

Midland Realty (Holdings) Limited

2001 Annual Report

NOTES TO THE ACCOUNTS

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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties, other properties and trading investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 27	:	Accounting for group reconstructions
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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.

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

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1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

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 unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves 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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture under 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

Reserve arising on consolidation comprises:


(i) *Capital reserve arising on shares exchange on merger*

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) *Goodwill/negative goodwill arising on acquisitions*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.



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1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Reserve arising on consolidation *(continued)*

(ii) Goodwill/negative goodwill arising on acquisitions *(continued)*

Goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserve arising on consolidation. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously taken to reserve arising on consolidation has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of the those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserve arising on consolidation. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not be restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill taken to capital reserve arising on consolidation to the extent it has not previously been realised in the profit and loss account.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously taken to reserve arising on consolidation, is assessed and written down immediately to its recoverable amount.

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1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

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 or valuation less accumulated depreciation and accumulated impairment losses.

Effective from 1st April 1995, no further revaluations of the Group's other properties have been carried out. The Group places reliance on paragraph 80 of SSAP 17 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 and accumulated impairment losses.

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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 less accumulated impairment losses 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%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other properties and fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset, other than investment 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(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.

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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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(l) 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.

(m) 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 are dealt with as a movement in reserves.

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1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) 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, web advertising income and other services fee income including income from property valuation and referral services are recognised when services are rendered.

Licence fee income is recognised on an accrual basis.

Dividend income is recognised when the right to receive payment is established.

(o) Retirement benefit costs

The Group contributes to defined retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated at rates specified in the rules of the scheme. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Company to the fund. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(p) Borrowing costs

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

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, receivables and operating cash, and mainly exclude certain non-operating cash, corporate properties and trading investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

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NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Dividends

In accordance with the SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. Dividends receivable from subsidiaries proposed or declared after balance sheet date are no longer recognised as income at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The opening retained earnings of the Group at 1st January 2000 and 2001 increased by HK\$8,847,000 and HK\$11,904,000 respectively which are the reversal of the provision for 1999 and 2000 proposed final dividend previously recorded as a liability as at 31st December 1999 and 2000 although not declared until after the balance sheet date.

The opening retained earnings of the Company at 1st January 2000 increased by HK\$8,847,000 and current liabilities decreased by the same amount which are the reversal of the 1999 proposed final dividend previously recorded as a liability as at 31st December 1999. The opening retained earnings of the Company at 1st January 2001 decreased by HK\$81,696,000 representing the reversal of the 2000 proposed final dividend of HK\$11,904,000 and dividends receivable from a subsidiary of HK\$93,600,000 for the year ended 31st December 2000.

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NOTES TO THE ACCOUNTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

(a) Turnover and revenues

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover		
Agency fee revenue	916,446	780,014
Other revenues		
Bank interest income	11,955	14,855
Bond interest income	431	530
Gross rental income from investment properties	3,210	3,242
Mortgage brokerage income	790	14,507
Web advertising income	12,104	23,496
Licence fee income	502	–
Other services fee income	802	–
	<u>29,794</u>	<u>56,630</u>
Total revenues	<u>946,240</u>	<u>836,644</u>

(b) Segment information

The Group is organised into three main business segments including residential property broking services, industrial and commercial property broking services and property leasing. Sales or transactions between the business segments are eliminated on presentation of segment information of the Group.

Other operations of the Group mainly comprise web advertising services, mortgage broking services and valuation business.

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NOTES TO THE ACCOUNTS

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

(b) Segment information *(continued)*

An analysis of the Group's segment information by business segments is set out as follows:

	2001					
	Residential property brokerage <i>HK\$'000</i>	Industrial and commercial property brokerage <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External sales	842,820	73,626	-	-	-	916,446
Other revenues						
External sales	-	-	3,210	14,198	-	17,408
Inter-segment sales	-	-	15,732	2,574	(18,306)	-
Segment revenues	842,820	73,626	18,942	16,772	(18,306)	933,854
Segment results	45,277	4,945	(3,312)	1,862	19,559	68,331
Unallocated costs						(18,252)
Operating profit before interest income and finance costs						50,079
Net finance costs						(41)
Share of profits less losses of jointly controlled entities	160	-	-	4,425		4,585
Profit before taxation						54,623
Taxation						(11,885)
Profit after taxation						42,738
Minority interests						(1,771)
Profit attributable to shareholders						40,967
Segment assets	294,905	20,675	211,629	35,899		563,108
Investments in jointly controlled entities	4,529	-	-	6,763		11,292
Unallocated assets						371,951
Total assets						946,351
Segment liabilities	160,171	10,057	1,045	601		171,874
Unallocated liabilities						237,410
Total liabilities						409,284
Capital expenditure	14,002	816	-	213		
Depreciation	16,586	1,308	5,228	834		
Impairment charges	-	-	7,810	-		
Other non-cash expenses	13,675	4,023	194	455		

