<i>Note 2</i>)	45,491,023 (Nil)	28,278,265 (Nil)	7,074,379 (Nil)
	<hr/>	<hr/>	<hr/>
Total loans	51,361,441 (Nil)	31,472,914 (Nil)	16,077,836 (433,400)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. The amounts due result from share margin loans. A total provision of HK\$17,635,124 (2002: HK\$17,322,292) has been made. Please refer to note 20(b) to the condensed financial statements for further details in relation to these loans.
2. These loans were approved by shareholders of the Company in an extraordinary general meeting held on 23 July 1999. A total provision of HK\$80,843,667 (2002: HK\$80,843,667) has been made. Please refer to note 20(a) to the condensed financial statements for further details in relation to these loans.
3. Due to a consolidated deficiency in tangible assets of HK\$63.8 million as recorded at the balance sheet date, it is not practicable to express the amount of the above advances to each entity as a percentage of the consolidated net tangible assets value of the Group.

By order of the Board
So Wai Yin, Irene
Director

Hong Kong, 25 September 2003