



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 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these SSAPs has no significant effect to the accounts of the Group except for the reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities and the presentation of consolidated statement of changes in equity.

(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, directly or indirectly, controls more than one half of the voting power; has power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

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.



Notes to the Accounts

1. Principal accounting policies *(continued)*

(b) Consolidation *(continued)*

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.

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 of not more than 20 years. Goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserve arising on consolidation.

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



Notes to the Accounts

1. Principal accounting policies *(continued)*

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

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

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 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 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/negative 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.

(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.



Notes to the Accounts

1. Principal accounting policies *(continued)*

(e) Investment properties *(continued)*

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.

Effective from 31st December 2002, other properties are stated at fair value. Fair value is determined by the directors based on valuations undertaken by professionally qualified executives of the Group which are performed every three years. In each of the intervening years, the directors review the carrying value of the other properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

In prior years, other properties were stated at cost or valuation less accumulated depreciation and accumulated impairment losses. This change in accounting policy has been applied prospectively and the effect of such change was to decrease the other properties by HK\$100,100,000, to offset against the other properties revaluation reserve of HK\$220,000 and to decrease the result for the year by HK\$99,880,000.

The cost of other property transferred from investment property represents the fair value at the date of change in use. Any difference at that date between the carrying amount of the property and its fair value is accounted for in the same way as a revaluation of an investment property as set out in note 1(e) above.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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%



Notes to the Accounts

1. Principal accounting policies *(continued)*

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

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.

(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 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.



Notes to the Accounts

1. Principal accounting policies *(continued)*

(k) Contingent liabilities *(continued)*

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) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Retirement scheme obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the scheme by the Group and employees are calculated at rates specified in the rules of the scheme. The retirement 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.

(iii) *Equity compensation benefits*

Share options are granted to directors and continuous contract employees. No compensation cost is recognised in the profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(m) 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.

(n) 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.



Notes to the Accounts

1. Principal accounting policies *(continued)*

(n) Translation of foreign currencies *(continued)*

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior year, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(o) 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, other advertising and referral services are recognised when services are rendered.

Licence fee income are recognised on an accrual basis.

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

(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, including additions resulting from acquisitions through purchases of subsidiaries.



Notes to the Accounts

2. Turnover, revenues and segment information

(a) Turnover and revenues

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

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Agency fee revenue	911,711	916,446
Other revenues		
Bank interest income	4,502	11,955
Bond interest income	121	431
Gross rental income from investment properties	2,468	3,210
Mortgage brokerage income	–	790
Web advertising income	1,617	12,104
Licence fee income	–	502
Other services fee income	3,126	802
	11,834	29,794
Total revenues	923,545	946,240

(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, advertising services and valuation business.



Notes to the Accounts

2. Turnover, revenues and segment information (continued)

(b) Segment information (continued)

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

	2002					Total HK\$'000
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	
Turnover						
External sales	829,074	82,637	–	–	–	911,711
Other revenues						
External sales	–	–	2,468	4,743	–	7,211
Inter-segment sales	–	–	11,948	3,605	(15,553)	–
Segment revenues	<u>829,074</u>	<u>82,637</u>	<u>14,416</u>	<u>8,348</u>	<u>(15,553)</u>	<u>918,922</u>
Segment results	<u>15,263</u>	<u>10,664</u>	<u>(59,149)</u>	<u>2,070</u>	<u>20,807</u>	<u>(10,345)</u>
Unallocated costs						<u>(62,498)</u>
Operating loss before interest income and finance costs						(72,843)
Net finance costs						(1,248)
Share of profits of jointly controlled entities	31	–	–	3,181		3,212
Loss before taxation						(70,879)
Taxation						(7,023)
Loss after taxation						(77,902)
Minority interests						(927)
Loss attributable to shareholders						<u>(78,829)</u>
Segment assets	271,822	24,681	84,308	3,071		383,882
Investments in jointly controlled entities	1,813	–	–	6,430		8,243
Unallocated assets						273,663
Total assets						<u>665,788</u>
Segment liabilities	148,435	13,145	1,016	718		163,314
Unallocated liabilities						63,325
Total liabilities						<u>226,639</u>
Capital expenditure	7,338	130	–	52		
Depreciation	10,850	663	4,541	517		
Impairment charges	4,699	–	–	–		
Amortisation of negative goodwill	–	–	–	(3,213)		
Other non-cash expenses	15,820	4,224	61,280	126		



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Notes to the Accounts

2. Turnover, revenues and segment information (continued)

(b) Segment information (continued)

	2001					Total HK\$'000
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	
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	<u>842,820</u>	<u>73,626</u>	<u>18,942</u>	<u>16,772</u>	<u>(18,306)</u>	<u>933,854</u>
Segment results	<u>45,277</u>	<u>4,945</u>	<u>(3,312)</u>	<u>1,862</u>	<u>19,559</u>	<u>68,331</u>
Unallocated costs						(18,252)
Operating profit before interest income and finance costs						50,079
Net finance costs						(41)
Share of profits 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						<u>40,967</u>
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						<u>946,351</u>
Segment liabilities	160,171	10,057	1,045	601		171,874
Unallocated liabilities						237,410
Total liabilities						<u>409,284</u>
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		

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.



