

**1. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these accounts are set out below:-

**(a) Basis of preparation**

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, certain other properties and trading investments, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

**(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital or controls the composition of their board of directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(c) **Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

(d) **Reserve arising on consolidation and goodwill**

Reserve arising on consolidation comprises:—

- (i) Capital reserve arising on shares exchange on merger which represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration therefor.
- (ii) Capital reserve arising from the excess of the fair value of net assets of subsidiaries acquired over the cost of investment at the dates of acquisition and is credited directly to the reserve in the year of acquisition.

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is taken to reserve in the year of acquisition.

(e) **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

**1. PRINCIPAL ACCOUNTING POLICIES (continued)**

**(e) Investment properties (continued)**

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

**(f) Other properties and fixed assets**

Other properties are interests in land and buildings other than investment properties and are stated at cost/valuation at 31st March 1995 less accumulated depreciation. Increases in valuation were credited to the other properties revaluation reserve. Decreases in valuation were first offset against increases on earlier valuations in respect of the same property and were thereafter debited to operating profit. Any subsequent increases were credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained earnings.

Effective from 1st April 1995 no further revaluations of the Group's other properties have been carried out. The Group places reliance on paragraph 72 of Statement of Standard Accounting Practice 2.117 which provides exemption from the need to make regular revaluations for such assets.

The cost of other property transferred from investment property is deemed to be the carrying amount of the property as stated under its original classification. Any previous revaluation reserve on the property is frozen upon the transfer until the retirement or disposal of the property. On the retirement or disposal of the property, the frozen revaluation reserve is transferred directly to retained earnings.

Other fixed assets are stated at cost less accumulated depreciation.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(f) **Other properties and fixed assets (continued)**

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Buildings	2%
Leasehold improvements	33 $\frac{1}{3}$ % – 50%
Furniture and fixtures	25%
Office equipment	25%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset, other than investment properties and other properties, is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(h) **Trading investments**

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

**1. PRINCIPAL ACCOUNTING POLICIES (continued)**

**(i) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(j) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(k) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

**(l) Revenue recognition**

Agency fee revenue from property broking and marketing services is recognised when the relevant agreement becomes unconditional or irrevocable.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

Mortgage brokerage income and web advertising income are recognised when services are rendered.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(m) **Retirement benefit costs**

The Group's contributions to the defined contribution retirement scheme are expensed as incurred. Contributions to the scheme by the Group and employees are calculated at rates specified in the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(n) **Borrowing costs**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2. **TURNOVER, REVENUE AND SEGMENT INFORMATION**

The Group is principally engaged in property broking services. Revenues recognised during the year are as follow:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover		
Agency fee revenue	780,014	727,232
Other revenues		
Bank interest income	14,855	11,834
Bond interest income	530	462
Gross rental income from investment properties	3,242	3,589
Mortgage brokerage income	14,507	1,423
Web advertising income	23,496	44
	<u>56,630</u>	<u>17,352</u>
Total revenues	<u>836,644</u>	<u>744,584</u>

2. **TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)**

An analysis of the Group's turnover and contribution to consolidated trading results by principal activities is as follows:

	Turnover		Profit before taxation	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities:				
Residential property broking services, mortgage broking and web advertising services	705,024	664,084	67,042	63,805
Industrial and commercial property broking services	70,798	59,350	6,221	(596)
Real estate marketing services	4,192	3,798	(6,282)	(5,321)
	<u>780,014</u>	<u>727,232</u>	66,981	57,888
Net interest income/(expenses)			1,285	(777)
Share of profits/(losses) of jointly controlled entities			344	(445)
			<u>68,610</u>	<u>56,666</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

**3. OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
<b>Crediting</b>		
Net realised gains on trading investments	5	–
Net unrealised gains on trading investments	117	68
	<hr/>	<hr/>
<b>Charging</b>		
Auditors' remuneration		
Charge for the year	1,134	1,016
Underprovision in prior years	16	211
Depreciation	29,511	32,174
Loss on disposal of fixed assets	854	2,197
Operating leases in respect of land and buildings	85,763	102,117
Outgoings in respect of investment properties	138	208
Provision for bad and doubtful debts	13,406	20,937
Retirement benefit costs ( <i>note 9</i> )	1,422	–
Staff costs	450,337	380,105
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**4. FINANCE COSTS**

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Interest on bank loans and overdrafts		
Wholly payable within five years	10,860	7,002
Not wholly payable within five years	1,134	6,071
Interest on convertible note	2,106	–
	<hr/>	<hr/>
	14,100	13,073
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**5. TAXATION**

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year.

