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DIRECTORS

Executive Directors

Mr WONG Kin Yip, Freddie (*Chairman*)

Mr FUNG Yui Sum (*Managing Director and Deputy Chairman*)

Ms IP Kit Yee, Kitty

Non-executive Directors

Mr WONG Kin Wah, George

* Mr AU Son Yiu

* Mr CHUNG Kam Wing, Calvin

* Mr KAN Chung Nin, Tony

* Mr LAI Dominic

* *Independent non-executive directors*

COMPANY SECRETARY

Ms LAM Fung Fong, AHKSA FCCA

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

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

Coopers & Lybrand
Certified Public Accountants
23rd Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Belgian Bank
Dao Heng Bank Limited
Liu Chong Hing Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

HONG KONG LEGAL ADVISERS

Iu, Lai & Li
9th and 15th Floors
The Bank of East Asia Building
10 Des Voeux Road Central
Hong Kong

BERMUDA LEGAL ADVISERS

Conyers, Dill & Pearman
3408 Two Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Abacus Share Registrars Limited
10th Floor, Caroline Centre
28 Yun Ping Road
Causeway Bay
Hong Kong

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Company will be held at Rooms 2505-8, 25th Floor, World-wide House, 19 Des Voeux Road Central, Hong Kong on 10 June 1998 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 1997;
2. To declare a final dividend;
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;

As special business, to consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

5. To approve the appointment of Mr. CHEUNG Kam Shing as additional director of the Company;
6. **“THAT:**
 - (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make and grant offers, agreements and options which would or might require shares to be allotted after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to shares issued as a result of a Rights Issue (as hereinafter defined) or pursuant to the exercise of options under the share option scheme of the Company or any shares allotted in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:–

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earlier of:–

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws of Bermuda to be held; or
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“**Rights Issue**” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside, Hong Kong.)”

7. “**THAT**:–

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its own securities, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of securities purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval be limited accordingly; and
- (c) for the purposes of this resolution:–

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earlier of:–

- (i) the conclusion of the next annual general meeting of the Company;

- (ii) the expiration of the period within which the next annual general meeting of Company is required by the Bye-laws of the Company or any applicable laws of Bermuda to be held; or
 - (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
8. “**THAT** subject to the passing of resolution nos. 6 and 7, the aggregate nominal amount of shares which are to be purchased by the Company pursuant to the authority granted to the Directors of the Company as mentioned in resolution no. 7 shall be added to the aggregate nominal amount of share capital that may be allotted or agreed to be allotted by the Directors of the Company pursuant to resolution no. 6.”

By order of the Board

LAM Fung Fong

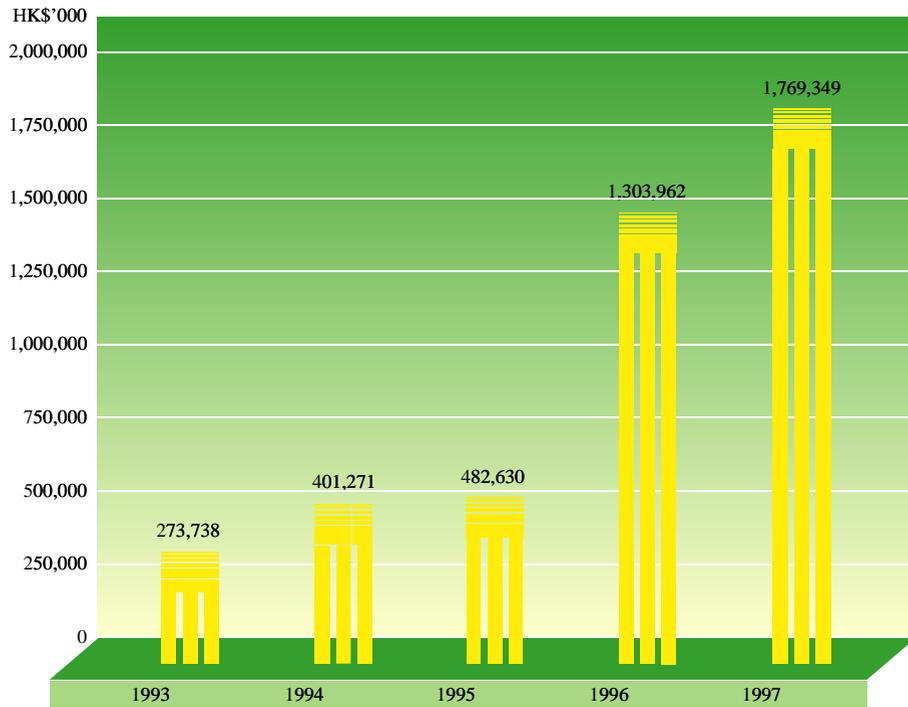
Company Secretary

Hong Kong, 29 April 1998

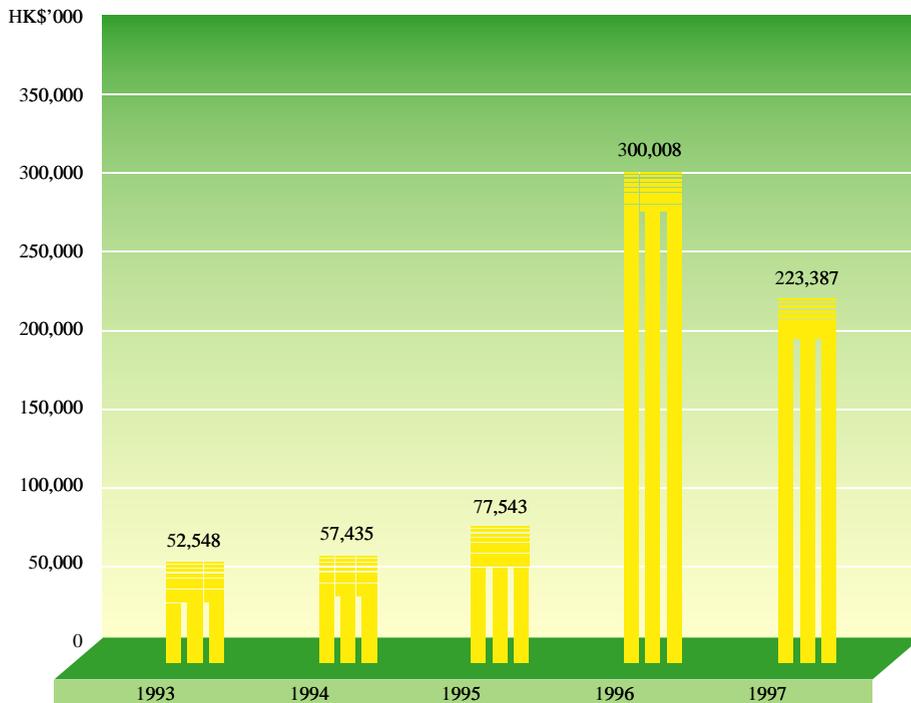
Notes:–

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, in the event of a poll, 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 Registrars, Abacus Share Registrars Limited at 10th Floor, Caroline Centre, 28 Yun Ping Road, Causeway Bay, 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, 4 June 1998 to Wednesday, 10 June 1998 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 Registrars, Abacus Share Registrars Limited at 10th Floor, Caroline Centre, 28 Yun Ping Road, Causeway Bay, Hong Kong not later than 4:00 p.m. on Wednesday, 3 June 1998.

TURNOVER



PROFIT ATTRIBUTABLE TO THE MEMBERS





Chairman – Mr WONG Kin Yip, Freddie

On behalf of the Group, I am pleased to present our audited consolidated accounts for the financial year ended 31 December 1997.

REVIEW

In financial year 1997, the Group's total turnover increased 36 per cent. to HK\$1.8 billion, while profit attributable to shareholders decreased 26 per cent. to HK\$223 million. Earnings per share dropped 29 per cent. to HK\$0.37.

A historical time marking Hong Kong's return to Chinese sovereignty, 1997 saw dramatic swings in the property and financial markets. In the first half, property transactions soared remarkably along with prices. But in a drastic turn of events triggered by the Asian financial turmoil and the Hong Kong Special Administrative Region ("HKSAR") Government's stated policy of increasing housing supply, both the local economy and the property market took a nose-dive in the second half. On the whole, the Group was able to take full advantage of the robust market in the first half while adopting a flexible cost-control strategy when activities slowed down in the second half. Despite the severe downturn, the dent on profitability was minimized.

Records at the Land Registry show that the number of sale and purchase agreements for 1997 totalled approximately 205,000*, up 40 per cent. from the 1996 level. Most of the transactions were registered in the first half, reflecting a booming property market, notably in the secondary market. During the year, the Group brokered 32,742 rental and sales transactions, approximately up 30 per cent. from 1996.