Notes to the Accounts

3. Operating (loss)/profit

Operating (loss)/profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
Crediting		
Amortisation of negative goodwill (<i>note 12</i>)	3,213	–
Net realised gains on trading investments	93	27
Net unrealised gains on trading investments	–	787
Charging		
Auditors' remuneration	1,144	1,366
Depreciation	16,571	24,020
Impairment of other properties	–	7,810
Impairment of goodwill (<i>note 12</i>)	4,699	–
Loss on disposal of fixed assets	7,741	8,958
Net unrealised losses on trading investments	1,098	–
Operating leases in respect of land and buildings	90,854	92,411
Outgoings in respect of investment properties	3	46
Provision for bad and doubtful debts	20,170	18,348

4. Staff costs

The amount of staff costs (including directors' emoluments as disclosed in note 11) charged to the consolidated profit and loss account represents:

	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	272,768	253,383
Commissions	260,359	287,702
Retirement benefit costs (<i>note 10</i>)	19,389	17,496
	<u>552,516</u>	<u>558,581</u>



Notes to the Accounts

5. Finance costs

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts	3,765	8,204
Interest on convertible note	2,106	4,223
	<u>5,871</u>	<u>12,427</u>

6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Company and subsidiaries		
Hong Kong profits tax	9,260	12,376
Overseas taxation	113	117
Over provision in prior years	(3,718)	(338)
Deferred taxation (<i>note 25</i>)	854	(718)
	<u>6,509</u>	<u>11,437</u>
Share of taxation attributable to jointly controlled entities	514	448
	<u>7,023</u>	<u>11,885</u>



Notes to the Accounts

6. Taxation (continued)

Deferred tax charge/(credit) for the year has not been provided in respect of the following:

	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	104	343
Tax losses	(7,104)	(1,372)
Other timing differences	(399)	—
	<u>(7,399)</u>	<u>(1,029)</u>

7. (Loss)/profit attributable to shareholders

The (loss)/profit attributable to shareholders for the year includes a profit of the Company to the extent of HK\$256,961,000 (2001: HK\$92,140,000).

8. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim, paid, of HK\$0.005 (2001: HK\$0.005) per ordinary share	2,998	2,979
Final, proposed, of HK\$0.005 (2001: HK\$0.018) per ordinary share (note)	3,446	10,722
30th anniversary special cash bonus, proposed, of HK\$0.050 (2001: Nil) per ordinary share (note)	34,463	—
Adjustment to prior years' final dividends	(14)	—
	<u>40,893</u>	<u>13,701</u>

In addition, on 8th April 2003 the directors proposed to make a bonus issue of warrants to the shareholders whose names appear on the register of members of the Company on 21st May 2003 (other than shareholders whose addresses are outside Hong Kong) on the basis of one warrant for every five shares held. The warrants will be issued in registered form and will entitle the holders thereof to subscribe for new shares at an initial subscription price of HK\$0.52 (subject to adjustment), at any time from the date of issue up to 28th February 2007 (note 20(d)).

Note: At a meeting held on 8th April 2003 the directors declared a final dividend of HK\$0.005 per ordinary share and a 30th anniversary special cash bonus of HK\$0.050 per ordinary share. These proposed dividend and 30th anniversary special cash bonus are not reflected as a dividend payable and special cash bonus payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003.



Notes to the Accounts

9. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$78,829,000 (2001: profit attributable to shareholders of HK\$40,967,000) and the weighted average number of 600,290,000 (2001: 595,685,000) ordinary shares in issue during the year.

The diluted loss per share for the year ended 31st December 2002 was not presented as the conversion of warrants, options and convertible note is anti-dilutive.

In 2001, the diluted earnings per share was based on the adjusted profit of HK\$44,495,000 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 ordinary shares which are the weighted average number of ordinary shares in issue during the year plus the weighted average of 84,543,000 ordinary shares deemed to be issued at no consideration if all outstanding warrants, options and convertible note had been exercised.

10. 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 is set up by which is available to eligible employees of the Group, 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\$1,818,000 (2001: HK\$1,472,000) which are payable to the fund are included in accounts payable as at 31st December 2002.