No provision for overseas taxation has been made in the accounts as the Group's overseas subsidiaries and jointly controlled entities have no assessable or taxable profits calculated in accordance with the tax laws of the countries in which they operate.



**5. TAXATION (continued)**

The amount of taxation charged to the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
<b>Company and subsidiaries</b>		
Hong Kong profits tax	13,197	11,498
Over provision in prior years	(1)	–
10% tax rebate for the year of assessment 1997/1998	–	(5,756)
Deferred taxation ( <i>note 23</i> )	(658)	(1,001)
	<u>12,538</u>	<u>4,741</u>

**6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$23,820,000 (1999: HK\$4,662,000).

**7. DIVIDENDS**

	2000 HK\$'000	1999 HK\$'000
Interim, HK\$0.01 (1999: HK\$0.015) per ordinary share paid on 17th October 2000	5,940	8,840
Final, proposed of HK\$0.02 (1999: HK\$0.015) per ordinary share payable on 10th May 2001	11,904	8,847
Adjustment to prior year's final dividend	82	161
	<u>17,926</u>	<u>17,848</u>

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$53,290,000 (1999: HK\$50,691,000) and the weighted average number of 594,058,000 (1999: 591,916,000) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2000 was based on the adjusted profit of HK\$55,054,000 (1999: HK\$50,691,000) on the assumption that all outstanding convertible note had been exercised at the date of issue and had saved interest payable thereon, and 655,602,000 (1999: 592,108,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 61,544,000 (1999: 192,000) ordinary shares deemed to be issued at no consideration if all outstanding warrants, options and convertible note had been exercised.

**9. RETIREMENT BENEFIT COSTS**

The Group did not operate any retirement scheme up to 30th November 2000. With effect from 1st December 2000, a mandatory provident fund ("MPF") scheme has been set up by the Group which is available to all employees, including executive directors. Contributions to the MPF scheme by the Group and employees are calculated at rates specified in the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

The MPF scheme cost charged to the consolidated profit and loss account represents contributions payable by the Company to the fund. Contributions totalling HK\$1,422,000 (1999: Nil) which are payable to the fund are included in accounts payable as at 31st December 2000.

**10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

**(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Fees	240	280
Basic salaries, housing allowances, other allowances and benefits in kind	10,577	10,868
Discretionary bonuses	3,300	3,000
Contributions to MPF scheme for directors	3	—
	<u>14,120</u>	<u>14,148</u>

Directors' fees include HK\$240,000 (1999: HK\$240,000) payable to independent non-executive directors.

Certain directors and senior management have been granted options to acquire ordinary shares of the Company under the Company's share option scheme. Details of which are set out in note 18.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emoluments bands	Number of directors	
	2000	1999
HK\$		
0 – 1,000,000	6	6
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	–
2,500,001 – 3,000,000	–	1
9,000,001 – 9,500,000	1	1
	<u>9</u>	<u>9</u>

No directors waived their emoluments in respect of the years ended 31st December 2000 and 1999.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (1999: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (1999: two) individuals during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,412	2,673
Contributions to MPF scheme	<u>2</u>	<u>–</u>
	<u>2,414</u>	<u>2,673</u>

The emoluments fell within the following bands:

Emoluments bands	Number of individuals	
	2000	1999
HK\$		
1,000,001 – 1,500,000	<u>2</u>	<u>2</u>

