

# 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 Institute of Certified Public Accountants (“HKICPA”). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (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.

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.

## Notes to the Accounts

### 1. Principal accounting policies *(continued)*

#### (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.

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.

**1. Principal accounting policies** *(continued)*

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

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

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.

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 professional 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 reserves. 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.

## Notes to the Accounts

### 1. Principal accounting policies *(continued)*

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

The cost of other property transferred from investment property was deemed to be 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 estimated useful lives are summarised as follows:

Buildings	50 years
Leasehold improvements	2 to 3 years
Furniture and fixtures	4 years
Office equipment	4 years
Motor vehicles	4 years

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

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.

## 1. Principal accounting policies *(continued)*

### (h) Investments in securities

#### (i) *Investment securities held for non-trading purpose*

Investment securities held for non-trading purpose are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (ii) *Held-to-maturity securities*

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

#### (iii) *Trading investments*

Trading investments 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.

## Notes to the Accounts

### 1. Principal accounting policies *(continued)*

#### (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) 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, full time employees and consultants. 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax bases. Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

## 1. Principal accounting policies *(continued)*

### (m) Deferred taxation *(continued)*

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse 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.

The balance sheets 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 accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (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.

Web advertising income and other services fee income including income from property valuation, other advertising and referral services are recognised when services are rendered. 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, investments in securities 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, revenue and segment information

#### (a) Turnover and revenues

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Agency fee revenue	1,987,345	1,179,963
Other revenues		
Bank interest income	2,651	2,424
Dividend income from listed investment	2,781	–
Gross rental income from investment properties	2,239	2,070
Web advertising income	4,197	618
Other services fee income	2,158	1,417
	<u>14,026</u>	<u>6,529</u>
Total revenues	<u>2,001,371</u>	<u>1,186,492</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, advertising services and valuation business.



## 2. Turnover, revenue and segment information (continued)

### (b) Segment information (continued)

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

	2004					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	1,705,926	281,419	–	–	–	1,987,345
Other revenues						
External sales	–	–	2,239	6,355	–	8,594
Inter-segment sales	–	–	7,755	8,582	(16,337)	–
Segment revenues	<u>1,705,926</u>	<u>281,419</u>	<u>9,994</u>	<u>14,937</u>	<u>(16,337)</u>	<u>1,995,939</u>
Segment results	<u>303,106</u>	<u>58,838</u>	<u>11,881</u>	<u>9,440</u>	<u>58,734</u>	<u>441,999</u>
Surplus arising on revaluation of corporate properties						26,232
Unallocated costs						(49,455)
Operating profit before interest income and finance costs						418,776
Net finance income						2,216
Share of profits less losses of jointly controlled entities	59	–	–	5,846		5,905
Profit before taxation						426,897
Taxation						(67,326)
Profit after taxation						359,571
Minority interests						(2,333)
Profit attributable to Shareholders						<u>357,238</u>
Segment assets	705,538	107,381	130,558	11,236		954,713
Investments in jointly controlled entities	1,533	–	–	9,543		11,076
Unallocated assets						512,372
Total assets						<u>1,478,161</u>
Segment liabilities	446,779	68,863	1,256	1,133		518,031
Unallocated liabilities						120,356
Total liabilities						<u>638,387</u>
Capital expenditure	60,566	4,578	44,167	177		
Depreciation	17,725	1,697	2,763	230		
Impairment charges	–	–	–	–		
Other non-cash expenses/ (income)	29,339	20,934	(5,690)	75		

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## Notes to the Accounts

### 2. Turnover, revenue and segment information (continued)

#### (b) Segment information (continued)

	2003					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	1,053,336	126,627	–	–	–	1,179,963
Other revenues						
External sales	–	–	2,070	2,035	–	4,105
Inter-segment sales	–	–	9,204	2,926	(12,130)	–
Segment revenues	<u>1,053,336</u>	<u>126,627</u>	<u>11,274</u>	<u>4,961</u>	<u>(12,130)</u>	<u>1,184,068</u>
Segment results	<u>122,760</u>	<u>20,874</u>	<u>8,343</u>	<u>(5,306)</u>	<u>30,035</u>	176,706
Unallocated costs						(28,319)
Operating profit before interest income and finance costs						148,387
Net finance income						1,302
Share of profits less losses of jointly controlled entities	(930)	–	–	2,726		1,796
Profit before taxation						151,485
Taxation						(26,786)
Profit after taxation						124,699
Minority interests						(1,950)
Profit attributable to Shareholders						<u>122,749</u>
Segment assets	474,325	58,692	72,953	7,952		613,922
Investments in jointly controlled entities	1,926	–	–	5,643		7,569
Unallocated assets						<u>377,295</u>
Total assets						<u>998,786</u>
Segment liabilities	321,095	37,783	829	1,011		360,718
Unallocated liabilities						<u>66,569</u>
Total liabilities						<u>427,287</u>
Capital expenditure	9,267	2,547	–	107		
Depreciation	9,187	613	3,422	417		
Impairment charges	1,003	–	–	–		
Other non-cash expenses/ (income)	31,362	5,806	(670)	2		

## 2. Turnover, revenue and segment information *(continued)*

### (b) Segment information *(continued)*

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.