The Group also contributes to employee retirement schemes established by municipal governments in respect of certain subsidiaries in the People's Republic of China (the "PRC"). The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated profit and loss account as incurred.



Notes to the Accounts

11. 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:

	2002 HK\$'000	2001 HK\$'000
Fees	240	240
Basic salaries, housing allowances, other allowances and benefits in kind	17,236	14,221
Discretionary bonuses	69	2,861
Contributions to MPF scheme for directors	48	36
	<u>17,593</u>	<u>17,358</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 20(c).

The emoluments of the directors fell within the following bands:

Emoluments bands HK\$	Number of directors	
	2002	2001
0 – 1,000,000	4	4
1,000,001 – 1,500,000	1	–
1,500,001 – 2,000,000	1	–
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	–	1
11,500,001 – 12,000,000	1	–
12,000,001 – 12,500,000	–	1
	<u>8</u>	<u>7</u>

No directors waived their emoluments in respect of the years ended 31st December 2002 and 2001.



Notes to the Accounts

11. 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 four (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2001: two) individual during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,110	2,342
Compensation for loss of office	–	1,330
Discretionary bonuses	–	78
Contributions to MPF scheme	12	21
	1,122	3,771

The emoluments fell within the following bands:

Emoluments bands HK\$	Number of individuals	
	2002	2001
1,000,001 – 1,500,000	1	1
2,000,001 – 2,500,000	–	1
	–	1



Notes to the Accounts

12. Intangible assets

	Group		
	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Year ended 31st December 2002			
Opening net book amount	–	–	–
Acquisition of additional interest in subsidiaries (<i>note 24</i>)	–	(3,213)	(3,213)
Acquisition of a subsidiary (<i>note 26(c)</i>)	4,699	–	4,699
Impairment charge (<i>note 3</i>)	(4,699)	–	(4,699)
Amortisation (<i>note 3</i>)	–	3,213	3,213
Closing book amount	–	–	–
At 31st December 2002			
Cost	4,699	(3,213)	1,486
Accumulated amortisation and impairment losses	(4,699)	3,213	(1,486)
Net book amount	–	–	–
At 31st December 2001			
Cost	–	–	–
Accumulated amortisation and impairment losses	–	–	–
Net book amount	–	–	–



Notes to the Accounts

13. 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 2002	23,699	8,300	280,151	54,539	14,620	92,370	2,398	476,077
Exchange adjustment	-	-	-	-	24	-	-	24
Additions	-	-	-	2,833	702	2,945	146	6,626
Acquisition of a subsidiary	-	-	-	-	894	-	-	894
Transfer from other properties	4,493	-	(7,000)	-	-	-	-	(2,507)
Disposals	(10,892)	-	(30,950)	(827)	(315)	(1,509)	(57)	(44,550)
Revaluation deficits	(3,160)	-	(125,018)	-	-	-	-	(128,178)
At 31st December 2002	14,140	8,300	117,183*	56,545	15,925	93,806	2,487	308,386
Accumulated depreciation and impairment:								
At 1st January 2002	-	-	31,163	48,573	13,475	76,550	2,021	171,782
Exchange adjustment	-	-	-	-	17	-	-	17
Charge for the year	-	-	4,517	4,991	508	6,262	293	16,571
Reclassification	-	-	(2,507)	-	-	-	-	(2,507)
Disposals	-	-	(8,255)	(667)	(298)	(962)	(27)	(10,209)
Written back upon revaluation	-	-	(24,918)	-	-	-	-	(24,918)
At 31st December 2002	-	-	-	52,897	13,702	81,850	2,287	150,736
Net book value:								
At 31st December 2002	14,140	8,300	117,183	3,648	2,223	11,956	200	157,650
At 31st December 2001	23,699	8,300	248,988	5,966	1,145	15,820	377	304,295

* The carrying cost of other properties in Hong Kong at 31st December 2002 of HK\$117,183,000 (2001:HK\$280,151,000) includes an amount of HK\$11,898,000 (2001:HK\$34,000,000) transferred from investment properties.



Notes to the Accounts

13. Fixed assets (continued)

The analysis of the cost or valuation at 31st December 2002 and 2001 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 improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	
At 31st December 2002:								
At cost	-	-	-	56,545	15,925	93,806	2,487	168,763
At 2002 professional valuation	14,140	8,300	117,183	-	-	-	-	139,623
	<u>14,140</u>	<u>8,300</u>	<u>117,183</u>	<u>56,545</u>	<u>15,925</u>	<u>93,806</u>	<u>2,487</u>	<u>308,386</u>
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>

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

	Group	
	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	74,510	161,205
Leases of between 10 to 50 years	56,813	111,482
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	8,300	8,300
	<u>139,623</u>	<u>280,987</u>



Notes to the Accounts

13. Fixed assets (continued)

Investment properties and other properties were revalued at 31st December 2002 on the basis of their open market value carried out by Mr Ronald Y.F. Cheung, a member of the Hong Kong Institute of Surveyors employed by the Group.

