Notes to the Financial Statements

1. GENERAL INFORMATION

Midland Holdings Limited (the "Company") (formerly known as Midland Realty (Holdings) Limited) and its subsidiaries (collectively the "Group") principally engaged in provision of property brokerage services in Hong Kong, the People's Republic of China (the "PRC") and Macau. The Group has more than 480 branches in Hong Kong, Macau and the PRC. The Company is a limited liability company incorporated in Bermuda and listed on the Main Board at The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, Church Street, Hamilton HM11, Bermuda.

During the year, the Group acquired control of EVI Education Asia Limited ("EVI"), a company listed in the Growth Enterprises Market of the Stock Exchange, which is principally engaged in provision of internet education services *(note 39)*.

These financial statements have been approved for issue by the board of directors on 9th March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS and Hong Kong Accounting Standards ("HKAS") below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 12	Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The following is a summary of material changes in principal accounting policies or presentation of financial statements as a result of the adoption of the new/revised HKFRS.

(i) HKAS 1

The adoption of HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities and other disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(ii) HKAS 16

Buildings previously stated at fair value are now stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and land use rights were accounted for at fair value.

(iv) HKASs 32 and 39

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification and measurement of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

(v) HKAS 40 and HKAS-Int 21

The adoption of HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred income tax liabilities arising from the revaluation of investment properties. Such deferred income tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

(vi) HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective 1st January 2005, the fair value of the employee services received in exchange for grant of the options is recognised as an expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(vii) HKFRS 3, HKASs 36 and 38

The adoption of HKFRS 3, HKASs 36 and 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- amortised on a straight-line basis over a period of not more than 20 years;
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January 2005;
- Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From 1st January 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005;
- HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and
- HKFRS 3 – prospectively after the adoption date.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The following is a summary of effect of adopting the new/revised HKFRS on major items in the financial statements:

Consolidated balance sheet
As at 31st December 2005

	Increase/(decrease) Effect of adopting					
	HKFRS 2 HK$'000	HKFRS 3, HKASs 36 and 38 HK$'000	HKAS 40 and HKAS-Int 21 HK$'000	HKASs 16 and 17 HK$'000	HKASs 32 and 39 HK$'000	Total HK$'000
ASSETS						
Non-current assets						
Property, plant and equipment	–	–	–	(154,612)	–	(154,612)
Leasehold land and land use rights	–	–	–	123,482	–	123,482
Intangible assets	–	(1,533)	–	–	–	(1,533)
Available-for-sale financial assets	–	–	–	–	34,286	34,286
Held-to-maturity investments	–	–	–	–	11,038	11,038
Financial assets at fair value through profit or loss	–	–	–	–	22,359	22,359
Investment securities	–	–	–	–	(80,870)	(80,870)
Deferred income tax assets	–	–	(62)	376	–	314
Current assets						
Financial assets at fair value through profit or loss	–	–	–	–	17,294	17,294
Trading investments	–	–	–	–	(17,294)	(17,294)
Total assets	–	(1,533)	(62)	(30,754)	(13,187)	(45,536)
LIABILITIES						
Non-current liabilities						
Deferred income tax liabilities	–	–	713	(344)	–	369
Net assets	–	(1,533)	(775)	(30,410)	(13,187)	(45,905)
EQUITY						
Revaluation reserve, net of tax	–	–	–	(3,025)	(13,187)	(16,212)
Employee share-based benefits reserve	163	–	–	–	–	163
Retained earnings	(163)	(1,533)	(775)	(27,385)	–	(29,856)
Total equity	–	(1,533)	(775)	(30,410)	(13,187)	(45,905)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Consolidated balance sheet (continued)
As at 31st December 2004

	Increase/(decrease) Effect of adopting HKAS 40 and HKAS-Int 21 HK$'000	HKASs 16 and 17 HK$'000	Total HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	–	(131,300)	(131,300)
Leasehold land and land use rights	–	100,123	100,123
Deferred income tax assets	1,506	2,135	3,641
Total assets	1,506	(29,042)	(27,536)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	(54)	(37)
Net assets	1,489	(28,988)	(27,499)
EQUITY			
Revaluation reserve, net of tax	–	(3,025)	(3,025)
Retained earnings	1,489	(25,963)	(24,474)
Total equity	1,489	(28,988)	(27,499)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Consolidated income statement

	For the years ended 31st December Increase/(decrease) Effect of adopting 2005					2004
	HKFRS 2 HK$'000	HKFRS 3, HKASs 36 and 38 HK$'000	HKAS 40 and HKAS-Int 21 HK$'000	HKASs 16 and 17 HK$'000	Total HK$'000	HKASs 16, 17 and HKAS-Int 21 HK$'000
Staff costs	163	–	–	–	163	–
Depreciation and amortisation costs	–	–	–	(47)	(47)	(57)
Other operating costs	–	1,533	–	–	1,533	–
Income tax expenses	–	–	775	(720)	55	(1,074)
Profit for the year	(163)	(1,533)	(775)	767	(1,704)	1,131
Earnings per share (HK cent)						
– Basic	(0.02)	(0.21)	(0.11)	0.10	(0.24)	0.16
– Diluted	(0.02)	(0.21)	(0.11)	0.10	(0.24)	0.16

Balance sheet
As at 31st December 2005

	Increase/(decrease) Effect of adopting		
	HKFRS 2 HK$'000	HKASs 32 and 39 HK$'000	Total HK$'000
ASSETS			
Non-current assets			
Available-for-sale financial assets	–	34,286	34,286
Held-to-maturity investments	–	11,038	11,038
Investment securities	–	(58,511)	(58,511)
Current assets			
Financial assets at fair value through profit or loss	–	8	8
Trading investments	–	(8)	(8)
Total assets	–	(13,187)	(13,187)
EQUITY			
Revaluation reserve, net of tax	–	(13,187)	(13,187)
Employee share-based benefits reserve	163	–	163
Retained earnings	(163)	–	(163)
Total equity	–	(13,187)	(13,187)

The adoption of new/revised HKFRS has no significant effect on the Company's balance sheet as at 31st December 2004.