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

(b) Segment information *(continued)*

	2000					
	Residential property brokerage <i>HK\$'000</i>	Industrial and commercial property brokerage <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External sales	709,216	70,798	-	-	-	780,014
Other revenues						
External sales	-	-	3,242	38,003	-	41,245
Inter-segment sales	-	-	15,614	3,998	(19,612)	-
Segment revenues	<u>709,216</u>	<u>70,798</u>	<u>18,856</u>	<u>42,001</u>	<u>(19,612)</u>	<u>821,259</u>
Segment results	<u>39,697</u>	<u>6,221</u>	<u>4,966</u>	<u>17,227</u>	<u>15,677</u>	83,788
Unallocated costs						<u>(16,807)</u>
Operating profit before interest income and finance costs						66,981
Net finance costs						1,285
Share of profits less losses of jointly controlled entities	883	-	-	(539)		344
Profit before taxation						68,610
Taxation						<u>(12,538)</u>
Profit after taxation						56,072
Minority interests						<u>(2,782)</u>
Profit attributable to shareholders						<u>53,290</u>
Segment assets	228,740	22,133	251,893	39,493		542,259
Investments in jointly controlled entities	1,557	-	-	9,566		11,123
Unallocated assets						<u>384,153</u>
Total assets						<u>937,535</u>
Segment liabilities	150,342	11,109	1,448	337		163,236
Unallocated liabilities						<u>265,464</u>
Total liabilities						<u>428,700</u>
Capital expenditure	12,416	1,108	-	1,010		
Depreciation	21,523	1,480	5,652	831		
Other non-cash expenses	10,153	2,998	-	255		

No analysis of the Group's segment information by geographical segments is presented as less than 10% of the Group's activities and operations are attributable to markets outside Hong Kong.

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3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Crediting		
Net realised gains on trading investments	27	5
Net unrealised gains on trading investments	787	117
Charging		
Auditors' remuneration		
Charge for the year	1,250	1,134
Underprovision in prior years	116	16
Depreciation	24,020	29,511
Impairment charges on other properties (<i>note 11</i>)	7,810	–
Loss on disposal of fixed assets	8,958	854
Operating leases in respect of land and buildings	92,411	85,763
Outgoings in respect of investment properties	46	138
Provision for bad and doubtful debts	18,348	13,406
Retirement benefit costs (<i>note 9</i>)	17,496	1,422
Staff costs (<i>note</i>)	541,085	450,337

Note: Staff costs disclosed above include emoluments paid to directors of HK\$17,358,000 (2000: HK\$14,120,000).

4. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts		
Wholly repayable within five years	8,204	10,860
Not wholly repayable within five years	–	1,134
Interest on convertible note	4,223	2,106

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5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

No provision for overseas taxation had been made in 2000 as the Group's overseas subsidiaries and jointly controlled entities had no assessable or taxable profits calculated in accordance with the tax laws of the countries in which they operated.

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

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company and subsidiaries		
Hong Kong profits tax	12,376	13,197
Overseas taxation	117	–
Over provision in prior years	(338)	(1)
Deferred taxation (<i>note 23</i>)	(718)	(658)
	<hr/>	<hr/>
	11,437	12,538
Share of taxation attributable to jointly controlled entities	448	–
	<hr/>	<hr/>
	11,885	12,538

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$92,140,000 (2000: loss for the year, as restated, of HK\$69,780,000).

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7. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim, paid, of HK\$0.005 (2000: HK\$0.01) per ordinary share	2,979	5,940
Final, proposed, of HK\$0.018 (2000: HK\$0.02) per ordinary share (<i>notes (a) and (b)</i>)	10,722	11,904
Adjustment to prior year's final dividend	–	82
	<u>13,701</u>	<u>17,926</u>

Notes:

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were HK\$8,847,000 and HK\$11,904,000 respectively. Under the Group's new accounting policy as described in note 1(r), these have been written back against opening reserves as at 1st January 2000 and 2001 in note 19 and are now charged in the period in which they were proposed.
- (b) At a meeting held on 19th March 2002 the directors declared a final dividend of HK\$0.018 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$40,967,000 (2000: HK\$53,290,000) and the weighted average number of 595,685,000 (2000: 594,058,000) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2001 was based on the adjusted profit of HK\$44,495,000 (2000: HK\$55,054,000) on the assumption that all outstanding convertible note had been exercised at the date of issue and had saved interest payable thereon, and 680,228,000 (2000: 655,602,000) ordinary shares which are the weighted average number of ordinary shares in issue during the year plus the weighted average of 84,543,000 (2000: 61,544,000) 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 in Hong Kong, 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\$1,472,000 (2000: HK\$1,422,000) which are payable to the fund are included in accounts payable as at 31st December 2001.