The deficits arising on revaluation of investment properties and other properties amounted to HK\$3,160,000 (2001: HK\$470,000) and HK\$100,100,000 (2001: Nil) respectively. The deficit arising on revaluation of investment properties was charged to the consolidated profit and loss account. The deficit arising on revaluation of other properties was first offset against the other properties revaluation reserve of HK\$220,000 (2001: Nil) and the remaining balance of HK\$99,880,000 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\$216,665,000 (2001: HK\$248,357,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

At 31st December 2002, the net book value of investment properties and other properties pledged as security for the Group's long-term bank loans amounted to HK\$131,323,000 (2001: HK\$272,687,000).

14. Investments in subsidiaries

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	108,501	108,501
Amounts due from subsidiaries	855,818	614,083
Amounts due to subsidiaries	(491,785)	(411,275)
	<u>472,534</u>	<u>311,309</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 32 to the accounts.



Notes to the Accounts

15. Investments in jointly controlled entities

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Share of net assets	8,089	5,360
Loan to a jointly controlled entity	–	3,000
Amount due from a jointly controlled entity	154	2,932
	<u>8,243</u>	<u>11,292</u>

Loan to a jointly controlled entity was unsecured, interest-bearing at 3-month HIBOR and was fully repaid during the year.

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 32 to the accounts.

16. 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 2002, the ageing analysis of the Group's accounts receivable is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Not yet due	142,360	180,821
Within 30 days	30,919	22,342
31 – 60 days	11,203	11,827
61 – 90 days	10,506	8,414
Over 90 days	6,479	9,634
	<u>201,467</u>	<u>233,038</u>



Notes to the Accounts

17. Other receivables, prepayments and deposits

(a) 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 2002 HK\$'000	Amount outstanding at 31st December 2001 HK\$'000
Kwok Ying Lung	Unsecured, interest free and repayable on demand	1,354	194	1,354
Wong Wai Wing	(note (i))	944	890	944

Notes:

(i) 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 42 instalments with the last installment due on 20th June 2006.

(ii) No provision has been made against the loans due from officers together with any interest due as disclosed in the above.

(b) Also included in other receivables, prepayments and deposits is an amount of HK\$29,800,000 paid by the Group for the acquisition of a 30% equity interest in a company which is in the process of applying for the listing of its shares in the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited. Subsequent to 31st December 2002, the Group decided to withdraw from the investment as certain conditions of the sale and purchase agreement entered into between the Group and the vendors cannot be fulfilled. The whole amount of HK\$29,800,000 paid by the Group was fully refunded and accordingly, the amount paid at 31st December 2002 was included in current assets as a temporary payment.



Notes to the Accounts

18. Trading investments

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Corporate bonds – listed outside Hong Kong	31,487	13,186	–	13,186
Equity securities – listed in Hong Kong	13	27	13	27
At market value of listed trading investments	<u>31,500</u>	<u>13,213</u>	<u>13</u>	<u>13,213</u>

19. 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 2002, the accounts payable included HK\$18,734,000 (2001: HK\$18,580,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.



Notes to the Accounts

20. 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 2002 and 2001	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31st December 2000	595,189,000	59,519
Exercise of share options	600,000	60
Cancellation of purchased shares	<u>(100,000)</u>	<u>(10)</u>
At 31st December 2001	<u>595,689,000</u>	<u>59,569</u>
At 31st December 2001	595,689,000	59,569
Exercise of warrants	20,064,000	2,006
Cancellation of purchased shares	<u>(6,306,000)</u>	<u>(630)</u>
At 31st December 2002	<u>609,447,000</u>	<u>60,945</u>



Notes to the Accounts

20. Share capital (continued)

(b) Purchase of shares

During the year, the Company purchased a total of 7,092,000 ordinary shares of HK\$0.10 each of the Company through The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Details of the purchases are as follows:

Month of purchase	Number of shares	Purchase price per share		Aggregate consideration paid including expenses HK\$'000
		Highest paid HK\$	Lowest paid HK\$	
July 2002	1,450,000	0.620	0.580	877
August 2002	366,000	0.590	0.580	215
September 2002	2,282,000	0.550	0.495	1,147
October 2002	970,000	0.550	0.510	519
November 2002	1,238,000	0.610	0.540	723
December 2002	<u>786,000</u>	0.540	0.520	<u>416</u>

Except for 786,000 shares purchased by the Company in December 2002 subsequently cancelled in January 2003, 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 earnings to capital redemption reserve (note 21).

