



30 years golden services with heart

同心同行三十年

ANNUAL REPORT

2002

二零零二年年報



Midland Realty (Holdings) Ltd.

► Incorporated in Bermuda with limited liability ◀



唯一獲“超級品牌”地產代理



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Midland Realty (Holdings) Limited

2002 Annual Report



Corporate Information

Directors

Executive Directors

Mr WONG Kin Yip, Freddie
(Chairman and Managing Director)
Ms IP Kit Yee, Kitty (Deputy Chairman)
Mr CHEUNG Kam Shing (Deputy Chairman)
Ms LAM Fung Fong

Independent non-executive Directors

Mr AU Son Yiu
Mr CHUNG Kam Wing, Calvin
Mr KAN Chung Nin, Tony
Mr LAI Dominic

Audit Committee

Mr CHUNG Kam Wing, Calvin (Chairman)
Mr AU Son Yiu

Company Secretary

Mr CHAN Kin Chu, Harry

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Website

www.midland.com.hk

Head Office and Principal Place of Business in Hong Kong

Rooms 2505-8, 25th Floor
World-wide House
19 Des Voeux Road Central
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Principal Bankers

Dao Heng Bank Limited
International Bank of Asia Limited
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited

Hong Kong Legal Advisers

Iu, Lai & Li
20th Floor
Gloucester Tower
The Landmark
Central
Hong Kong

Bermuda Legal Advisers

Conyers Dill & Pearman
Suite 2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

Principal Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Midland Realty (Holdings) Limited (the “Company”) will be held at Rooms 2505-8, 25th Floor, World-wide House, 19 Des Voeux Road Central, Hong Kong on 21st May 2003 at 11:30 a.m. for the following purposes:

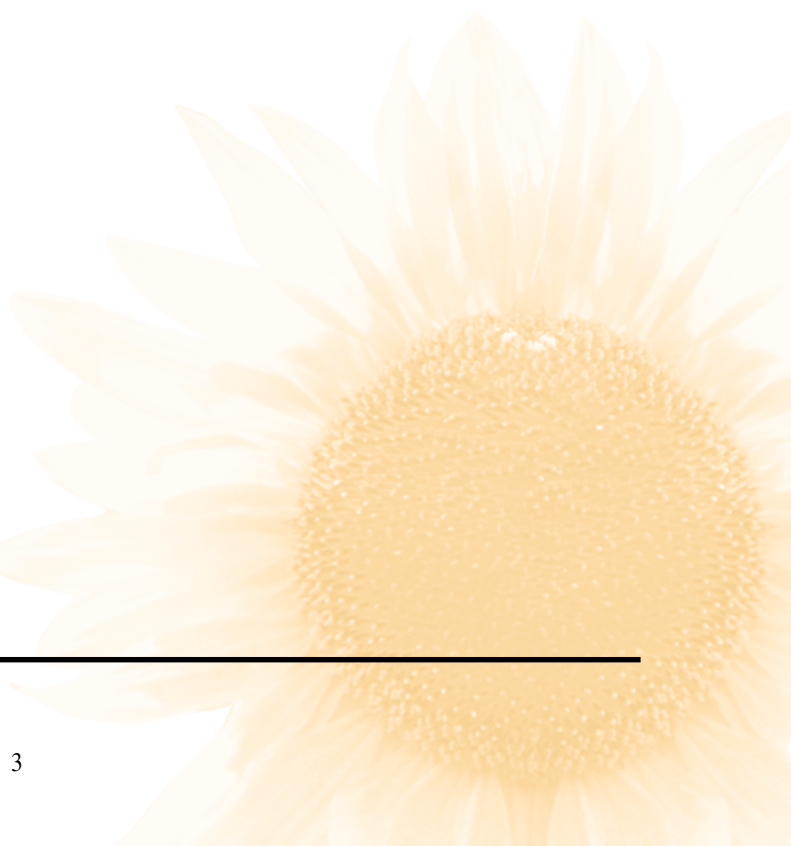
1. To receive and consider the Audited Accounts and the Reports of the Directors and Auditors for the year ended 31st December 2002;
2. To declare a final dividend and a 30th anniversary special cash bonus;
3. To re-elect Directors and to fix the Directors’ remuneration;
4. To re-appoint Auditors and to authorise the Directors to fix their remuneration.

By order of the Board
CHAN Kin Chu, Harry
Company Secretary

Hong Kong, 8th April 2003

Notes:—

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy must be deposited at the Company’s Hong Kong Branch Share Registrar, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, together with a power of attorney or other attorney, if any, under which it is signed or a notarially certified copy of that power of attorney, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. The register of members of the Company will be closed from Thursday, 15th May 2003 to Wednesday, 21st May 2003 both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company’s Hong Kong Branch Share Registrar, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 14th May 2003.





Midland Realty (Holdings) Limited

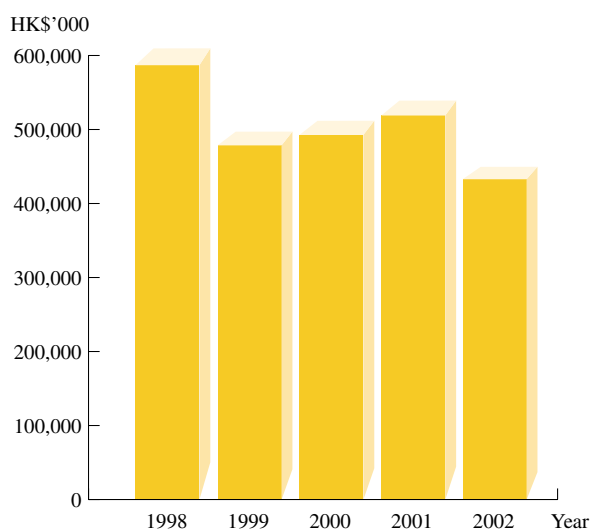
2002 Annual Report



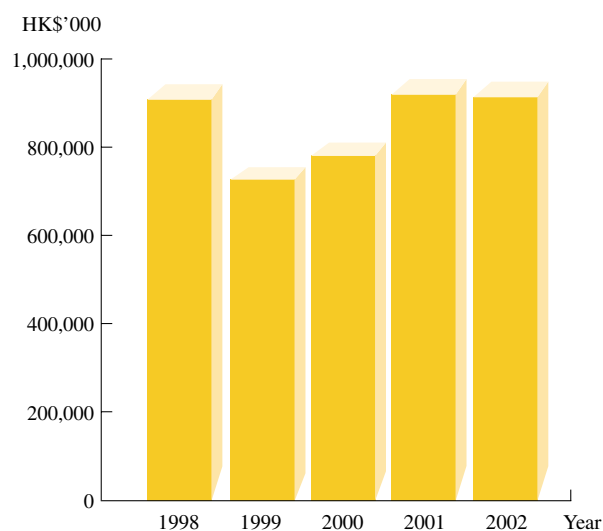
30 years golden services with heart

Five Year Financial Summary

	Year ended 31st December				
	1998	1999	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	906,919	727,232	780,014	916,446	911,711
Profit/(loss) attributable to shareholders	10,310	50,691	53,290	40,967	(78,829)
Total assets	929,302	742,185	945,303	952,109	695,157
Total liabilities	333,811	254,387	436,468	415,042	256,008
Minority interests	8,304	9,538	16,477	18,248	6,405
Net assets	587,187	478,260	492,358	518,819	432,744



Net assets



Turnover



Chairman's Statement



WONG Kin Yip, Freddie
Chairman and Managing Director

Business Review and Outlook

Business Review

Bolstered by low lending rates, Hong Kong's property market put up a credible performance in the first half last year, bringing considerable earnings to the Group. However, as the rally ebbed after the successful launch of Park Island, the property market headed south. Transaction volume in the second half was 20% off the first-half level.