11. FIXED ASSETS

	Group							
	Investment properties in Hong Kong	Investment properties outside Hong Kong	Other properties in Hong Kong	Leasehold improve- ments	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation:</b>								
At 1st January 2000	33,149	7,500	310,641	50,435	13,207	76,993	3,660	495,585
Additions	-	-	-	6,115	430	8,147	86	14,778
Acquisition of subsidiaries	-	-	-	399	1,342	817	-	2,558
Revaluation gain/(deficit)	(6,689)	750	-	-	-	-	-	(5,939)
Transfer from investment properties	(2,200)	-	2,200	-	-	-	-	-
Transfer from other properties	13,509	-	(14,365)	-	-	-	-	(856)
Disposals	-	-	-	(4,755)	(343)	(993)	(1,319)	(7,410)
At 31st December 2000	<u>37,769</u>	<u>8,250</u>	<u>298,476*</u>	<u>52,194</u>	<u>14,636</u>	<u>84,964</u>	<u>2,427</u>	<u>498,716</u>
<b>Accumulated depreciation:</b>								
At 1st January 2000	-	-	15,717	41,933	10,185	53,506	2,782	124,123
Charge for the year	-	-	5,261	6,656	2,588	14,731	275	29,511
Reclassification	-	-	(856)	-	-	-	-	(856)
Disposals	-	-	-	(4,500)	(79)	(658)	(1,319)	(6,556)
At 31st December 2000	<u>-</u>	<u>-</u>	<u>20,122</u>	<u>44,089</u>	<u>12,694</u>	<u>67,579</u>	<u>1,738</u>	<u>146,222</u>
<b>Net book value:</b>								
At 31st December 2000	<u>37,769</u>	<u>8,250</u>	<u>278,354</u>	<u>8,105</u>	<u>1,942</u>	<u>17,385</u>	<u>689</u>	<u>352,494</u>
At 31st December 1999	<u>33,149</u>	<u>7,500</u>	<u>294,924</u>	<u>8,502</u>	<u>3,022</u>	<u>23,487</u>	<u>878</u>	<u>371,462</u>
The analysis of the cost or valuation at 31st December 2000 of the above assets is as follows:								
At cost	-	-	263,976	52,194	14,636	84,964	2,427	418,197
At 1995 professional valuation	-	-	34,500	-	-	-	-	34,500
At 2000 professional valuation	<u>37,769</u>	<u>8,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,019</u>
	<u>37,769</u>	<u>8,250</u>	<u>298,476</u>	<u>52,194</u>	<u>14,636</u>	<u>84,964</u>	<u>2,427</u>	<u>498,716</u>

\* The carrying cost of other properties in Hong Kong at 31st December 2000 of HK\$298,476,000 (1999: HK\$310,641,000) includes an amount of HK\$34,000,000 (1999: HK\$31,800,000) transferred from investment properties.

**11. FIXED ASSETS (continued)**

The Group's interests in investment properties and other properties at their net book values are analysed as follows:

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong, held on:		
Leases of over 50 years	191,444	199,263
Leases of between 10 to 50 years	124,679	128,810
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	8,250	7,500
	<u>324,373</u>	<u>335,573</u>

Investment properties were revalued at 31st December 2000 on the basis of their open market value by Mr Ronald Y.F. Cheung, a member of the Hong Kong Institute of Surveyors employed by the Group. The deficit arising on revaluation amounted to HK\$5,939,000 (1999: HK\$1,052,000) was charged to the consolidated profit and loss account.

Other properties in Hong Kong are held by the Group for its own use.

The carrying amount of the other properties would have been HK\$276,958,000 (1999: HK\$293,620,000) had they been stated at cost less accumulated depreciation.

At 31st December 2000, the net book value of investment properties and other properties pledged as security for the Group's long-term loans amount to HK\$316,123,000 (1999: HK\$315,625,000) (*note 26*).

**12. INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	108,501	108,501
Amounts due from subsidiaries	505,636	581,021
Amounts due to subsidiaries	<u>(361,456)</u>	<u>(372,241)</u>
	<u>252,681</u>	<u>317,281</u>

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

Details of principal subsidiaries are set out on pages 52 to 56.

**13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES**

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	1,303	554
Loan to a jointly controlled entity	9,700	–
Amount due from a jointly controlled entity	120	1,500
	<u>11,123</u>	<u>2,054</u>

Loan to a jointly controlled entity is unsecured, interest-bearing at 3-month HIBOR, and has no fixed terms of repayment.

The amount due from a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

Details of the jointly controlled entities are set out on page 56.