## 3. Operating profit

Operating profit is stated after crediting and charging the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Crediting</b>		
Net realised gains on disposal of investment securities	5,365	–
Net realised gains on disposal of trading investments	236	1,517
<b>Charging</b>		
Auditors' remuneration	1,300	1,200
Depreciation	23,030	13,639
Impairment of goodwill	–	1,003
Loss on disposal of fixed assets	185	314
Net unrealised losses on trading investments	45	2
Operating leases in respect of land and buildings	123,205	85,015
Outgoings in respect of investment properties	154	72
Provision for bad and doubtful debts	50,379	37,170

## 4. Staff costs

Staff costs (including directors' emoluments as disclosed in note 11) represents:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and allowances	379,837	287,771
Commissions	693,345	366,062
Retirement benefit costs	24,430	17,384
	1,097,612	671,217

The above staff costs did not include the benefits in kind arising from exercise of share options by directors and employees of the Group.

## Notes to the Accounts

### 5. Finance costs

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans and overdrafts		
Wholly repayable within five years	335	1,122
Not wholly repayable within five years	100	–
	<u>435</u>	<u>1,122</u>

### 6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Company and subsidiaries		
Current taxation:		
Hong Kong profits tax	63,936	28,249
Overseas taxation	129	168
Over provision in prior years	(1,879)	(1,430)
Deferred taxation relating to the origination and reversal of temporary differences ( <i>note 24</i> )	4,195	78
Deferred taxation resulting from an increase in tax rate ( <i>note 24</i> )	–	(792)
	<u>66,381</u>	<u>26,273</u>
Share of taxation attributable to jointly controlled entities	945	513
Taxation charge	<u>67,326</u>	<u>26,786</u>

**6. Taxation (continued)**

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	426,897	151,485
Calculated at a taxation rate of 17.5%	74,707	26,510
Effect of different taxation rates in other countries	(66)	(55)
Income not subject to taxation	(5,133)	(699)
Expenses not deductible for taxation purposes	1,353	1,934
Utilisation of previously unrecognised tax losses	(6,729)	(4,519)
Increase in opening net deferred tax assets resulting from an increase in tax rate	–	(792)
Temporary differences unrecognised	517	391
Tax losses not recognised	3,023	5,355
Others	(346)	(1,339)
Taxation charge	<u>67,326</u>	<u>26,786</u>

**7. Profit attributable to Shareholders**

The profit attributable to Shareholders for the year includes a profit of the Company to the extent of HK\$9,139,000 (2003: HK\$1,390,000).

**8. Dividends**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim, paid, of HK\$0.07 (2003: HK\$0.015) per ordinary share	49,307	10,547
Final, proposed of HK\$0.123 (2003: HK\$0.05) per ordinary share ( <i>note</i> )	<u>86,640</u>	<u>35,220</u>
	<u>135,947</u>	<u>45,767</u>

*Note:* At a meeting held on 10th March 2005 the directors declared a final dividend of HK\$0.123 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 2005.

### 9. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders of HK\$357,238,000 (2003: HK\$122,749,000) and the weighted average number of 704,305,000 (2003: 691,464,000) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2004 is based on the profit of HK\$357,238,000 and 704,372,000 ordinary shares which are the weighted average number of ordinary shares in issue during the year plus the weighted average of 67,000 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

The diluted earnings per share for the year ended 31st December 2003 was based on the profit of HK\$122,749,000 and 695,137,000 ordinary shares which were the weighted average number of ordinary shares in issue during the year plus the weighted average of 3,673,000 ordinary shares deemed to be issued at no consideration if all outstanding warrants and options 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, the MPF scheme is set up 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\$2,278,000 (2003: HK\$2,919,000) which are payable to the fund are included in accounts payable as at 31st December 2004.

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 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.

## 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:

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Fees	486	240
Basic salaries, housing allowances, commission and other allowances	28,075	18,361
Benefits in kind ( <i>note</i> )	2,416	1,076
Discretionary bonuses	24,198	8,726
Contributions to MPF scheme for directors	51	48
	<u>55,226</u>	<u>28,451</u>

*Note:* On 26th January 2004, Ms LAM Fung Fong, a director of the Company, and Ms IP Kit Yee, Kitty, a former director of the Company who resigned on 24th September 2004, in aggregate, exercised options for 1,000,000 shares at an exercise price of HK\$0.5088 per share. The difference between the aggregate value of the Company's shares issued upon the exercise of these options at the exercise price of HK\$0.5088 per share and the market price of the Company's shares on 26th January 2004 of HK\$2.925 per share amounted to HK\$2,416,000 has been included in the benefits in kind for the year ended 31st December 2004.