That the property market waned in the second half was largely attributable to the persistently weak overall domestic economy. The Government tried to prop the market by announcing a nine-point rescue platform in November, but with little positive effect. For the whole of 2002, Hong Kong's transaction volume slid 2.6% year-on-year. Thanks to the hard work of all staff, the Group completed 37,403 transactions during the year, down only 1.2% from 2001 and still leading the market. The Group's commission intake ratio also rose continually. However, ever falling property prices were a drag on the market. Moreover,

some competitors had started an incentives war, even though the costs of marketing primary-market units were on the rise. As a result, the Group's overhead also rose, cutting into the full-year earnings.

For the year ended 31st December 2002, the Group recorded operating profit before charging of deficits arising on revaluation of the Group's properties of HK\$34,820,000, down 45% from 2001. Such a profit level was only possible given such difficult times because of the tireless contribution from the staff and tight management control. The Group's management is especially laudable for running a tight ship with financial control. As of March 2003, the Group had cash and cash equivalents of approximately HK\$0.3 billion, making it possible for the Directors to declare a special cash bonus for shareholders to commemorate the Group's 30th anniversary. In addition to the cash bonus, one bonus warrant for five shares was also proposed.

The property scene in Hong Kong has undergone a marked change. Instead of being driven by the secondary market, it is now driven by the primary sector. That has reduced considerably the importance of property ownership for strategic presence and investment. As a prudent measure, the Group decided to reassess its various properties at this point in time. Due to revaluation of such properties, the Group has to report a loss for the first time since going public. As of December last year, the Group charged the revaluation deficits of HK\$99.88 million to reflect the current reduced market value of other properties. This was the major factor behind the decrease in the shareholders' funds.



Chairman's Statement

The Brand Name Effect

Last year, the Group became the first among Hong Kong's real estate agencies to be recognized as a Superbrand, thus reaffirming its market position. The recognition was especially significant as the Group entered its 30th year in business. Midland Realty's contributions to Hong Kong's real estate broking are just as apparent as its leadership in the industry.

Founded in the United Kingdom, Superbrands has assessment facilities in 17 locations worldwide. These facilities are run by experienced marketing and advertising professionals, who appraise and rate a candidate according to its market share, market reputation, customer support, history and overall market acceptance. Recognition is given only to companies that meet all standards. In being rated a Superbrand, the Group thus proved that it met stringent international standards in real estate broking.

The Group has a tradition of devotion to service excellence. With a far-flung presence and branches throughout Hong Kong and in key points in China, the Group has wide acceptance



Midland Realty is the only property agency in Hong Kong with a Superbrand accreditation.



Always quick to recognize talents, senior management has contributed considerably to the industry's development over the years.

among the public. With the latest international affirmation as a Superbrand, the Group is sure of winning more public confidence and reinforcing its leading position in the market.

Outlook

With lending rates at low levels for years on end, it is indeed more economic for some to own rather than to rent a residential unit. In other words, private homes have become more affordable to Hong Kongers. Moreover, now that the Government halted the sale of Home Ownership Scheme units, a considerable number of prospective buyers are likely to enter the private housing sector instead. The first batch of applicants for the Government home loan subsidy was approved in March 2003 and more will be on the way, giving the market new momentum. The latest population policy announced also should have a positive influence. If the health scare posed by the severe acute respiratory syndrome (SARS) abates within the second quarter, the Group believes that the property market will become active as more projects are launched in the second half. And as developers are increasingly reliant on real estate agencies to help with marketing, the Group is likely to raise its income from new project sales.



Chairman's Statement



A conscientious corporate citizen, Midland Realty contributes regularly to charity. Last year, a team of managers and executives participated in a walk for charity.

In the near term, however, the market will continue to come under pressure from oversupply. Developers are likely to keep profit margins thin to increase sales, thus keeping property prices low. With war raging in Iraq and the SARS disease ravishing Hong Kong, the property sector will remain weak. The Group is keen to see SARS come under control so that the local economy gets on track for a recovery.

Cost Savings

The Group will continue to reduce costs this year. As a first step, the salary scale of new employees was lowered earlier this year to achieve savings in fixed overhead. To save on rents, the Group will negotiate on an ongoing basis with landlords for better lease terms or less expensive premises. One positive development appears to be a letting up in the commission discount war among real estate agents. All these, we believe, will benefit the Group's business.

In February 2003, the Group had considered taking over Fortune Realty Company Limited ("Fortune"), which declared bankruptcy, to increase market share. Fortune's demise reflects a structural change in the industry. It is difficult for mid-sized real estate brokers to stay afloat; only large agencies such as the Group will be able to survive.



As an industry leader and the only listed real estate agency in Hong Kong, Midland Realty attends roadshows organised by securities houses and fund managers from time to time to offer its analysis of the property market and the industry.

Since 1997, the value of property transactions has been on the decline. Cash flow became an issue with many real estate agencies. As a listed company, the Group had the advantage of raising funds on the equities market. The Group's warrants that became due in January 2003 was well received with a subscription rate of 97.4% raising nearly HK\$80 million. With its financial position thus bolstered, the Group is able to outpace competitors substantially.



Chairman's Statement

A strong cash flow makes it easier to attract higher-calibre sales people and professionals. Armed with this advantage, the Group believes it will extend its market presence. In the first quarter this year, Midland Realty made good sales at a number of luxury residential projects, once again proving its worth as a top real estate brokerage.

In the Budget for 2003-04, the Government included a new immigration policy to allow investment in properties of at least HK\$6.5 million. A potential immigrant may qualify by investing that amount in either property or some accredited financial asset. The objective is clearly to stimulate the economy, notably, the property sector. As property is not the only accredited investment instruments, the Group will await further details before conducting a feasibility study to explore this as a new line of business. A division set up to handle this will have be staffed with investment advisers and financial consultants, immigration experts and legal advisers, and property trust and management specialists. The Group sees an opportunity in this emerging market. With solid cash flow and a sound reputation, the Group believes that it is well positioned to explore a potentially big market.

Acknowledgment

Key to this success is our workforce, which is constantly in search of excellence. On behalf of the Directors, I take this occasion to thank deeply the shareholders for their unquestionable support, and the staff for their tireless aptitude, devotion and commitment to serve.

On behalf of the Board
WONG Kin Yip, Freddie
Chairman and Managing Director

Hong Kong, 8th April 2003



Management Discussion and Analysis

Liquidity, Financial Resources and Funding

As at 31st December 2002, the Group had bank balances and cash of HK\$211,976,000, whilst bank loans and overdrafts amounted to HK\$89,895,000. The Group's bank loans were secured by certain investment properties and other properties held by the Group with a total net book value of HK\$131,323,000 and with maturity profile set out as follows:

Repayable	HK\$'000
Within 1 year	45,436
After 1 year but within 2 years	16,155
After 2 years but within 5 years	28,304

The Company had an aggregate principal amount of HK\$70,000,000 convertible note which carried interest at 6% per annum payable in arrears. The Company repaid the whole outstanding principal with interest on 2nd July 2002.

In addition, the Group had unutilised banking facilities amounting HK\$120,017,000 from various banks. The Group's borrowings are in Hong Kong Dollars, there is no significant exposure to foreign exchange rate fluctuation. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 31st December 2002, the gearing ratio of the Group was 21%. The gearing ratio is computed on the basis of total bank borrowings divided by the shareholders' funds of the Group.