**14. ACCOUNTS RECEIVABLE**

The accounts receivable represents principally agency fee receivable from customers whereby no general credit facilities is available. The customers are obliged to settle the amounts due upon the completion of the relevant agreements. At 31st December 2000, the ageing analysis of the Group's accounts receivable were as follows:

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due	121,878	110,516
Within 30 days	9,626	5,761
31 – 60 days	8,285	2,180
61 – 90 days	5,333	1,590
Over 90 days	15,758	3,110
	<u>160,880</u>	<u>123,157</u>

**15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS**

Included in other receivables are loans due from officers as follows:

Name	Terms of the loan	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st Decemeber 2000 HK\$'000	Amount outstanding at 31st December 1999 HK\$'000
1. Kwok Ying Lung	Unsecured, interest free and repayable on demand	1,308	1,308	–
2. Lo Kee Wai	Unsecured, interest bearing at prime rate and repayable on 12 months after drawdown of the loan	1,046	1,046	–
3. Wong Wai Wing	(note (a))	1,000	1,000	–

*note:-*

- (a) This loan is secured by joint and several guarantees from the spouse and two brothers of the borrower. The loan bears interest at the higher of 7.5% or the bank deposit rate and is repayable by 48 fixed instalments with the last instalment due on 20th September, 2005.
- (b) No provision has been made against the loans due from officers together with any interests due as disclosed in the above.

**16. TRADING INVESTMENTS – GROUP AND COMPANY**

	2000 HK\$'000	1999 HK\$'000
Corporate bonds – listed outside Hong Kong	16,184	10,085
Equity securities – listed in Hong Kong	28	131
At market value of listed trading investments	<u>16,212</u>	<u>10,216</u>

**17. ACCOUNTS PAYABLE**

The accounts payable represents principally the commissions payable to property consultants and cooperative estate agents, and are due for payment only upon the receipt of corresponding agency fees from customers. As at 31st December 2000, the accounts payable included HK\$31,953,000 (1999: HK\$13,650,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.

18. SHARE CAPITAL

(a) Share Capital

	<u>Company</u>	
	<b>Ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorized:</i>		
At 31st December 2000 and 1999	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31st December 1998	592,795,000	59,280
Exercise of share options	1,444,000	144
Purchase of shares	<u>(4,442,000)</u>	<u>(444)</u>
At 31st December 1999	<u>589,797,000</u>	<u>58,980</u>
At 31st December 1999	589,797,000	58,980
Exercise of warrants	5,892,000	589
Purchase of shares	<u>(500,000)</u>	<u>(50)</u>
At 31st December 2000	<u>595,189,000</u>	<u>59,519</u>

(b) Purchase of shares

During the year, the Company purchased a total of 500,000 ordinary shares of HK\$0.10 each of the Company through the Stock Exchange. Details of the purchases are as follows:-

<u>Month of purchase</u>	<u>Number of shares</u>	<u>Purchase price per share</u>		<u>Aggregate consideration</u>
		<u>Highest paid</u>	<u>Lowest paid</u>	<u>paid including expenses</u>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>
May 2000	<u>500,000</u>	0.58	0.52	<u>273</u>

The above shares purchased were subsequently cancelled upon purchase and accordingly the issued share capital of the Company was diminished by the nominal value of those shares. The premium payable on purchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve (*note 19*).



18. SHARE CAPITAL (continued)

(c) Share options

Particulars and movements of share options held by the directors are as follows:-

Name	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2000	Options granted during the year	Options lapsed during the year	Balance outstanding as at 31st December 2000	Exercisable period
<b>Directors</b>							
Mr WONG Kin Yip, Freddie	13th May 1997	2.91	1,500,000	-	1,500,000	-	13th May 1997 to 13th May 2000
	15th May 2000	0.5312	-	1,300,000	-	1,300,000	15th May 2000 to 15th May 2003
Mr FUNG Yui Sum	13th May 1997	2.91	1,500,000	-	1,500,000*	-	13th May 1997 to 13th May 2000
Ms IP Kit Yee, Kitty	13th May 1997	2.91	500,000	-	-	500,000	13th May 1998 to 13th May 2001
	13th May 1997	2.91	500,000	-	-	500,000	13th May 1999 to 13th May 2002
Mr CHEUNG Kam Shing	18th October 1996	1.44	825,000	-	825,000	-	18th October 1997 to 18th October 2000
	18th October 1996	1.44	850,000	-	-	850,000	18th October 1998 to 18th October 2001
	19th October 2000	0.496	-	412,500	-	412,500	19th October 2001 to 19th October 2004
	19th October 2000	0.496	-	412,500	-	412,500	19th October 2002 to 19th October 2005
<b>Total for directors</b>			<b>5,675,000</b>	<b>2,125,000</b>	<b>3,825,000</b>	<b>3,975,000</b>	

\* Pursuant to the share option scheme, the share options granted to Mr FUNG Yui Sum lapsed upon his resignation on 16th February 2000.