As a backlash of Asian financial turmoil, property sales shrank noticeably in the fourth quarter. Inadvertently adding to the gloom was the housing policy announced in early October 1997 which stated in no uncertain terms the HKSAR Government's objective of releasing 85,000 homes onto the

market annually over the next seven fiscal years. Meanwhile, the HKSAR Government also began to implement its other plan of selling public housing units. In the fourth quarter, the property market saw a rapid decline at a historical rate. The Group braved this downturn by adjusting its strategy swiftly. Cost-cutting measures included reducing advertising budget, renegotiating rents of branch premises, and scaling down the branch network. Drifting away from the earlier strategy of aggressive expansion, the Group now focused on containing resources and streamlining operations.

Consolidating decisively, the Directors determined to close some branches in Home Ownership Scheme estates, old urban centres, and districts with redundant branch operations. As at 31 December 1997, the Group had made provision of HK\$55 million to meet the costs associated with consolidating the branch network and early termination of leases.

As property prices fell steeply, a number of buyers chose to forfeit the down payment and not to complete the purchase. Financially hard-pressed, some of these customers also have difficulties in paying commission. In respect of that, the Group has made further provision for bad and doubtful debts during 1997.



Beyond Hong Kong, the Group systematically expanded its property agency business in mainland China. In addition to the branches in Shanghai and Guangzhou, the Group set up a Beijing representative office during the year. With presence in the three strategic locations, the Group is poised for business expansion in mainland China.

The Hong Kong Parkview Group Limited (the "Parkview Group") had acquired about 11.26 per cent. of the Company's shares in the market and became the third largest shareholder. The Parkview Group's investment in the Group reflected a market recognition of the Group's performance. Introduction of a new major shareholder will broaden the Group's future development.

* *The volume involved the sales of all types of properties, excluding land. Rental transactions also were excluded.*

BUSINESS PLAN AND OUTLOOK

In the first quarter of 1998, the Land Registry recorded only 13,298 sales and purchase agreements, down 41.7 per cent. from the previous quarter's 22,813. This further downturn confirmed the Group's policy of costs control and consolidation.

Although the financial turbulence has abated, the Group believes that conditions are still unfavourable for the property market and that difficult times will prevail for real estate agencies. Obviously enhancing the transparency of its housing policy to prop the property market, the HKSAR Government has

introduced a series of supportive measures within a short space. These include: a tax allowance for mortgage interest payment announced in the 1998/99 Financial Budget; the fixed-rate mortgage pilot scheme; the first-time home buyer financing scheme launched in April 1998; and the land sale schedule announced for the next five years to enhance transparency of the HKSAR Government's housing policy.

However, interest rates remain high; the HKSAR Government is selling public housing units and developable land at low prices; developers are launching projects at below market prices; the economy remains weak; and the unemployment rate has hit a 10-year high. Given all these negative factors, the secondary market is likely to remain under pressure. The Group believes that the market will remain generally stable for the rest of 1998, without excessive up or down movements.

Besides focusing on the core business of property broking in the secondary market, the Group successfully represented several developers as sole or authorised agents to market units in new projects. Management will continue to pursue the business of marketing homes in the primary market.

Last year, the Group set up a surveying division to provide tender and appraisal services for development sites and prime properties, which is synergetic to property broking in the secondary market. In the coming year, the surveying division will extend its scope to public auctions.

The licensing of real estate agents will be implemented in 1998, with the first batch of provisional licences for agencies and agents being issued towards the end of the year. Licensing is a major challenge for the real estate agency industry. To upgrade our service standards for licensing requirements, the Group not only enhanced staff training but also launched a demerit system for front-line agents in March 1998. These measures ensure that service standards and professional conducts are maintained.



In light of a rapidly changing property market, strengthening our information system is a top priority the Group adopts for 1998. An intranet system that the Group started developing in late 1997 was launched in April 1998 throughout the branch network and back offices. Intranet not only enhances the information flow but also helps reduce operating costs and increase management efficiency, especially regarding decision making. The Group also will continue to upgrade and enrich its home page so that the latest data and market analyses are made readily available to the public. A new web site is scheduled for launching in May 1998.

Although the financial maelstrom has settled somewhat, its ripple effect will continue to whip Hong Kong's economy. The Directors believe that the real estate agency industry will face an uphill battle in

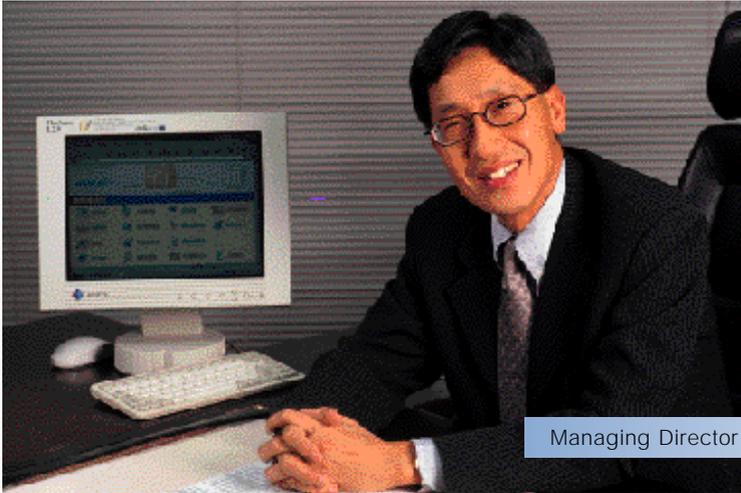
1998. However, the Group maintains a proactive and enterprising business approach. Aside from broadening our income base and containing costs, the Group will strengthen management and internal control towards sharpening the Group's competitive edge. As always, I would like to take this opportunity to thank all shareholders for their support and confidence in the past year, I also thank the Directors and all staff for their diligence and dedication. With their support, the Group is confident of meeting the challenge ahead.

By order of the Board

WONG Kin Yip, Freddie

Chairman

Hong Kong, 29 April 1998



Managing Director and Deputy Chairman – Mr FUNG Yui Sum

CASH FLOW AND FINANCIAL RESOURCES

In 1997, the Group's expenditure on acquiring properties and installing an intranet system reached HK\$260 million and HK\$7 million respectively. At 31 December 1997, the Group had cash on hand of HK\$291 million.

In general, the Group relies on internally generated cash income and credit facilities arranged with major bankers to meet operating expenses and to finance properties acquisition. The Group has available banking facilities amounting to HK\$140 million from various banks at 31 December 1997.

CAPITAL STRUCTURE

According to a general resolution passed at the Annual General Meeting on 22 April 1997, the Board of Directors were authorised to issue 360,495,000 bonus shares at HK\$0.10 each on 30 April 1997.

The Company bought back a total of 2,804,000 and 3,690,000 of its listed securities from the market during the year and in January 1998 respectively. All such shares were cancelled subsequently and their respective share certificates destroyed.

At 31 December 1997, the issued ordinary shares of the Company totalled 598,021,000, representing share capital of HK\$60 million.

In April 1997, a director of a subsidiary exercised the options to buy shares, resulting in the issuance of 330,000 new shares. In May 1997, several directors and a senior executive were also granted share options. If such options and the balance of the options of the above-mentioned subsidiary's director were exercised, the Company will have to issue 6,675,000 new shares.

STAFF AND SALARY POLICIES

At 31 December 1997, the Group employed a total of 2,257 sales agents and supporting staff, of which 1,855 worked on the front line as sales agents. The Group's employment policies and remuneration package are compatible with industry standards. Sales agents are remunerated a basic salary as well as commission, while non-sales employees receive a fixed salary and semi-annual bonuses distributed at the Group's discretion.

Since late 1997, the Group has been relying on contracted suppliers to perform some of the back-office support tasks so as to reduce operating costs and complement the strategy of containing resources.

Late 1997, the Company began to work on an employee share option scheme and launched it in March 1998. Those who qualified are supporting staff of officer grade and above who have been with the Group for at least one year, plus sales agents of supervisory-grade. The number of options granted depends on grade and seniority. There are 222 employees qualified for the option scheme, which will involve 5,262,000 shares. Employees have been allowed to exercise half of their options with effect from March 1999. The scheme is intended to reward employees for their contributions, boost staff morale, and create a positive environment for the Group's future development.

ELIMINATING THE "MILLENNIUM BUG"

The Group is facing up to the problem of the "millennium bug" as the year 2000 draws near. After a detailed review, the Group concluded that most of its computer systems are equipped with four-digit year formulae. Only two systems representing five per cent. of the total number are affected by the bug.

The Group is in discussion with the software suppliers concerned, with a view towards eradicating the problem before the turn of the century.

The directors present herewith their report and the accounts for the year ended 31 December 1997.

ACCOUNTS

The results for the year are set out in the consolidated profit and loss account on page 24.

The state of affairs of the Group and the Company as at 31 December 1997 are set out in the balance sheets on pages 25 and 26 respectively.

The cash flows of the Group are set out in the consolidated cash flow statement on pages 27 and 28.