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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:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	240	240
Basic salaries, housing allowances, other allowances and benefits in kind	14,221	10,577
Discretionary bonuses	2,861	3,300
Contributions to MPF scheme for directors	36	3
	<u>17,358</u>	<u>14,120</u>

Directors' fees disclosed above are 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(c).

The emoluments of the directors fell within the following bands:

<u>Emoluments bands</u> HK\$	<u>Number of directors</u>	
	2001	2000
0 – 1,000,000	4	6
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	1	–
9,000,001 – 9,500,000	–	1
12,000,001 – 12,500,000	1	–
	<u>7</u>	<u>9</u>

No directors waived their emoluments in respect of the years ended 31st December 2001 and 2000.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2000: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2000: two) individuals during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	2,342	2,412
Compensation for loss of office	1,330	–
Discretionary bonuses	78	–
Contributions to MPF scheme	21	2
	<u>3,771</u>	<u>2,414</u>

The emoluments fell within the following bands:

<u>Emoluments bands</u>		<u>Number of individuals</u>	
HK\$		2001	2000
1,000,001	–	1	2
2,000,001	–	1	–
		<u>1</u>	<u>–</u>

Included in the above analysis is the emoluments payable to an individual who was appointed as an executive director of the Company in January 2002.

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11. FIXED ASSETS

	Group							Total HK\$'000
	Investment properties in Hong Kong HK\$'000	Investment properties outside Hong Kong HK\$'000	Other properties in Hong Kong HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	
Cost or valuation:								
At 1st January								
2001	37,769	8,250	298,476	52,194	14,636	84,964	2,427	498,716
Additions	-	-	-	5,062	604	9,393	-	15,059
Revaluation								
(deficit)/surplus	(520)	50	-	-	-	-	-	(470)
Disposals	(13,550)	-	(18,325)	(2,717)	(620)	(1,987)	(29)	(37,228)
At 31st December								
2001	23,699	8,300	280,151*	54,539	14,620	92,370	2,398	476,077
Accumulated depreciation:								
At 1st January								
2001	-	-	20,122	44,089	12,694	67,579	1,738	146,222
Charge for the year	-	-	5,186	6,862	1,295	10,389	288	24,020
Impairment charges								
(note 3)	-	-	7,810	-	-	-	-	7,810
Disposals	-	-	(1,955)	(2,378)	(514)	(1,418)	(5)	(6,270)
At 31st December								
2001	-	-	31,163	48,573	13,475	76,550	2,021	171,782
Net book value:								
At 31st December								
2001	23,699	8,300	248,988	5,966	1,145	15,820	377	304,295
At 31st December								
2000	37,769	8,250	278,354	8,105	1,942	17,385	689	352,494

* The carrying cost of other properties in Hong Kong at 31st December 2001 of HK\$280,151,000 (2000: HK\$298,476,000) includes an amount of HK\$34,000,000 (2000: HK\$34,000,000) transferred from investment properties.

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11. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st December 2001 and 2000 of the above assets is as follows:

	Group							Total HK\$'000
	Investment properties in Hong Kong HK\$'000	Investment properties outside Hong Kong HK\$'000	Other properties in Hong Kong HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	
At 31st December 2001:								
At cost	–	–	252,851	54,539	14,620	92,370	2,398	416,778
At 1995 professional valuation	–	–	27,300	–	–	–	–	27,300
At 2001 professional valuation	23,699	8,300	–	–	–	–	–	31,999
	<u>23,699</u>	<u>8,300</u>	<u>280,151</u>	<u>54,539</u>	<u>14,620</u>	<u>92,370</u>	<u>2,398</u>	<u>476,077</u>
At 31st December 2000:								
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	37,769	8,250	–	–	–	–	–	46,019
	<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 Group's interests in investment properties and other properties at their net book values are analysed as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	161,205	191,444
Leases of between 10 to 50 years	111,482	124,679
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	8,300	8,250
	<u>280,987</u>	<u>324,373</u>

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NOTES TO THE ACCOUNTS

11. FIXED ASSETS *(continued)*

Investment properties were revalued at 31st December 2001 on the basis of their open market value carried out by Chesterton Petty Limited, an independent firm of chartered surveyors. The deficit arising on revaluation amounted to HK\$470,000 (2000: HK\$5,939,000) 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\$248,357,000 (2000: HK\$276,958,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

At 31st December 2001, the net book value of investment properties and other properties pledged as security for the Group's long-term bank loans amounted to HK\$272,687,000 (2000: HK\$316,123,000).