18. SHARE CAPITAL (continued)

(c) Share options (continued)

There were no share options exercised by the directors in accordance with the terms of the share option scheme of the Company during the year and up to the date of the approval of the accounts.

Apart from the above, details of the share options granted to the employees of the Group or lapsed in accordance with the terms of the share option scheme of the Company during the year are as follows:—

Date of share options grant	Exercise price HK\$	Balance outstanding as at 1st January 2000	Options granted during the year	Options lapsed during the year	Balance outstanding as at 31st December 2000	Exercisable period
13th May 1997	2.91	500,000	—	—	500,000	13th May 1998 to 13th May 2001
13th May 1997	2.91	500,000	—	—	500,000	13th May 1999 to 13th May 2002
1st March 1998	1.30	1,381,000	—	93,000 <sup>#</sup>	1,288,000	1st March 1999 to 1st March 2002
1st March 1998	1.30	1,967,000	—	134,000 <sup>#</sup>	1,833,000	1st March 2000 to 1st March 2003
21st June 1999	0.86	800,000	—	—	800,000	21st August 1999 to 21st August 2002
21st June 1999	0.86	1,600,000	—	—	1,600,000	21st June 2000 to 21st June 2003
17th February 2000	0.71	—	750,000	—	750,000	17th February 2001 to 17th February 2004
17th February 2000	0.71	—	750,000	—	750,000	17th February 2002 to 17th February 2005
<b>Total for employees</b>		<b>6,748,000</b>	<b>1,500,000</b>	<b>227,000</b>	<b>8,021,000</b>	

<sup>#</sup> During the year ended 31st December 2000, certain employees resigned from the Group and their respective share options for a total of 227,000 shares lapsed accordingly.

There were no share options exercised by the employees in accordance with the terms of the share option scheme of the Group during the year. Subsequent to year end, 600,000 share options were exercised by an employee to subscribe for 600,000 shares of the Company.

**18. SHARE CAPITAL (continued)**

**(d) Placing and listing of warrants**

On 11th January 2000, the Company allotted and issued 110,000,000 warrants to professional investors by way of private placing at an issued price of HK\$0.228 per warrant. The warrants entitle the holders thereof to subscribe up to HK\$55,000,000 in cash for shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.50 per share (subject to adjustment) at any time up to and including 11th January 2003. During the year, 5,892,000 shares had been allotted and issued upon exercise of the warrants. Total warrant proceeds net of issuing expenses amounted to HK\$23,059,000, of which approximately HK\$22,500,000 has been allocated to be used for upgrading computer system for sales operation to enable its future integration with the Group's internet website and the balance is for working capital purposes. None of the proceeds has been utilized during the year.

The Company had applied to and the Stock Exchange had granted the approval for the listing of, and permission to deal in, the remaining 104,108,000 warrants in registered form. The dealings in the warrants on the Stock Exchange commenced on 3rd January 2001 under the stock short name of Midland W0301 and stock code of 589.

No warrants were exercised subsequent to year end and up to the date of the approval of the accounts.