The adoption of HKAS 39 resulted in an increase in opening reserves of the Group and the Company at 1st January 2005 by HK$4,761,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to be published that are not yet effective for the year ended 31st December 2005

The HKICPA has issued the following amendments, new standards and interpretations which are not yet effective as of the date of these financial statements:

	Effective for accounting periods beginning on or after
HKFRS-Int 4 "Determining whether an Arrangement contains a Lease"	1st January 2006
Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement":	
– The fair value option	1st January 2006
– Financial guarantee contracts	1st January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1 "Presentation of Financial Statements"	1st January 2006
– HKAS 27 "Consolidated and Separate Financial Statements"	1st January 2006
– HKFRS 3 "Business Combinations"	1st January 2006
HKFRS 7 "Financial Instruments: Disclosures"	1st January 2007
Amendments to HKAS 1 "Presentation of Financial Statements: Capital Disclosures"	1st January 2007

The Group has not early adopted of the above standards, interpretations and amendments in the financial statements for the year ended 31st December 2005. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group's accounting policies and presentation of the financial statements will be resulted.

(b) Consolidation

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

(i) Subsidiaries

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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

(ii) 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 Group's interests in jointly controlled entities are accounted for by equity method. The consolidated income statement 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.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

(f) Investment properties

Property that is held for long-term rental yield or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Research and website development costs

The costs for developing websites which include external direct cost of materials and services consumed in developing the website are capitalised, and the capitalisation of such costs ceases no later than the point at which the website is substantially completed and ready for its intended purpose, except that such costs involve provision of additional functions or features to the website. Website development costs are amortised on a straight-line basis over a period of three years, which represent the expected useful life of the website. Capitalised website development costs are stated at cost less accumulated amortisation and impairment losses.

Research and other development costs relating to website development and website maintenance costs are expensed in the year in which they are incurred.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Financial assets

Prior to 1st January 2005, the Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as investment securities and trading investments.

Investment securities were stated at cost less provision for diminution in value other than temporary in nature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Trading investments were stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in market value of trading securities were recognised in the income statement. Profits or losses upon the disposals of trading securities representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1st January 2005 onwards, the Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in accounts receivable and other receivables in the balance sheet.

(ii) Held-to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iii) Financial assets at fair value through profit or loss

A financial asset (including derivative financial instrument) is classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(j) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Deferred income tax

Deferred income tax 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 financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax 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 is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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 schemes by the Group and employees are calculated at rates specified in the rules of the schemes. The retirement scheme cost charged to the income statement represents contributions paid and payable by the Group to the fund. The assets of the schemes are held separately from those of the Group in an independently administered fund.

(iii) Share-based compensation

The Group operates equity-settled, share-based compensation plans. Share options are granted to directors, full time employees and consultants.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(p) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition

Agency fee revenues from property brokerage and marketing services are recognised when the relevant agreement becomes unconditional or irrevocable.

Internet education services income is recognised when the related services are rendered.

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

Web advertising income and other services 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.

Interest income is recognised on a time proportion basis using the effective interest method.

(r) 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 income statement on a straight-line basis over the lease periods.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(f)).

(s) 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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(u) Comparative figures

Certain comparative figures have been reclassified or extended to conform with current year's presentation.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

(i) Foreign exchange risk

The Group operates in Hong Kong and certain overseas countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings are disclosed in note 32 below.

The Group has not used any interest rate swaps to hedge its exposure to cash flow interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk as the Group has a large number of customers. Property agency services provided to customers are settled in cash or cheque payments.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, accounts receivable; and financial liabilities including accounts payable, short-term borrowings, approximate their fair values due to their short maturities.

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of accounts receivable

The Group's management determines the provision for impairment of accounts receivable. This estimate is based on the historical pattern of discount, bad debts and fallen through by business segments and the current market condition. Management reassesses the provision by each balance sheet date.

(ii) Estimate of fair value of investment properties

The valuation of investment properties is made on the basis of the "Market Value" adopted by the Hong Kong Institute of Surveyors ("HKIS"). The valuation is reviewed annually by internal valuers. The Group's management will reassess the assumptions used by the internal valuers by considering the information from a variety of sources including (i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; and (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(iii) Separation of prepayment of lease premium from property, plant and equipment

The adoption of HKAS 17 has resulted in reclassification of leasehold land from property, plant and equipment to prepayment of lease premium. The valuation of prepayment of lease premium is performed by an internal valuer by valuing the depreciated replacement cost of the buildings and then deducting the depreciated replacement cost of the buildings from the initial consideration paid for the leasehold land and the building.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(iv) Estimate of goodwill and fair value of identifiable assets, liabilities and contingent liabilities in relation to acquisition of EVI

Management accounted for the acquisition in accordance with HKFRS 3, which provides that the acquirer shall, at the acquisition date, initially measure the goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Management has performed assessment on the fair value of each individual identifiable assets and liabilities on the date of acquisition. Based on management's assessment, carrying amounts of most of assets and liabilities approximate their fair values except that fair value of the website costs and related databases, which is determined based on the discounted cash flows of the EVI's core internet education business, was recognised as intangible assets. A number of assumptions and estimates are involved for the calculations.

(v) Estimate impairment of goodwill

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired by the Group, in accordance with the accounting policy stated in note 2(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(note 18)*.

(b) Critical judgements in applying the Company's accounting policies

Distinction between investment properties and owner-occupied properties.

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generates cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if as insignificant portion is held for use in judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

5. TURNOVER, REVENUES AND SEGMENT INFORMATION

(a) Turnover and other revenues

Revenues recognised during the year are as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Agency fee revenue	2,332,004	1,987,345
Other revenues		
Gross rental income from investment properties	5,243	2,239
Web advertising income	5,746	4,197
Internet education services income	22,791	–
Other services income	3,684	2,158
	37,464	8,594
Total revenues	2,369,468	1,995,939

(b) Segment information

The Group is organised into four main business segments including residential property brokerage, industrial and commercial property brokerage, property leasing and internet education services. Sales 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 services.

5. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	For the year ended 31st December 2005						
	Residential property brokerage HK$'000	Industrial and commercial property brokerage HK$'000	Property leasing HK$'000	Internet education services HK$'000	Others HK$'000	Inter–segment elimination HK$'000	Total HK$'000
Turnover							
External sales	2,053,191	278,813	–	–	–	–	2,332,004
Other revenues							
External sales	–	–	5,243	22,791	9,430	–	37,464
Inter-segment sales	–	–	8,954	–	3,749	(12,703)	–
Segment revenues	2,053,191	278,813	14,197	22,791	13,179	(12,703)	2,369,468
Segment results	168,468	47,770	21,224	(15,258)	5,128	73,695	301,027
Unallocated costs							(70,281)
Operating profit before interest income and finance costs							230,746
Net finance income							6,890
Share of profits less losses of jointly controlled entities	(253)	–	–	–	6,121	–	5,868
Profit before income tax							243,504
Income tax expenses							(34,676)
Profit for the year							208,828

5. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 31st December 2005						
	Residential property brokerage HK$'000	**Industrial and commercial property brokerage HK$'000**	**Property leasing HK$'000**	**Internet education services HK$'000**	**Others HK$'000**	**Inter–segment elimination HK$'000**	**Total HK$'000**
Segment assets	1,007,530	102,316	193,722	161,817	13,574	–	1,478,959
Interests in jointly controlled entities	535	–	–	–	14,165	–	14,700
Unallocated assets							342,181
Total assets							1,835,840
Segment liabilities	587,468	60,486	2,043	5,736	5,763	–	661,496
Unallocated liabilities							101,957
Total liabilities							763,453

	Residential property brokerage HK$'000	**Industrial and commercial property brokerage HK$'000**	**Property leasing HK$'000**	**Internet education services HK$'000**	**Others HK$'000**	**Unallocated HK$'000**	**Total HK$'000**
Capital expenditure	82,331	5,962	67,235	62,145	308	–	217,981
Depreciation	44,546	3,227	160	707	113	128	48,881
Amortisation	–	–	3,162	7,415	–	370	10,947
Impairment charges	–	–	–	5,410	5,789	–	11,199
Other non-cash expenses/(income)	94,398	23,563	(10,843)	103	239	–	107,460

Notes to the Financial Statements

5. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	Residential property brokerage HK$'000	Industrial and commercial property brokerage HK$'000	Property leasing HK$'000	Internet education services HK$'000	Others HK$'000	Inter–segment elimination HK$'000	Total HK$'000
	Restated For the year ended 31st December 2004						
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	1,705,926	281,419	9,994	–	14,937	(16,337)	1,995,939
Segment results	303,106	58,838	10,470	–	9,440	58,734	440,588
Unallocated costs							(49,398)
Operating profit before interest income and finance costs							391,190
Net finance income							2,216
Share of profits less losses of jointly controlled entities	59	–	–	–	4,901	–	4,960
Profit before income tax							398,366
Income tax expenses							(65,307)
Profit for the year							333,059

5. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	Restated As at 31st December 2004						
	Residential property brokerage HK$'000	Industrial and commercial property brokerage HK$'000	Property leasing HK$'000	Internet education services HK$'000	Others HK$'000	Inter–segment elimination HK$'000	Total HK$'000
Segment assets	706,282	107,381	125,310	–	11,236	–	950,209
Interests in jointly controlled entities	789	–	–	–	9,543	–	10,332
Unallocated assets							490,084
Total assets							1,450,625
Segment liabilities	446,779	68,863	1,256	–	1,133	–	518,031
Unallocated liabilities							120,319
Total liabilities							638,350

	Residential property brokerage HK$'000	Industrial and commercial property brokerage HK$'000	Property leasing HK$'000	Internet education services HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Capital expenditure	60,566	4,578	44,167	–	177	–	109,488
Depreciation	17,726	1,697	124	–	187	166	19,900
Amortisation	–	–	2,733	–	–	341	3,074
Other non-cash expenses/(income)	29,339	20,934	(4,279)	–	75	–	46,069

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.

6. OTHER INCOME, NET

	2005 HK$'000	2004 HK$'000
Realised and unrealised gains on financial assets at fair value through profit or loss	193	–
Realised and unrealised gains on trading investments	–	191
Impairment on available-for-sale financial assets	(5,789)	–
Net realised gain on disposal of investment securities	–	5,365
Bank interest income	9,526	2,651
Dividend income from listed investments	2,071	2,781
Fair value gains on investment properties	10,843	–
Surplus arising on revaluation of investment properties	–	4,309
	16,844	15,297

7. STAFF COSTS

Staff costs (including directors' emoluments as disclosed in note 14) represent:

	2005 HK$'000	2004 HK$'000
Salaries and allowances	512,177	379,837
Commissions	736,185	693,345
Pension costs – defined contribution plans	31,998	24,430
Share options *(note 29)*	163	–
	1,280,523	1,097,612

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 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 income statement represents contributions paid and payable by the Group to the fund. Contributions totalling HK$2,655,000 (2004: HK$2,278,000) which are payable to the fund are included in other payable and accrued charges as at 31st December 2005.

7. STAFF COSTS (continued)

The Group also contributes to employee retirement schemes established by municipal governments in respect of certain subsidiaries in 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 income statement as incurred.

8. OTHER OPERATING COSTS

Expenses included in other operating costs are analysed as follows:

	2005 HK$'000	2004 HK$'000
Impairment of goodwill *(note 18)*	5,410	–
Loss on disposal of property, plant and equipment	1,013	185
Operating leases in respect of office and shop premises	225,423	123,205
Provision for bad and doubtful debts	118,303	50,379
Direct operating expenses arising from investment properties that:		
– generated rental income	115	142
– did not generate rental income	58	7
Auditors' remuneration	2,237	1,300

9. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts		
Wholly repayable within five years	586	335
Not wholly repayable within five years	2,050	100
	2,636	435

Notes to the Financial Statements

10. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

	2005 HK$'000	Restated 2004 HK$'000
Current income tax		
Hong Kong profits tax	47,140	63,936
Overseas taxation	396	129
Over provision in prior years	(1,954)	(1,879)
Deferred income tax *(note 33)*	(10,906)	3,121
	34,676	65,307

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2005 HK$'000	Restated 2004 HK$'000
Profit before income tax	243,504	398,366
Calculated at a taxation rate of 17.5%	42,613	69,714
Effect of different taxation rates in other countries	(1,077)	(66)
Income not subject to taxation	(4,313)	(988)
Expenses not deductible for taxation purposes	5,077	970
Utilisation of previously unrecognised tax losses	(5,378)	(6,718)
Temporary differences unrecognised	712	367
Tax losses not recognised	8,837	3,076
Recognition of previously unrecognised tax losses	(13,375)	–
Others	1,580	(1,048)
Income tax expenses	34,676	65,307

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$356,744,000 (2004: HK$9,139,000).

12. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	Restated 2004
Profit attributable to equity holders of the Company (HK$'000)	213,626	330,726
Weighted average number of ordinary shares in issue (thousands)	731,545	704,305
Basic earnings per share (HK cents per share)	29.2	47.0

12. EARNINGS PER SHARE (continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from exercising the share options which is calculated by determining the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	Restated 2004
Profit attributable to equity holders of the Company (HK$'000)	213,626	330,726
Weighted average number of ordinary shares in issue (thousands)	731,545	704,305
Adjustments for share options (thousands)	50	67
Weighted average number of ordinary shares for diluted earnings per share (thousands)	731,595	704,372
Diluted earnings per share (HK cents per share)	29.2	47.0

13. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim, paid, of HK$0.10 (2004: HK$0.07) per ordinary share	74,283	49,307
Final, proposed, of HK$0.016 (2004: HK$0.123) per ordinary share *(note)*	11,755	86,640
	86,038	135,947

Note: At a Board meeting held on 9th March 2006, the directors declared a final dividend of HK$0.016 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2006.

14. DIRECTORS' AND EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of director	Fees HK$'000	Salaries, allowances, commission and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement benefit costs HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Executive director:						
Mr WONG Kin Yip, Freddie	–	12,585	13,435	12	–	26,032
Ms TANG Mei Lai, Metty *(note a)*	–	28	110	–	–	138
Ms LAM Fung Fong	–	1,509	863	12	–	2,384
Mr CHAN Kwan Hing	–	9,993	1,276	12	–	11,281
Mr KWOK Ying Lung	–	5,651	26	12	–	5,689
Mr CHEUNG Kam Shing *(note b)*	–	6,239	–	11	3,176	9,426
	–	36,005	15,710	59	3,176	54,950
Independent non-executive director:						
Mr KOO Fook Sun, Louis	180	–	–	–	–	180
Mr SUN Tak Chiu	180	–	–	–	–	180
Mr WANG Ching Miao, Wilson	180	–	–	–	–	180
	540	–	–	–	–	540
	540	36,005	15,710	59	3,176	55,490

14. DIRECTORS' AND EXECUTIVES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of director	Fees HK$'000	Salaries, allowances, commission and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement benefit costs HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Executive director:						
Mr WONG Kin Yip, Freddie	–	12,300	21,571	12	–	33,883
Mr CHEUNG Kam Shing	–	7,166	130	12	–	7,308
Ms IP Kit Yee, Kitty	–	2,241	524	9	–	2,774
Ms LAM Fung Fong	–	2,542	958	12	–	3,512
Mr CHAN Kwan Hing	–	3,442	989	3	–	4,434
Mr KWOK Ying Lung	–	2,800	26	3	–	2,829
	–	30,491	24,198	51	–	54,740
Independent non-executive director:						
Mr KOO Fook Sun, Louis	49	–	–	–	–	49
Mr SUN Tak Chiu	49	–	–	–	–	49
Mr WANG Ching Miao, Wilson	49	–	–	–	–	49
Mr AU Son Yiu	200	–	–	–	–	200
Mr CHUNG Kam Wing, Calvin	99	–	–	–	–	99
Mr LAI Dominic	20	–	–	–	–	20
Mr KAN Chung Nin, Tony	20	–	–	–	–	20
	486	–	–	–	–	486
	486	30,491	24,198	51	–	55,226

Notes:

(a) Appointed on 22nd December 2005

(b) Resigned on 1st November 2005

14. DIRECTORS' AND EXECUTIVES' EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: one) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	2,868	1,111
Discretionary bonuses	1,373	238
Compensation for loss of office – contractual payments	981	–
Contribution to MPF scheme	20	7
	5,242	1,356

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
HK$1,000,001 – HK$1,500,000	–	1
HK$2,000,001 – HK$2,500,000	1	–
HK$2,500,001 – HK$3,000,000	1	–

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st January 2004						
Cost	20,278	58,080	16,717	91,095	2,456	188,626
Accumulated depreciation	(9,980)	(52,151)	(13,542)	(81,431)	(2,385)	(159,489)
Net book amount	10,298	5,929	3,175	9,664	71	29,137
Year ended 31st December 2004						
Opening net book amount	10,298	5,929	3,175	9,664	71	29,137
Additions	1,452	31,044	9,482	23,976	818	66,772
Disposals	–	(110)	–	(105)	–	(215)
Depreciation	(249)	(10,568)	(1,685)	(7,224)	(174)	(19,900)
Closing net book amount	11,501	26,295	10,972	26,311	715	75,794
At 1st January 2005						
Cost	21,731	88,359	26,199	114,906	3,274	254,469
Accumulated depreciation	(10,230)	(62,064)	(15,227)	(88,595)	(2,559)	(178,675)
Net book amount	11,501	26,295	10,972	26,311	715	75,794
Year ended 31st December 2005						
Opening net book amount	11,501	26,295	10,972	26,311	715	75,794
Acquisition of a subsidiary *(note 39)*	–	883	15	553	–	1,451
Additions	1,396	49,401	10,345	29,634	504	91,280
Transfer from investment properties *(note 16)*	1,572	–	–	–	–	1,572
Disposals	–	(815)	(337)	(367)	–	(1,519)
Depreciation	(288)	(31,509)	(3,914)	(12,825)	(345)	(48,881)
Exchange differences	–	–	116	–	–	116
Closing net book amount	14,181	44,255	17,197	43,306	874	119,813
At 31st December 2005						
Cost	24,699	136,682	35,739	152,336	3,778	353,234
Accumulated depreciation	(10,518)	(92,427)	(18,542)	(109,030)	(2,904)	(233,421)
Net book amount	14,181	44,255	17,197	43,306	874	119,813

15. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31st December 2005, the carrying amount of buildings pledged as security for the Group's long-term bank loans amounted to HK$14,181,000 (2004: HK$11,501,000) *(note 32)*.

16. INVESTMENT PROPERTIES

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
At 1st January	51,449	22,700
Additions	59,878	24,440
Transfer to buildings *(note 15)*	(1,572)	–
Transfer to leasehold land and land use rights *(note 17)*	(20,928)	–
Change in fair value *(note 6)*	10,843	–
Revaluation surplus *(note 6)*	–	4,309
At 31st December	99,670	51,449

The investment properties were revalued at 31st December 2005 by Mr Ronald Y.F. CHEUNG, a member of the HKIS employed by the Group, based on current prices in an active market for all properties.