The impairment charges of HK\$7,810,000 in 2001 related to other properties held in Hong Kong. The recoverable amount was determined at the cash-generating unit level and represented the net selling price of the relevant property subsequent to the year end or the estimated open market value of the relevant property as at 31st December 2001.

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	108,501	108,501
Amounts due from subsidiaries	614,083	505,636
Amounts due to subsidiaries	(411,275)	(361,456)
	<u>311,309</u>	<u>252,681</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 in note 30 to the accounts.

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NOTES TO THE ACCOUNTS

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	5,360	1,303
Loan to a jointly controlled entity	3,000	9,700
Amount due from a jointly controlled entity	2,932	120
	<u>11,292</u>	<u>11,123</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 in note 30 to the accounts.

14. ACCOUNTS RECEIVABLE

The accounts receivable represent 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 2001, the ageing analysis of the Group's accounts receivable is as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due	180,821	121,878
Within 30 days	22,342	9,626
31 – 60 days	11,827	8,285
61 – 90 days	8,414	5,333
Over 90 days	9,634	15,758
	<u>233,038</u>	<u>160,880</u>

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15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

Included in other receivables, prepayments and deposits of the Group are loans due from officers as follows:

Name	Terms of the loan	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st December 2001 HK\$'000	Amount outstanding at 31st December 2000 HK\$'000
Kwok Ying Lung	Unsecured, interest free and repayable on demand	1,354	1,354	1,308
Lo Kee Wai	Unsecured, interest bearing at prime rate and repayable on 12 months after drawdown of the loan	1,107	–	1,046
Wong Wai Wing	(note (a))	1,000	944	1,000

Notes:

- (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 interest due as disclosed in the above.

16. TRADING INVESTMENTS

	Group and Company	
	2001 HK\$'000	2000 HK\$'000
Corporate bonds – listed outside Hong Kong	13,186	16,184
Equity securities – listed in Hong Kong	27	28
At market value of listed trading investments	<u>13,213</u>	<u>16,212</u>

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17. ACCOUNTS PAYABLE

The accounts payable represent 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 2001, the accounts payable included HK\$18,580,000 (2000: HK\$31,953,000) 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

	Company	
	Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
At 31st December 2001 and 2000	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
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>
At 31st December 2000	595,189,000	59,519
Exercise of share options	600,000	60
Purchase of shares	<u>(100,000)</u>	<u>(10)</u>
At 31st December 2001	<u>595,689,000</u>	<u>59,569</u>

Midland Realty (Holdings) Limited

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18. SHARE CAPITAL *(continued)*

(b) Purchase of shares

During the year, the Company purchased a total of 100,000 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 paid including expenses</u>
		<u>Highest paid</u>	<u>Lowest paid</u>	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>
September 2001	<u>100,000</u>	0.49	0.49	<u>49</u>

The above shares purchased were subsequently cancelled upon purchase and accordingly the issued 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).

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

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 2001	Options granted during the year	Options lapsed during the year	Balance outstanding as at 31st December 2001	Exercisable period
Directors							
Mr WONG Kin Yip, Freddie	15th May 2000	0.5312	1,300,000	–	–	1,300,000	15th May 2000 to 15th May 2003
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
	14th May 2001	0.5088	–	250,000	–	250,000	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	–	250,000	–	250,000	14th May 2003 to 14th May 2006
Mr CHEUNG Kam Shing	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
Total for directors			<u>3,975,000</u>	<u>500,000</u>	<u>1,350,000</u>	<u>3,125,000</u>	

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.

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NOTES TO THE ACCOUNTS

18. SHARE CAPITAL (continued)

(c) Share options (continued)

Apart from the above, details of the share options granted to or exercised by 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 grant	Exercise price HK\$	Balance outstanding as at 1st January 2001	Options granted during the year	Options exercised during the year	Options lapsed during the year	Balance outstanding as at 31st December 2001	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	1,288,000	–	–	31,000#	1,257,000	1st March 1999 to 1st March 2002
1st March 1998	1.30	1,833,000	–	–	31,000#	1,802,000	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	–	600,000	–	150,000	17th February 2001 to 17th February 2004
17th February 2000	0.71	750,000	–	–	600,000#	150,000	17th February 2002 to 17th February 2005
14th May 2001	0.5088	–	250,000	–	–	250,000	14th May 2002 to 14th May 2005
14th May 2001	0.5088	–	250,000	–	–	250,000	14th May 2003 to 14th May 2006
Total for employees		<u>8,021,000</u>	<u>500,000</u>	<u>600,000</u>	<u>1,162,000</u>	<u>6,759,000</u>	

During the year ended 31st December 2001, certain employees resigned from the Group and their respective share options for a total of 662,000 shares lapsed accordingly.

