

Notes to the Financial Statements

For the year ended 31st December, 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 "SEHK"). Its ultimate holding company is China United Telecom Limited ("China United"), a company incorporated in the British Virgin Islands with limited liability.

During the year, the Company disposed of its wholly owned subsidiary Mansion House Real Estate Limited ("MHREL"). MHREL owns 92% economic interest in Guangdong Wanhua Real Estate Development Co., Ltd. ("GWRED") which principal activity is property development in the PRC. The transaction was completed on 25th February, 2003.

After the disposals, the Group does not participate in any property development activity. This property development activity represents the discontinued operation of the Group. Except for this, the nature of operations of the Group and its principal activities have not changed during the year and consisted of securities broking, fund management, underwriting, share margin financing and investment holdings.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Directors have given consideration to the liquidity position of the Group in the light of its net liabilities of HK\$21,636,966 as at 31st December, 2003. The Directors are taking active steps to improve the liquidity position of the Group. In particular, the Company is in process of exploring with a potential investor the injection into the Group of an income generating property in the PRC. Provided that the income generating property is injected into the Group, 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. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted Statement of Standard Accounting Practice ("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, i.e. a liability was recognised in respect of timing differences 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 all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. However, the adoption of SSAP 12 (Revised) has had no material effect on the results for the current year or prior accounting years. Accordingly, no prior period adjustment has been required.

Notes to the Financial Statements

For the year ended 31st December, 2003

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Interest in subsidiaries

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

Interest 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Management fees are recognised at the time when the services are rendered.

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 included in net profit or loss for the year.

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.

Operating lease

Rentals of operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Notes to the Financial Statements

For the year ended 31st December, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Motor vehicles	20%
Computers	20% – 50%
Office equipment and furniture	20% – 33 1/3%
Leasehold improvements	Over the shorter of lease term or 20%

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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 a revaluation increase under that SSAP.

Notes to the Financial Statements

For the year ended 31st December, 2003

5. TURNOVER

	2003 HK\$	2002 HK\$
Brokerage and commission income	4,152,478	4,682,436
Dividend income from unlisted investments	8,814	647,127
Interest income	981,009	2,311,545
Management fees income	441,501	434,168
Net realised gain on disposal of other investments	12,000	177,530
Gross proceeds from sales of properties	–	47,577,194
	<u>5,595,802</u>	<u>55,830,000</u>

6. OTHER OPERATING INCOME

	2003 HK\$	2002 HK\$
Allowance for bad debts written back	1,105,360	854,339
Miscellaneous income	833,229	757,526
	<u>1,938,589</u>	<u>1,611,865</u>

7. STAFF COSTS

	2003 HK\$	2002 HK\$
Directors' remuneration (Note 8)		
– fees	–	577,303
– other emoluments	3,212,930	6,889,704
Salaries, allowances and commission	8,360,426	10,577,556
	<u>11,573,356</u>	<u>18,044,563</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

8. EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

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

	2003	2002
	HK\$	HK\$
Fees for		
– executive directors	–	117,177
– non-executive directors	–	116,774
– independent non-executive directors	–	343,352
	<u>–</u>	<u>577,303</u>
Other emoluments for executive directors		
– basic salaries and allowances	3,186,049	6,838,961
– provident fund contributions	26,881	50,743
	<u>3,212,930</u>	<u>6,889,704</u>
	<u>3,212,930</u>	<u>7,467,007</u>

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

	No. of directors	
	2003	2002
Nil – HK\$1,000,000	7	13
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>8</u>	<u>15</u>

(c) All of the five individuals with the highest emoluments in the Group in 2002 and 2003, were Directors whose emoluments are included in the disclosures in notes 8(a) and (b) above.

Notes to the Financial Statements

For the year ended 31st December, 2003

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 2003 amounted to HK\$373,650 (2002: HK\$687,690). 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 2003 amounted to HK\$115,998 (2002: HK\$203,994).

10. OTHER OPERATING EXPENSES

	2003 HK\$	2002 HK\$
Included in other operating expenses are:		
Auditors' remuneration	600,000	680,000
Loss on disposal of property, plant and equipment	1,696,615	257,404
Compensation for termination of a real estate project consultancy agreement	6,355,140	–
Consultancy fees	–	1,852,333
Rentals in respect of office premises	3,346,729	4,805,409
Net exchange loss	<u>639,850</u>	<u>7,613</u>

11. FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	<u>4,575,774</u>	<u>6,773,553</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

12. TAXATION

No provision for Hong Kong Profits Tax was made for both years as the Company and its subsidiaries either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward for the two years ended 31st December, 2003 and 2002.