In January 2003, the Company further purchased a total of 620,000 of its listed shares on the Stock Exchange at an aggregate consideration including expenses of HK\$339,000. The highest and lowest purchase prices per share paid were HK\$0.55 and HK\$0.54 respectively.



Notes to the Accounts

20. Share capital *(continued)*

(c) Share options

The Company has a share option scheme which was adopted on 12th May 1995 (“1995 Share Option Scheme”). The 1995 Share Option Scheme was terminated on 30th April 2002 without prejudice to the rights and benefits of and attached to those options granted thereunder which were outstanding as at 30th April 2002.

At the special general meeting of the Company held on 30th April 2002, an ordinary resolution was duly passed under which a new Share Option Scheme (“2002 Share Option Scheme”) was adopted and approved by the shareholders of the Company. Under the terms of the 2002 Share Option Scheme, the board of directors may, at their discretion, grant to any eligible persons including directors, employees, customers, consultants, advisors or agents to and of any member of the Group or any invested entity, share options to subscribe for Company’s share at the subscription price not less than the highest of (i) closing price of the shares as stated in daily quotations sheet of the Stock Exchange on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company. Upon acceptance of the offer, the grantee shall pay HK\$1 to the Company as consideration for the grant.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Group (including the 1995 Share Option Scheme) shall not in aggregate exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes shall not exceed 59,618,900 shares, representing 8.65% of the shares in issue as at the date of this report.

An option may be exercised in accordance with the terms of the 2002 Share Option Scheme at any time during a period, in relation to relevant option, to be notified by the directors to the grantee, provided that such period shall not be earlier than the date of grant and not be more than 10 years from the date of grant. The shares to be allotted upon the exercise of an option will rank *pari passu* with the fully paid shares in issue on the date of allotment of shares.

The 2002 Share Option Scheme will remain in force for a period of 10 years commencing on the adoption date.



Notes to the Accounts

20. Share capital (continued)

(c) Share options (continued)

Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At the beginning of the year	9,884,000	11,996,000
Granted (note (i))	–	1,000,000
Exercised (note (ii))	–	(600,000)
Lapsed (note (iii))	(3,416,000)	(2,512,000)
At the end of the year (note (iv))	<u>6,468,000</u>	<u>9,884,000</u>

Notes:

- (i) In 2001, share options were granted on 14th May 2001 under the 1995 Share Option Scheme at the exercise price of HK\$0.5088 per share. 500,000 options will expire on 14th May 2005 and 500,000 options will expire on 14th May 2006. No consideration was received in respect of the share options granted.

No share options were granted under the 1995 Share Option Scheme and the 2002 Share Option Scheme during the year.

- (ii) In 2001, share options exercised on 20th February 2001 resulted in 600,000 shares being issued at HK\$0.71 each yielding the following proceeds:

	2002 HK\$'000	2001 HK\$'000
Ordinary share capital – at par	–	60
Share premium	–	366
Proceeds	<u>–</u>	<u>426</u>
Fair value of shares issued at exercise date of: 20th February 2001	<u>–</u>	<u>510</u>

No share options were exercised under the 1995 Share Option Scheme and the 2002 Share Option Scheme during the year.

- (iii) During the year ended 31st December 2002, 3,057,000 share options were lapsed in accordance with the terms of the 1995 Share Option Scheme. In addition, certain continuous contract employees resigned from the Group and their respective share option for a total of 359,000 shares lapsed accordingly.



Notes to the Accounts

20. Share capital (continued)

(c) Share options (continued)

Notes: (continued)

(iv) Share options outstanding at the end of the year have the following terms:

Expiry Date	Exercise price HK\$	Number of options		Vested percentages	
		2002	2001	2002	2001
Directors					
13th May 2002	2.91	–	500,000	–	100%
15th May 2003	0.5312	1,300,000	1,300,000	100%	100%
19th October 2004	0.496	412,500	412,500	100%	100%
14th May 2005	0.5088	500,000	250,000	100%	–
19th October 2005	0.496	412,500	412,500	100%	–
14th May 2006	0.5088	500,000	250,000	–	–
		3,125,000	3,125,000		
Continuous contract employees					
1st March 2002	1.30	–	1,257,000	–	100%
13th May 2002	2.91	–	500,000	–	100%
21st August 2002	0.86	–	800,000	–	100%
1st March 2003	1.30	1,443,000	1,802,000	100%	100%
21st June 2003	0.86	1,600,000	1,600,000	100%	100%
17th February 2004	0.71	150,000	150,000	100%	100%
17th February 2005	0.71	150,000	150,000	100%	–
14th May 2005	0.5088	–	250,000	–	–
14th May 2006	0.5088	–	250,000	–	–
		3,343,000	6,759,000		
Total for directors and continuous contract employees		6,468,000	9,884,000		

No share options were cancelled during the year (2001: Nil).