The Directors are of the view that there are sufficient financial resources to satisfy its capital commitments and on-going working capital requirements.

Acquisition and Investment

Pursuant to a subscription agreement (the "Subscription Agreement") dated 10th April 2000 made between Midland CyberNet Limited ("Midland CyberNet") (formerly known as Midland Realty Cyber Agency Limited), Gorich Profits Limited ("Gorich") (formerly known as Hong Kong Property Services (Holdings) Limited) and the Company, Gorich agreed to subscribe for 20% of the entire issued share capital of Midland CyberNet at the subscription price of HK\$40,000,000 (the "Subscription Price"). At 30th June 2000, the completion date of the Subscription Agreement, Midland CyberNet allotted and issued 20,000 shares ("Subscription Shares") representing 20% of its entire issued share capital immediately after the allotment to Litech Investment Limited ("Litech"), the nominee appointed by Gorich (the "Disposal").

Under the Subscription Agreement, Midland CyberNet and Gorich agreed that if within two years from 30th June 2000 Midland CyberNet is not listed (with market capitalisation of not less than HK\$250,000,000 upon listing) on a recognised stock exchange, Gorich may require the Subscription Shares be transferred to a person nominated by the Company and the Company shall pay or procure the payment of the Subscription Price and bear any stamp duty payable in relation to such transfer (the "Right"). The gain of HK\$30,443,000 resulting from the Disposal was deferred and included as a non-current liability in prior periods.

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



Management Discussion and Analysis

deferred income of HK\$30,443,000 was therefore reversed accordingly. Following the completion of the transfer of the Subscription Shares, Midland CyberNet and its underlying subsidiaries became wholly-owned subsidiaries of the Company.

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

During the year, the Group has purchased listed corporate bonds with zero coupon rate and a maturity date of 9th June 2003 amounting to HK\$31,487,000 as at the year end.

Contingent Liabilities

The Company executed corporate guarantees 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.

Staff and Remuneration Policies

As at 31st December 2002, the Group employed 2,742 full time employees of which 2,439 were sales agents and 303 were back office supporting employees.

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, profit sharing and share option may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as education subsidies, medical and retirement benefits for both the directors and employees. On staff development, both in-house and external training and development programmes are conducted on a regular basis.



Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2002.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 32 to the accounts.

An analysis of the Group's performance for the year by business segments is set out in note 2 to the accounts.

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The directors have declared an interim dividend of HK\$0.005 per ordinary share, totalling HK\$3,018,000. The interim dividend, after taking into accounts of shares subsequently purchased, of HK\$2,998,000 was paid on 11th October 2002.

The directors recommend the payment of a final dividend of HK\$0.005 per ordinary share and a 30th anniversary special cash bonus of HK\$0.050 per ordinary share, totalling HK\$37,909,000.

Proposed bonus issue of warrants

The directors proposed to make a bonus issue of warrants to the shareholders whose names appear on the register of members of the Company on 21st May 2003 (other than shareholders whose addresses are outside Hong Kong) on the basis of one warrant for every five shares held. The warrants

will be issued in registered form and will entitle the holders thereof to subscribe for new shares at an initial subscription price of HK\$0.52 (subject to adjustment), at any time from the date of issue up to 28th February 2007.

A circular providing, inter alia, details of the bonus issue of warrants, together with a notice convening the special general meeting will be despatched to the shareholders as soon as possible.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$78,200.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

Investment Properties

Details of the principal properties held for investment purposes are set out on pages 73 and 74.

Share Capital, Share Options and Warrants

Details of the movements in share capital, share options and warrants of the Company are set out in note 20 to the accounts.

Distributable Reserves

At 31st December 2002, the reserves of the Company available for distribution, net of dividends and special cash bonus paid and proposed, amounted to HK\$331,651,000.



Report of the Directors

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

Purchase, Sale or Redemption of Shares

During the year, 7,092,000 ordinary shares of HK\$0.10 each of the Company were purchased by the Company at prices ranging from HK\$0.495 to HK\$0.62 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the share purchase are set out in note 20(b) to the accounts. The directors consider the share purchase will lead to an enhancement of the Group's earnings per share.

Directors

The directors during the year were:

Executive directors

Mr WONG Kin Yip, Freddie

Ms IP Kit Yee, Kitty

Mr CHEUNG Kam Shing

Ms LAM Fung Fong (appointed on 18th January 2002)

Independent non-executive directors

Mr AU Son Yiu #

Mr CHUNG Kam Wing, Calvin #

Mr KAN Chung Nin, Tony

Mr LAI Dominic

members of audit committee

In accordance with section 87 of the Company's Bye-laws, all directors except the chairman of the Board and/or the managing director of the Company shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

On 5th May 2001, Mr WONG Kin Yip, Freddie entered into a service agreement with the Company for a period of 5 years from 1st May 2001 to 30th April 2006.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Biographical Details of Directors and Senior Management

Brief biographical details of directors and senior management are set out as follows:

Executive directors

Mr WONG Kin Yip, Freddie, aged 53, is the founder and chairman of the Company. He established the Group in 1973 and is responsible for the strategic management, human resources management, marketing management, financial management and sales force management of the Group. Furthermore, he is also responsible for the key managerial decisions, as well as day-to-day overall management in order to enhance the Group's competitive edge and profitability. Mr WONG has more than 30 years of experience in the real estate broking business in oversea, China and Hong Kong. He was appointed as the chairman and the managing director of the Company.

Ms IP Kit Yee, Kitty, aged 43, has been appointed as the executive director of the Company since October 1993 and is responsible for overall corporate affairs, management and administrative functions of the Group. She is also participating in formulating plans and policies to improve effectiveness in operation and control of the Group. She was appointed as deputy chairman of the Company in June 2001.



Report of the Directors

Mr CHEUNG Kam Shing, aged 39, is the executive director of the Company. He has extensive experience in real estate broking and marketing. With his many years of experience, Mr CHEUNG is participating in the formulation of policy and strategy of the Group, and is responsible for the Group's overall strategic sales and marketing plan in local market. Mr CHEUNG has served the Group for 16 years and was appointed as an executive director of the Company in June 1998. He was appointed as deputy chairman of the Company in June 2001 and as chairman of mReferral Corporation Limited in January 2002.

Ms LAM Fung Fong, aged 41, has been appointed as the executive director of the Company since January 2002. She has over 17 years of experience in accounting and finance. She is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. She is currently in charge of the overall financial and accounting, legal and company secretarial, information technology and property administration functions of the Group. Ms LAM joined the Group in 1995.

Independent non-executive directors

Mr AU Son Yiu, aged 58, has extensive experience in the securities industry. He is also a director of Realink Securities Limited, China Point Stock Brokers Ltd. and I & P Securities Ltd. respectively, a consultant to Dao Heng Securities Limited and member of the Election Committee for the financial services subsector election for the 1998 Legislative Council. Mr AU is also a non-executive director for several public companies listed on The Stock Exchange of Hong Kong Limited. In addition, he is the Ex-Deputy Chairman of Hong

Kong Securities Clearing Company Limited (1992-1994) and Ex-Council member of The Stock Exchange of Hong Kong Limited (1988-1994). Mr AU was appointed as an independent non-executive director of the Company in October 1994. He changed to be an executive director of the Company in November 1995 and became an independent non-executive director of the Company again in September 1996. Mr AU was appointed as a member of the Audit Committee of the Company on 12th October 1998.