The tax charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2003		2002	
	HK\$	%	HK\$	%
Loss before taxation	<u>(37,767,572)</u>		<u>(89,102,849)</u>	
Tax at domestic income tax rate of 17.5% (2002: 16%)	(6,609,325)	17.5	(14,256,456)	16.0
Tax effect of income not taxable for tax purpose	(23,726)	0.1	(108,622)	0.1
Tax effect of expense not deductible for tax purpose	2,766,482	(7.3)	8,220,771	(9.2)
Tax effect of tax losses not recognised	2,655,557	(7.1)	6,144,307	(6.9)
Others	<u>1,211,012</u>	<u>(3.2)</u>	<u>–</u>	<u>–</u>
Tax charge and effective tax rate for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

At the balance sheet date, the Group has estimated unused tax losses of HK\$247 million (2002: HK\$232 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK\$37,767,572 (2002: HK\$88,865,966) and the weighted average number of 1,247,750,522 (2002: 709,917,974) 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 would reduce loss per share.

Notes to the Financial Statements

For the year ended 31st December, 2003

14. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

In prior years, the Group also participated in the property development activity. The property development project was disposed and this activity was discontinued since 25th February, 2003 (see note 1).

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

Income statement for the year ended 31st December, 2003

	Hong Kong		PRC	Consolidated
	Financial services	Investment holdings	Property development (discontinued operations)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	5,591	5	–	5,596
Total turnover	5,591	5	–	5,596
RESULT				
Segment profit (loss)	2,816	(36,715)	–	(33,899)
Other operating income				1,939
Loss from operations				(31,960)
Finance costs				(4,576)
Share of profit of an associate				97
Loss on disposal of subsidiaries (discontinued operations)			(1,329)	(1,329)
Loss before taxation				(37,768)
Taxation				–
Loss for the year				(37,768)

Notes to the Financial Statements

For the year ended 31st December, 2003

14. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Balance sheet as at 31st December, 2003

	Hong Kong		PRC	Consolidated
	Financial services	Investment holdings	Property development (discontinued operations)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Segment assets	83,812	34,035	–	117,847
Interest in associates	–	1,111	–	1,111
Consolidated total assets				<u>118,958</u>
LIABILITIES				
Segment liabilities	71,429	12,236	–	83,665
Unallocated corporate liabilities				<u>56,930</u>
Consolidated total liabilities				<u>140,595</u>

Other information for the year ended 31st December, 2003

	Hong Kong		PRC	Consolidated
	Financial services	Investment holdings	Property development (discontinued operations)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to property, plant and equipment	–	17	–	17
Loss on disposal of property, plant and equipment	2	1,695	–	1,697
Allowance for bad debts written back	1,105	–	–	1,105
Depreciation of property, plant and equipment	624	1,328	–	1,952
Amortisation of intangible assets	271	–	–	271

Notes to the Financial Statements

For the year ended 31st December, 2003

14. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Income statement for the year ended 31st December, 2002

	Hong Kong		PRC	Eliminations	Consolidated
	Financial services	Investment holdings	Property development (discontinued operations)		
	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					(88,866)

Notes to the Financial Statements

For the year ended 31st December, 2003

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 (discontinued operations) HK\$'000	
ASSETS				
Segment assets	53,676	10,834	64,647	129,157
Interest in associates	–	1,014	–	1,014
				130,171
Unallocated corporate assets				1,265
Consolidated total assets				131,436
LIABILITIES				
Segment liabilities	38,806	15,644	17,439	71,889
Unallocated corporate liabilities				95,123
Consolidated total liabilities				167,012

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 (discontinued operations) 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 debts 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	37,703