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

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
In Hong Kong, held on:		
Leases of over 50 years	81,590	32,700
Leases of between 10 to 50 years	10,580	10,449
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	7,500	8,300
	99,670	51,449

16. INVESTMENT PROPERTIES (continued)

At 31st December 2005, the net book value of investment properties pledged as security for the Group's long-term bank loans amounted to HK$92,170,000 (2004: HK$43,149,000) *(note 32)*.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
At 1st January	100,123	84,921
Transferred from investment properties *(note 16)*	20,928	–
Additions	5,963	18,276
Amortisation	(3,532)	(3,074)
At 31st December	123,482	100,123

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2005	**2004**
	HK$'000	**HK$'000**
In Hong Kong held on:		
Leases of over 50 years	85,370	47,076
Leases of between 10 to 50 years	32,181	53,047
Outside Hong Kong held on:		
Leases of over 50 years	5,931	–
	123,482	100,123

At 31 December 2005, the net book value of leasehold land and land use rights pledged as security for the Group's long-term bank loans amounted to HK$117,551,000 (2004: HK$100,123,000) *(note 32)*.

18. INTANGIBLE ASSETS

	Group		
	Goodwill HK$'000	Website costs and databases HK'000	Total HK$'000
Year ended 31st December 2005			
Acquisition of subsidiary	29,750	29,659	59,409
Impairment expense	(5,410)	–	(5,410)
Amortisation expense	–	(7,415)	(7,415)
Closing net book amount	24,340	22,244	46,584
At 31st December 2005			
Cost	29,750	29,659	59,409
Accumulated amortisation and impairment	(5,410)	(7,415)	(12,825)
Net book amount	24,340	22,244	46,584

Impairment tests for goodwill

The goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment. The carrying amount solely relates to the Group's internet education services business segment in Hong Kong.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The calculations uses cash flow projections based on financial budgets approved by management. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions used for value-in-use calculations which reflect the risk involved include the expected 5-year average growth in revenues of 17%, long term growth rates of 5% and discount rates of approximately 13%. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Discount rates used have reflected the specific risk of the business. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

Notes to the Financial Statements

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	108,501	108,501

Details of principal subsidiaries are set out in note 41 to the financial statements.

20. AMOUNTS DUE FROM/TO SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Amounts due from subsidiaries	859,165	856,089
Amounts due to subsidiaries	209,453	587,230

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

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	14,700	10,332
Unlisted shares, at costs	3,812	3,812

Details of principal jointly controlled entities are set out in note 41 to the financial statements.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The aggregate amounts of assets and liabilities, and income and expenses of the Group's interests in jointly controlled entities are as follows:

	2005 HK$'000	2004 HK$'000
Assets		
Non-current assets	1,143	1,272
Current assets	18,765	13,571
	19,908	14,843
Liabilities		
Long-term liabilities	471	–
Current liabilities	4,737	4,511
	5,208	4,511
Net assets	14,700	10,332
Income	19,152	19,334
Expenses	(13,284)	(14,374)
Profit after income tax	5,868	4,960

There are no significant contingent liabilities and capital commitments relating to the Group's interests in the jointly controlled entities, and no significant contingent liabilities and capital commitments of the venture itself.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Equity securities listed in Hong Kong		
At 1st January, as re-designated	53,262	–
Opening adjustment on the adoption of HKAS 39	4,761	–
At 1st January, as restated	58,023	–
Revaluation deficits transferred to equity	(23,737)	–
At 31st December	34,286	–
Market value of listed equity securities	34,286	–

23. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Debt securities listed in Hong Kong		
– at amortised cost	11,038	–
– at market value	10,718	–

24. 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 2005, the aging analysis of the Group's accounts receivable was set out as follows:

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
Not yet due	742,547	500,101
Within 30 days	24,237	38,805
31-60 days	11,678	38,982
61-90 days	11,540	23,601
Over 90 days	26,184	24,250
	816,186	625,739

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK'000	**HK'000**	**HK'000**	**HK'000**
Non-current				
Derivative financial instruments designated as fair value through profit or loss on initial recognition	22,359	–	–	–
Current				
Equity securities listed in Hong Kong	17,294	–	8	–
Market value of listed equity securities	17,294	–	8	–

Changes in fair values of financial assets at fair value through profit or loss are recorded in other income in the income statement *(note 6)*.

26. INVESTMENT SECURITIES

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Equity securities listed in Hong Kong		
– at cost	–	53,262
Debt securities listed in Hong Kong		
– at amortised cost	–	11,026
	–	64,288
Market value of listed equity securities	–	69,117

27. TRADING INVESTMENTS

	Group		Company	
	2005	2004	2005	2004
	HK'000	HK'000	HK'000	HK'000
Equity securities listed in Hong Kong				
at market value	–	18,650	–	8

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	2005	2004
	HK'000	HK'000	HK'000	HK'000
Cash at bank and in hand	93,240	284,458	113	9,696
Short-term bank deposits	283,462	121,365	–	30,064
	376,702	405,823	113	39,760

The effective interest rate on short-term bank deposits was 3.89% (2004: 1.40%); these deposits have an average maturity of 20.3 days (2004: 34.8 days).

28. CASH AND CASH EQUIVALENTS (continued)

Cash and bank overdrafts include the following for the purposes of the consolidated cash flow statement:

	Group		Company	
	2005 HK'000	2004 HK'000	2005 HK'000	2004 HK'000
Cash and cash equivalents	376,702	405,823	113	39,760
Bank overdrafts *(note 32)*	(11,312)	(9,773)	–	–
	365,390	396,050	113	39,760

29. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Ordinary shares HK'000	Share premium HK'000	Total HK'000
At 1st January 2004	703,090,000	70,309	131,108	201,417
Exercise of share options	1,300,000	130	592	722
At 31st December 2004	704,390,000	70,439	131,700	202,139
Issue of shares *(note b)*	38,439,425	3,844	183,356	187,200
New share issue expenses *(note b)*	–	–	(4,054)	(4,054)
Cancellation of repurchased shares *(note c)*	(8,166,000)	(817)	(29,790)	(30,607)
At 31st December 2005	734,663,425	73,466	281,212	354,678

29. SHARE CAPITAL AND SHARE PREMIUM (continued)

Notes:

(a) The total number of authorised ordinary shares is 1,000 million shares (2004: 1,000 million shares) with a par value of HK$0.10 per share (2004: HK$0.10 per share). All issued shares are fully paid.