PRINCIPAL ACTIVITIES

The Company continues to be an investment holding company. The principal activities of its subsidiaries continue to be real estate broking and marketing of all types of properties.

An analysis of the Group's turnover and contribution to trading results by principal activities for the year is as follows:—

	Turnover <i>HK\$'000</i>	Contribution to operating profit excluding exceptional item and before share of profit of associated company and taxation <i>HK\$'000</i>	Exceptional item <i>HK\$'000</i>	Contribution to operating profit before share of profit of associated company and taxation <i>HK\$'000</i>
Residential property broking services	1,573,841	324,497	(50,570)	273,927
Industrial and commercial property broking services	177,531	24,499	(4,572)	19,927
Real estate marketing services	17,977	(10,944)	—	(10,944)
	<u>1,769,349</u>	<u>338,052</u>	<u>(55,142)</u>	<u>282,910</u>
<i>Add:</i> Net interest income	—	2,719	—	2,719
	<u>1,769,349</u>	<u>340,771</u>	<u>(55,142)</u>	<u>285,629</u>

An analysis of the Group's turnover and contribution to trading results by geographical locations has not been presented as substantially all of the Group's turnover and contribution to trading results are derived from operations carried on by the Group in Hong Kong. Operations carried on by the Group outside Hong Kong comprise less than ten per cent. of the Group's turnover and ten per cent. of contribution to trading results of the Group.

ANALYSIS OF GROUP'S PERFORMANCE

An analysis of the Group's performance is shown in the Chairman's Statement and Management Discussion and Analysis on pages 6 to 11.

MAJOR CUSTOMERS AND SUPPLIERS

Both the percentages of turnover and purchases attributable to the Group's five largest customers combined and suppliers combined are less than 30 per cent. each during the year and therefore no additional disclosure with regard to major customers and suppliers is made.

No directors, or their associates or shareholders (which to the knowledge of the directors own more than 5 per cent. of the Company's share capital) were interested at any time in the year in the Group's five largest customers and suppliers.

PENSION SCHEME

The Group does not have a pension scheme for its employees and directors.

DIVIDENDS

The directors have declared or now recommend the following dividends in respect of the year ended 31 December 1997:-

	<i>HK\$'000</i>
Interim – HK\$0.10 per share paid on 30 September 1997	60,083
Proposed final – HK\$0.01 per share payable on 16 June 1998	<u>5,980</u>
	<u><u>66,063</u></u>

RESERVES

The amounts and particulars of transfers to and from reserves during the year are set out in note 16 on pages 46 and 47.

DISTRIBUTABLE RESERVES

At 31 December 1997, the distributable reserves of the Company available for distribution, net of dividends paid and proposed, amounted to HK\$138,437,000.

DONATIONS

Donations made by the Group during the year amounted to HK\$780,000.

FIXED ASSETS

The movements in fixed assets of the Group during the year are set out in note 11 on pages 39 and 40.

Particulars of the investment properties held by the Group are set out on pages 56 and 57.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital of the Company and share options granted, exercised and cancelled during the year are set out in note 15 on pages 43 to 45.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company purchased a total of 2,804,000 and 3,690,000 of its listed securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year and in January 1998 respectively. Details of the share purchase are set out in note 15(c) on page 43. The directors consider the share purchase will lead to an enhancement of the Group's earnings per share.

Apart from the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS

The directors who held office during the year and up to the date of this report were:–

Executive directors

Mr WONG Kin Yip, Freddie

Mr FUNG Yui Sum

Ms IP Kit Yee, Kitty

Mr LING Kwok Fai, Joseph

– resigned 30 September 1997

Non-executive directors

- Mr WONG Kin Wah, George – appointed 1 November 1997
- * Mr AU Son Yiu
 - * Mr CHUNG Kam Wing, Calvin
 - * Mr KAN Chung Nin, Tony
 - * Mr LAI Dominic

Mr WONG Kin Wah, George, Mr FUNG Yui Sum** and Ms IP Kit Yee, Kitty retire in accordance with sections 86 and 87 of the Company's Bye-laws and, being eligible, offer themselves for re-election.

A resolution to approve the appointment of Mr CHEUNG Kam Shing, as additional director of the Company, will be put at the annual general meeting.

* *Independent non-executive directors*

** *The existing service contract of Mr FUNG as managing director of the Company will be expiring on 30 April 1998 and will not be renewed. Thereafter, Mr FUNG will remain as an executive director. Pursuant to section 87 of the Bye-laws of the Company, Mr FUNG will be subject to retirement by rotation.*

DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and senior management of the Company are set out as follows:–

Executive directors

Mr **WONG Kin Yip, Freddie**, aged 48, is the co-founder and chairman of the Company. He is also the founder of Midland Pacific Realty Limited, a wholly owned subsidiary of the Company, in Vancouver, Canada. He is responsible for the strategic management of the Group, inter alia, residential sales force management for more than 250 branches in 1997, finance and accounting, human resources, public relation and marketing management. Furthermore, he is also responsible for the key managerial decisions, corporate strategic planning and implementation of the Group, as well as day-to-day overall management in order to enhance the Group's competitive edge in the real estate agent business. Mr WONG has more than 25 years of experience in the real estate broking business. He was appointed as an executive director and the chairman of the Company in October 1993.

Mr **FUNG Yui Sum**, aged 46, is the co-founder of the Company, managing director and deputy chairman of the Company. He is overseeing the industrial and commercial properties, retail shops, surveying, compliance and disciplinary divisions. He is also responsible for formulating overall policies in relation to human resources and training, and implementing a penalty points system to govern all sales staff's conduct for the purpose of leading the Company to meet the more stringent licensing requirements to be introduced in late 1998. In addition, he is in charge of the management of the business operation in the People's Republic of China and setting out policies and plans for overall corporate development. He is also appointed by the Chief Executive of the HKSAR as Member of the Estate Agents Authority from November 1997 for a period of two years. During Mr FUNG's appointment with Estate Agents Authority, he is the chairman of Training Committee and member of Practice Committee. In addition, he was formerly the vice-president of the Society of Hong Kong Real Estate Agents Limited (1996-1997) responsible for enhancing the image and standards of the real estate broking industry in Hong Kong. He has over 25 years of experience in the real estate broking business and was appointed as an executive director, managing director and deputy chairman of the Company since October 1993.

Ms **IP Kit Yee, Kitty**, aged 38, is the executive director responsible for the overall corporate affairs, management and administration. She is also responsible for formulating plans and policies to improve effectiveness in operation and control of the Group. Ms IP was appointed as an executive director of the Company in October 1993.

Non-executive directors

Mr **WONG Kin Wah, George**, aged 46 is the chairman of The Hong Kong Parkview Group Limited. He has been engaged in construction and real estate business in Taiwan and Hong Kong since graduating in building construction design in 1973. He was appointed as a director of The Hong Kong Parkview Group Limited in 1992. He was appointed as a non-executive director of the Company in November 1997.

Mr **AU Son Yiu**, aged 53, is a registered investment adviser and has extensive experience in the securities industry. He is a dealing director of HLG Securities (HK) Ltd, a director of China Point Stock Brokers Ltd. and I & P Securities Ltd., a consultant to Dao Heng Securities Limited and a non-executive director for several public companies listed on the Stock Exchange. In addition, he was formerly the deputy chairman of the Hong Kong Securities Clearing Co. Limited (1992 – 1994) and a council member of the Stock Exchange (1988 – 1994). Mr AU was appointed as an independent non-executive director of the Company in October 1994. He was appointed and resigned as an executive director of the Company in November 1995 and in September 1996 respectively. He was appointed as an independent non-executive director of the Company in September 1996.

Mr **CHUNG Kam Wing, Calvin**, aged 51, 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 Lawrence 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 31 December 1997. He was appointed as an independent non-executive director of the Company in November 1993.

Mr **KAN Chung Nin, Tony**, aged 47, LL.B., P.C.LL., is a practising solicitor in Hong Kong and 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 Board of Shatin since 1985 and is presently the vice-chairman of the Regional Council. 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 Badge of Honour by Governor of Hong Kong for his social contributions in 1989. Mr KAN was appointed as a Hong Kong District Affairs Adviser by Hong Kong Xin Hua News Agency in 1994. He was appointed as an independent non-executive director of the Company in October 1994.

Mr **LAI Dominic**, aged 51, 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 **CHAN Kwan Hing**, aged 34, is a director of Midland Realty (Aberdeen) Limited, a subsidiary of the Company. He is an associate sales director of the Group, and is responsible for overseeing the divisions dealing with residential property broking in Hong Kong island. Mr CHAN joined the Group in October 1991.

Mr **CHEUNG Kam Shing**, aged 34, is a director of Midland Realty International Limited, a wholly owned subsidiary of the Company. He has extensive experience in real estate broking and marketing, and is responsible for overseeing the divisions dealing with residential property broking and participating in the formulation of policy and strategy of the Group. Mr CHEUNG has served the Group for 11 years. A resolution to approve the appointment of Mr CHEUNG, as additional director of the Company, will be put at the annual general meeting.