Mr CHUNG Kam Wing, Calvin, aged 56, LL.B., is a practising solicitor in Hong Kong and Vancouver B.C., Canada. Mr CHUNG has been a partner of the Hong Kong law firm of Ong & Chung since May 1989. In March 1986, he was called to the Bar of British Columbia and subsequently became a partner of the Vancouver firm of Alexander, Holburn, Beaudin & Lang in December 1989 until 31st December 1997. He was appointed as an independent non-executive director of the Company in November 1993. Mr CHUNG was appointed as a member of the Audit Committee of the Company on 4th August 1998.

Mr KAN Chung Nin, Tony, aged 52, LL.B., P.C.LL., is a practising solicitor in Hong Kong and also the founder and senior partner of the Hong Kong law firm of Messrs. Tony Kan & Co since 1984. He was appointed by the Chinese Ministry of Justice as a China Appointed Attesting Officer in June 1993. He has been an elected member of the District Council of Shatin since 1985. Mr KAN also serves in many prominent professional and social organisations, such as Yan Oi Tong (a charitable organisation in the New Territories, of which he was the chairman in 1988) and Rotary Club of Shatin (of which he was the president in 1993). He was awarded the



Midland Realty (Holdings) Limited

2002 Annual Report



Report of the Directors

Badge of Honour by Governor of Hong Kong for his social contributions in 1989 as well as Bronze Bauhinia Star for his further enthusiastic social contributions by the Chief Executive of the Hong Kong Special Administrative Region in 1999. Mr KAN was appointed as a Hong Kong District Affairs Adviser by Hong Kong Xin Hua News Agency in 1994 and a member of GPPCC of China for the Eighth Term and the Ninth Term since January 1999. He was appointed as an independent non-executive director of the Company in October 1994.

Mr LAI Dominic, aged 56, is a senior partner of the Hong Kong law firm of Iu, Lai & Li, legal advisers to the Company on Hong Kong law. He is a practising solicitor in Hong Kong and is also admitted in England, Republic of Singapore, the States of New South Wales and Victoria, Australia. Mr LAI is also a non-executive director of several other public companies listed on the Stock Exchange. He was appointed as an independent non-executive director of the Company in November 1993.

Senior management

Mr WONG Kam Hong, aged 41, joined the Group in September 2001, and currently is the Deputy Managing Director of the Group and Executive Vice Chairman of Midland CyberNet Limited, assisting the Chairman of the Group in overseeing the corporate strategies as well as implementing its mergers and acquisitions. Mr WONG also is the Chief Executive Officer of mReferral Corporation Limited, a joint venture with Cheung Kong (Holdings) Limited and American Express Bank Limited. He holds a B. Soc. Sc. degree (Hon.) and an MBA degree. With almost 20 years' experience in securities and media industries, Mr WONG is well versed in corporate development and strategic planning.

Mr CHAN Kin Chu, Harry, aged 33, LL.M., is the company secretary of the Company. Mr CHAN is responsible for legal advice and company secretarial services within the Group. He is a solicitor admitted to practice in Hong Kong. Before joining the Group, Mr CHAN was a practicing solicitor in Hong Kong. Mr CHAN joined the Group in February 2000.

Mr CHAN Kwan Hing, aged 39, is a director of Midland Realty (Aberdeen) Limited, a subsidiary of the Company. He is a director of the Group's sales operation, and is responsible for overseeing and operating the divisions dealing with residential property broking in Hong Kong island. He was appointed as an executive director of Hong Kong Property Services (Agency) Limited in May 2002 and is also responsible for its overall strategic and operational management. Mr CHAN joined the Group in October 1991.

Mr KWOK Ying Lung, aged 39, joined the Group in May 1988 and is currently responsible for the management of China, industrial and commercial properties divisions of the Group. He is a director of the Group's sales operation and has broad experience in dealing with the property broking in China and non-residential property broking, including industrial, office and retail properties in Hong Kong.

Mr LAW Kwok On, aged 42, is a director of Midland Realty (Kln Res.) Limited, a subsidiary of the Company. He is a director of the Group's sales operation, and is responsible for overseeing the divisions dealing with residential property broking in Kowloon. Mr LAW holds a Diploma in Business Management. He has served the Group for 13 years. In December 2001, Mr LAW has been appointed as a director of an internet related business company of the Group.



Report of the Directors

Mr PO Siu Ming, aged 36, joined the Group in June 1988 and is currently responsible for overseeing the divisions dealing with residential property broking in New Territories. Mr PO is a director of the Group's sales operation and has broad experience in dealing with residential property broking.

Mr WU Yat Fat, Fredy, aged 42, joined the Group in April 1998 and has been appointed as a director of Hong Kong Property Services (Agency) Limited's sales operation, a wholly owned subsidiary of the Company, in May 2002. Mr WU is currently responsible for overseeing and operating the divisions dealing with residential property broking in Hong Kong Property Services (Agency) Limited. He has broad experience in dealing with residential property broking.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Equity or Debt Securities

At 31st December 2002, the interests of the directors and chief executives in the ordinary shares and warrants of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of ordinary shares of HK\$0.10 each in the Company beneficially held			Number of warrants in the Company beneficially held
	Personal interests	Corporate interests	Family interests	Personal interests
Mr WONG Kin Yip, Freddie	12,500,000 (note (a)) 15,898,000	162,500,000 (note (b))	–	22,000,000
Ms IP Kit Yee, Kitty	310,000	–	–	–
Mr CHEUNG Kam Shing	500,000	–	–	–
Ms LAM Fung Fong	75,000	–	685,000 (note (c))	–

Notes:

(a) These shares are held by Sunluck Services Limited in trust for Mr WONG Kin Yip, Freddie.

(b) These shares are owned by Sunluck Services Limited, a private company controlled by Mr WONG Kin Yip, Freddie through Southern Field Trading Limited.

(c) These shares are held by the spouse of Ms LAM Fung Fong.



Report of the Directors

Certain directors and chief executives of the Company have been granted options to subscribe for shares in the Company under the Company's share option scheme. Details of which are set out below.

Save as disclosed above, no directors, chief executives and their associates have any beneficial or non-beneficial interests in the share capital of the Company and associated corporations required to be disclosed/notified pursuant to the SDI Ordinance.

Share Option Schemes

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

At the special general meeting of the Company held on 30th April 2002, an ordinary resolution was duly passed under which a new Share Option Scheme ("2002 Share Option Scheme") was adopted and approved by the shareholders of the Company. A summary of the 2002 Share Option Scheme is as follows:

(1) Purpose

The principal purposes of the 2002 Share Option Scheme are to enable the Group to recruit and retain high calibre eligible persons and attract human resources that are valuable to the Group or any entity

in which the Group holds any equity interest ("Invested Entity"), to recognise the significant contribution of the eligible persons to the growth of the Group or any Invested Entity by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the long term success and prosperity of the Group or any Invested Entity.

(2) Eligible persons

- (i) any employee (whether full or part time and including executive director) of any member(s) of the Group or any Invested Entity; or
- (ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; or
- (iii) any supplier, customer, consultant, adviser or agent to and of any member of the Group or any Invested Entity.

(3) Total number of shares available for issue

Total number of shares available for issue are 59,618,900, representing approximately 8.65 per cent. of the issued share capital of the Company as at the date of this report.



Report of the Directors

Share Option Schemes *(continued)*

(4) Maximum entitlement of each eligible person

The maximum number of shares issued and to be issued upon exercise of options granted under the 2002 Share Option Scheme and any other share option schemes of the Company to each eligible person (including cancelled, exercised and outstanding options), in any 12-month period must not exceed one per cent. of the shares in issue.