(b) On 21st March 2005, the Company entered into a placing agreement with Sunluck Services Limited ("Sunluck"), a substantial shareholder of the Company, and a third-party placing agent under which Sunluck sold 48,049,281 existing ordinary shares of HK$0.10 each in the Company at a price of HK$4.87 per share, by way of a private placement effected by the placing agent, to certain independent investors identified by the placing agent. On the same day, the Company entered into a subscription agreement with Sunluck under which Sunluck subscribed for 38,439,425 new shares in the Company at a price of HK$4.87 each, resulting in net proceeds of approximately HK$183,146,000. The market price of the shares on 21st March 2005, being the date on which the terms of the issue were fixed, was HK$5.30. Such shares rank pari passu in all respects with the existing shares in issue.

(c) The Company cancelled 8,166,000 of its own shares subsequent to purchase of shares by the Company on the Stock Exchange on 24th October 2005, 25th October 2005, 27th October 2005, 30th October 2005, and 8th November 2005. The total amount paid to acquire the shares was HK$26,553,000 and has been deducted from equity holders' equity. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to capital redemption reserve (note 30).

(d) Share options

The Company

At the special general meeting of the Company held on 30th April 2002, an ordinary resolution was duly passed under which a 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 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 42,895,583 shares, representing 5.84% 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.

29. SHARE CAPITAL AND SHARE PREMIUM (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price per share HK$	Number of options	Average exercise price per share HK$	Number of options
At 1st January	–	–	0.555	1,300,000
Granted	3.520	3,673,317	–	–
Exercised	–	–	0.555	(1,300,000)
At 31st December		3,673,317		–

Share option outstanding at the end of year having the following exercisable periods and exercises prices:

Exercisable period	Exercise price per share HK$	Number of options 2005
1st June 2006 to 31st May 2009	3.520	918,329
1st December 2006 to 30th November 2009	3.520	918,329
1st June 2007 to 31st May 2010	3.520	918,329
1st December 2007 to 30th November 2010	3.520	918,330
At 31st December		3,673,317

29. SHARE CAPITAL AND SHARE PREMIUM (continued)

The fair value of the options granted during the year determined using the Black-Scholes valuation model is HK$2,471,555. The valuation was carried out on a market value basis. The significant inputs into the model were share price of HK$3.425 at the grant date, exercise price of HK$3.520, dividend yield of 4% (based on yearly dividend paid in 2003 and 2004 and interim dividend paid in 2005), the options will be expected early exercised on the commencement date of the exercisable period (the day after the end of the respective vesting period) and risk free rates of the above options were 3.680%, 3.900%, 4.000% and 4.105% respectively (the rates represented the yields to maturity of respective Hong Kong Exchange Fund Note as at 6th December 2005). The volatility of the options is 51.434%.

EVI

On 6th June 2005, EVI, the Company's non-wholly owned subsidiary, adopted a new share option scheme ("2005 EVI Share Option Scheme") pursuant to an ordinary resolution. Pursuant to the 2005 EVI Share Option Scheme, EVI may grant options to any employees, senior executives or officers, managers, directors (including executive, non-executive and independent non-executive directors) or consultants of EVI and its subsidiaries (the "EVI Group"), or any other eligible persons, who, as determined by the directors of EVI, have contributed or will contribute to the growth and development of the EVI Group to subscribe for shares of EVI, subject to a maximum of 10% of the nominal value of the issued share capital of EVI from at the adoption time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the directors of EVI, and will not be less than the higher of: (a) the nominal value of the EVI shares; (b) the average of the closing price of the shares of EVI quoted on the GEM of the Stock Exchange on the five trading days immediately preceding the date of offer of the options; or (c) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of offer of the options, which must be a business day as defined in the GEM Listing Rules. The 2005 EVI Share Option Scheme will remain in force for a period of 10 years commencing from 6th June 2005.

No options were granted during the year.

30. OTHER RESERVES

	Group						
	Capital redemption HK$'000	Arising on consolidation HK$'000	Employee share-based benefits reserve HK$'000	Exchange reserve HK$'000	Revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2004, as previously reported	2,078	(36,995)	–	(343)	–	396,987	361,727
Decrease in expenses in respect of property, plant and equipment and leasehold land and land use rights	–	–	–	–	–	76	76
Deferred income tax in respect of property, plant and equipment, leasehold land and land use rights and arising from the revaluation of investment properties	–	–	–	–	–	1,962	1,962
At 1st January 2004, as restated	2,078	(36,995)	–	(343)	–	399,025	363,765
Currency translation differences	–	–	–	172	–	–	172
Profit for the year	–	–	–	–	–	330,726	330,726
2003 final dividend paid	–	–	–	–	–	(35,220)	(35,220)
2004 interim dividend paid	–	–	–	–	–	(49,307)	(49,307)
At 31st December 2004	2,078	(36,995)	–	(171)	–	645,224	610,136
Representing:							
Reserves	2,078	(36,995)	–	(171)	–	558,584	523,496
2004 final dividend proposed *(note 13)*	–	–	–	–	–	86,640	86,640
At 31st December 2004	2,078	(36,995)	–	(171)	–	645,224	610,136

30. OTHER RESERVES (continued)

	Group						
	Capital redemption HK$'000	Arising on consolidation HK$'000	Employee share-based benefits reserve HK$'000	Exchange reserve HK$'000	Revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2005, as previously reported	2,078	(36,995)	–	(171)	3,025	669,698	637,635
Reversal of revaluation reserve, net of tax	–	–	–	–	(3,025)	–	(3,025)
Decrease in expenses in respect of property, plant and equipment and leasehold land and land use rights	–	–	–	–	–	(27,510)	(27,510)
Deferred income tax in respect of property, plant and equipment, leasehold land and land use rights arising from the revaluation of investment properties	–	–	–	–	–	3,036	3,036
Opening adjustment for the adoption of HKAS 39	–	–	–	–	4,761	–	4,761
At 1st January 2005, as restated	2,078	(36,995)	–	(171)	4,761	645,224	614,897
Revaluation deficits on available-for-sale financial assets	–	–	–	–	(23,737)	–	(23,737)
Impairment loss on available-for-sale financial assets	–	–	–	–	5,789	–	5,789
Currency translation differences	–	–	–	1,573	–	–	1,573
Profit for the year	–	–	–	–	–	213,626	213,626
2004 final dividend paid	–	–	–	–	–	(91,368)	(91,368)
2005 interim dividend paid	–	–	–	–	–	(74,283)	(74,283)
Transfer from retained earnings	817	–	–	–	–	(817)	–
Employee share-based benefits	–	–	163	–	–	–	163
At 31st December 2005	2,895	(36,995)	163	1,402	(13,187)	692,382	646,660
Representing:							
Reserves	2,895	(36,995)	163	1,402	(13,187)	680,627	634,905
2005 final dividend proposed *(note 13)*	–	–	–	–	–	11,755	11,755
At 31st December 2005	2,895	(36,995)	163	1,402	(13,187)	692,382	646,660