On 21st January 2004, Mr KWOK Ying Lung, a director of the Company who was appointed on 24th September 2004, in aggregate, exercised options for 300,000 shares at an exercise price of HK\$0.71 per share. The difference between the aggregate value of the Company's shares issued upon the exercise of these options at the exercise price of HK\$0.71 per share and the market price of the Company's shares on 21st January 2004 of HK\$3.2 per share amounted to HK\$747,000 has not been included in staff costs of the Group for the year ended 31st December 2004 (*note 4*).

On 30th September 2003, Mr CHEUNG Kam Shing, a director of the Company, in aggregate, exercised options for 825,000 shares at an exercise price of HK\$0.496 per share. The difference between the aggregate value of the Company's shares issued upon the exercise of these options at the exercise price of HK\$0.496 per share and the market price of the Company's shares on 30th September 2003 of HK\$1.8 per share amounted to HK\$1,076,000 had been included in the benefits in kind for the year ended 31st December 2003.

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 21(b)*.

## Notes to the Accounts

### 11. Directors' and senior management's emoluments (continued)

#### (a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emoluments bands <i>HK\$</i>	Number of directors	
	2004	2003
0 – 1,000,000	7	4
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	–	1
2,500,001 – 3,000,000	2	–
3,000,001 – 3,500,000	1	–
4,000,001 – 4,500,000	1	–
5,000,001 – 5,500,000	–	1
7,000,001 – 7,500,000	1	–
18,500,001 – 19,000,000	–	1
33,500,001 – 34,000,000	1	–
	13	8

No directors waived their emoluments in respect of the years ended 31st December 2004 and 2003.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries, housing allowances and other allowances	1,111	875
Benefits in kind ( <i>note</i> )	–	4,305
Discretionary bonus	238	3,300
Contributions to MPF scheme	7	9
	1,356	8,489

*Note:* In 2003, an employee of the Group in aggregate exercised options of 6,500,000 shares at an exercise price of HK\$0.53 per share. The difference between the aggregate value of the Company's shares issued upon the exercise of these options at the exercise price and the market price of the Company's shares amounted to HK\$4,305,000 has been included in the benefits in kind.



**11. Directors' and senior management's emoluments** *(continued)*

**(b) Five highest paid individuals** *(continued)*

The emoluments fell within the following bands:

Emoluments bands <i>HK\$</i>	Number of individuals	
	2004	2003
1,000,001 – 1,500,000	1	–
8,000,001 – 8,500,000	–	1
	–	1

**12. Intangible assets**

	Goodwill <i>HK\$'000</i>	Group Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December 2004 and 2003			
Cost	5,702	(3,213)	2,489
Accumulated amortisation and impairment losses	(5,702)	3,213	(2,489)
Net book amount	–	–	–

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## 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	
<b>Cost or valuation:</b>								
At 1st January 2004	14,500	8,200	98,482	58,080	16,717	91,095	2,456	289,530
Additions	24,440	–	19,728	31,044	9,482	23,976	818	109,488
Disposals	–	–	–	(765)	(1)	(166)	–	(932)
Revaluation surplus	4,209	100	24,591	–	–	–	–	28,900
At 31st December 2004	43,149	8,300	142,801 <sup>#</sup>	88,359	26,198	114,905	3,274	426,986
<b>Accumulated depreciation and impairment:</b>								
At 1st January 2004	–	–	3,339	52,151	13,542	81,431	2,385	152,848
Charge for the year	–	–	3,379	10,568	1,685	7,224	174	23,030
Disposals	–	–	–	(655)	(1)	(61)	–	(717)
Written back upon revaluation	–	–	(6,718)	–	–	–	–	(6,718)
At 31st December 2004	–	–	–	62,064	15,226	88,594	2,559	168,443
<b>Net book value:</b>								
At 31st December 2004	43,149	8,300	142,801	26,295	10,972	26,311	715	258,543
At 31st December 2003	14,500	8,200	95,143	5,929	3,175	9,664	71	136,682
<sup>#</sup> The carrying amount of other properties in Hong Kong at 31st December 2004 of HK\$142,801,000 (2003: HK\$98,482,000) includes an amount of HK\$9,800,000 (2003: HK\$8,394,000) transferred from investment properties.								

## 13. Fixed assets (continued)

The analysis of the cost or valuation at 31st December 2004 and 2003 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	
<b>At 31st December 2004:</b>								
At cost	-	-	-	88,359	26,198	114,905	3,274	232,736
At 2004 professional valuation	43,149	8,300	142,801	-	-	-	-	194,250
	<u>43,149</u>	<u>8,300</u>	<u>142,801</u>	<u>88,359</u>	<u>26,198</u>	<u>114,905</u>	<u>3,274</u>	<u>426,986</u>
<b>At 31st December 2003:</b>								
At cost	-	-	-	58,080	16,717	91,095	2,456	168,348
At 2002 professional valuation	-	-	98,482	-	-	-	-	98,482
At 2003 professional valuation	14,500	8,200	-	-	-	-	-	22,700
	<u>14,500</u>	<u>8,200</u>	<u>98,482</u>	<u>58,080</u>	<u>16,717</u>	<u>91,095</u>	<u>2,456</u>	<u>289,530</u>