19. RESERVES

	Group							
	Share	Capital	Arising on		Other	Exchange	Retained	Total
	Premium	redemption	consolidation	Warrant	properties	difference	earnings	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 1999	65,326	802	13,005	-	220	(524)	300,879	379,708
Purchase of own shares	(3,495)	-	-	-	-	-	-	(3,495)
Transfer from								
retained earnings	-	445	-	-	-	-	(445)	-
Exercise of share options	1,381	-	-	-	-	-	-	1,381
Exchange differences	-	-	-	-	-	(4)	-	(4)
Profit for the year retained	-	-	-	-	-	-	50,691	50,691
Dividends	-	-	-	-	-	-	(17,848)	(17,848)
	<u>63,212</u>	<u>1,247</u>	<u>13,005</u>	<u>-</u>	<u>220</u>	<u>(528)</u>	<u>333,277</u>	<u>410,433</u>
At 31st December 1999	63,212	1,247	13,005	-	220	(528)	333,277	410,433
Company and subsidiaries	63,212	1,247	13,005	-	220	255	335,440	413,379
Jointly controlled entities	-	-	-	-	-	(783)	(2,163)	(2,946)
	<u>63,212</u>	<u>1,247</u>	<u>13,005</u>	<u>-</u>	<u>220</u>	<u>(528)</u>	<u>333,277</u>	<u>410,433</u>
At 31st December 1999	63,212	1,247	13,005	-	220	(528)	333,277	410,433
At 1st January 2000	63,212	1,247	13,005	-	220	(528)	333,277	410,433
Purchase of own shares	(223)	-	-	-	-	-	-	(223)
Transfer from								
retained earnings	-	50	-	-	-	-	(50)	-
Goodwill written off	-	-	(50,000)	-	-	-	-	(50,000)
Issue of warrants	-	-	-	23,059	-	-	-	23,059
Exercise of warrants	3,592	-	-	(1,235)	-	-	-	2,357
Exchange differences	-	-	-	-	-	(55)	-	(55)
Profit for the year retained	-	-	-	-	-	-	53,290	53,290
Dividends	-	-	-	-	-	-	(17,926)	(17,926)
	<u>66,581</u>	<u>1,297</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>368,591</u>	<u>420,935</u>
At 31st December 2000	66,581	1,297	(36,995)	21,824	220	(583)	368,591	420,935
Company and subsidiaries	66,581	1,297	(36,995)	21,824	220	200	370,410	423,537
Jointly controlled entities	-	-	-	-	-	(783)	(1,819)	(2,602)
	<u>66,581</u>	<u>1,297</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>368,591</u>	<u>420,935</u>
At 31st December 2000	66,581	1,297	(36,995)	21,824	220	(583)	368,591	420,935

19. RESERVES (continued)

	Company					Total HK\$'000
	Share premium HK\$'000	Capital redemption HK\$'000	Warrant HK\$'000	Contributed surplus HK\$'000	Retained earnings HK\$'000	
At 1st January 1999	65,326	802	–	108,001	31,170	205,299
Purchase of own shares	(3,495)	–	–	–	–	(3,495)
Transfer from retained earnings	–	445	–	–	(445)	–
Exercise of share options	1,381	–	–	–	–	1,381
Profit for the year retained	–	–	–	–	4,662	4,662
Dividends	–	–	–	–	(17,848)	(17,848)
	<u>63,212</u>	<u>1,247</u>	<u>–</u>	<u>108,001</u>	<u>17,539</u>	<u>189,999</u>
At 31st December 1999	63,212	1,247	–	108,001	17,539	189,999
At 1st January 2000	63,212	1,247	–	108,001	17,539	189,999
Purchase of own shares	(223)	–	–	–	–	(223)
Transfer from retained earnings	–	50	–	–	(50)	–
Issue of warrants	–	–	23,059	–	–	23,059
Exercise of warrants	3,592	–	(1,235)	–	–	2,357
Profit for the year retained	–	–	–	–	23,820	23,820
Dividends	–	–	–	–	(17,926)	(17,926)
	<u>66,581</u>	<u>1,297</u>	<u>21,824</u>	<u>108,001</u>	<u>23,383</u>	<u>221,086</u>
At 31st December 2000	66,581	1,297	21,824	108,001	23,383	221,086

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Astra Profits Limited and the value of net assets of underlying subsidiaries acquired as at 12th May 1995. The contributed surplus as stated in the Company's balance sheet is distributable to the shareholders. In the Group accounts, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

20. LONG-TERM BANK LOANS – SECURED

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans – secured (note 26)				
Wholly repayable within five years	131,000	72,017	–	70,539
Not wholly repayable within five years	11,752	65,319	–	–
	142,752	137,336	–	70,539
Current portion of long-term bank loans	(1,389)	(26,856)	–	(17,650)
	141,363	110,480	–	52,889

At 31st December 2000, the Group's bank loans and overdrafts were repayable as follows:–

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Within one year	9,157	35,193	–	17,650
In the second year	1,525	25,869	–	17,427
In the third to fifth year	136,487	65,693	–	35,462
After the fifth year	3,351	18,918	–	–
	150,520	145,673	–	70,539