The share options outstanding as at 31st December 2001 included a total of 1,000,000 (2000: 1,000,000) share options granted to Ms LAM Fung Fong who was appointed as an executive director of the Company on 18th January 2002. During the year ended 31st December 2001, 500,000 share options were granted to Ms LAM and 500,000 share options held by Ms LAM were lapsed in accordance with the terms of the share option scheme.

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

18. SHARE CAPITAL *(continued)*

(d) Warrants

On 11th January 2000, the Company allotted and issued 110,000,000 warrants (the “Warrants”) to professional investors by way of private placing at an issued price of HK\$0.228 per warrant. The net proceeds derived from the issue of the Warrants, amounted to approximately HK\$23,000,000 were intended to be used by the Company as to HK\$22,500,000 for upgrading its computer system for sales operation to enable its future integration with the Company’s internet website and the remaining balance would be used for general working capital purposes. As a result of the technology advancement, the total cost for upgrading the abovementioned computer system was reduced to approximately HK\$6,200,000. Accordingly, the savings would be used for general working capital purposes.

As at 31st December 2001, there was 104,108,000 outstanding warrants, which entitle the holders thereof to subscribe for the ordinary 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. No warrants were exercised during the year ended 31st December 2001.

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NOTES TO THE ACCOUNTS

19. RESERVES

	Group							Total HK\$'000
	Share premium HK\$'000	Capital redemption HK\$'000	Arising on consoli- dation HK\$'000	Warrant HK\$'000	Other properties revaluation HK\$'000	Exchange difference HK\$'000	Retained earnings HK\$'000	
At 1st January 2000, as previously reported	63,212	1,247	13,005	–	220	(528)	333,277	410,433
Effect of adopting SSAP 9 (revised) (note 1(r))	–	–	–	–	–	–	8,847	8,847
At 1st January 2000, as restated	63,212	1,247	13,005	–	220	(528)	342,124	419,280
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	–	–	–	–	–	–	53,290	53,290
1999 final dividend paid (note 7)	–	–	–	–	–	–	(8,929)	(8,929)
2000 interim dividend paid (note 7)	–	–	–	–	–	–	(5,940)	(5,940)
At 31st December 2000	<u>66,581</u>	<u>1,297</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>380,495</u>	<u>432,839</u>
Representing:								
Reserves	66,581	1,297	(36,995)	21,824	220	(583)	368,591	420,935
2000 final dividend proposed	–	–	–	–	–	–	11,904	11,904
At 31st December 2000	<u>66,581</u>	<u>1,297</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>380,495</u>	<u>432,839</u>
Company and subsidiaries	66,581	1,297	(36,995)	21,824	220	200	382,314	435,441
Jointly controlled entities	–	–	–	–	–	(783)	(1,819)	(2,602)
At 31st December 2000	<u>66,581</u>	<u>1,297</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>380,495</u>	<u>432,839</u>

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NOTES TO THE ACCOUNTS

19. RESERVES (continued)

	Group							
	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Arising on consoli- dation <i>HK\$'000</i>	Warrant <i>HK\$'000</i>	Other properties revaluation <i>HK\$'000</i>	Exchange difference <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2001, as previously reported	66,581	1,297	(36,995)	21,824	220	(583)	368,591	420,935
Effect of adopting SSAP 9 (revised) <i>(note 1(r))</i>	-	-	-	-	-	-	11,904	11,904
At 1st January 2001, as restated	66,581	1,297	(36,995)	21,824	220	(583)	380,495	432,839
Purchase of own shares	(39)	-	-	-	-	-	-	(39)
Transfer from retained earnings	-	10	-	-	-	-	(10)	-
Exercise of share options	366	-	-	-	-	-	-	366
Profit for the year	-	-	-	-	-	-	40,967	40,967
2000 final dividend paid <i>(note 7)</i>	-	-	-	-	-	-	(11,904)	(11,904)
2001 interim dividend paid <i>(note 7)</i>	-	-	-	-	-	-	(2,979)	(2,979)
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>406,569</u>	<u>459,250</u>
Representing:								
Reserves	66,908	1,307	(36,995)	21,824	220	(583)	395,847	448,528
2001 final dividend proposed	-	-	-	-	-	-	10,722	10,722
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>406,569</u>	<u>459,250</u>
Company and subsidiaries	66,908	1,307	(36,995)	21,824	220	200	404,238	457,702
Jointly controlled entities	-	-	-	-	-	(783)	2,331	1,548
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>406,569</u>	<u>459,250</u>