Mr **IP Kwok Kin**, aged 37, is a director of Midland (China) Property Development Limited, a subsidiary of the Company specialising in provision of real estate broking services in People's Republic of China. Mr IP is an associate sales director of the Group, and is responsible for the operations of the China division. He has served the Group for 5 years.

Mr **KWOK Ying Lung**, aged 34, joined the Group in May 1988 and is currently responsible for the management of industrial and commercial properties divisions of the Group. He is an associate sales director of the Group and has board experience in dealing with non-residential property broking including industrial, office and retail properties.

Ms **LAM Fung Fong**, aged 36, is the financial controller and company secretary, and appointed as a director of the property investment and property management companies of the Group. She has over 12 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 Chartered Association of Certified Accountants. She is currently in charge of the overall financial and accounting functions, company secretarial department and management information systems of the Group. Ms LAM joined the Group in 1995.

Mr **LAW Kwok On**, aged 37, is a director of Midland Realty (Kln Res.) Limited, a subsidiary of the Company. He is an associate sales director of the Group, 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 8 years.

DIRECTORS' SERVICE CONTRACTS

At 31 December 1997 the Company had agreements with two companies controlled respectively by the following directors for the provision of management services by these directors to the Group:–

Directors	Term of service	Expiry date
Mr WONG Kin Yip, Freddie	3 years	30 April 1998
Mr FUNG Yui Sum	3 years	30 April 1998

At the Directors' meeting held on 29 April 1998, it was resolved that the service contract of Mr WONG will be renewed for a term of 3 years commencing from 1 May 1998 to 30 April 2001 and the service contract of Mr FUNG will not be renewed.

Apart from the above, there is no other similar service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

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

PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

At 31 December 1997 the directors, chief executives and their associates had the following interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:–

	Number of ordinary shares beneficially held		Percentage of holding
	Personal interest	Corporate interest	
Mr WONG Kin Yip, Freddie	12,500,000 (note (a)) 10,232,000	255,000,000 (note (c)) 35,000,000 (note (d))	52.29%
Mr FUNG Yui Sum	12,500,000 (note (b))	255,000,000 (note (c)) 44,710,000 (note (e))	52.21%
Ms IP Kit Yee, Kitty	310,000	–	0.05%
Mr WONG Kin Wah, George	–	30,001,000 (note (g)) 37,284,000 (note (h))	11.25%

Notes:

- (a) These shares are held by Sunluck Services Limited in trust for Mr WONG Kin Yip, Freddie.
- (b) These shares are held by Everchamp Consultants Limited in trust for Mr FUNG Yui Sum.
- (c) These shares are owned by Rollas Enterprises Limited, a private company in which each of Mr WONG Kin Yip, Freddie and Bright News Limited holds a 50 per cent. interest.
- (d) These shares are owned by Sunluck Services Limited, a private company controlled by Mr WONG Kin Yip, Freddie through Southern Field Trading Limited.
- (e) These shares are owned by Everchamp Consultants Limited, a private company controlled by Bright News Limited through Bright Coin Trading Limited.
- (f) Bright News Limited is wholly and beneficially owned by the Billy Fung Family Trust, a discretionary trust, the discretionary objects of which include Mr FUNG Yui Sum and his family members.
- (g) These shares are held by Gembrook Developments Limited, a subsidiary of The Hong Kong Parkview Group Limited in which Mr WONG Kin Wah, George has a substantial interest.
- (h) These shares are held by Parkview Property Development Limited, a subsidiary of The Hong Kong Parkview Group Limited in which Mr WONG Kin Wah, George has a substantial interest.

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 and the Model Code.

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Certain directors and chief executives have been granted options to subscribe shares in the Company under the Company's share option scheme. Details of it are set out in note 15(d) pages 44 and on 45.

Apart from the above:–

- (a) at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire shares in or debentures of the Company or any other body corporate; and
- (b) at 31 December 1997 no rights have been granted to the directors or chief executives of the Company or to their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

Other than the interests disclosed on page 19 in respect of directors, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance at 31 December 1997 shows that the Company had not been notified of any interest which represents 10 per cent. or more of the Company's issued share capital.

SUBSIDIARIES AND ASSOCIATED COMPANY

Details of the Company's subsidiaries and associated company at 31 December 1997 are set out on pages 52 to 55.

ANALYSIS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group's bank loans and overdrafts at 31 December 1997 are repayable as follows:–

	<i>HK\$'000</i>
On demand or within a period not exceeding one year	57,942
Within a period of more than one year but not exceeding two years	33,437
Within a period of more than two years but not exceeding five years	99,029
Within a period of more than five years	74,042
	<u>264,450</u>

Apart from the above, the Group has no other borrowings at 31 December 1997.

RESULTS, ASSETS AND LIABILITIES

The results, assets and liabilities of the Group for the last five financial years are as follows:–

	1993	1994	1995	1996	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to the members	<u>52,548</u>	<u>57,435</u>	<u>77,543</u>	<u>300,008</u>	<u>223,387</u>
Total assets	155,036	186,346	300,646	997,359	1,117,679
Total liabilities	<u>63,614</u>	<u>89,932</u>	<u>126,738</u>	<u>565,857</u>	<u>535,026</u>
Net assets	<u>91,422</u>	<u>96,414</u>	<u>173,908</u>	<u>431,502</u>	<u>582,653</u>

The results, assets and liabilities for each of the two years ended 31 December 1994 have been prepared as if the group structure, at the time when the Company's shares were listed on the Stock Exchange had been in existence throughout the years concerned and that the operations of the Group comprised its then business undertakings.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors are pleased to confirm that throughout the year ended 31 December 1997, the Company has complied with the Code of Best Practice of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) 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, non-executive directors of the Company will retire by rotation 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.

AUDITORS

A resolution to reappoint the retiring auditors, Coopers & Lybrand, will be put at the annual general meeting.

On behalf of the Board

WONG Kin Yip, Freddie

Chairman

Hong Kong, 29 April 1998



| 永道會計師事務所

TO THE MEMBERS OF MIDLAND REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts set out on pages 24 to 55 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 judgements 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 the Group at 31 December 1997 and of the Group's profit 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.

Coopers & Lybrand
Certified Public Accountants
Hong Kong, 29 April 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1997

	<i>Note</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Turnover	2	<u>1,769,349</u>	<u>1,303,962</u>
Operating profit before taxation			
Operating profit excluding exceptional item	4	340,771	365,299
Exceptional item	5	(55,142)	–
		285,629	365,299
Share of profit of associated company		<u>120</u>	<u>408</u>
Profit before taxation from ordinary activities		285,749	365,707
Taxation	7(a)	<u>(59,302)</u>	<u>(62,152)</u>
Profit after taxation		226,447	303,555
Interests of minority shareholders		<u>(3,060)</u>	<u>(3,547)</u>
Profit attributable to the members of Midland Realty (Holdings) Limited	8 & 16	<u>223,387</u>	<u>300,008</u>
Earnings per share	10	<u>37 cents</u>	<u>52 cents</u>

The notes on pages 29 to 55 form an integral part of these accounts

Auditors' report – page 23

CONSOLIDATED BALANCE SHEET

31 December 1997

	<i>Note</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Employment of capital			
Fixed assets	<i>11</i>	564,107	270,322
Investments	<i>12</i>	2,561	1,532
Net current assets			
Current assets	<i>13</i>	551,011	725,505
Current liabilities	<i>14</i>	316,767	462,957
		234,244	262,548
		800,912	534,402
Capital employed			
Share capital	<i>15</i>	59,802	24,000
Reserves	<i>16</i>	522,851	407,502
Total capital and reserves		582,653	431,502
Minority interests	<i>20</i>	5,863	3,301
Non-current liabilities	<i>17</i>	212,396	99,599
		800,912	534,402

Approved by the Board of Directors on 29 April 1998

On behalf of the Board

WONG Kin Yip, Freddie
Director

IP Kit Yee, Kitty
Director

The notes on pages 29 to 55 form an integral part of these accounts

Auditors' report – page 23

BALANCE SHEET

31 December 1997

	<i>Note</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Employment of capital			
Investments	<i>12</i>	108,501	108,501
Net current assets			
Current assets	<i>13</i>	438,749	276,464
Current liabilities	<i>14</i>	159,683	100,107
		279,066	176,357
		387,567	284,858
Capital employed			
Share capital	<i>15</i>	59,802	24,000
Reserves	<i>16</i>	207,936	231,427
Total capital and reserves		267,738	255,427
Non-current liabilities	<i>17</i>	119,829	29,431
		387,567	284,858