(5) Time of exercise of option

An option may be exercised in accordance with the terms of the 2002 Shares Option Scheme at any time during a period within which the option may be exercised, to be notified by the directors to each eligible person who accepts an offer in accordance with the terms of the 2002 Share Option Scheme, provided that it shall commence on a date not be earlier than the date of grant and not be more than ten years from the date of grant.

(6) Acceptance of offer

An offer for the grant of an option must be accepted within twenty-eight days from the day on which such offer was made. The amount payable on acceptance of the offer for the grant of an option is HK\$1.00.

(7) Basis of determining the subscription price

The subscription price under the 2002 Share Option Scheme shall be a price determined by the directors at its absolute discretion and shall be no less than the highest of:

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer;
- (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 date of offer; and
- (iii) the nominal value of a share.

(8) The remaining life of the 2002 Share Option Scheme

The 2002 Share Option Scheme became effective on 30th April 2002 and, unless otherwise amended or altered, will remain in force for a period of ten years from that date.



Midland Realty (Holdings) Limited

2002 Annual Report



Report of the Directors

Share Option Schemes *(continued)*

Certain directors and chief executives of the Company have been granted options to subscribe for shares in the Company under the Company's share option schemes. Particulars and movements of share options outstanding during the year under the 1995 Share Option Scheme are as follows:

Directors' name	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2002	Options lapsed during the year	Balance outstanding as at 31st December 2002	Exercisable period
Mr WONG Kin Yip, Freddie	15th May 2000	0.5312	1,300,000	–	1,300,000	15th May 2000 to 15th May 2003
Ms IP Kit Yee, Kitty	13th May 1997	2.91	500,000	500,000*	–	13th May 1999 to 13th May 2002
	14th May 2001	0.5088	250,000	–	250,000	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	250,000	–	250,000	14th May 2003 to 14th May 2006
Mr CHEUNG Kam Shing	19th October 2000	0.496	412,500	–	412,500	19th October 2001 to 19th October 2004
	19th October 2000	0.496	412,500	–	412,500	19th October 2002 to 19th October 2005
Ms LAM Fung Fong	13th May 1997	2.91	500,000	500,000*	–	13th May 1999 to 13th May 2002
	14th May 2001	0.5088	250,000	–	250,000	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	250,000	–	250,000	14th May 2003 to 14th May 2006
Sub-total for directors			<u>4,125,000</u>	<u>1,000,000</u>	<u>3,125,000</u>	



Report of the Directors

Share Option Schemes (continued)

Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2002	Options lapsed during the year	Balance outstanding as at 31st December 2002	Exercisable period
Continuous contract employees					
1st March 1998	1.30	1,257,000	1,257,000*	–	1st March 1999 to 1st March 2002
1st March 1998	1.30	1,802,000	359,000#	1,443,000	1st March 2000 to 1st March 2003
21st June 1999	0.86	800,000	800,000*	–	21st August 1999 to 21st August 2002
21st June 1999	0.86	1,600,000	–	1,600,000	21st June 2000 to 21st June 2003
17th February 2000	0.71	150,000	–	150,000	17th February 2001 to 17th February 2004
17th February 2000	0.71	150,000	–	150,000	17th February 2002 to 17th February 2005
Sub-total for continuous contract employees		<u>5,759,000</u>	<u>2,416,000</u>	<u>3,343,000</u>	
Total for directors and continuous contract employees		<u>9,884,000</u>	<u>3,416,000</u>	<u>6,468,000</u>	

* During the year ended 31st December 2002, 3,057,000 share options were lapsed in accordance with the terms of 1995 Share Option Scheme.

During the year ended 31st December 2002, certain continuous contract employees resigned from the Group and their respective share options for a total of 359,000 shares lapsed accordingly.

There were no share options granted to and exercised by directors and employees in accordance with the terms of the 1995 Share Option Scheme and 2002 Share Option Scheme during the year and up to the date of the approval of the accounts.



Midland Realty (Holdings) Limited

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Report of the Directors

Substantial Shareholders

At 31st December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than that of a director as disclosed above.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

During the year, the Group purchased less than 30% of its services from its 5 largest suppliers and sold less than 30% of its services to its 5 largest customers.

Retirement Scheme

Details of the Company's retirement scheme are set out in note 10 to the accounts.

Principal Subsidiaries and Jointly Controlled Entities

Details of the Company's principal subsidiaries and jointly controlled entities at 31st December 2002 are set out in note 32 to the accounts.

Bank Loans, Overdrafts, Convertible Note and Other Borrowings

An analysis of bank loans and overdrafts at 31st December 2002 is set out in note 22 to the accounts. Details of the convertible note is set out in note 23 to the accounts.

Apart from the above, the Group has no other borrowings at 31st December 2002.

Connected Transactions

Harvest Time Investments Limited ("Harvest Time"), which became a wholly-owned subsidiary of the Company in July 2002, advanced HK\$9,700,000 in 2000 to mReferral Corporation Limited, being the then connected person as defined under the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange, of which HK\$6,700,000 was repaid in 2001. The loan was unsecured, interest-bearing at 3-month HIBOR, and the remaining balance of HK\$3,000,000 was fully repaid during the year ended 31st December 2002.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules on the Stock Exchange except that non-executive directors are not appointed for a specified term as recommended in Paragraph 7 of Appendix 14 "Code of Best Practice" of the Listing Rules. According to the Bye-laws of the Company, all directors except the chairman of the Board and/or the managing director of the Company will retire at each annual general meeting and their appointments will be reviewed when they are due for re-election. In the opinion of the directors, this meets the same objective as the Code of Best Practice.



Report of the Directors

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr AU Son Yiu and Mr CHUNG Kam Wing, Calvin. Two meetings were held during the current financial year.

Directors’ Interest in Competing Business

None of the directors have an interest in any business constituting a competing business to the Group.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company’s Bye-laws and there are no restrictions against such rights under the laws in Bermuda.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
WONG Kin Yip, Freddie
Chairman and Managing Director

Hong Kong, 8th April 2003

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

Auditors' Report to the Shareholders of Midland Realty (Holdings) Limited *(incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 23 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8th April 2003



Midland Realty (Holdings) Limited

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Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	2	911,711	916,446
Other revenues	2	11,834	29,794
		<u>923,545</u>	<u>946,240</u>
Operating costs		(888,725)	(883,305)
Deficits arising on revaluation of			
Investment properties	13	(3,160)	(470)
Other properties	13	(99,880)	–
		<u>(68,220)</u>	<u>62,465</u>
Operating (loss)/profit	3	(68,220)	62,465
Finance costs	5	(5,871)	(12,427)
Share of profits less losses of jointly controlled entities		3,212	4,585
		<u>(70,879)</u>	<u>54,623</u>
(Loss)/profit before taxation		(70,879)	54,623
Taxation	6	(7,023)	(11,885)
		<u>(77,902)</u>	<u>42,738</u>
(Loss)/profit after taxation		(77,902)	42,738
Minority interests		(927)	(1,771)
		<u>(78,829)</u>	<u>40,967</u>
(Loss)/profit attributable to shareholders	7 & 21	(78,829)	40,967
Dividends	8	40,893	13,701
		<u>40,893</u>	<u>13,701</u>
Basic (loss)/earnings per share	9	(HK13.1 cents)	HK6.9 cents
Diluted earnings per share	9	N/A	HK6.5 cents