(d) Warrants

As at 31st December 2002, there were 84,044,000 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 13th January 2003. During the year ended 31st December 2002, 20,064,000 warrants were exercised, resulting in the issue of 20,064,000 ordinary shares of HK\$0.10 each by the Company at a subscription price of HK\$0.50 per share.

Subsequent to the year end, 81,224,000 warrants were exercised, resulting in the issue of 81,224,000 ordinary shares of HK\$0.10 each by the Company at the subscription price of HK\$0.50 per share. The subscription right attaching to the outstanding 2,820,000 warrants has been expired and lapsed on 13th January 2003.

In addition, on 8th April 2003 the directors proposed to make a bonus issue of warrants to the shareholders whose names appear on the register of members of the Company on 21st May 2003 (other than shareholders whose addresses are outside Hong Kong) on the basis of one warrant for every five shares held. The warrants will be issued in registered form and will entitle the holders thereof to subscribe for new shares at an initial subscription price of HK\$0.52 (subject to adjustment), at any time from the date of issue up to 28th February 2007 (note 8).



Notes to the Accounts

21. Reserves

	Group							
	Share premium	Capital redemption	Arising on consolidation	Warrants	Other properties revaluation	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001	66,581	1,297	(36,995)	21,824	220	(583)	380,495	432,839
Profit for the year	-	-	-	-	-	-	40,967	40,967
2000 final dividend paid	-	-	-	-	-	-	(11,904)	(11,904)
2001 interim dividend paid (note 8)	-	-	-	-	-	-	(2,979)	(2,979)
Purchase of own shares	(39)	-	-	-	-	-	-	(39)
Transfer from retained earnings	-	10	-	-	-	-	(10)	-
Exercise of share options	366	-	-	-	-	-	-	366
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 (note 8)	-	-	-	-	-	-	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>



Notes to the Accounts

21. Reserves (continued)

	Group							
	Share premium	Capital redemption	Arising on consolidation	Warrants	Other properties revaluation	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	66,908	1,307	(36,995)	21,824	220	(583)	406,569	459,250
Exchange differences	-	-	-	-	-	129	-	129
Loss for the year	-	-	-	-	-	-	(78,829)	(78,829)
Reserves transferred to consolidated profit and loss account upon revaluation of other properties	-	-	-	-	(220)	-	-	(220)
2001 final dividend paid (note 8)	-	-	-	-	-	-	(10,722)	(10,722)
2002 interim dividend paid (note 8)	-	-	-	-	-	-	(2,998)	(2,998)
Adjustment to prior years' final dividends (note 8)	-	-	-	-	-	-	14	14
Purchase of own shares	(2,851)	-	-	-	-	-	-	(2,851)
Transfer from retained earnings	-	630	-	-	-	-	(630)	-
Exercise of warrants	12,232	-	-	(4,206)	-	-	-	8,026
At 31st December 2002	76,289	1,937	(36,995)	17,618	-	(454)	313,404	371,799
Representing:								
Reserves	76,289	1,937	(36,995)	17,618	-	(454)	275,495	333,890
2002 final dividend proposed (note 8)	-	-	-	-	-	-	3,446	3,446
Special cash bonus proposed (note 8)	-	-	-	-	-	-	34,463	34,463
At 31st December 2002	76,289	1,937	(36,995)	17,618	-	(454)	313,404	371,799
Company and subsidiaries	76,289	1,937	(36,995)	17,618	-	298	308,375	367,522
Jointly controlled entities	-	-	-	-	-	(752)	5,029	4,277
At 31st December 2002	76,289	1,937	(36,995)	17,618	-	(454)	313,404	371,799



Notes to the Accounts

21. Reserves (continued)

	Company					Total HK\$'000
	Share premium HK\$'000	Capital redemption HK\$'000	Warrants HK\$'000	Contributed surplus HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	
At 1st January 2001	66,581	1,297	21,824	108,001	(58,313)	139,390
Profit for the year	–	–	–	–	92,140	92,140
2000 final dividend paid	–	–	–	–	(11,904)	(11,904)
2001 interim dividend paid (note 8)	–	–	–	–	(2,979)	(2,979)
Purchase of own shares	(39)	–	–	–	–	(39)
Transfer from retained earnings	–	10	–	–	(10)	–
Exercise of share options	366	–	–	–	–	366
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 (note 8)	–	–	–	–	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>