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

	Group	
	2004 HK\$ '000	2003 HK\$ '000
<b>In Hong Kong, held on:</b>		
Leases of over 50 years	135,500	62,138
Leases of between 10 to 50 years	50,450	47,505
<b>Outside Hong Kong, held on:</b>		
Leases of between 10 to 50 years	<u>8,300</u>	<u>8,200</u>
	<u>194,250</u>	<u>117,843</u>

## Notes to the Accounts

### 13. Fixed assets (continued)

Investment properties were revalued at 31st December 2004 on the basis of their open market value carried out by Chesterton Petty Limited, an independent firm of chartered surveyors. The surplus arising on revaluation amounted to HK\$4,309,000 (2003: HK\$670,000) was credited to the consolidated profit and loss account.

Other properties were revalued at 31st December 2004 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 surplus arising on revaluation of other properties as at 31st December 2004 amounted to HK\$31,309,000 in which HK\$27,643,000 is first credited to the consolidated profit and loss account to the extent the revaluation deficit of the same properties previously recognised as an expense. The remaining balance of HK\$3,666,000, net of applicable deferred income taxes of HK\$641,000, is credited to the other properties revaluation reserve.

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\$194,836,000 (2003: HK\$178,894,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

At 31st December 2004, the net book value of investment properties and other properties pledged as security for the Group's long-term bank loans amounted to HK\$185,950,000 (2003: HK\$109,643,000) (note 23).

### 14. Investments in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	108,501	108,501
Amounts due from subsidiaries	856,089	860,985
Amounts due to subsidiaries	(587,230)	(465,129)
	<u>377,360</u>	<u>504,357</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.

## 15. Investments in jointly controlled entities

	Group	
	2004 HK\$ '000	2003 HK\$ '000
Share of net assets	10,332	6,372
Amount due from a jointly controlled entity ( <i>note(i)</i> )	744	1,197
	<u>11,076</u>	<u>7,569</u>
Unlisted shares, at cost	<u>3,812</u>	<u>3,812</u>

*Notes:*

- (i) The amount due from a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.
- (ii) The share of results of jointly controlled entities is stated after crediting HK\$990,000 (2003: Nil) negative goodwill arising from acquisition of Vision Year Investment Limited recognised in the consolidated profit and loss account for the year.
- (iii) Details of the jointly controlled entities are set out in note 32 to the accounts.

## 16. Investment securities

	Group and Company	
	2004 HK\$ '000	2003 HK\$ '000
Equity securities listed in Hong Kong,		
At cost	53,262	2,184
Held-to-maturity securities listed in Hong Kong,		
At amortised cost	<u>11,026</u>	<u>–</u>
	<u>64,288</u>	<u>2,184</u>
Market value of listed equity securities	<u>69,117</u>	<u>3,755</u>

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## Notes to the Accounts

### 17. 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 2004, the ageing analysis of the Group's accounts receivable is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Not yet due	500,101	284,100
Within 30 days	38,805	66,569
31 – 60 days	38,982	41,943
61 – 90 days	23,601	13,115
Over 90 days	24,250	18,510
	<u>625,739</u>	<u>424,237</u>

### 18. Other receivables, prepayments and deposits

Included in other receivables, prepayments and deposits of the Group was a loan due from an officer, who was appointed as a director on 24th September 2004, as follows:

Name	Terms of the loan	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st December 2004 HK\$'000	Amount outstanding at 31st December 2003 HK\$'000
KWOK Ying Lung	Unsecured, interest free and repayable on demand	194	–	194

The loan due from an officer was repaid during the year prior to the appointment of him as a director.

### 19. Trading investments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities – listed in Hong Kong, at market value	<u>18,650</u>	<u>11</u>	<u>8</u>	<u>11</u>

**20. Accounts payable**

The accounts payable represents principally the commissions payable to property consultants and cooperative estate agents, and are due for payment only upon the receipt of corresponding agency fees from customers. As at 31st December 2004, the accounts payable included HK\$57,701,641 (2003: HK\$41,133,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.

**21. Share capital****(a) Share capital**

	<b>Company Ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
At 31st December 2004 and 2003	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31st December 2002	609,447,000	60,945
Exercise of warrants	81,224,000	8,122
Exercise of share options	13,825,000	1,383
Cancellation of purchased shares	<u>(1,406,000)</u>	<u>(141)</u>
At 31st December 2003	<u>703,090,000</u>	<u>70,309</u>
At 31st December 2003	703,090,000	70,309
Exercise of share options	<u>1,300,000</u>	<u>130</u>
At 31st December 2004	<u>704,390,000</u>	<u>70,439</u>

**(b) Share options**

The Company adopted the 1995 Share Option Scheme on 12th May 1995. 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.