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NOTES TO THE ACCOUNTS

19. RESERVES (continued)

	Company					Total HK\$'000
	Share premium HK\$'000	Capital redemption HK\$'000	Warrant HK\$'000	Contributed surplus HK\$'000	Retained earnings/ (accumu- lated losses) HK\$'000	
At 1st January 2000, as previously reported	63,212	1,247	–	108,001	17,539	189,999
Effect of adopting SSAP 9 (revised) (note 1(r))	–	–	–	–	8,847	8,847
At 1st January 2000, as restated	63,212	1,247	–	108,001	26,386	198,846
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
1999 final dividend paid (note 7)	–	–	–	–	(8,929)	(8,929)
2000 interim dividend paid (note 7)	–	–	–	–	(5,940)	(5,940)
Loss for the year	–	–	–	–	(69,780)	(69,780)
At 31st December 2000	<u>66,581</u>	<u>1,297</u>	<u>21,824</u>	<u>108,001</u>	<u>(58,313)</u>	<u>139,390</u>
Representing:						
Reserves	66,581	1,297	21,824	108,001	(70,217)	127,486
2000 final dividend proposed	–	–	–	–	11,904	11,904
At 31st December 2000	<u>66,581</u>	<u>1,297</u>	<u>21,824</u>	<u>108,001</u>	<u>(58,313)</u>	<u>139,390</u>

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NOTES TO THE ACCOUNTS

19. RESERVES (continued)

	Company					Total HK\$'000
	Share premium HK\$'000	Capital redemption HK\$'000	Warrant HK\$'000	Contributed surplus HK\$'000	Retained earnings/ (accumu- lated losses) HK\$'000	
At 1st January 2001, as previously reported	66,581	1,297	21,824	108,001	23,383	221,086
Effect of adopting SSAP 9 (revised) (note 1(r))	-	-	-	-	(81,696)	(81,696)
At 1st January 2001, as restated	66,581	1,297	21,824	108,001	(58,313)	139,390
Purchase of own shares	(39)	-	-	-	-	(39)
Transfer from retained earnings	-	10	-	-	(10)	-
Exercise of share options	366	-	-	-	-	366
Profit for the year	-	-	-	-	92,140	92,140
2000 final dividend paid (note 7)	-	-	-	-	(11,904)	(11,904)
2001 interim dividend paid (note 7)	-	-	-	-	(2,979)	(2,979)
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>21,824</u>	<u>108,001</u>	<u>18,934</u>	<u>216,974</u>
Representing:						
Reserves	66,908	1,307	21,824	108,001	8,212	206,252
2001 final dividend proposed	-	-	-	-	10,722	10,722
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>21,824</u>	<u>108,001</u>	<u>18,934</u>	<u>216,974</u>

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.

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20. LONG-TERM BANK LOANS – SECURED

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank loans – secured		
Wholly repayable within five years	125,815	131,000
Not wholly repayable within five years	–	11,752
	<hr/>	<hr/>
	125,815	142,752
Current portion of long-term bank loans	(28,191)	(1,389)
	<hr/>	<hr/>
	<u>97,624</u>	<u>141,363</u>

At 31st December 2001, the Group's bank loans and overdrafts were repayable as follows:

	Group			
	Bank overdrafts		Bank loans	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	5,758	7,768	28,191	1,389
In the second year	–	–	28,280	1,525
In the third to fifth year	–	–	69,344	136,487
After the fifth year	–	–	–	3,351
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>5,758</u>	<u>7,768</u>	<u>125,815</u>	<u>142,752</u>

21. CONVERTIBLE NOTE

The convertible 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 convertible note has the right to convert the whole or any part of the principal amount of the convertible 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.

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 convertible 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.

The convertible note is due to be repayable on 30th June 2002, accordingly, the convertible note was classified as current liabilities as at 31st December 2001.

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22. DEFERRED INCOME

Pursuant to a subscription agreement (the “Subscription Agreement”) dated 10th April 2000 made between Midland CyberNet Limited (“Midland CyberNet”), 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 2001.