21. CONVERTIBLE NOTE – GROUP AND COMPANY

Pursuant to a sale and purchase agreement (the "Sale and Purchase Agreement") dated 10th April 2000 made between Hong Kong Property Services (Agency) Holdings Limited ("HKPS Agency Holdings") as vendor, Winchesto Finance Company Limited ("Winchesto") as lender, Great Solution Limited ("Great Solution"), a wholly owned subsidiary of the Company, as purchaser, Cheung Kong (Holdings) Limited ("Cheung Kong") as vendor guarantor and the Company as purchaser guarantor, under which HKPS Agency Holdings agreed to sell and Great Solution agreed to purchase (i) the entire issued share capital of Hong Kong Property Services (Agency) Limited ("HKPS Agency"), Hong Kong Property Services (Consultancy) Limited ("HKPS Consultancy") and Hong Kong Property Services (Investment) Limited ("HKPS Investment") at an aggregate consideration of HK\$6.00, (ii) the shareholder's loan due from HKPS Investment to HKPS Agency Holdings in consideration of HK\$1.00 and (iii) the loan and interest due from HKPS Agency to Winchesto at a consideration of HK\$70,000,000, which consideration was satisfied by the issue of a convertible note (the "Note") by the Company. The Note carries interest at 6% per annum payable in arrears and is wholly due to be repayable on 30th June 2002. The holder of the Note has the right to convert the whole or any part of the principal amount of the Note into shares of HK\$0.10 each of the Company at the price of HK\$1.20 per share, subject to adjustment, at any time in amounts not less than HK\$5,000,000.

**21. CONVERTIBLE NOTE – GROUP AND COMPANY (continued)**

The shares issued upon conversion shall rank pari passu in all respect with all other existing shares in issue at the date of the conversion and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion.

The whole of the principal amount of the Note will be mandatory converted if the closing price of the shares of the Company on the Stock Exchange is 35% above the conversion price for ten consecutive dealing days.

Under the Sale and Purchase Agreement, HKPS Agency Holdings undertook to Great Solution that if the total combined net assets value of HKPS Agency, HKPS Consultancy and HKPS Investment as at 30th June 2000 was less than HK\$20,000,000, HKPS Agency Holdings should pay to Great Solution in cash such amount equivalent to the difference between HK\$20,000,000 and the total combined net assets value. The aforesaid difference of HK\$11,235,000 was subsequently paid by HKPS Agency Holdings.

**22. DEFERRED INCOME – GROUP**

Pursuant to a subscription agreement (the “Subscription Agreement”) dated 10th April 2000 made between Midland CyberNet Limited (“Midland CyberNet”) (formerly known as Midland Cyber Agency Limited), Hong Kong Property Services (Holdings) Limited (“HKPS Holdings”) and the Company pursuant to which HKPS Holdings agreed to subscribe for 20% of the entire issued share capital of Midland CyberNet at the subscription price of HK\$40,000,000 (the “Subscription Price”). At 30th June 2000, the completion date of the Subscription Agreement, Midland CyberNet allotted and issued 20,000 shares (the “Subscription Shares”) representing 20% of its entire issued share capital immediately after the allotment to Litech Investment Limited, the nominee appointed by HKPS Holdings. This results in a gain of approximately HK\$30,443,000 from the deemed disposal of 20% interest in Midland CyberNet by the Group.

Under the Subscription Agreement, HKPS Holdings and Midland CyberNet agreed that if within two years from 30th June 2000 Midland CyberNet is not listed (with market capitalisation of not less than HK\$250,000,000 upon listing) on a recognised stock exchange, HKPS Holdings may require the Subscription Shares be transferred to a person nominated by the Company and the Company shall pay or procure the payment of the Subscription Price and bear any stamp duty payable in relation to such transfer. Midland CyberNet also granted to HKPS Holdings an option to subscribe for such number of shares equal to 5% of the entire issued share capital of Midland CyberNet existing immediately prior to Midland CyberNet being listed on a recognised stock exchange.

The directors are of the view that the gain of HK\$30,443,000 resulting from the deemed disposal of 20% interest in Midland CyberNet shall be recognised only at the time when Midland CyberNet is successfully listed on a recognised stock exchange. Accordingly such gain is deferred and included as a non-current liability as at 31st December 2000.

23. DEFERRED TAXATION

	GROUP	
	2000 HK\$'000	1999 HK\$'000
At 1st January	1,503	2,504
Transfer to profit and loss account (note 5)	(658)	(1,001)
At 31st December	<u>845</u>	<u>1,503</u>
Provided for in respect of:		
Accelerated depreciation allowances	(845)	(1,503)
Tax losses	—	—
	<u>(845)</u>	<u>(1,503)</u>
The potential deferred taxation not provided for in the accounts amounts to:		
Accelerated depreciation allowances	—	—
Tax losses	26,568	9,442
	<u>26,568</u>	<u>9,442</u>

No recognition for the tax effect on tax losses has been made in the accounts as it is uncertain that the deferred tax asset will crystallise in the foreseeable future.