## Notes to the Accounts

### 21. Share capital *(continued)*

#### (b) Share options *(continued)*

At the special general meeting of the Company held on 30th April 2002, an ordinary resolution was duly passed under which the 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 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 8.46% 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, such period not earlier than the commencement date and not more than 10 years from the commencement date.

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

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

	Number of options	
	2004	2003
At the beginning of the year	1,300,000	6,468,000
Granted <i>(note (i))</i>	–	13,000,000
Exercised <i>(note (ii))</i>	(1,300,000)	(13,825,000)
Lapsed <i>(note (iii))</i>	–	(4,343,000)
	<hr/>	<hr/>
At the end of the year <i>(note (iv))</i>	–	1,300,000
	<hr/>	<hr/>



## 21. Share capital (continued)

### (b) Share options (continued)

Notes:

- (i) No share options were granted under 1995 Share Option Scheme and the 2002 Share Option Scheme during the year ended 31st December 2004. In 2003, share options were granted on 9th June 2003 under the 2002 Share Option Scheme at the exercise price of HK\$0.53 per share. Consideration of HK\$1 was received from each grantee in respect of the share options granted. All of the respective share options were exercised as at 31st December 2003 (note (ii)).
- (ii) Options exercised on the following dates resulted in 1,300,000 shares (2003: 13,825,000 shares) being issued yielding the following proceeds:

	2004 HK\$ '000	2003 HK\$ '000
Ordinary share capital – at par	130	1,383
Share premium	592	5,917
Proceeds	<u>722</u>	<u>7,300</u>

	Number of shares issued	Market price of shares HK\$ '000	Fair value of shares HK\$ '000
Fair value of share issued at exercise price of HK\$0.71 at the following exercise date of:			
21st January 2004	300,000	3.2	960
Fair value of share issued at exercise price of HK\$0.5088 at the following exercise date of:			
26th January 2004	1,000,000	2.925	2,925
	<u>1,300,000</u>		<u>3,885</u>
Fair value of share issued at exercise price of HK\$0.53 at the following exercise date of:			
5th August 2003	1,000,000	0.78	780
11th August 2003	1,000,000	0.79	790
21st August 2003	1,000,000	0.98	980
22nd August 2003	1,000,000	1.05	1,050
25th August 2003	1,000,000	1.02	1,020
29th August 2003	1,000,000	1.00	1,000
1st September 2003	1,000,000	1.03	1,030
3rd September 2003	1,000,000	1.12	1,120
15th September 2003	2,000,000	1.27	2,540
16th September 2003	2,000,000	1.38	2,760
24th September 2003	500,000	1.76	880
25th September 2003	500,000	1.82	910
	<u>13,000,000</u>		<u>14,860</u>
Fair value of shares issued at exercise price of HK\$0.496 at the following exercise date of:			
30th September 2003	825,000	1.80	1,485
	<u>13,825,000</u>		<u>16,345</u>

## Notes to the Accounts

### 21. Share capital (continued)

#### (b) Share options (continued)

Notes: (continued)

- (iii) No share options lapsed during the year. In 2003, 4,343,000 share options lapsed in accordance with the terms of the 1995 Share Option Scheme.
- (iv) There were no share options outstanding as at 31st December 2004. As at 31st December 2003, share options outstanding have the following terms:

Expiry Date	Exercise price HK\$	Number of options	Vested percentages
Directors			
14th May 2005	0.5088	500,000 *	100%
14th May 2006	0.5088	500,000 *	100%
		1,000,000	
Continuous contract employees			
17th February 2004	0.71	150,000 **	100%
17th February 2005	0.71	150,000 **	100%
		300,000	
Total for directors and continuous contract employees		1,300,000	

\* Share options were exercised on 26th January 2004.  
\*\* Share options were exercised on 21st January 2004.

No share options were cancelled during the year. (2003: Nil).

#### (c) Warrants

In January 2003, 81,224,000 warrants were exercised, resulting in the issue of 81,224,000 ordinary shares of HK\$0.01 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.

On 8th April 2003, the directors proposed to make a bonus issue of warrants to Shareholders of the Company whose names are recorded on the register of members of the Company as at the close of business on 21st May 2003 (other than Shareholders whose address are outside Hong Kong). The resolution of the proposed bonus warrant issue was not approved by the Shareholders of the Company at the special general meeting held on 21st May 2003. As the proposed bonus issue of warrants was conditional upon the passing of an ordinary resolution by the Shareholders of the Company, the proposed bonus issue of warrants did not proceed.