Notes to the Financial Statements

For the year ended 31st December, 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Office Leasehold properties HK\$	Motor vehicles HK\$	equipment Computers HK\$	Leasehold and furniture HK\$	improvements HK\$	Total HK\$
THE GROUP						
COST						
At 1st January, 2003	7,491,505	2,826,239	6,202,812	4,627,713	1,061,295	22,209,564
Additions	-	-	-	17,511	-	17,511
Disposals	(7,491,505)	-	-	(6,642)	(17,500)	(7,515,647)
Eliminated on disposal of subsidiaries	-	(1,903,891)	(25,884)	(204,074)	-	(2,133,849)
At 31st December, 2003	-	922,348	6,176,928	4,434,508	1,043,795	12,577,579
DEPRECIATION						
At 1st January, 2003	1,184,935	2,405,196	3,948,640	4,139,454	886,915	12,565,140
Charge for the year	112,373	326,303	1,059,108	287,050	167,118	1,951,952
Eliminated on disposals	(1,297,308)	-	-	(5,974)	(15,750)	(1,319,032)
Eliminated on disposal of subsidiaries	-	(1,809,151)	(25,884)	(204,074)	-	(2,039,109)
At 31st December, 2003	-	922,348	4,981,864	4,216,456	1,038,283	11,158,951
NET BOOK VALUES						
At 31st December, 2003	-	-	1,195,064	218,052	5,512	1,418,628
At 31st December, 2002	6,306,570	421,043	2,254,172	488,259	174,380	9,644,424

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Motor vehicles HK\$	Office equipment Computers HK\$	Leasehold and furniture improvements HK\$		Total HK\$
THE COMPANY					
COST					
At 1st January, 2003	922,348	4,750,475	2,244,871	56,850	7,974,544
Additions	–	–	17,511	–	17,511
At 31st December, 2003	922,348	4,750,475	2,262,382	56,850	7,992,055
DEPRECIATION					
At 1st January, 2003	922,348	3,021,147	2,206,576	48,488	6,198,559
Charge for the year	–	854,012	12,821	2,850	869,683
At 31st December, 2003	922,348	3,875,159	2,219,397	51,338	7,068,242
NET BOOK VALUES					
At 31st December, 2003	–	875,316	42,985	5,512	923,813
At 31st December, 2002	–	1,729,328	38,295	8,362	1,775,985

16. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$	HK\$
Unlisted shares, at cost	42,007,020	42,007,020
Amounts due from subsidiaries	83,769,116	167,777,795
	125,776,136	209,784,815
Impairment loss recognised	(96,553,914)	(136,168,820)
	29,222,222	73,615,995

The amounts due from subsidiaries are unsecured, interest-free (2002: interest bearing) and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31st December, 2003

16. INTEREST IN SUBSIDIARIES (continued)

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, total impairment losses of HK\$189,329 (2002: 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 subsidiaries as at 31st December, 2003, which are all operating in Hong Kong are as follows:

Name of company	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
Mansion House Asset Management Limited	Hong Kong	1,000,000 shares of HK\$1 each	Ordinary	100	-	Unit trust management
Mansion House Global Advisors Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	-	Provision of consultancy services
Mansion House (Nominees) Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	-	Nominee services and investment holding
Double Deal Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	-	Investment holding
Beyond Net Limited	British Virgin Islands	1 share of US\$1 each	Ordinary	100	-	Investment holding
Telemedia Holding Group Limited	British Virgin Islands	100 shares of US\$1 each	Ordinary	100	-	Investment holding

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16. INTEREST IN SUBSIDIARIES (continued)

Name of company	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	
				%	%	
Clavis Inc.	British Virgin Islands	1 share of US\$1 each	Ordinary	100	–	Inactive
Mansion House Financial Holdings Limited	British Virgin Islands	1 share of US\$1 each	Ordinary	100	–	Inactive
Asia Telemedia Limited	Hong Kong	100 shares of HK\$1 each	Ordinary	100	–	Inactive
Mansion House Bullion Co. 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 Capital Limited	Hong Kong	10,000 shares of HK\$1 each	Ordinary	51	49	Inactive
MHS Futures Limited	Hong Kong	6,000,000 shares of HK\$1 each	Ordinary	100	–	Dormant
Mansion House International Limited	Hong Kong	5,000,000 shares of HK\$1 each	Ordinary	100	–	Dormant
Daily Dragon Resources Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	–	Inactive

Notes to the Financial Statements

For the year ended 31st December, 2003

16. INTEREST IN SUBSIDIARIES (continued)

Name of company	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 Bullion Company (Note 1)	Hong Kong	Nil	N/A	100	–	Dormant
Mansion House Capital Limited	Hong Kong	1,000 shares of HK\$1 each	Ordinary	100	–	Dormant
Mansion House (China) Limited	Hong Kong	2 shares of HK\$1 each	Ordinary	100	–	Dormant

Note:

(1) Wholly-owned unincorporated business registered in Hong Kong.