30. OTHER RESERVES (continued)

	Company					
	Capital redemption HK$'000	Employee share-based benefits reserve HK$'000	Contributed surplus HK$'000	Revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2004	2,078	–	108,001	–	214,352	324,431
Profit for the year	–	–	–	–	9,139	9,139
2003 final dividend paid	–	–	–	–	(35,220)	(35,220)
2004 interim dividend paid	–	–	–	–	(49,307)	(49,307)
At 31st December 2004	2,078	–	108,001	–	138,964	249,043
Representing:						
Reserves	2,078	–	108,001	–	52,324	162,403
2004 final dividend proposed *(note 13)*	–	–	–	–	86,640	86,640
At 31st December 2004	2,078	–	108,001	–	138,964	249,043

30. OTHER RESERVES (continued)

	Company					
	Capital redemption HK$'000	Employee share-based benefits reserve HK$'000	Contributed surplus HK$'000	Revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2005, as previously reported	2,078	–	108,001	–	138,964	249,043
Opening adjustment for the adoption of HKAS 39	–	–	–	4,761	–	4,761
At 1st January 2005, as restated	2,078	–	108,001	4,761	138,964	253,804
Revaluation deficits on available-for-sale financial assets	–	–	–	(23,737)	–	(23,737)
Impairment loss on available-for-sale financial assets	–	–	–	5,789	–	5,789
Profit for the year	–	–	–	–	356,744	356,744
2004 final dividend paid	–	–	–	–	(91,368)	(91,368)
2005 interim dividend paid	–	–	–	–	(74,283)	(74,283)
Transfer from retained earnings	817	–	–	–	(817)	–
Employee share-based benefits	–	163	–	–	–	163
At 31st December 2005	2,895	163	108,001	(13,187)	329,240	427,112
Representing:						
Reserves	2,895	163	108,001	(13,187)	317,485	415,357
2005 final dividend proposed *(note 13)*	–	–	–	–	11,755	11,755
At 31st December 2005	2,895	163	108,001	(13,187)	329,240	427,112

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 equity holders. In the Group's financial statements, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

31. 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 2005, the accounts payable included HK$48,814,407 (2004: HK$57,701,641) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.

32. BORROWINGS

	Group	
	2005 HK$'000	2004 HK$'000
Non-current		
Secured bank loans	48,508	31,124
Current		
Bank overdrafts	11,312	9,773
Secured bank loans	20,848	14,686
	32,160	24,459
Total borrowings	80,668	55,583

The bank loans are secured by certain buildings *(note 15)*, investment properties *(note 16)* and leasehold land and land use rights *(note 17)* held by the Group.

The maturity of borrowings is as follows:

	Group			
	Bank overdrafts		Secured bank loans	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Within 1 year	11,312	9,773	20,848	14,686
Between 1 and 2 years	–	–	7,001	11,737
Between 2 and 5 years	–	–	21,002	8,669
Wholly repayable within 5 years	11,312	9,773	48,851	35,092
Over 5 years	–	–	20,505	10,718
	11,312	9,773	69,356	45,810

32. BORROWINGS (continued)

The effective interest rates at the balance sheet date were as follows:

	2005	2004
Bank overdrafts	7.75%	5.00%
Secured bank loans	4.98%	1.43%

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Secured bank loans	48,508	31,124	46,525	30,741

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.94% (2004: 1.33%).

The carrying amounts of short-term borrowings approximate their fair values.

The Group has the following undrawn borrowing facilities:

	2005 HK$'000	2004 HK$'000
Floating rate		
– expiring within one year	141,685	168,263

33. DEFERRED INCOME TAX

The gross movements on the deferred income tax account are as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
At 1st January	(8,006)	(11,127)	–	–
Recognised in the income statement *(note 10)*	(10,906)	3,121	(438)	–
At 31st December	(18,912)	(8,006)	(438)	–

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities:

	Group		
	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1st January 2004	634	–	634
Recognised in the income statement	1,779	35	1,814
At 31st December 2004	2,413	35	2,448
Recognised in the income statement	1,270	1,938	3,208
At 31st December 2005	3,683	1,973	5,656

33. DEFERRED INCOME TAX (continued)

Deferred income tax assets:

	Group				Company
	Provision HK$'000	Accelerated accounting depreciation HK$'000	Tax losses HK$'000	Total HK$'000	Provision HK$'000
At 1st January 2004	(2,557)	(8,513)	(691)	(11,761)	–
Recognised in the income statement	(1,643)	2,742	208	1,307	–
At 31st December 2004	(4,200)	(5,771)	(483)	(10,454)	–
Recognised in the income statement	(2,865)	1,904	(13,153)	(14,114)	(438)
At 31st December 2005	(7,065)	(3,867)	(13,636)	(24,568)	(438)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$22,634,000 (2004: HK$32,842,000) in respect of losses amounting to HK$121,691,000 (2004: HK$181,185,000) that can be carried forward against future taxable income. Losses amounting to HK$53,253,000 (2004: HK$25,292,000) expire in 2010 (2004: 2009).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Deferred income tax assets				
– to be recovered after more than 12 months	(11,305)	(3,885)	–	–
– to be recovered within 12 months	(9,599)	(5,510)	(438)	–
	(20,904)	(9,395)	(438)	–
Deferred income tax liabilities				
– to be settled after more than 12 months	390	266	–	–
– to be settled within 12 months	1,602	1,123	–	–
	1,992	1,389	–	–

34. CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK$'000	Restated 2004 HK$'000
Operating profit	240,272	393,841
Depreciation and amortisation costs	59,828	22,973
Realised and unrealised gains on financial assets at fair value through profit or loss	(193)	–
Realised and unrealised gains on trading investments	–	(191)
Net realised gains on disposal of investment securities	–	(5,365)
Impairment loss on available-for-sale financial assets	5,789	–
Loss on disposal of property, plant and equipment	1,013	185
Fair value gains on investment properties	(10,843)	–
Surplus arising on revaluation of investment properties	–	(4,309)
Impairment of goodwill	5,410	–
Bank interest income	(9,526)	(2,651)
Dividend income from listed investments	(2,071)	(2,781)
Operating profit before working capital changes	289,679	401,702
Increase in accounts receivable, other receivables, prepayments and deposits	(230,350)	(240,059)
Increase in accounts payable, other payables and accrued charges	124,840	181,218
Net cash generated from operations	184,169	342,861

34. CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary

	2005 HK$'000	2004 HK$'000
Net assets acquired		
Property, plant and equipment	1,451	–
Intangible assets	2,506	–
Accounts receivable	3,472	–
Other receivables, prepayments and deposits	1,954	–
Cash and cash equivalents	124,346	–
Accounts and other payables	(6,649)	–
	127,080	–
Satisfied by:		
Cash	107,500	–

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

	2005 HK$'000	2004 HK$'000
Bank balances and cash in hand acquired	124,346	–
Cash consideration	(107,500)	–
	16,846	–

35. CONTINGENT LIABILITIES

During the years ended 31st December 2004 and 2005, 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.