Midland Realty (Holdings) Limited

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Consolidated Balance Sheet

As at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Fixed assets	13	157,650	304,295
Investments in jointly controlled entities	15	8,243	11,292
		<u>165,893</u>	<u>315,587</u>
Current assets			
Accounts receivable	16	201,467	233,038
Other receivables, prepayments and deposits	17	82,468	56,187
Trading investments	18	31,500	13,213
Tax recoverable		1,853	–
Bank balances and cash		211,976	334,084
		<u>529,264</u>	<u>636,522</u>
Current liabilities			
Accounts payable	19	91,201	112,242
Other payables and accrued charges		73,931	63,275
Current portion of long-term bank loans – secured	22	16,067	28,191
Convertible note	23	–	70,000
Taxation payable		–	7,382
Bank overdrafts	22	29,369	5,758
		<u>210,568</u>	<u>286,848</u>
Net current assets		<u>318,696</u>	<u>349,674</u>
Total assets less current liabilities		<u>484,589</u>	<u>665,261</u>
Financed by:			
Share capital	20	60,945	59,569
Reserves	21	333,890	448,528
Proposed dividend	21	3,446	10,722
Proposed special cash bonus	21	34,463	–
Shareholders' funds		<u>432,744</u>	<u>518,819</u>
Minority interests		6,405	18,248
Non-current liabilities			
Long-term bank loans – secured	22	44,459	97,624
Deferred income	24	–	30,443
Deferred taxation	25	981	127
		<u>484,589</u>	<u>665,261</u>

WONG Kin Yip, Freddie
Director

CHEUNG Kam Shing
Director



Midland Realty (Holdings) Limited

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Balance Sheet

As at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Investments in subsidiaries	14	472,534	311,309
Current assets			
Other receivables, prepayments and deposits		466	864
Trading investments	18	13	13,213
Tax recoverable		43	–
Bank balances and cash		54,788	24,408
		55,310	38,485
Current liabilities			
Other payables and accrued charges		1,495	3,212
Convertible note	23	–	70,000
Taxation payable		–	39
		1,495	73,251
Net current assets/(liabilities)		53,815	(34,766)
Total assets less current liabilities		526,349	276,543
Financed by:			
Share capital	20	60,945	59,569
Reserves	21	427,495	206,252
Proposed dividend	21	3,446	10,722
Proposed special cash bonus	21	34,463	–
Shareholders' funds		526,349	276,543
WONG Kin Yip, Freddie <i>Director</i>		CHEUNG Kam Shing <i>Director</i>	



Midland Realty (Holdings) Limited

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Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity as at 1st January		518,819	492,358
Exchange differences arising on translation of the financial statements of foreign subsidiaries and a jointly controlled entity not recognised in the consolidated profit and loss account	21	129	–
(Loss)/profit attributable to shareholders	21	(78,829)	40,967
Reserves transferred to consolidated profit and loss account upon revaluation of other properties	21	(220)	–
Dividends	21	(13,706)	(14,883)
Exercise of share options	20 & 21	–	426
Exercise of warrants	20 & 21	10,032	–
Purchase of own shares	20 & 21	(3,481)	(49)
Total equity as at 31st December		<u>432,744</u>	<u>518,819</u>



Midland Realty (Holdings) Limited

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Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Cash flows from operating activities			
Cash generated from operations	26(a)	44,743	23,275
Interest paid		(5,871)	(12,427)
Hong Kong profits tax paid		(14,783)	(22,016)
Overseas taxation paid		(107)	(109)
Net cash from/(used in) operating activities		23,982	(11,277)
Cash flows from investing activities			
Purchase of fixed assets		(6,626)	(15,059)
Proceeds from disposal of fixed assets		26,600	22,000
Interest received		4,623	12,386
Purchase of trading investments			
– listed corporate bonds		(32,571)	–
Proceeds from disposal of trading investments			
– listed corporate bonds		13,279	3,813
Acquisition of a subsidiary, net of cash acquired	26(c) & (d)	1,569	105
Acquisition of additional interest in a subsidiary	24	(40,000)	–
Repayment from/(advance to) a jointly controlled entity		2,778	(2,812)
Repayment of loan from a jointly controlled entity		3,000	6,700
Net cash (used in)/from investing activities		(27,348)	27,133



Midland Realty (Holdings) Limited

2002 Annual Report



Consolidated Cash Flow Statement *(continued)*

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Cash flows from financing activities	26(b)		
Net proceeds from exercising of warrants		10,032	–
Exercise of share options		–	426
Purchase of own shares		(3,481)	(49)
Dividends paid		(13,706)	(14,883)
Redemption of convertible note		(70,000)	–
Repayment of bank loans		(65,289)	(16,937)
		<u> </u>	<u> </u>
Net cash used in financing activities		<u>(142,444)</u>	<u>(31,443)</u>
Net decrease in cash and cash equivalents		(145,810)	(15,587)
Cash and cash equivalents at 1st January		328,353	343,941
Decrease in trading investments			
– listed equity securities		(14)	(1)
Effect of foreign exchange rate changes		91	–
		<u> </u>	<u> </u>
Cash and cash equivalents at 31st December		<u>182,620</u>	<u>328,353</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		211,976	334,084
Bank overdrafts		(29,369)	(5,758)
Trading investments – listed equity securities		13	27
		<u> </u>	<u> </u>
		<u>182,620</u>	<u>328,353</u>



Notes to the Accounts

1. Principal accounting policies

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

(a) Basis of preparation

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

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

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

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

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.



Notes to the Accounts

1. Principal accounting policies *(continued)*

(b) Consolidation *(continued)*

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Jointly controlled entities

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

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

(d) Reserve arising on consolidation

Reserve arising on consolidation comprises:

(i) Capital reserve arising on shares exchange on merger

Capital reserve arising on shares exchange on merger which represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration therefor.

(ii) Goodwill/negative goodwill arising on acquisitions

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

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of not more than 20 years. Goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserve arising on consolidation.

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



Notes to the Accounts

1. Principal accounting policies *(continued)*

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

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

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

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

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

(e) Investment properties

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

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

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



Notes to the Accounts

1. Principal accounting policies *(continued)*

(e) Investment properties *(continued)*

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

(f) Other properties and fixed assets

Other properties are interests in land and buildings other than investment properties.

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

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

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

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

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

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



Notes to the Accounts

1. Principal accounting policies *(continued)*

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

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

The gain or loss on disposal of a fixed asset, other than investment properties, is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(g) Operating leases

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

(h) Trading investments

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

(i) Accounts receivable

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(k) Contingent liabilities

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



Notes to the Accounts

1. Principal accounting policies *(continued)*

(k) Contingent liabilities *(continued)*

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

(l) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement scheme obligations

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

(iii) Equity compensation benefits

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

(m) Deferred taxation

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

(n) Translation of foreign currencies

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



Notes to the Accounts

1. Principal accounting policies *(continued)*

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

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

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

(o) Revenue recognition

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

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

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

Mortgage brokerage income, web advertising income and other services fee income including income from property valuation, other advertising and referral services are recognised when services are rendered.

Licence fee income are recognised on an accrual basis.