17. INTEREST IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Unlisted shares, at cost	–	–	1,000,000	2,468,000
Impairment loss recognised	–	–	–	(1,454,213)
Share of net assets	<u>1,110,764</u>	<u>1,013,787</u>	<u>–</u>	<u>–</u>
	<u>1,110,764</u>	<u>1,013,787</u>	<u>1,000,000</u>	<u>1,013,787</u>

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17. INTEREST IN ASSOCIATES (continued)

Details of the Company's associates as at 31st December, 2003 are as follows:

Name of company	Incorporation status	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	A company incorporated in Hong Kong with limited liability	2,000,000 shares of HK\$1 each	Ordinary	50	–	Provision of investment advisory services

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

18. INTANGIBLE ASSETS

	THE GROUP HK\$
VALUATION	
At 1st January, 2003 and 31st December, 2003	6,000,000
AMORTISATION	
At 1st January, 2003	4,100,000
Provided for the year	271,430
At 31st December, 2003	4,371,430
NET BOOK VALUES	
At 31st December, 2003	1,628,570
At 31st December, 2002	1,900,000

Notes to the Financial Statements

For the year ended 31st December, 2003

18. INTANGIBLE ASSETS (continued)

Intangible assets represent trading rights in the exchanges in Hong Kong and are amortised over 8 years since 2002.

Had the trading rights been carried at cost less accumulated amortisation, their carrying amount would have been Nil (2002: Nil).

19. INVESTMENT SECURITIES

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Unlisted equity investments, at cost	52,351,500	52,351,500	52,350,000	52,350,000
Impairment loss	(52,351,500)	(52,351,500)	(52,350,000)	(52,350,000)
	–	–	–	–
Listed equity investments in Hong Kong, at cost	50,007	50,000	–	–
	50,007	50,000	–	–
Market value of listed equity investments	123,556	280,566	–	–

20. LOANS RECEIVABLE

	THE GROUP	
	2003 HK\$	2002 HK\$
Loans receivable	80,843,667	80,843,667
Less: Allowance for doubtful loans	(80,843,667)	(80,843,667)
	–	–

Details of loans receivable are set out in note 34(a).

Notes to the Financial Statements

For the year ended 31st December, 2003

21. ACCOUNTS RECEIVABLE

	THE GROUP	
	2003 HK\$	2002 HK\$
Margin clients	1,676,998	1,650,862
Cash clients	15,214,862	2,138,456
Brokers, dealers and clearing houses	2,585,993	1,059,883
Others	–	6,544,686
	<u>19,477,853</u>	<u>11,393,887</u>

The aged analysis of accounts receivable is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Less than one month	17,626,722	3,295,850
Over one month but less than three months	584,274	263,103
Over three months	1,266,857	7,834,934
	<u>19,477,853</u>	<u>11,393,887</u>

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

22. AMOUNT DUE FROM A SHAREHOLDER

THE GROUP AND THE COMPANY

The amount is unsecured, interest free and is repayable on demand.

Notes to the Financial Statements

For the year ended 31st December, 2003

23. ACCOUNTS PAYABLE

	THE GROUP	
	2003 HK\$	2002 HK\$
Margin clients	2,632,616	2,317,134
Cash clients	68,337,050	35,329,882
Brokers, dealers and clearing houses	11,334	151,647
Others	–	2,477,187
	<u>70,981,000</u>	<u>40,275,850</u>

Included in accounts payable to cash clients is HK\$1,127 (2002: Nil) payable to directors for transactions in securities.

The aged analysis of accounts payable is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Less than one month	70,981,000	37,798,663
Over one month but less than three months	–	–
Over three months	–	2,477,187
	<u>70,981,000</u>	<u>40,275,850</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

24. LOANS PAYABLE

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$	HK\$
Loans payable		
– Directors	–	7,767,048
– A shareholder	–	3,720,279
– A related company	–	1,012,657
– Others	56,472,090	75,758,528
	56,472,090	88,258,512
Non-current		
– Others	(45,472,090)	(28,988,308)
Portion due within one year	11,000,000	59,270,204

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

Loans payable are unsecured.

The current year's loan payable of HK\$56,472,090 bears interest at 7% per annum. In prior year, included in loans payable to others was HK\$43,620,220 which bore interest at 3% to 7% per annum and except for these, all loans payable were interest free.