## 22. Reserves

	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Arising on consolidation <i>HK\$'000</i>	Group Warrants <i>HK\$'000</i>	Exchange difference <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003	76,289	1,937	(36,995)	17,618	(454)	322,835	381,230
Exchange differences	-	-	-	-	111	-	111
Profit for the year	-	-	-	-	-	122,749	122,749
2002 final dividend paid	-	-	-	-	-	(3,446)	(3,446)
2002 special cash bonus paid	-	-	-	-	-	(34,463)	(34,463)
2003 interim dividend paid	-	-	-	-	-	(10,547)	(10,547)
Purchase of own shares	(614)	-	-	-	-	-	(614)
Transfer from retained earnings	-	141	-	-	-	(141)	-
Exercise of share options	5,917	-	-	-	-	-	5,917
Exercise of warrants	49,516	-	-	(17,027)	-	-	32,489
Release of warrants reserve upon expiry of warrants	-	-	-	(591)	-	-	(591)
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>(36,995)</u>	<u>-</u>	<u>(343)</u>	<u>396,987</u>	<u>492,835</u>
Representing:							
Reserves	131,108	2,078	(36,995)	-	(343)	361,767	457,615
2003 final dividend proposed ( <i>note 8</i> )	-	-	-	-	-	35,220	35,220
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>(36,995)</u>	<u>-</u>	<u>(343)</u>	<u>396,987</u>	<u>492,835</u>
Company and subsidiaries	131,108	2,078	(36,995)	-	409	393,675	490,275
Jointly controlled entities	-	-	-	-	(752)	3,312	2,560
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>(36,995)</u>	<u>-</u>	<u>(343)</u>	<u>396,987</u>	<u>492,835</u>

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## Notes to the Accounts

### 22. Reserves (continued)

	Group							
	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Arising on consolidation <i>HK\$'000</i>	Other properties revaluation <i>HK\$'000</i>	Warrants <i>HK\$'000</i>	Exchange difference <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2004	131,108	2,078	(36,995)	-	-	(343)	396,987	492,835
Surplus arising on revaluation of other properties, net of taxation	-	-	-	3,025	-	-	-	3,025
Exchange differences	-	-	-	-	-	172	-	172
Profit for the year	-	-	-	-	-	-	357,238	357,238
2003 final dividend paid	-	-	-	-	-	-	(35,220)	(35,220)
2004 interim dividend paid	-	-	-	-	-	-	(49,307)	(49,307)
Exercise of share options	592	-	-	-	-	-	-	592
At 31st December 2004	<u>131,700</u>	<u>2,078</u>	<u>(36,995)</u>	<u>3,025</u>	<u>-</u>	<u>(171)</u>	<u>669,698</u>	<u>769,335</u>
Representing:								
Reserves	131,700	2,078	(36,995)	3,025	-	(171)	583,058	682,695
2004 final dividend proposed (note 8)	-	-	-	-	-	-	86,640	86,640
At 31st December 2004	<u>131,700</u>	<u>2,078</u>	<u>(36,995)</u>	<u>3,025</u>	<u>-</u>	<u>(171)</u>	<u>669,698</u>	<u>769,335</u>
Company and subsidiaries	131,700	2,078	(36,995)	3,025	-	581	662,426	762,815
Jointly controlled entities	-	-	-	-	-	(752)	7,272	6,520
At 31st December 2004	<u>131,700</u>	<u>2,078</u>	<u>(36,995)</u>	<u>3,025</u>	<u>-</u>	<u>(171)</u>	<u>669,698</u>	<u>769,335</u>

## 22. Reserves (continued)

	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Company		Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
			Warrants <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>		
At 1st January 2003	76,289	1,937	17,618	108,001	261,559	465,404
Profit for the year	–	–	–	–	1,390	1,390
2002 final dividend paid	–	–	–	–	(3,446)	(3,446)
2002 special cash bonus paid	–	–	–	–	(34,463)	(34,463)
2003 interim dividend paid	–	–	–	–	(10,547)	(10,547)
Purchase of own shares	(614)	–	–	–	–	(614)
Transfer from retained earnings	–	141	–	–	(141)	–
Exercise of share options	5,917	–	–	–	–	5,917
Exercise of warrants	49,516	–	(17,027)	–	–	32,489
Release of warrants reserve upon expiry of warrants	–	–	(591)	–	–	(591)
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>–</u>	<u>108,001</u>	<u>214,352</u>	<u>455,539</u>
Representing:						
Reserves	131,108	2,078	–	108,001	179,132	420,319
2003 final dividend proposed (note 8)	–	–	–	–	35,220	35,220
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>–</u>	<u>108,001</u>	<u>214,352</u>	<u>455,539</u>

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## Notes to the Accounts

### 22. Reserves (continued)

	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Company		Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
			Warrants <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>		
At 1st January 2004	131,108	2,078	–	108,001	214,352	455,539
Profit for the year	–	–	–	–	9,139	9,139
2003 final dividend paid	–	–	–	–	(35,220)	(35,220)
2004 interim dividend paid ( <i>note 8</i> )	–	–	–	–	(49,307)	(49,307)
Exercise of share options	592	–	–	–	–	592
At 31st December 2004	<u>131,700</u>	<u>2,078</u>	<u>–</u>	<u>108,001</u>	<u>138,964</u>	<u>380,743</u>
Representing:						
Reserves	131,700	2,078	–	108,001	52,324	294,103
2004 final dividend proposed ( <i>note 8</i> )	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>86,640</u>	<u>86,640</u>
At 31st December 2004	<u>131,700</u>	<u>2,078</u>	<u>–</u>	<u>108,001</u>	<u>138,964</u>	<u>380,743</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.