Notes to the Accounts

21. Reserves (continued)

	Company					
	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Warrants <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2002	66,908	1,307	21,824	108,001	18,934	216,974
Profit for the year	–	–	–	–	256,961	256,961
2001 final dividend paid (<i>note 8</i>)	–	–	–	–	(10,722)	(10,722)
2002 interim dividend paid (<i>note 8</i>)	–	–	–	–	(2,998)	(2,998)
Adjustment to prior years'						
final dividends (<i>note 8</i>)	–	–	–	–	14	14
Purchase of own shares	(2,851)	–	–	–	–	(2,851)
Transfer from retained earnings	–	630	–	–	(630)	–
Exercise of warrants	12,232	–	(4,206)	–	–	8,026
At 31st December 2002	<u>76,289</u>	<u>1,937</u>	<u>17,618</u>	<u>108,001</u>	<u>261,559</u>	<u>465,404</u>
Representing:						
Reserves	76,289	1,937	17,618	108,001	223,650	427,495
2002 final dividend proposed (<i>note 8</i>)	–	–	–	–	3,446	3,446
Special cash bonus proposed (<i>note 8</i>)	–	–	–	–	34,463	34,463
At 31st December 2002	<u>76,289</u>	<u>1,937</u>	<u>17,618</u>	<u>108,001</u>	<u>261,559</u>	<u>465,404</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.



Notes to the Accounts

22. Long-term bank loans – secured

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Secured bank loans – wholly repayable within five years	60,526	125,815
Current portion of long-term bank loans	(16,067)	(28,191)
	<u>44,459</u>	<u>97,624</u>

At 31st December 2002, the Group's bank loans and overdrafts were repayable as follows:

	Group			
	Bank overdrafts		Bank loans	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	29,369	5,758	16,067	28,191
In the second year	–	–	16,155	28,280
In the third to fifth year	–	–	28,304	69,344
	<u>29,369</u>	<u>5,758</u>	<u>60,526</u>	<u>125,815</u>

23. Convertible note

The convertible note with an aggregate principal amount of HK\$70,000,000 was fully repaid on 2nd July 2002.



Notes to the Accounts

24. Deferred Income

Pursuant to a subscription agreement (the “Subscription Agreement”) dated 10th April 2000 made between Midland CyberNet Limited (“Midland CyberNet”) (formerly known as Midland Realty Cyber Agency Limited), Gorich Profits Limited (“Gorich”) (formerly known as Hong Kong Property Services (Holdings) Limited) and the Company, Gorich 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 (“Subscription Shares”) representing 20% of its entire issued share capital immediately after the allotment to Litech Investment Limited (“Litech”), the nominee appointed by Gorich (the “Disposal”).

Under the Subscription Agreement, Midland CyberNet and Gorich 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, Gorich 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 (the “Right”). The gain of HK\$30,443,000 resulting from the Disposal was deferred and included as a non-current liability in prior years.

On 8th July 2002, Gorich exercised the Right pursuant to the Subscription Agreement as Midland CyberNet has not listed on or before 30th June 2002 and the Subscription Shares were transferred from Litech to Atomic Resources Limited, a wholly-owned subsidiary of the Company, at a consideration of HK\$40,000,000 (equivalent to the Subscription Price). The deferred income of HK\$30,443,000 was therefore reversed accordingly.

Following the completion of the transfer of the Subscription Shares, Midland CyberNet and its underlying subsidiaries became wholly-owned subsidiaries of the Company and a negative goodwill of HK\$3,213,000 was recognised on the accounts for the year ended 31st December 2002 as intangible assets (*note 12*).



Notes to the Accounts

25. Deferred taxation

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st January	127	845
Transfer to consolidated profit and loss account (<i>note 6</i>)	854	(718)
At 31st December	<u>981</u>	<u>127</u>
Provided for in respect of accelerated depreciation allowances	<u>981</u>	<u>127</u>
The potential deferred taxation not provided for in the accounts amounts to:		
Accelerated depreciation allowances	(447)	(343)
Tax losses	35,044	27,940
Other timing differences	<u>399</u>	<u>–</u>
	<u>34,996</u>	<u>27,597</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 and other 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.