36. PENDING LITIGATIONS

The Group has been involved in certain litigations in respect of property brokerage services. After seeking legal advice, the directors are of the opinion that adequate provision has been made in the financial statements to cover any potential liabilities arising from the litigations.

37. FUTURE LEASE RENTAL PAYMENT RECEIVABLE

At 31st December 2005, the Group had future minimum lease rental payments receivable under non-cancellabe operating leases as follows:

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
Not later than one year	2,482	1,794
Later than one year and not later than five years	879	669
	3,361	2,463

38. COMMITMENTS UNDER OPERATING LEASES

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
Not later than one year	210,738	160,421
Later than one year and not later than five years	126,698	120,985
	337,436	281,406

At 31st December 2005, the Company did not have any significant other commitments (2004: Nil).

39. BUSINESS COMBINATIONS

On 15th March 2005, the Group acquired 51.81% of the share capital of EVI. EVI and its subsidiaries are principally engaged in selling and installation of computer hardware and software, provision of computer training services and provision of internet education services. The acquired business contributed revenues of HK$22,791,000 and net loss of HK$1,453,000 to the Group for the period from 15th March 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, the Group's total revenues would have been HK$2,373,348,000 and profit for the year would have HK$206,561,000.

39. BUSINESS COMBINATIONS (continued)

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Cash paid	107,500
Fair value of net assets acquired	(80,217)
Goodwill	27,283

The goodwill is attributable to the future profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of EVI.

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	EVI's carrying amount HK$'000
Cash and cash equivalents	124,346	124,346
Property, plant and equipment	1,451	1,451
Intangible assets	32,126	2,506
Accounts receivable	3,472	3,472
Other receivables, prepayments and deposits	1,954	1,954
Accounts payable	(417)	(417)
Other payables and accrued charges	(6,232)	(6,232)
Net assets	156,700	127,080
Minority interests	(76,483)	
Net assets acquired	80,217	
Purchase consideration settled in cash		(107,500)
Cash and cash equivalents in subsidiary acquired		124,346
Cash inflow on acquisition		16,846

There were no significant acquisitions during the year ended 31st December 2004.

40. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year and balances with related parties at year end:

(a) Transactions with related parties

	Note	**2005 HK$'000**	**2004 HK$'000**
Rendering of services:			
Agency fee revenue received from related companies	*(i)*	250	2,322
Receiving of services:			
Commission paid to jointly controlled entities	*(ii)*	130	13
Operating lease rentals in respect of office and shop premises paid to related companies	*(iii)*	3,090	306

(b) Key management compensation

	Note	**2005 HK$'000**	**2004 HK$'000**
Salaries and commission, discretionary bonuses and other benefits	*(iv)*	54,950	54,740

(c) Loan to a related party

	Note	**2005 HK$'000**	**2004 HK$'000**
Loan advanced to a jointly controlled entity			
Advance during the year and at the end of year	*(v)*	396	–

Notes:

(i) The amount represents agency fee revenue from certain related companies, in which, a director has beneficial interests of these companies.

(ii) Commission paid to jointly controlled entities represents commission paid for property brokerage transactions referred by jointly controlled entities.

(iii) Operating lease rentals paid to certain related companies, in which, a director has beneficial interests of these companies.

(iv) The amount represents emolument paid or payable to executive directors for the year.

(v) The loan advanced to a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

41. LIST OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The following is a list of the principal subsidiaries and jointly controlled entities at 31st December 2005:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid-up capital	Interest held %
Subsidiaries				
Astra Profits Limited *(notes a and b)*	British Virgin Islands	Investment holding in Hong Kong	4 Ordinary shares of US$1 each	100
EVI Education Asia Limited *(notes b and c)*	Cayman Islands	Internet education services provider in Hong Kong	8,300,000,000 Ordinary shares of HK$0.01 each	51.81
Guangzhou Midland Property Agency Company Limited *(note b)*	PRC (as a wholly foreign-owned enterprise)	Property agent in the PRC	US$1,630,000	100
Hong Kong Property Services (Agency) Limited	Hong Kong	Property agent in Hong Kong	2 Ordinary shares of HK$1 each	100
Midland CyberNet Limited	Hong Kong	An operator of an internet website in Hong Kong	39,100,000 Ordinary shares of HK$1 each	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	Hong Kong	Immigration Services in Hong Kong	500,000 Ordinary shares of HK$1 each	100
Midland Realty (Comm.) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK$1 each	100

41. 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 %
Subsidiaries (continued)				
Midland Realty (Comm. & Ind.) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK$1 each	100
Midland Realty (Macau) Limited *(note b)*	Macau	Property agent in Macau	MOP$25,000	100
Midland Realty (Shops) Limited (formerly known as Midland Realty (Agency) Limited)	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK$1 each	100
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 Realty Consultancy (Shanghai) Company Limited *(note b)*	PRC (as a wholly foreign-owned enterprise)	Property agent in the PRC	US$3,050,000	100
Midland Realty International Limited	Hong Kong	Property agent in Hong Kong	1,000 Ordinary shares of HK$100 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

41. 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 %
Subsidiaries (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 *(note b)*	PRC (as a wholly foreign owned enterprise)	Property agent in the PRC	US$1,400,000	100

Jointly controlled entities

Name	Place of incorporation/ establishment	Principal activities and place of operation	Percentage of interest in ownership/voting power/profit sharing
Midland (Guangzhou) Real Estate Consultants Limited *(note b)*	PRC (as a cooperative joint venture)	Property agent in the PRC	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 b)*	British Virgin Islands	Investment holding in Hong Kong	20%/33.33%/20%

Note:

(a) This subsidiary is directly held by the Company.

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

(c) This subsidiary was acquired during the year.