Approved by the Board of Directors on 29 April 1998

On behalf of the Board

WONG Kin Yip, Freddie
Director

IP Kit Yee, Kitty
Director

The notes on pages 29 to 55 form an integral part of these accounts

Auditors' report – page 23

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1997

	<i>Note</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Net cash inflow from operating activities	<i>18</i>	413,006	351,141
Returns on investments and servicing of finance			
Interest received		18,772	10,072
Interest paid		(16,053)	(5,541)
Dividends received from quoted investments		711	–
Dividends paid		(155,013)	(62,296)
Dividends paid by subsidiaries to minority shareholders		(1,500)	(1,600)
Net cash outflow from returns on investments and servicing of finance		(153,083)	(59,365)
Taxation			
Hong Kong profits tax paid		(91,170)	(17,907)
Overseas profits tax paid		(6)	–
Total tax paid		(91,176)	(17,907)
Investing activities			
Purchase of fixed assets		(368,300)	(217,557)
Proceeds from disposal of fixed assets		–	211
Cash flows in respect of acquisition of a subsidiary	<i>19</i>	86	–
Advance to associated company		(909)	(980)
Net cash outflow from investing activities		(369,123)	(218,326)
Net cash (outflow)/inflow before financing		(200,376)	55,543

The notes on pages 29 to 55 form an integral part of these accounts

Auditors' report – page 23

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 1997

	<i>Note</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Financing			
Issue of shares		1,188	82,990
Expenses paid in connection with share issue		–	(1,440)
Purchase of shares		(4,389)	–
Additional bank loans raised		153,346	110,193
Repayment of bank loans		(21,199)	(18,388)
Net cash inflow from financing	<i>20</i>	128,946	173,355
(Decrease)/increase in cash and cash equivalents		(71,430)	228,898
Cash and cash equivalents at 1 January		346,524	117,599
Effect of foreign exchange rate changes		(5)	27
Cash and cash equivalents at 31 December	<i>21</i>	275,089	346,524

The notes on pages 29 to 55 form an integral part of these accounts

Auditors' report – page 23

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants.

(a) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and all its subsidiaries as at 31 December 1997 and of the results for the year then ended. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.
- (ii) Subsidiaries are companies in which the company, directly or indirectly, controls more than half their voting power or issued share capital or controls the composition of their board of directors. Investments in subsidiaries in the Company's balance sheet are stated at cost less provision for any permanent diminution in value.
- (iii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or up to the effective dates of disposal. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Company's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the profit and loss account. The Company's interests in subsidiaries are stated at cost less any provision made to the extent that the directors consider significant permanent diminution in value has taken place.
- (iv) Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.
- (v) Associated companies are companies other than subsidiaries in which the Group has a long term equity interest and has the ability to exercise significant influence in their management. Results of the associated companies are accounted for by the Group using the equity method of accounting and by the Company on the basis of dividends received and receivable.
- (vi) Capital reserve arising on shares exchange on merger 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.
- (vii) Reserve arising on consolidation represents the excess of the fair value of net assets of subsidiaries acquired over the cost of investment at the dates of acquisition and is credited directly to the reserves in the year of acquisition.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(viii) Goodwill on consolidation, which represents the excess of cost of investment over the fair value of the net assets of subsidiaries at the dates of acquisition, is charged against reserves to the extent that such reserves are available and any excess is charged against the profit and loss account in the year of acquisition.

(b) Revenue

- (i) Agency fee revenue from property broking and marketing services is recognised when the relevant agreement becomes unconditional or irrevocable.
- (ii) Interest income and revenue from the letting of investment properties are recognised on a time proportion basis.

(c) Taxation

The charge for taxation is based on the result for the year as adjusted for items which are non-assessable or disallowable. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the accounts. The tax effect of timing differences, computed under the liability method, is recognised in the accounts to the extent it is probable a liability or an asset will crystallise in the foreseeable future.

(d) Operating leases

Rental receipts and payments under operating leases, under which substantially all the benefits and risks of ownership remain with the lessor are credited or charged to the profit and loss account as incurred.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets

(i) 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 long-term investment potential, any rental income being negotiated at arm's length. Investment properties are stated at their open market value at the balance sheet date. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease. The gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant asset, together with any revaluation reserve balance remaining attributable to the relevant assets, is recognised in the profit and loss account.

(ii) Leasehold land and buildings

Leasehold land and buildings are stated at cost/valuation, being fair value at the date of revaluation, less subsequent accumulated depreciation or amortisation. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, and is determined on the basis of existing use.

(iii) Leasehold improvements

Leasehold improvements are stated at cost less accumulated amortisation or depreciation and any provisions required to reflect recoverable amount. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(iv) Amortisation of leasehold land

Amortisation of leasehold land is calculated to write off its cost/valuation over the unexpired period of the lease.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Depreciation of leasehold buildings/improvements

Depreciation of leasehold buildings/improvements is calculated to write off their cost/valuation over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter. The principal annual rates used for this purpose are:-

Leasehold buildings	2 per cent.
Leasehold improvements	$33\frac{1}{3}$ per cent. – 50 per cent.

(vi) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of other tangible fixed assets is calculated to write off their cost on the straight line basis over their expected useful lives to the Group. The principal annual rate used for this purpose is 25 per cent.

(vii) Impairment of fixed assets

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal.

The amount of the reduction to recoverable amount is charged to the profit and loss account, unless it reverses a previous revaluation increase, in which case it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item or group of identical assets.

(viii) Gain or loss on disposal of fixed assets

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 profits and is shown as a movement in reserves.

(ix) Cost of restoring and improving fixed assets

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Accounts receivable

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

(g) Quoted investments

Quoted investments held for short term purposes are stated at the lower of cost and market value at the balance sheet date.

(h) Translation of foreign currencies

(i) Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in operating results.

(ii) The accounts of overseas subsidiaries are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are taken directly to the exchange fluctuation reserve.

(iii) The Group's share of post acquisition net assets in an overseas associated company are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The Group's share of the post acquisition results of the overseas associated company are translated into Hong Kong dollars at the average rates of exchange for the year. Exchange differences arising are taken directly to the exchange fluctuation reserve.

2. TURNOVER - GROUP

Turnover comprises agency fee revenue from property broking and marketing services at invoiced value to customers, net of discounts allowed.

3. REVENUE

The amounts of each significant category of revenue recognised during the year are as follows:-

	Group	
	1997	1996
	HK\$'000	HK\$'000
Agency fee revenue	1,769,349	1,303,962
Interest income	18,772	10,072
Gross rental income from investment properties	4,829	932

4. OPERATING PROFIT EXCLUDING EXCEPTIONAL ITEM

	Group	
	1997	1996
	<i>HK\$'000</i>	<i>HK\$'000</i>
The operating profit excluding exceptional item is stated after charging:–		
Operating lease rentals in respect of land and buildings	185,048	88,202
Provision for bad and doubtful debts	118,564	10,127
Depreciation of fixed assets	52,672	22,490
Interest on bank loans		
– Wholly payable within five years	601	527
– Not wholly payable within five years	15,452	5,014
	16,053	5,541
Deficit arising on revaluation of investment properties	15,550	–
Fixed assets written off	3,658	88
Auditors' remuneration	1,018	788
and after crediting:–		
Interest income	18,772	10,072
Gross rental income from investment properties	4,829	932
Less: Outgoings	112	–
Net rental income from investment properties	4,717	932
Dividend income from quoted investments	711	–
Write back of a deficit on revaluation of an investment property previously charged to profit and loss account	–	168

5. EXCEPTIONAL ITEM

Exceptional item represents the provision for closure costs in respect of branches closed or in the process of closing at the year end.

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments are as follows:-

	Group	
	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
As directors	83	80
For management		
– basic salaries, housing allowances, other allowances and benefits in kind	15,098	12,613
Discretionary bonuses		
– current year	14,209	18,351
– underprovision in previous year	4,696	–
Compensation to a former director for loss of office		
– as directors	–	–
– for other offices	4,000	–
	<u>38,086</u>	<u>31,044</u>

Directors' fees include HK\$80,000 (1996: HK\$80,000) 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 the option granted and exercised during the year are set out in note 15(d) on pages 44 and 45.

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

- (b) The number of directors whose emoluments fell within the following bands are set out below. The emoluments represent the amount paid to or receivable by the directors of the Company in the respective financial years and do not include the benefits derived or to be derived from the share options granted under the Company's share option scheme to acquire ordinary shares of the Company.

Emoluments bands <i>HK\$</i>	Number of directors	
	1997	1996
0 – 1,000,000	5	4
1,000,001 – 1,500,000	–	1
1,500,001 – 2,000,000	1	–
3,500,001 – 4,000,000	–	1
6,500,001 – 7,000,000	1	–
13,000,001 – 13,500,000	–	2
14,500,001 – 15,000,000	2	–
	9	8

No directors waived their emoluments in respect of the years ended 31 December 1997 and 1996.

- (c) Among the five highest paid individuals, four of them are directors of the Company and the details of their remuneration have already been disclosed in the preceding paragraph.