## 23. Long-term bank loans – secured

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Secured bank loans		
– wholly repayable within five years	35,092	32,440
– not wholly repayable within five years	10,718	–
	<u>45,810</u>	<u>32,440</u>
Current portion of long-term bank loans	(14,686)	(11,796)
	<u>31,124</u>	<u>20,644</u>

The bank loans are secured by certain Group's investment properties and other properties (note 13).

At 31st December 2004, the Group's bank loans and overdrafts were repayable as follows:

	Group			
	Bank overdrafts		Bank loans	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	9,773	14,629	14,686	11,796
In the second year	–	–	11,737	11,797
In the third to fifth year	–	–	8,669	8,847
After the fifth year	–	–	10,718	–
	<u>9,773</u>	<u>14,629</u>	<u>45,810</u>	<u>32,440</u>

## Notes to the Accounts

### 24. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred taxation account is as follows:

	Deferred tax (assets)	
	2004 HK\$'000	2003 HK\$'000
At 1st January	(9,164)	(8,450)
Deferred taxation charged/(credited) to profit and loss account (note 6)	4,195	(714)
Taxation charged to equity	641	—
At 31st December	<u>(4,328)</u>	<u>(9,164)</u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$181,185,000 (2003: HK\$205,016,000) to carry forward against future taxable income; these tax losses have no expiry date except that tax losses of HK\$25,292,000 (2003: HK\$12,937,000) will be fully expired in 2009 (2003: 2008).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

#### Deferred tax assets

	Group							
	Provisions		Impairment of assets		Tax losses		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1st January	(2,557)	(572)	(6,550)	(5,596)	(691)	(2,365)	(9,798)	(8,533)
Charged/(credited) to profit and loss account	(1,643)	(1,985)	3,654	(954)	208	1,674	2,219	(1,265)
At 31st December	<u>(4,200)</u>	<u>(2,557)</u>	<u>(2,896)</u>	<u>(6,550)</u>	<u>(483)</u>	<u>(691)</u>	<u>(7,579)</u>	<u>(9,798)</u>



**24. Deferred taxation** *(continued)***Deferred tax liabilities**

	<b>Accelerated tax depreciation</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January	634	83
Charged to profit and loss account	1,976	551
Charged to equity	641	–
	<u>          </u>	<u>          </u>
At 31st December	<u>3,251</u>	<u>634</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	(5,754)	(9,798)
Deferred tax liabilities	<u>1,426</u>	<u>634</u>
	<u>(4,328)</u>	<u>(9,164)</u>
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	(2,792)	(9,102)
Deferred tax liabilities to be settled after more than 12 months	<u>558</u>	<u>218</u>

## Notes to the Accounts

### 25. Consolidated cash flow statement

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit	421,427	150,811
Depreciation	23,030	13,639
Loss on disposal of fixed assets	185	314
Surplus on revaluation of investment properties and other properties	(31,952)	(670)
Reserve transferred to consolidated profit and loss account upon expiry of warrants	–	(591)
Impairment of goodwill	–	1,003
Interest income	(2,651)	(2,424)
Net realised gains on investment securities	(5,365)	–
Net realised and unrealised gains on trading investments	(191)	(1,515)
	<hr/>	<hr/>
Operating profit before working capital changes	404,483	160,567
Increase in accounts receivable, other receivables, prepayment and deposits	(240,059)	(199,141)
Increase in accounts payable, other payables and accrued charges	181,218	205,329
	<hr/>	<hr/>
Cash generated from operations	<u>345,642</u>	<u>166,755</u>

## 25. Consolidated cash flow statement (continued)

## (b) Analysis of change in financing during the year

	<b>Dividend payable</b> <i>HK\$'000</i>	<b>Share capital and share premium</b> <i>HK\$'000</i>	<b>Bank loans</b> <i>HK\$'000</i>	<b>Minority interests</b> <i>HK\$'000</i>
At 1st January 2003	–	154,852	60,526	6,405
Minority interests' share of profits	–	–	–	1,950
Cash (outflows)/inflows	(48,456)	47,156	(28,086)	–
Release of warrant reserve after the expiry of warrants	–	(591)	–	–
Dividends	48,456	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	–	201,417	32,440	8,355
	<hr/>	<hr/>	<hr/>	<hr/>
At 1st January 2004	–	201,417	32,440	8,355
Minority interests' share of profits	–	–	–	2,333
Cash (outflows)/inflows	(84,527)	722	13,370	(9,300)
Acquisition of additional interests in subsidiaries	–	–	–	(1,388)
Dividends	84,527	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2004	–	202,139	45,810	–
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the Accounts

### 25. Consolidated cash flow statement *(continued)*

#### (c) Acquisition of a subsidiary

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	–	147
Accounts and other receivables	–	665
Bank balances and cash	–	175
Accounts and other payables	–	(1,704)
	–	(717)
Goodwill	–	1,003
	–	286
Satisfied by:		
Cash	–	286

The subsidiary acquired in 2003 contributed HK\$45,000 in respect of the Group's net operating cash flows.