The revaluation of investment properties does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation deficit or surplus would not result in a taxation liability.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Operating profit	82,366	70,184
Depreciation of fixed assets	29,511	32,174
Loss on disposal of fixed assets	854	2,197
Deficit on revaluation of investment properties	5,939	1,052
Net realised and unrealised gains on trading investments	(122)	(68)
(Increase)/decrease in accounts receivable, other receivables, prepayment and deposits	(10,041)	90,555
Increase/(decrease) in accounts payable, other payables and accrued charges	31,634	(44,880)
Interest income	(15,385)	(12,296)
Net cash inflow from operating activities	<u>124,756</u>	<u>138,918</u>



24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of change in financing during the year

	Share capital, share premium and warrant HK\$'000	Bank loans HK\$'000	Convertible note HK\$'000	Minority interests HK\$'000
At 1st January 1999	124,606	168,703	–	8,304
Minority interests' in share of profits	–	–	–	1,234
Repayment of bank loans	–	(31,367)	–	–
Purchase of own shares	(3,939)	–	–	–
Exercise of share options	1,525	–	–	–
At 31st December 1999	<u>122,192</u>	<u>137,336</u>	<u>–</u>	<u>9,538</u>
At 1st January 2000	122,192	137,336	–	9,538
Minority interests' in share of profits	–	–	–	2,782
New bank loan	–	131,000	–	–
Repayment of bank loans	–	(125,584)	–	–
Purchase of own shares	(273)	–	–	–
Dividends paid to minority shareholders of subsidiaries	–	–	–	(5,400)
Net proceed from issuing of warrants	23,059	–	–	–
Net proceed from exercising of warrants	2,946	–	–	–
Disposal of interest in subsidiaries	–	–	–	9,557
Issue of convertible note	–	–	70,000	–
At 31st December 2000	<u>147,924</u>	<u>142,752</u>	<u>70,000</u>	<u>16,477</u>

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	2,558	–
Accounts and other receivables	40,036	–
Bank balances and cash	871	–
Accounts and other payables	(34,700)	–
Reimbursement of difference with guaranteed net assets value	<u>11,235</u>	<u>–</u>
	20,000	–
Goodwill	<u>50,000</u>	<u>–</u>
	<u>70,000</u>	<u>–</u>
Satisfied by		
Issue of convertible note	<u>70,000</u>	<u>–</u>

The above represents the acquisition of companies from Cheung Kong, the details of which have been disclosed in note 21.

(d) Analysis of the net cash inflow in respect of the acquisition of subsidiaries

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Reimbursement of difference with guaranteed net assets value	11,235	–
Bank balances and cash in hand acquired	<u>871</u>	<u>–</u>
Net cash inflow in respect of the acquisition of subsidiaries	<u>12,106</u>	<u>–</u>

**25. COMMITMENTS**

**Commitments under operating leases**

At 31st December 2000 the Group had commitments to make payments in the next twelve months under operating leases in respect of office and shop premises which expire as follows:–

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Within one year	20,464	20,391
In the second to fifth year inclusive	<u>49,613</u>	<u>48,431</u>
	<u>70,077</u>	<u>68,822</u>

**26. PLEDGE OF ASSETS**

At 31st December 2000 the Group's bank loans of HK\$142,752,000 (1999: HK\$137,336,000) were secured by certain investment properties and other properties held by the Group with a total net book value of HK\$316,123,000 (1999: HK\$315,625,000).

**27. PENDING LITIGATION**

The Group has been involved in certain litigations in respect of property broking services, and in legal disputes on certain obligations in respect of a tenancy agreement previously entered into by a subsidiary (in the process of liquidation). After seeking legal advice, the directors are of the opinion that adequate provision has been made in the accounts to cover any potential liabilities arising from the litigations.

**28. CONTINGENT LIABILITIES – COMPANY**

During the years ended 31st December 2000 and 1999, the Company executed corporate guarantee as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries. In addition, the Company guaranteed the payment of operating lease rentals in respect of certain premises for its wholly-owned subsidiaries.

**29. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 20th March 2001.