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

(p) Borrowing costs

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

(q) Segment reporting

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

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



Notes to the Accounts

2. Turnover, revenues and segment information

(a) Turnover and revenues

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

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

(b) Segment information

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

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



Notes to the Accounts

2. Turnover, revenues and segment information (continued)

(b) Segment information (continued)

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

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



Notes to the Accounts

2. Turnover, revenues and segment information (continued)

(b) Segment information (continued)

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

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



Notes to the Accounts

3. Operating (loss)/profit

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

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

4. Staff costs

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

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



Notes to the Accounts

5. Finance costs

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

6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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



Notes to the Accounts

6. Taxation (continued)

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

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

7. (Loss)/profit attributable to shareholders

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

8. Dividends

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

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

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



Notes to the Accounts

9. (Loss)/earnings per share

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

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

In 2001, the diluted earnings per share was based on the adjusted profit of HK\$44,495,000 on the assumption that all outstanding convertible note had been exercised at the date of issue and had saved interest payable thereon, and 680,228,000 ordinary shares which are the weighted average number of ordinary shares in issue during the year plus the weighted average of 84,543,000 ordinary shares deemed to be issued at no consideration if all outstanding warrants, options and convertible note had been exercised.

10. Retirement benefit costs

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

The MPF scheme cost charged to the consolidated profit and loss account represents contributions payable by the Company to the fund. Contributions totalling HK\$1,818,000 (2001: HK\$1,472,000) which are payable to the fund are included in accounts payable as at 31st December 2002.

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



Notes to the Accounts

11. Directors' and senior management's emoluments

(a) Directors' emoluments

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

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

Directors' fees disclosed above are payable to independent non-executive directors.

Certain directors and senior management have been granted options to acquire ordinary shares of the Company under the Company's share option scheme. Details of which are set out in note 20(c).

The emoluments of the directors fell within the following bands:

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

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



Notes to the Accounts

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2001: two) individual during the year are as follows:

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

The emoluments fell within the following bands:

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



Notes to the Accounts

12. Intangible assets

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



Notes to the Accounts

13. Fixed assets

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

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



Notes to the Accounts

13. Fixed assets (continued)

The analysis of the cost or valuation at 31st December 2002 and 2001 of the above assets is as follows:

	Group							Total HK\$'000
	Investment properties in Hong Kong HK\$'000	Investment properties outside Hong Kong HK\$'000	Other properties in Hong Kong HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	
At 31st December 2002:								
At cost	-	-	-	56,545	15,925	93,806	2,487	168,763
At 2002 professional valuation	14,140	8,300	117,183	-	-	-	-	139,623
	<u>14,140</u>	<u>8,300</u>	<u>117,183</u>	<u>56,545</u>	<u>15,925</u>	<u>93,806</u>	<u>2,487</u>	<u>308,386</u>
At 31st December 2001:								
At cost	-	-	252,851	54,539	14,620	92,370	2,398	416,778
At 1995 professional valuation	-	-	27,300	-	-	-	-	27,300
At 2001 professional valuation	23,699	8,300	-	-	-	-	-	31,999
	<u>23,699</u>	<u>8,300</u>	<u>280,151</u>	<u>54,539</u>	<u>14,620</u>	<u>92,370</u>	<u>2,398</u>	<u>476,077</u>

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

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



Notes to the Accounts

13. Fixed assets (continued)

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

The deficits arising on revaluation of investment properties and other properties amounted to HK\$3,160,000 (2001: HK\$470,000) and HK\$100,100,000 (2001: Nil) respectively. The deficit arising on revaluation of investment properties was charged to the consolidated profit and loss account. The deficit arising on revaluation of other properties was first offset against the other properties revaluation reserve of HK\$220,000 (2001: Nil) and the remaining balance of HK\$99,880,000 was charged to the consolidated profit and loss account.

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

The carrying amount of the other properties would have been HK\$216,665,000 (2001: HK\$248,357,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

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

14. Investments in subsidiaries

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

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

Details of principal subsidiaries are set out in note 32 to the accounts.



Notes to the Accounts

15. Investments in jointly controlled entities

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

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

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

Details of the jointly controlled entities are set out in note 32 to the accounts.

16. Accounts receivable

The accounts receivable represents principally agency fee receivable from customers whereby no general credit facilities is available. The customers are obliged to settle the amounts due upon the completion of the relevant agreements. At 31st December 2002, the ageing analysis of the Group's accounts receivable is as follows:

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



Notes to the Accounts

17. Other receivables, prepayments and deposits

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

Name	Terms of the loan	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st December 2002 HK\$'000	Amount outstanding at 31st December 2001 HK\$'000
Kwok Ying Lung	Unsecured, interest free and repayable on demand	1,354	194	1,354
Wong Wai Wing	(note (i))	944	890	944

Notes:

(i) This loan is secured by joint and several guarantees from the spouse and two brothers of the borrower. The loan bears interest at the higher of 7.5% or the bank deposit rate and is repayable by 42 instalments with the last installment due on 20th June 2006.

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

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



Notes to the Accounts

18. Trading investments

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

19. Accounts payable

The accounts payable represent principally the commissions payable to property consultants and cooperative estate agents, and are due for payment only upon the receipt of corresponding agency fees from customers. As at 31st December 2002, the accounts payable included HK\$18,734,000 (2001: HK\$18,580,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.



Notes to the Accounts

20. Share capital

(a) Share Capital

	Company	
	Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
At 31st December 2002 and 2001	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31st December 2000	595,189,000	59,519
Exercise of share options	600,000	60
Cancellation of purchased shares	<u>(100,000)</u>	<u>(10)</u>
At 31st December 2001	<u>595,689,000</u>	<u>59,569</u>
At 31st December 2001	595,689,000	59,569
Exercise of warrants	20,064,000	2,006
Cancellation of purchased shares	<u>(6,306,000)</u>	<u>(630)</u>
At 31st December 2002	<u>609,447,000</u>	<u>60,945</u>



Notes to the Accounts

20. Share capital *(continued)*

(b) Purchase of shares

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

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

Except for 786,000 shares purchased by the Company in December 2002 subsequently cancelled in January 2003, the above shares purchased were subsequently cancelled upon purchase and accordingly the issued capital of the Company was diminished by the nominal value of those shares. The premium payable on purchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to capital redemption reserve (*note 21*).

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



Notes to the Accounts

20. Share capital *(continued)*

(c) Share options

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

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

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

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

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



Notes to the Accounts

20. Share capital (continued)

(c) Share options (continued)

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

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

Notes:

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

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

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

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

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

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



Notes to the Accounts

20. Share capital (continued)

(c) Share options (continued)

Notes: (continued)

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

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

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

(d) Warrants

As at 31st December 2002, there were 84,044,000 outstanding warrants, which entitle the holders thereof to subscribe for the ordinary shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.50 per share (subject to adjustment) at any time up to and including 13th January 2003. During the year ended 31st December 2002, 20,064,000 warrants were exercised, resulting in the issue of 20,064,000 ordinary shares of HK\$0.10 each by the Company at a subscription price of HK\$0.50 per share.