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank balances and cash in hand acquired	–	175
Cash consideration	–	(286)
	–	(111)

**26. Future lease rental payments receivable**

At 31st December 2004, the Group had future minimum lease rental payments receivable under non-cancellable operating leases as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Not later than one year	1,794	2,028
Later than one year and not later than five years	669	1,079
	<u>2,463</u>	<u>3,107</u>

**27. Commitments under operating leases**

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Not later than one year	160,421	67,952
Later than one year and not later than five years	120,985	36,864
	<u>281,406</u>	<u>104,816</u>

At 31st December 2004, the Company did not have any significant commitments (2003: Nil).

**28. 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.

**29. Contingent liabilities**

During the years ended 31st December 2004 and 2003, 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.

## Notes to the Accounts

### 30. Subsequent events

Pursuant to the subscription agreement (“Subscription Agreement”) entered into on 25th January 2005 between, inter alia, the Company and EVI Education Asia Limited (“EVI”), a company incorporated in Cayman Islands and listed on the Growth Enterprise Market operated by the Stock Exchange, the Group had conditionally agreed to subscribe for 4,300 million new shares of HK\$0.01 each in the capital of EVI at the price of HK\$0.025 each. The total consideration amounts to HK\$107.5 million which will be satisfied by the internal resources of the Group.

The 4,300 million new EVI shares represent approximately 107.5% of the issued share capital of EVI as at 26th January 2005, or approximately 51.81% of the issued share capital of EVI as enlarged by the subscription. Up to the date of this report, the major conditions precedent of the completion of Subscription Agreement have all been fulfilled. The directors anticipate that the subscription will be completed in March 2005, upon which, EVI will become a subsidiary to the Group.

### 31. Approval of accounts

The accounts were approved by the Board on 10th March 2005.

### 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 2004:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ paid up capital	Interest held %
<b>Subsidiaries</b>				
<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>				
Hong Kong Property Services (Agency) Limited	Hong Kong	Property agent in Hong Kong	2 Ordinary shares of HK\$1 each	100
Hong Kong Property Services (IC&I) Limited	Hong Kong	Property agent in Hong Kong	2 Ordinary shares of HK\$1 each	100

## 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/ paid up capital	Interest held %
<b>Subsidiaries (continued)</b>				
<i>– indirectly held by the Company (continued)</i>				
Midland CyberNet Limited	Hong Kong	An operator of an internet website in Hong Kong	39,100,000 Ordinary shares of HK\$1 each	100
Midland HKP Services (Administration) Limited	Hong Kong	Administration and management in Hong Kong	2 Ordinary shares of HK\$1 each	100
Midland Immigration Consultancy Limited (formerly known as Midland Professional Consulting Service Limited)	Hong Kong	Immigration Services in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty (Aberdeen) Limited (note a)	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty Consultancy (Shanghai) Co. Ltd. (note b)	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. & 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 (note a)	Hong Kong	Property agent in Hong Kong	800,000 Ordinary shares of HK\$1 each	100
Midland Realty (Macau) Limited (notes b&c)	Macau	Property agent in Macau	MOP\$25,000	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/ paid up capital	Interest held %
<b>Subsidiaries</b> <i>(continued)</i>				
– indirectly held by the Company <i>(continued)</i>				
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
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
美聯物業代理(深圳)有限公司 <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
Guangzhou Midland Property Agency Co., Ltd. <i>(notes b&amp;c)</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$500,000	100



## 32. List of principal subsidiaries and jointly controlled entities (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Percentage of interest in ownership/voting power/ profit sharing
<b>Jointly controlled entities</b>			
<i>– indirectly held by the Company</i>			
Midland (Guangzhou) Real Estate Consultants Limited (note b)	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 b)	British Virgin Islands	Investment holding in Hong Kong	33.33%/33.33%/33.33%
Vision Year Investment Limited (note c)	British Virgin Islands	Investment holding in Hong Kong	20%/33.33%/20%

## Notes:

- (a) The Group acquired 20% equity interest in Midland Realty (Aberdeen) Limited on 21st September 2004 and 10% equity interest in Midland Realty (Kln Res.) Limited on 27th October 2004. Taking into the account of original 80% and 90% equity interest in Midland Realty (Aberdeen) Limited and Midland Realty (Kln Res.) Limited respectively, the Group holds 100% equity interest in both subsidiaries as at 31st December 2004.
- (b) These subsidiaries and jointly controlled entities are not audited by PricewaterhouseCoopers, Hong Kong.
- (c) These subsidiaries and jointly controlled entity were set up during the year.