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NOTES TO THE ACCOUNTS

23. DEFERRED TAXATION

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January	845	1,503
Transfer to profit and loss account (<i>note 5</i>)	(718)	(658)
	<u>127</u>	<u>845</u>
At 31st December		
Provided for in respect of accelerated depreciation allowances	<u>(127)</u>	<u>(845)</u>
The potential deferred taxation not provided for in the accounts amounts to:		
Accelerated depreciation allowances	(343)	–
Tax losses	<u>27,940</u>	<u>26,568</u>
	<u>27,597</u>	<u>26,568</u>

No recognition for the tax effect on tax losses has been made in the accounts as it is uncertain that the deferred tax assets 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.

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NOTES TO THE ACCOUNTS

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating profit	62,465	82,366
Depreciation	24,020	29,511
Loss on disposal of fixed assets	8,958	854
Deficit on revaluation of investment properties	470	5,939
Impairment charges on other properties	7,810	–
Net realised and unrealised gains on trading investments	(814)	(122)
Increase in accounts receivable, other receivables, prepayment and deposits	(75,432)	(10,041)
Increase in accounts payable, other payables and accrued charges	8,184	31,634
Interest income	(12,386)	(15,385)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>23,275</u>	<u>124,756</u>

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

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

(b) Analysis of change in financing during the year

	Share capital, share premium and warrant <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Convertible note <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
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	–
	<u>147,924</u>	<u>142,752</u>	<u>70,000</u>	<u>16,477</u>
At 31st December 2000	<u>147,924</u>	<u>142,752</u>	<u>70,000</u>	<u>16,477</u>
At 1st January 2001	147,924	142,752	70,000	16,477
Minority interests' in share of profits	–	–	–	1,771
Repayment of bank loans	–	(16,937)	–	–
Purchase of own shares	(49)	–	–	–
Exercise of share options	426	–	–	–
	<u>148,301</u>	<u>125,815</u>	<u>70,000</u>	<u>18,248</u>
At 31st December 2001	<u>148,301</u>	<u>125,815</u>	<u>70,000</u>	<u>18,248</u>

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

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

(c) Acquisition of subsidiaries

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired		
Fixed assets	–	2,558
Accounts and other receivables	–	40,036
Bank balances and cash	158	871
Accounts and other payables	(25)	(34,700)
Investments in jointly controlled entities	(80)	–
Reimbursement of difference with guaranteed net asset value	–	11,235
	53	20,000
Goodwill	–	50,000
	53	70,000
Satisfied by:		
Issue of convertible note <i>(note 24(e))</i>	–	70,000
Cash	53	–
	53	–

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

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reimbursement of difference with guaranteed net asset value	–	11,235
Bank balances and cash in hand acquired	158	871
Cash consideration	(53)	–
	105	12,106

(e) Major non-cash transaction

Consideration for the acquisition of subsidiaries in 2000 comprised convertible note issued by the Company of HK\$70,000,000 *(note 24(c))*.

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NOTES TO THE ACCOUNTS

25. FUTURE LEASE RENTAL PAYMENTS RECEIVABLE

At 31st December 2001, the Group had future minimum lease rental payments receivable under non-cancellable operating leases as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	3,027	2,652
Later than one year and not later than five years	518	1,601
	<u>3,545</u>	<u>4,253</u>

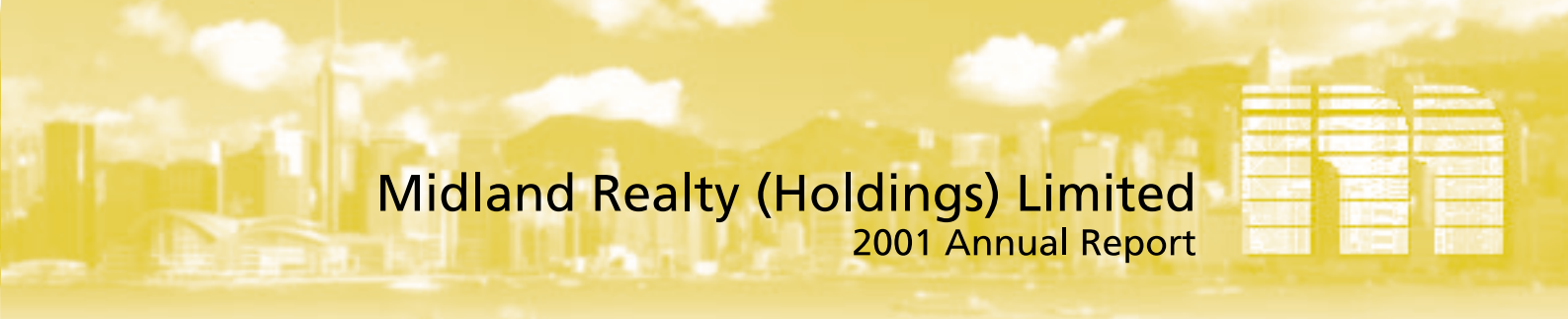
26. COMMITMENTS UNDER OPERATING LEASES

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	70,923	69,250
Later than one year and not later than five years	24,478	41,067
	<u>95,401</u>	<u>110,317</u>

The comparative figures of lease commitments have been restated as a result of the adoption of the SSAP 14 (revised).