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

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



Notes to the Accounts

21. Reserves

	Group							
	Share premium	Capital redemption	Arising on consolidation	Warrants	Other properties revaluation	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001	66,581	1,297	(36,995)	21,824	220	(583)	380,495	432,839
Profit for the year	-	-	-	-	-	-	40,967	40,967
2000 final dividend paid	-	-	-	-	-	-	(11,904)	(11,904)
2001 interim dividend paid (<i>note 8</i>)	-	-	-	-	-	-	(2,979)	(2,979)
Purchase of own shares	(39)	-	-	-	-	-	-	(39)
Transfer from retained earnings	-	10	-	-	-	-	(10)	-
Exercise of share options	366	-	-	-	-	-	-	366
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>(406,569)</u>	<u>459,250</u>
Representing:								
Reserves	66,908	1,307	(36,995)	21,824	220	(583)	395,847	448,528
2001 final dividend proposed (<i>note 8</i>)	-	-	-	-	-	-	10,722	10,722
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>406,569</u>	<u>459,250</u>
Company and subsidiaries	66,908	1,307	(36,995)	21,824	220	200	404,238	457,702
Jointly controlled entities	-	-	-	-	-	(783)	2,331	1,548
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>406,569</u>	<u>459,250</u>



Notes to the Accounts

21. Reserves (continued)

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



Notes to the Accounts

21. Reserves (continued)

	Company					
	Share premium <i>HK\$'000</i>	Capital redemption <i>HK\$'000</i>	Warrants <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2001	66,581	1,297	21,824	108,001	(58,313)	139,390
Profit for the year	–	–	–	–	92,140	92,140
2000 final dividend paid	–	–	–	–	(11,904)	(11,904)
2001 interim dividend paid (note 8)	–	–	–	–	(2,979)	(2,979)
Purchase of own shares	(39)	–	–	–	–	(39)
Transfer from retained earnings	–	10	–	–	(10)	–
Exercise of share options	366	–	–	–	–	366
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>21,824</u>	<u>108,001</u>	<u>18,934</u>	<u>216,974</u>
Representing:						
Reserves	66,908	1,307	21,824	108,001	8,212	206,252
2001 final dividend proposed (note 8)	–	–	–	–	10,722	10,722
At 31st December 2001	<u>66,908</u>	<u>1,307</u>	<u>21,824</u>	<u>108,001</u>	<u>18,934</u>	<u>216,974</u>



Notes to the Accounts

21. Reserves (continued)

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

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



Notes to the Accounts

22. Long-term bank loans – secured

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

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

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

23. Convertible note

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



Notes to the Accounts

24. Deferred Income

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

Under the Subscription Agreement, Midland CyberNet and Gorich agreed that if within two years from 30th June 2000 Midland CyberNet is not listed (with market capitalisation of not less than HK\$250,000,000 upon listing) on a recognised stock exchange, Gorich may require the Subscription Shares be transferred to a person nominated by the Company and the Company shall pay or procure the payment of the Subscription Price and bear any stamp duty payable in relation to such transfer (the “Right”). The gain of HK\$30,443,000 resulting from the Disposal was deferred and included as a non-current liability in prior years.

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

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



Notes to the Accounts

25. Deferred taxation

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

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

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



Notes to the Accounts

26. Consolidated cash flow statement

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

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



Notes to the Accounts

26. Consolidated cash flow statement (continued)

(b) Analysis of change in financing during the year

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



Notes to the Accounts

26. Consolidated cash flow statement (continued)

(c) Acquisition of a subsidiary

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

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

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

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



Notes to the Accounts

27. Future lease rental payments receivable

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

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

28. Commitments under operating leases

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

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

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

29. Pending litigation

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



Notes to the Accounts

30. Contingent liabilities

During the years ended 31st December 2002 and 2001, the Company executed corporate guarantee as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries. In addition, the Company guaranteed the payment of operating lease rentals in respect of certain premises for its wholly-owned subsidiaries.

31. Approval of accounts

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

32. List of principal subsidiaries and jointly controlled entities

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

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



Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company <i>(continued)</i></i>				
Great Solution Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1	100
Harvest Time Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1	100
Hong Kong Property Services (Agency) Limited	Hong Kong	Property agent in Hong Kong	2 Ordinary shares of HK\$1 each	100
Merit Marketing Specialist Limited	Hong Kong	Marketing services in Hong Kong	2 Ordinary shares of HK\$1 each	100
Midland (China) Property Development Limited	Hong Kong	Property agent and investment holding in Hong Kong	5,000,000 Ordinary shares of HK\$1 each	100
Midland CyberNet Limited <i>(note (b))</i>	Hong Kong	An operator of an internet website in Hong Kong	39,100,000 Ordinary shares of HK\$1 each	100
Midland CyberNet (Strategic) Limited	Cayman Islands	Investment holding in Hong Kong	100,000 Ordinary shares of HK\$0.10 each	100
Midland Property (China) Limited	Hong Kong	Investment holding in Hong Kong	500,000 Ordinary shares of HK\$1 each	100



Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company (continued)</i>				
Midland Property Consultants Limited	Hong Kong	Investment holding in Hong Kong	100 Ordinary shares of HK\$1,000 each	100
Midland Realty (Aberdeen) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	80
Midland Realty (China) Limited <i>(note (c))</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100
Midland Realty (Comm.) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty Consultancy (Shanghai) Co. Ltd. <i>(note (c))</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100
Midland Realty (Ind.) Limited	Hong Kong	Property agent in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Realty International Limited	Hong Kong	Property agent in Hong Kong	1,000 Ordinary shares of HK\$100 each	100



Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company <i>(continued)</i></i>				
Midland Realty (Kln Res.) Limited	Hong Kong	Property agent in Hong Kong	800,000 Ordinary shares of HK\$1 each	90
Midland Realty (Strategic) Limited	Hong Kong	Investment holding in Hong Kong	10,000 Ordinary shares of HK\$1 each 2,000,000 Non-voting Deferred shares of HK\$1 each	100
Midland Surveyors Limited	Hong Kong	Property valuer in Hong Kong	1,000,000 Ordinary shares of HK\$1 each	100
Perfect Tower Limited	Hong Kong	Property investment in the People's Republic of China	2 Ordinary shares of HK\$1 each	100
Power Concord Limited	Hong Kong	Credit and collection management in Hong Kong	2 Ordinary shares of HK\$1 each	100
Real Gain Limited	Hong Kong	Property investment in Hong Kong	10,000 Ordinary shares of HK\$1 each	100



Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company (continued)</i>				
Worldboss Limited	Hong Kong	Property investment in Hong Kong	2 Ordinary shares of HK\$1 each	100
美聯物業代理 (深圳) 有限公司 <i>(notes (a) & (c))</i>	The People's Republic Of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	RMB1,200,000	100

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

– indirectly held by the Company

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

Notes:

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



List of Investment Properties

At 31st December 2002

Location	Lot Number	Existing use	Lease term	Group's interest
1. Shop No. 2 on Lower Ground Floor, Braemar Hill Shopping Centre, No. 45 Braemar Hill Road, North Point, Hong Kong.	IL 8398	Commercial	Long	100%
2. Portion A of Shop 2, G/F., Chevalier Garden, No. 2 Hang Shun Street, Shatin, New Territories.	STTL 258	Commercial	Medium	100%
3. Shop No. 42, Sun Hing Garden, No. 2 On Po Lane, Tai Po, New Territories.	TPTL 26	Commercial	Medium	100%
4. Section B of Shop No. 97A on Ground Floor, Nos. 69-119 Broadway, Phase IV of Mei Foo Sun Chuen, Lai Chi Kok, Kowloon.	NKIL 5087	Commercial	Medium	100%
5. Units 1202, 1203 and 1204 On 12th Floor of Block 1, Henderson Centre, Beijing Jiangnomenei Avenue, Beijing Stations Street, Dongcheng District, Beijing, The People's Republic of China.	*	Commercial	Medium	100%



List of Investment Properties *(continued)*

At 31st December 2002

Location	Lot Number	Existing use	Lease term	Group's interest
6. Shop No. 21, G/F., Mayfair Centre, No. 4 Anchor Street, Tai Kok Tsui, Kowloon.	KIL 2206	Commercial	Long	100%
7. Room 707, Fortress Tower, No. 250 King's Road, Fortress Hill, Hong Kong.	IL 8416	Commercial	Long	100%

* Property located in PRC without lot number.