25. AMOUNTS DUE TO AN ASSOCIATE/SUBSIDIARIES

THE GROUP AND THE COMPANY

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

26. AMOUNTS DUE TO DIRECTORS

THE GROUP AND THE COMPANY

The amounts due to directors are unsecured, interest free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31st December, 2003

27. BANK LOANS AND OVERDRAFTS

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Bank overdrafts (unsecured)	458,064	3,012,048	458,064	3,012,048
Bank loans (secured)	–	3,852,554	–	–
	458,064	6,864,602	458,064	3,012,048
Non-current portion				
– Bank loans (secured)	–	(2,994,055)	–	–
Portion due within one year	458,064	3,870,547	458,064	3,012,048

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

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
On demand or within one year	458,064	3,870,547	458,064	3,012,048
Over one year but less than two years	–	726,721	–	–
Over two years but less than five years	–	2,267,334	–	–
	458,064	6,864,602	458,064	3,012,048

Notes to the Financial Statements

For the year ended 31st December, 2003

28. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003 HK\$	2002 HK\$
Ordinary shares of HK\$0.20 each				
Authorised:				
At the beginning of the year	2,000,000,000	450,000,000	400,000,000	90,000,000
Increase during the year	–	1,550,000,000	–	310,000,000
At the end of the year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>400,000,000</u>	<u>400,000,000</u>
Issued and fully paid:				
At the beginning of the year	1,226,369,481	373,169,481	245,273,896	74,633,896
Shares issued to set off against the debts owed to certain directors and creditors	24,957,815	–	4,991,563	–
Bonus shares issued by capitalisation of share premium account and capital redemption reserve	–	592,500,000	–	118,500,000
Exercise of share options	–	27,000,000	–	5,400,000
Shares issued by private placements	95,200,000	233,700,000	19,040,000	46,740,000
At the end of the year	<u>1,346,527,296</u>	<u>1,226,369,481</u>	<u>269,305,459</u>	<u>245,273,896</u>

During the year, a total of 120,157,815 shares were issued to new investors, creditors, existing shareholder and directors at a price of HK\$0.45 per share. 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 16th May, 2003 and the Company's announcements dated 14th November, 2003 and 1st December, 2003.

Notes to the Financial Statements

For the year ended 31st December, 2003

29. RESERVES

	Share premium account HK\$	Capital redemption reserve HK\$	Asset revaluation reserve HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
THE GROUP						
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 1st January, 2003	758,000	-	2,650,000	2,363,890	(286,622,308)	(280,850,418)
Loss for the year	-	-	-	-	(37,767,572)	(37,767,572)
Shares issued at premium	30,039,455	-	-	-	-	30,039,455
Elimination of translation reserve on disposal of subsidiaries	-	-	-	(2,363,890)	-	(2,363,890)
As at 31st December, 2003	<u>30,797,455</u>	<u>-</u>	<u>2,650,000</u>	<u>-</u>	<u>(324,389,880)</u>	<u>(290,942,425)</u>

The accumulated losses of the Group include profits of HK\$110,764 (2002: losses of HK\$1,454,213) retained by associates of the Group.

Notes to the Financial Statements

For the year ended 31st December, 2003

29. RESERVES (continued)

	Share premium account HK\$	Capital redemption reserve HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY				
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)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 1st January, 2003	758,000	–	(288,907,557)	(288,149,557)
Loss for the year	–	–	(38,245,817)	(38,245,817)
Shares issued at premium	30,039,455	–	–	30,039,455
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2003	<u>30,797,455</u>	<u>–</u>	<u>(327,153,374)</u>	<u>(296,355,919)</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

30. DISPOSAL OF SUBSIDIARIES

On 25th February, 2003, the Group disposed of its subsidiaries, Mansion House Real Estate Limited and Guangdong Wanhua Real Estate Development Co., Ltd.. The Directors consider that the aggregate results of these subsidiaries for the period from 1st January, 2003 to 25th February, 2003 were not material to the Group. The aggregate net assets of these subsidiaries as at 31st December, 2002 were as follows:

	HK\$
NET ASSETS DISPOSED OF	
Property, plant and equipment	94,740
Properties held for development	44,300,000
Accounts receivable	6,544,686
Deposits and prepayments	1,150,311
Tax recoverable	1,265,226
Cash and bank balances	12,554,260
Accounts payable	(2,477,187)
Other payables and accrued charges	<u>(15,399,598)</u>
	48,032,438
Elimination of translation reserve	<u>(2,363,890)</u>
	45,668,548
Loss on disposal	<u>(1,328,925)</u>
Total consideration	<u><u>44,339,623</u></u>
Satisfied by:	
Bank balances and cash	<u><u>44,339,623</u></u>
Net cash inflow arising on disposal	
Cash consideration	44,339,623
Bank balances and cash disposed of	<u>(12,554,260)</u>
	<u><u>31,785,363</u></u>

Notes to the Financial Statements

For the year ended 31st December, 2003

31. OPERATING LEASE COMMITMENT

At 31st December, 2003, 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	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Within one year	<u>–</u>	<u>3,034,861</u>	<u>–</u>	<u>3,034,861</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 (2002: HK\$240,000) given to the Hong Kong Securities Clearing Company Limited in lieu of cash contribution to the CCASS Guarantee Fund.