The aggregate amounts of the remaining highest paid individual whose emoluments fell within the band from HK\$3,000,001 to HK\$3,500,000 (1996: HK\$ nil to HK\$1,000,000) and have not been disclosed in directors' emoluments noted above are as follows:–

	Group	
	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	3,037	665
Discretionary bonuses	–	186
	3,037	851

7. TAXATION

- (a) The amount of taxation in the consolidated profit and loss account represents:-

	Group	
	1997 HK\$'000	1996 HK\$'000
Hong Kong profits tax		
– current	59,384	58,853
– deferred	1,235	3,715
Over-provision in previous years	(1,317)	(416)
	59,302	62,152

Hong Kong profits tax is calculated at the rate of 16.5 per cent. (1996: 16.5 per cent.) on the estimated assessable profit for the year.

No provision for overseas taxation has been made in the accounts as the Group's overseas subsidiaries and associated company have no assessable or taxable profits calculated in accordance with the tax laws of the countries in which they operate.

- (b) The amount of taxation included in the balance sheets as part of current liabilities represents provision for Hong Kong profits tax for the current and previous year less the amount of provisional tax paid.
- (c) The movements in the deferred taxation account are as follows:-

	Group	
	1997 HK\$'000	1996 HK\$'000
Balance brought forward	4,653	938
Transferred from profit and loss account	1,235	3,715
Balance carried forward (<i>note 17</i>)	5,888	4,653

- (i) Deferred taxation represents full provision of the tax effect of timing differences arising from accelerated depreciation allowances of fixed assets.
- (ii) Deferred taxation has not been provided on the deficit arising on the revaluation of investment properties as the deficit does not constitute a timing difference for taxation purposes.

8. PROFIT ATTRIBUTABLE TO THE MEMBERS OF MIDLAND REALTY (HOLDINGS) LIMITED

Included in the profit attributable to the members of the Company of HK\$223,387,000 (1996: HK\$300,008,000) is a profit of HK\$81,705,000 (1996: HK\$135,094,000), including dividend from a subsidiary of HK\$85,000,000 (1996: HK\$135,000,000), which is dealt with in the Company's own accounts.

9. DIVIDENDS

	Company	
	1997 HK\$'000	1996 HK\$'000
Adjustment to prior year's final dividend	130	1,498
Interim – HK\$0.10 (1996: HK\$0.125) per share paid on 30 September 1997	60,083	29,950
Proposed final – HK\$0.01 (1996: HK\$0.395) per share payable on 16 June 1998	5,980	94,800
	<u>66,193</u>	<u>126,248</u>

10. EARNINGS PER SHARE – GROUP

- (a) The calculation of earnings per share for 1997 is based on the profit attributable to the members of HK\$223,387,000 (1996: HK\$300,008,000) and on the weighted average number of 600,208,000 (1996: 578,528,000) shares in issue during the year. The earnings per share for 1996 has been adjusted for the effect of the bonus shares issued (*Note 15(b)*) during the year.
- (b) In the event that share options outstanding and exercisable at 31 December 1997 totalling 3,825,000 (1996: 825,000) were exercised in full, the fully diluted earnings per share would not be significantly different from the earnings per share as disclosed in the consolidated profit and loss account on page 24.

11. FIXED ASSETS - GROUP

	Investment properties in Hong Kong HK\$'000	Land and buildings in Hong Kong HK\$'000	Land and buildings outside Hong Kong HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation								
Brought forward								
At cost	-	151,696	-	38,266	12,003	48,180	2,971	253,116
At 1995 professional valuation	-	44,200	-	-	-	-	-	44,200
At 1996 professional valuation	15,800	-	-	-	-	-	-	15,800
	15,800	195,896	-	38,266	12,003	48,180	2,971	313,116
Additions at cost	123,965	125,514	10,541	48,044	7,632	52,604	-	368,300
Written off	-	-	-	(5,923)	(66)	(917)	(165)	(7,071)
Transfer to land and buildings at 1996 professional valuation	(7,400)	7,400	-	-	-	-	-	-
Adjustment on revaluation	(18,185)	-	-	-	-	-	-	(18,185)
	114,180	328,810	10,541	80,387	19,569	99,867	2,806	656,160
Carried forward as follows:-								
At cost	-	277,210	10,541	80,387	19,569	99,867	2,806	490,380
At 1995 professional valuation	-	44,200	-	-	-	-	-	44,200
At 1996 professional valuation	-	7,400	-	-	-	-	-	7,400
At 1997 professional valuation	114,180	-	-	-	-	-	-	114,180
	114,180	328,810	10,541	80,387	19,569	99,867	2,806	656,160
Aggregate depreciation								
Brought forward	-	2,141	-	18,267	6,636	13,671	2,079	42,794
Charge for the year	-	4,390	133	27,095	2,903	17,466	685	52,672
Written off	-	-	-	(2,896)	(27)	(366)	(124)	(3,413)
Carried forward	-	6,531	133	42,466	9,512	30,771	2,640	92,053
Net book value at								
31 December 1997	114,180	322,279	10,408	37,921	10,057	69,096	166	564,107
Net book value at 31 December 1996	15,800	193,755	-	19,999	5,367	34,509	892	270,322

- (a) Investment properties were revalued at their open market value at 31 December 1997 by an employee of the Group, Mr Maxwell Y.C. CHIU. Mr CHIU is an associate member of the Royal Institution of Chartered Surveyors and Hong Kong Institute of Surveyors. The deficit arising on revaluation amounted to HK\$18,185,000 of which HK\$2,635,000 and HK\$15,550,000 were charged against the investment properties revaluation reserve account (note 16) and the profit and loss account (note 4) respectively.

11. FIXED ASSETS - GROUP (continued)

(b) The carrying amount of land and buildings that would be included in the accounts if land and buildings were carried at cost less accumulated depreciation is HK\$332,069,000 (1996: HK\$192,917,000) for the Group.

(c) The net book value of investment properties and land and buildings comprises:-

Period unexpired	Investment properties in Hong Kong HK\$'000	Land and buildings in Hong Kong HK\$'000	Land and buildings outside Hong Kong HK\$'000	Total HK\$'000
Medium term leases (less than 50 years but not less than 10 years)				
At cost less subsequent accumulated depreciation	-	126,658	10,408	137,066
At 1995 professional valuation less subsequent accumulated depreciation	-	26,021	-	26,021
At 1997 professional valuation	70,250	-	-	70,250
Long-term leases (not less than 50 years)				
At cost less subsequent accumulated depreciation	-	145,941	-	145,941
At 1995 professional valuation less subsequent accumulated depreciation	-	16,313	-	16,313
At 1996 professional valuation less subsequent accumulated depreciation	-	7,346	-	7,346
At 1997 professional valuation	43,930	-	-	43,930
	<u>114,180</u>	<u>322,279</u>	<u>10,408</u>	<u>446,867</u>

(d) At 31 December 1997 all the investment properties and land and buildings in Hong Kong with a total net book value of HK\$436,459,000 (1996: HK\$209,555,000) were pledged to certain banks as securities for bank loans granted to the Group (note 23).

12. INVESTMENTS

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Subsidiaries (note (a))	–	–	108,501	108,501
Associated company (note (b))	2,561	1,532	–	–
	2,561	1,532	108,501	108,501

(a) Subsidiaries

	Company	
	1997 HK\$'000	1996 HK\$'000
Unlisted shares, at cost	108,501	108,501

Details of subsidiaries are set out on pages 52 to 55.

(b) Associated company

	Group	
	1997 HK\$'000	1996 HK\$'000
Share of net assets other than goodwill	1,703	1,583
Due from/(to) associated company (note (ii))	858	(51)
	2,561	1,532

(i) Details of the associated company are set out on page 55.

(ii) The amount is unsecured, interest free and has no fixed terms of repayment.

13. CURRENT ASSETS

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Due from subsidiaries	–	–	339,493	135,907
Accounts receivable	168,520	320,781	–	–
Prepayments and deposits	80,156	56,260	25	–
Quoted investments in Hong Kong, net of provision, at market value	11,068	–	11,068	–
Dividend receivable from a subsidiary	–	–	85,000	135,000
Cash and bank balances (note below)	291,267	348,464	3,163	5,557
	551,011	725,505	438,749	276,464

Note: Bank deposits of HK\$775,000 (1996: HK\$1,940,000) were pledged to certain banks for bank guarantees in respect of leasing of certain premises (note 23).