At 31st December 2001, the Company did not have any significant commitments (2000: Nil).

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NOTES TO THE ACCOUNTS

27. PENDING LITIGATION

The Group has been involved in certain litigations in respect of property broking services. 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

During the years ended 31st December 2001 and 2000, 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 19th March 2002.

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

30. LIST OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The following is a list of the principal subsidiaries and jointly controlled entities at 31st December 2001 and 2000:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries				
<i>– directly held by the Company</i>				
Astra Profits Limited	British Virgin Islands	Investment holding in Hong Kong	4 Ordinary shares of US\$1 each	100
<i>– indirectly held by the Company</i>				
Atomic Resources Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1	100
Best Chance Realty Limited	Hong Kong	Property investment in Hong Kong	2 Ordinary shares of HK\$1 each	100
Cyber Leader Limited	Hong Kong	Provision of referral services in Hong Kong	2 Ordinary shares of HK\$1 each	80
Grand World Advertising Company Limited	Hong Kong	Marketing and advertising management in Hong Kong	2 Ordinary shares of HK\$1 each	100
Great Solution Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1	100
Harvest Time Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1	80

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

30. LIST OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company (continued)</i>				
Hong Kong Property Services (Agency) Limited	Hong Kong	Property agent in Hong Kong	2 Ordinary shares of HK\$1 each	100
Merit Marketing Specialist Limited <i>(note (a))</i>	Hong Kong	Marketing services in Hong Kong	2 Ordinary shares of HK\$1 each	100
Midland (China) Property Development Limited	Hong Kong	Property agent and investment holding in Hong Kong	5,000,000 Ordinary shares of HK\$1 each	100
Midland CyberNet Limited	Hong Kong	An operator of an internet website in Hong Kong	39,100,000 Ordinary shares of HK\$1 each	80
Midland CyberNet (Strategic) Limited (formerly known as Midland CyberNet (Holdings) Limited)	Cayman Islands	Investment holding in Hong Kong	100,000 Ordinary shares of HK\$0.10 each	100
Midland Property (China) Limited	Hong Kong	Investment holding in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty (Aberdeen) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	80
Midland Realty (China) Limited <i>(note (b))</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

30. LIST OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company (continued)</i>				
Midland Realty (Comm.) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty Consultancy (Shanghai) Co. Ltd. <i>(note (b))</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100
Midland Realty (Ind.) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty International Limited	Hong Kong	Property agent in Hong Kong	1,000 Ordinary shares of HK\$100 each	100
Midland Realty (Kln Res.) Limited	Hong Kong	Property agent in Hong Kong	800,000 Ordinary shares of HK\$1 each	90
Midland Realty (Strategic) Limited	Hong Kong	Investment holding in Hong Kong	10,000 Ordinary shares of HK\$1 each 2,000,000 Non-voting Deferred shares of HK\$1 each	100
Midland Surveyors Limited	Hong Kong	Property valuer in Hong Kong	1,000,000 Ordinary shares of HK\$1 each	100

Midland Realty (Holdings) Limited

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NOTES TO THE ACCOUNTS

30. LIST OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company (continued)</i>				
Perfect Tower Limited	Hong Kong	Property investment in the People's Republic of China	2 Ordinary shares of HK\$1 each	100
Power Concord Limited	Hong Kong	Credit and collection management in Hong Kong	2 Ordinary shares of HK\$1 each	100
Real Gain Limited	Hong Kong	Property investment in Hong Kong	10,000 Ordinary shares of HK\$1 each	100
Worldboss Limited	Hong Kong	Property investment in Hong Kong	2 Ordinary shares of HK\$1 each	100

Name	Place of incorporation/ establishment	Principal activities and place of operation	Percentage of interest in ownership/voting power/profit sharing
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Jointly controlled entities

– indirectly held by the Company

Midland (Guangzhou) Real Estate Consultants Ltd. <i>(note (b))</i>	The People's Republic of China (as a cooperative joint venture)	Property agent in the People's Republic of China	70%/50%/70%
mReferral Corporation Limited <i>(note (b))</i>	British Virgin Islands	Investment holding in Hong Kong	33.33%/33.33%/33.33%

Notes:

(a) This subsidiary was incorporated in 2001.

(b) These subsidiaries and jointly controlled entities are not audited by PricewaterhouseCoopers, Hong Kong.