33. SHARE OPTION SCHEMES AND 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.

Notes to the Financial Statements

For the year ended 31st December, 2003

33. SHARE OPTION SCHEMES AND SHARE OPTIONS (continued)

A. (a) 1998 Share Option Scheme (continued)

- (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 of Directors (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.
- (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.

33. SHARE OPTION SCHEMES AND SHARE OPTIONS (continued)

- (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.
- (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.

Notes to the Financial Statements

For the year ended 31st December, 2003

33. SHARE OPTION SCHEMES AND SHARE OPTIONS (continued)

A. (b) Share option scheme adopted on 27th June, 2002 ("2002 Share Option Scheme")
(continued)

(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.

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

Name of Scheme	Date of grant	Exercise period	Exercise price HK\$	Outstanding	Lapsed	Outstanding	Lapsed	Outstanding
				as at 1.1.2002	in 2002	as at 31.12.2002	in 2003	as at 31.12.2003
1998 Share Option Scheme	18.6.1997	18.6.1998 - 17.6.2002	1.22	200,000	(200,000)	-	-	-
	13.1.1999	13.7.1999 - 12.7.2004	0.49	3,000,000	(2,000,000)	1,000,000	-	1,000,000
	13.1.1999	13.7.2001 - 12.7.2004	0.49	3,200,000	(2,200,000)	1,000,000	-	1,000,000
	11.1.1999	11.7.2001 - 10.7.2004	0.49	20,000	(20,000)	-	-	-
	11.1.1999	11.7.2001 - 10.7.2004	0.49	520,000	(170,000)	350,000	-	350,000
	1.3.2001	1.9.2001 - 31.8.2006	0.38	2,800,000	(1,800,000)	1,000,000	(100,000)	900,000
				<u>9,740,000</u>	<u>(6,390,000)</u>	<u>3,350,000</u>	<u>(100,000)</u>	<u>3,250,000</u>

B. On 6th August, 2002, the Company granted options to the substantial shareholders, China United and Mr. Evans Carrera Lowe to subscribe for 150,000,000 and 50,000,000 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 exercised its option in part and subscribed for 27,000,000 shares. As at 31st December, 2003, 173,000,000 shares remain to be issued pursuant to such option agreements.

Notes to the Financial Statements

For the year ended 31st December, 2003

34. RELATED PARTY TRANSACTIONS

The following summarises the significant related party transactions.

- (a) The Group has 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 are approved by shareholders in the extraordinary general meeting held on 23rd July, 1999 as required by the Listing Rules of The Stock Exchange of Hong Kong Limited.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. So Shu Ching, Jason, brother of a director, Ms. 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, 2003	<u>HK\$73,769,288</u>	<u>HK\$7,074,379</u>
Balance at 31st December, 2002	<u>HK\$73,769,288</u>	<u>HK\$7,074,379</u>
Provision at 31st December, 2003	<u>HK\$73,769,288</u>	<u>HK\$7,074,379</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

34. RELATED PARTY TRANSACTIONS (continued)

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.

(b) The Group has 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, 2003	<u>HK\$8,795,445</u>	<u>HK\$8,735,667</u>
Balance at 31st December, 2002	<u>HK\$8,795,445</u>	<u>HK\$8,735,667</u>
Provision at 31st December, 2003	<u>HK\$8,795,445</u>	<u>HK\$8,233,317</u>

The loans are in default and a total provision of HK\$17,028,762 (2002: HK\$17,322,292) 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, 2003

34. RELATED PARTY TRANSACTIONS (continued)

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

	2003 HK\$	2002 HK\$
Mr. Evans Carrera Lowe (resigned on 6th August, 2002)	<u>—</u>	<u>275,654</u>

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

35. NON-CASH TRANSACTION

During the year, the Company issued 24,957,815 shares credited as fully paid for settlement of other payables and accrued charges, loans payable and amount due to directors of HK\$5,035,691, HK\$4,187,327 and HK\$2,008,000 respectively.