Notes to the Accounts

26. Consolidated cash flow statement

(a) Reconciliation of operating (loss)/profit to cash generated from operations

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating (loss)/profit	(68,220)	62,465
Depreciation	16,571	24,020
Loss on disposal of fixed assets	7,741	8,958
Deficits arising on revaluation of investment properties and other properties	103,040	470
Impairment of other properties	–	7,810
Impairment of goodwill	4,699	–
Amortisation of negative goodwill	(3,213)	–
Interest income	(4,623)	(12,386)
Net realised and unrealised losses/(gains) on trading investments	1,005	(814)
	<hr/>	<hr/>
Operating profit before working capital changes	57,000	90,523
Decrease/(increase) in accounts receivable, other receivables, prepayment and deposits	11,844	(75,432)
(Decrease)/increase in accounts payable, other payables and accrued charges	(24,101)	8,184
	<hr/>	<hr/>
Cash generated from operations	44,743	23,275



Notes to the Accounts

26. Consolidated cash flow statement (continued)

(b) Analysis of change in financing during the year

	Dividend payable <i>HK\$'000</i>	Share capital, share premium and warrants <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 2001	–	147,924	142,752	70,000	16,477
Minority interests' share of profits	–	–	–	–	1,771
Cash (outflows)/inflows	(14,883)	377	(16,937)	–	–
Dividends	14,883	–	–	–	–
At 31st December 2001	–	148,301	125,815	70,000	18,248
At 1st January 2002	–	148,301	125,815	70,000	18,248
Minority interests' share of profits	–	–	–	–	927
Acquisition of additional interest in subsidiaries	–	–	–	–	(12,770)
Cash (outflows)/inflows	(13,706)	6,551	(65,289)	(70,000)	–
Dividends	13,706	–	–	–	–
At 31st December 2002	–	154,852	60,526	–	6,405



Notes to the Accounts

26. Consolidated cash flow statement (continued)

(c) Acquisition of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Fixed assets	894	–
Accounts and other receivables	6,554	–
Bank balances and cash	2,729	158
Accounts and other payables	(13,716)	(25)
Investments in jointly controlled entities	–	(80)
	<hr/>	<hr/>
	(3,539)	53
Goodwill (note 12)	4,699	–
	<hr/>	<hr/>
	1,160	53
	<hr/>	<hr/>
Satisfied by:		
Cash	1,160	53
	<hr/>	<hr/>

The subsidiary acquired during the year utilised HK\$170,000 in respect of the Group's net operating cash flows and HK\$533,000 for investing activities.

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

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash in hand acquired	2,729	158
Cash consideration	(1,160)	(53)
	<hr/>	<hr/>
	1,569	105
	<hr/>	<hr/>



Notes to the Accounts

27. Future lease rental payments receivable

At 31st December 2002, the Group had future minimum lease rental payments receivable under non-cancellable operating leases as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Not later than one year	1,066	3,027
Later than one year and not later than five years	747	518
	<u>1,813</u>	<u>3,545</u>

28. Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Not later than one year	62,395	70,923
Later than one year and not later than five years	28,710	24,478
	<u>91,105</u>	<u>95,401</u>

At 31st December 2002, the Company did not have any significant commitments (2001: Nil).

29. 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.



Notes to the Accounts

30. Contingent liabilities

During the years ended 31st December 2002 and 2001, 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.

31. Approval of accounts

The accounts were approved by the board of directors on 8th April 2003.

32. List of principal subsidiaries and jointly controlled entities

The following is a list of the principal subsidiaries and jointly controlled entities at 31st December 2002 and 2001:

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 (<i>note (b)</i>)	Hong Kong	Provision of referral services in Hong Kong	2 Ordinary shares of HK\$1 each	100
Grand World Advertising Company Limited	Hong Kong	Marketing and advertising management in Hong Kong	2 Ordinary shares of HK\$1 each	100



Notes to the Accounts

32. 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 <i>(continued)</i></i>				
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	100
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	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 <i>(note (b))</i>	Hong Kong	An operator of an internet website in Hong Kong	39,100,000 Ordinary shares of HK\$1 each	100
Midland CyberNet (Strategic) 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



Notes to the Accounts

32. 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 Property Consultants Limited	Hong Kong	Investment holding in Hong Kong	100 Ordinary shares of HK\$1,000 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 (c))</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 (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 (c))</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



Notes to the Accounts

32. 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 <i>(continued)</i></i>				
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
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



Notes to the Accounts

32. 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 %
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Subsidiaries (continued)

– indirectly held by the Company (continued)

Worldboss Limited	Hong Kong	Property investment in Hong Kong	2 Ordinary shares of HK\$1 each	100
美聯物業代理(深圳)有限公司 (notes (a) & (c))	The People's Republic Of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	RMB1,200,000	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. (note (c))	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 (note (c))	British Virgin Islands	Investment holding in Hong Kong	33.33%/33.33%/33.33%

Notes:

- (a) The Group acquired the entire equity interest in this subsidiary on 1st October 2002.
- (b) The remaining 20% equity interests in these subsidiaries were acquired by the Group on 8th July 2002 and these subsidiaries became wholly owned subsidiaries of the Company since then.
- (c) These subsidiaries and jointly controlled entities are not audited by PricewaterhouseCoopers, Hong Kong.