14. CURRENT LIABILITIES

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Due to a subsidiary	–	–	129,557	–
Accounts payable	108,561	223,236	–	–
Other payables and accrued charges	127,811	83,659	468	255
Taxation (note 7(b))	15,773	48,876	189	20
Current portion of non-current liabilities (note 17)	31,471	10,886	23,489	5,032
Dividends payable to minority shareholders	700	1,500	–	–
Proposed final dividend	5,980	94,800	5,980	94,800
Bank overdrafts	26,471	–	–	–
	316,767	462,957	159,683	100,107

15. SHARE CAPITAL

	Note	Company Number of shares	HK\$'000
Authorised			
Ordinary shares of HK\$0.1 each		1,000,000,000	100,000
Issued and fully paid			
Balance at 1 January 1997		240,000,000	24,000
Issue of shares upon exercise of share options	(a)	330,000	33
Bonus issue	(b)	360,495,000	36,049
Purchase of shares	(c)(i)	(2,804,000)	(280)
Balance at 31 December 1997		598,021,000	59,802

- (a) On 3 April 1997, the Company issued to certain share option holders who exercised their subscription rights, a total of 330,000 shares of HK\$0.1 each for cash at a price of HK\$3.60 per share.
- (b) On 30 April 1997, the Company issued 360,495,000 bonus shares of HK\$0.1 each, credited as fully paid, to shareholders whose names appeared on the register of members on 22 April 1997.
- (c) (i) During the year, the Company purchased a total of 2,804,000 of its listed securities on the Stock Exchange. Details of the purchases are as follows:-

Month of purchase	Number of shares	Purchase price per share		Aggregate consideration paid including expenses HK\$
		Highest paid HK\$	Lowest paid HK\$	
October 1997	1,882,000	2.00	1.30	3,183,000
November 1997	922,000	1.40	1.19	1,206,000
	<u>2,804,000</u>			<u>4,389,000</u>

The above shares purchased were subsequently cancelled upon purchase and accordingly the issued capital of the Company was diminished by the nominal value of those shares. The premium payable on purchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to a capital redemption reserve (note 16).

- (ii) In January 1998, the Company further purchased a total of 3,690,000 of its listed securities on the Stock Exchange at an aggregate consideration including expenses of HK\$3,484,000. The highest and lowest purchase prices paid were HK\$1.37 and HK\$0.74 per share respectively.

15. SHARE CAPITAL (continued)

(d) During the year, the Company granted share options to certain directors and employees of the Group without consideration to subscribe for a total of 6,000,000 shares of the Company. Details of the options granted, exercised and cancelled during the year are as follows:-

Name	Date of grant	Exercise price HK\$	Note	Balance outstanding at 1 January 1997	Options granted during the year	Options exercised during the year	Options cancelled during the year	Balance outstanding at 31 December 1997	Exercisable period
Directors									
Mr WONG Kin Yip, Freddie	13 May 1997	2.91		-	1,500,000	-	-	1,500,000	13 May 1997 to 13 May 2000
Mr FUNG Yui Sum	13 May 1997	2.91		-	1,500,000	-	-	1,500,000	13 May 1997 to 13 May 2000
Mr LING Kwok Fai, Joseph	13 May 1997	2.91	(i)	-	1,000,000	-	(1,000,000)	-	-
Ms IP Kit Yee, Kitty	13 May 1997	2.91		-	500,000	-	-	500,000	13 May 1998 to 13 May 2001
		2.91		-	500,000	-	-	500,000	13 May 1999 to 13 May 2002
Sub-total for directors				<u>-</u>	<u>5,000,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>4,000,000</u>	
Employees									
Ms LAM Fung Fong	13 May 1997	2.91		-	500,000	-	-	500,000	13 May 1998 to 13 May 2001
		2.91		-	500,000	-	-	500,000	13 May 1999 to 13 May 2002
Mr CHEUNG Kam Shing	18 October 1996	3.60	(ii)	330,000	-	(330,000)	-	-	-
		1.44	(iii)	825,000	-	-	-	825,000	18 October 1997 to 18 October 2000
		1.44	(iii)	850,000	-	-	-	850,000	18 October 1998 to 18 October 2001
Sub-total for employees				<u>2,005,000</u>	<u>1,000,000</u>	<u>(330,000)</u>	<u>-</u>	<u>2,675,000</u>	
Total for directors and employees				<u>2,005,000</u>	<u>6,000,000</u>	<u>(330,000)</u>	<u>(1,000,000)</u>	<u>6,675,000</u>	

15. SHARE CAPITAL (continued)

- (i) Pursuant to the share option scheme, the share options granted to Mr LING Kwok Fai, Joseph were cancelled upon his resignation on 30 September 1997.
- (ii) These share options were exercised on 3 April 1997 and the market price of the shares on that date was HK\$8.45.
- (iii) These share options were adjusted with the bonus issue and accordingly the number of shares comprising the share options granted increased by three for every two shares in the options and the subscription price per share was adjusted from HK\$3.60 to HK\$1.44.
- (iv) Subsequent to 31 December 1997, share options to subscribe for 5,262,000 shares of the Company in total were granted on 1 March 1998 to some of the Group's employees at exercisable price of HK\$1.30 per share, of which, 2,631,000 shares are exercisable during the period from 1 March 1999 to 1 March 2002 and the remaining 2,631,000 shares are exercisable during the period from 1 March 2000 to 1 March 2003.

16. RESERVES

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Share premium				
Balance brought forward	108,222	30,672	108,222	30,672
New issue of shares	1,155	78,990	1,155	78,990
Capitalisation issue	(36,049)	–	(36,049)	–
Purchase of shares	(4,109)	–	(4,109)	–
Expenses paid in connection with share issue	–	(1,440)	–	(1,440)
Balance carried forward	69,219	108,222	69,219	108,222
Capital redemption reserve				
Transfer from retained profits and carried forward (note 15 (c)(i))	280	–	280	–
Exchange fluctuation reserve				
Balance brought forward	(522)	(533)	–	–
Exchange adjustment on translation of the accounts of an overseas subsidiary and an associated company	(5)	11	–	–
Balance carried forward	(527)	(522)	–	–
Reserve arising on consolidation				
Balance brought forward	14,571	14,571	–	–
Goodwill on consolidation	(202)	–	–	–
Balance carried forward	14,369	14,571	–	–
Investment properties revaluation reserve				
Balance brought forward	2,391	–	–	–
Transfer to other land and buildings revaluation reserve	244	118	–	–
Adjustment on revaluation during the year	(2,635)	2,273	–	–
Balance carried forward	–	2,391	–	–
Other land and buildings revaluation reserve				
Balance brought forward	464	582	–	–
Transfer from investment properties revaluation reserve	(244)	(118)	–	–
Balance carried forward	220	464	–	–
Contributed surplus				
Balance brought forward and carried forward	–	–	108,001	108,001
Retained profits				
Balance brought forward	282,376	108,616	15,204	6,358
Transfer to capital redemption reserve upon purchase of shares	(280)	–	(280)	–
Profit for the year	223,387	300,008	81,705	135,094
Dividends (note 9)	(66,193)	(126,248)	(66,193)	(126,248)
Balance carried forward	439,290	282,376	30,436	15,204
	522,851	407,502	207,936	231,427

16. RESERVES (continued)

- (a) 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 12 May 1995. Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.
- (b) At 31 December 1997, the distributable reserves of the Company available for distribution, net of dividends paid and proposed, amounted to HK\$138,437,000.
- (c) Included in the Group's retained profits is accumulated losses of HK\$1,014,000 (1996: HK\$1,134,000) attributable to associated company.

17. NON-CURRENT LIABILITIES

	Group		Company	
	1997	1996	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans – secured (note 23)	237,979	105,832	143,318	34,463
Deferred taxation (note 7(c))	5,888	4,653	–	–
	243,867	110,485	143,318	34,463
<i>Less: amount repayable within one year shown under current liabilities (note 14)</i>	31,471	10,886	23,489	5,032
	212,396	99,599	119,829	29,431

18. RECONCILIATION OF OPERATING PROFIT EXCLUDING EXCEPTIONAL ITEM TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Operating profit excluding exceptional item	340,771	365,299
Exceptional item	(55,142)	–
Depreciation of fixed assets	52,672	22,490
Fixed assets written off	3,658	88
Deficit arising on revaluation of investment properties	15,550	–
Write back of a deficit on revaluation of an investment property previously charged to profit and loss account	–	(168)
Decrease/(increase) in accounts receivable, prepayments and deposits	128,414	(268,294)
Decrease/(increase) in bank deposits pledged	1,165	(920)
(Decrease)/increase in accounts payable, other payables and accrued charges	(70,652)	237,177
Interest received	(18,772)	(10,072)
Interest paid	16,053	5,541
Dividend received from quoted investments	(711)	–
Net cash inflow from operating activities	413,006	351,141

19. CASH FLOWS IN RESPECT OF ACQUISITION OF A SUBSIDIARY

	1997 HK\$'000
Net assets acquired	
Accounts receivable	49
Cash	86
Accounts payable	(15)
Taxation	(6)
	<u>114</u>
Satisfied by	
Loan	<u>114</u>
Net cash inflow in respect of acquisition of a subsidiary	
Consideration in cash and cash equivalents	–
Cash and cash equivalents acquired	86
	<u>86</u>

The subsidiary acquired during the year paid HK\$6,000 in respect of taxation.

20. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1997			1996		
	Share capital including share premium HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000	Share capital including share premium HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
Balance at 1 January	132,222	105,832	3,301	50,672	14,027	1,261
Issue of shares	1,188	–	–	82,990	–	–
Expenses paid in connection with share issue	–	–	–	(1,440)	–	–
Purchase of shares	(4,389)	–	–	–	–	–
Additional bank loans raised	–	153,346	–	–	110,193	–
Repayment of bank loans	–	(21,199)	–	–	(18,388)	–
Acquisition of additional interest in a subsidiary	–	–	202	–	–	–
Minority share of profit for the year	–	–	3,060	–	–	3,547
Effect of foreign exchange difference	–	–	–	–	–	(7)
Dividend payable to shareholders of subsidiaries	–	–	(700)	–	–	(1,500)
Balance at 31 December	129,021	237,979	5,863	132,222	105,832	3,301

21. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	1997 HK\$'000	1996 HK\$'000
Cash and bank balances	291,267	348,464
Bank overdrafts	(26,471)	–
Bank deposits pledged	(775)	(1,940)
Quoted investments	11,068	–
	275,089	346,524

22. COMMITMENTS

(a) Operating lease commitments

At 31 December 1997 the Group had commitments under non-cancellable operating leases in respect of office and shop premises to make payments in the next year as follows:–

	1997	Group
	HK\$'000	1996
		HK\$'000
Operating leases expiring		
– within one year	35,012	21,269
– in the second to fifth years inclusive	157,067	88,595
	<u>192,079</u>	<u>109,864</u>

(b) Capital commitments

At 31 December 1997 the Group had capital commitments in respect of acquisition of properties amounting to HK\$20,700,000 (1996: HK\$64,032,000), which are contracted but not provided for in the accounts.

23. PLEDGE OF ASSETS

At 31 December 1997 the Group's bank loans of HK\$237,979,000 (1996: HK\$105,832,000) were secured by all the investment properties and land and buildings in Hong Kong held by the Group with a total net book value of HK\$436,459,000 (1996: HK\$209,555,000) (*note 11(d)*).

In addition, the Group's bank deposits amounting to HK\$775,000 (1996: HK\$1,940,000) were pledged to certain banks for bank guarantees in respect of leasing of certain premises (*note 13*).

Name	Place/ country of incorporation establishment and operation	Issued and fully paid share capital/ registered capital	Attribut- able equity interest %	Principal activities
Subsidiaries				
<i>– directly held by the Company</i>				
Astra Profits Limited	British Virgin Islands	Ordinary US\$4	100	Investment holding
<i>– indirectly held by the Company</i>				
Goldlane Management Limited	Hong Kong	Ordinary HK\$2	100	Property management
Midland (China) Property Development Limited <i>(Note (a))</i>	Hong Kong	Ordinary HK\$5,000,000	80	Property agent
Midland International Property Agency Limited	Hong Kong	Ordinary	100	Property agent
Midland Overseas Property Agency Limited	Hong Kong	Ordinary HK\$500,000	100	Dormant
Midland Property (China) Limited	Hong Kong	Ordinary HK\$500,000	100	Investment holding
Midland Property Consultants Limited	Hong Kong	Ordinary HK\$100,000	100	Dormant
Midland Property Management Company Limited	Hong Kong	Ordinary HK\$2	100	Property management
Midland Property (Overseas) Limited	Hong Kong	Ordinary HK\$2	100	Dormant
Midland Realty (Aberdeen) Limited	Hong Kong	Ordinary HK\$500,000	80	Property agent
Midland Realty (Comm.) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent

Name	Place/ country of incorporation establishment and operation	Issued and fully paid share capital/ registered capital	Attribut- able equity interest %	Principal activities
Midland Realty Consultancy (Shanghai) Co. Ltd. (Note (b))	The People's Republic of China	US\$1,000,000	100	Property agent
Midland Realty (DB) Limited	Hong Kong	Ordinary HK\$400,000	100	Property agent
Midland Realty (Fairview) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty (Ind.) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty International Limited	Hong Kong	Ordinary HK\$100,000	100	Property agent
Midland Realty (Kln Res.) Limited	Hong Kong	Ordinary HK\$800,000	90	Property agent
Midland Realty (Kornhill) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty (LKW) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty (North Point) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty (Shatin) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty (Strategic) Limited	Hong Kong	Ordinary HK\$10,000 Non-voting Deferred HK\$2,000,000	100	Investment holding
Midland Realty (Tai Po) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent

Name	Place/ country of incorporation establishment and operation	Issued and fully paid share capital/ registered capital	Attribut- able equity interest %	Principal activities
Midland Realty (TKS) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Realty (Tsuen Wan) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Corporate Agency Limited	Hong Kong	Ordinary HK\$2	100	Property management
Midland Realty (Whampoa) Limited	Hong Kong	Ordinary HK\$500,000	100	Property agent
Midland Surveyors Limited	Hong Kong	Ordinary HK\$500,000	100	Property valuer
Real Gain Limited	Hong Kong	Ordinary HK\$10,000	100	Property investment
Topco Management Limited	Hong Kong	Ordinary HK\$2	100	Property management
Welleson Management Limited	Hong Kong	Ordinary HK\$2	100	Property management
Worldboss Limited	Hong Kong	Ordinary HK\$2	100	Property investment
King Excellence Limited	Hong Kong	Ordinary HK\$2	100	Property management
Perfect Tower Limited	Hong Kong	Ordinary HK\$2	100	Property investment
City First Limited (<i>Note (c)</i>)	Hong Kong	Ordinary HK\$2	100	Property management
Best Chance Realty Limited (<i>Note (c)</i>)	Hong Kong	Ordinary HK\$2	100	Property investment
Midland Pacific Realty Limited (<i>Note (b) & (c)</i>)	Canada	Common CAD100	100	Trademark licensing
Systems Gold Limited (<i>Note (c)</i>)	British Virgin Islands	Ordinary US\$1	100	Property management

Name	Place/ country of incorporation establishment and operation	Issued and fully paid share capital/ registered capital	Attribut- able equity interest %	Principal activities
Frankwell Limited (<i>Note (c)</i>)	British Virgin Islands	Ordinary US\$1	100	Property management
Golden Forrest Limited (<i>Note (c)</i>)	British Virgin Islands	Ordinary US\$1	100	Property management
Global Strategy Limited (<i>Note (c)</i>)	British Virgin Islands	Ordinary US\$1	100	Property management
Wordstar Limited (<i>Note (c)</i>)	British Virgin Islands	Ordinary US\$1	100	Property management

Associated company

– indirectly held by the Company

Midland (Guangzhou) Real Estate Consultants Ltd. (<i>Note (b)</i>)	The People's Republic of China	HK\$5,000,000	56	Property agent
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Notes:

- (a) The Group acquired an additional interest of 10 per cent. in this subsidiary at a consideration of HK\$1 during the year.
- (b) These subsidiaries and associated company are not audited by Coopers & Lybrand, Hong Kong. The net assets of which amounted to 1 per cent. of the Group's total net assets.
- (c) These were subsidiaries set up/acquired during the year.

LIST OF INVESTMENT PROPERTIES

31 December 1997

	Location	Existing use	Lease term	Approximate gross floor area.	Group's interest
1.	Shop No. 2 on Lower Ground Floor Braemar Hill Shopping Centre No. 45 Braemar Hill Road Hong Kong	Commercial	Long	675 sq.ft.	100%
2.	Ground Floor (Flat A4 on G/F) Tor (Dor) Po Mansion No. 963 King's Road Hong Kong	Commercial	Long	450 sq.ft.	100%
3.	Shop No. 4 on Ground Floor Southern Building Nos. 257-273 King's Road Hong Kong	Commercial	Long	700 sq.ft.	100%
4.	Unit No. 87 on LG/F Koway Plaza Koway Court No. 111 Chai Wan Road Hong Kong	Commercial	Long	300 sq.ft.	100%
5.	Unit No. G34 on Ground Floor Peninsula Centre No. 67 Mody Road Kowloon	Commercial	Long	550 sq.ft.	100%
6.	Shop No. 50 Cheerful Garden No. 23 Siu Sai Wan Road Hong Kong	Commercial	Medium	498 sq.ft.	100%
7.	Shop No. 80 Harmony Garden No. 9 Siu Sai Wan Road Hong Kong	Commercial	Medium	625 sq.ft.	100%
8.	Shop B on G/F Ho King Building Nos. 35 & 37 Po Kong Village Road Kowloon	Commercial	Medium	850 sq.ft.	100%

LIST OF INVESTMENT PROPERTIES

31 December 1997

	Location	Existing use	Lease term	Approximate gross floor area	Group's interest
9.	Shop J on Ground Floor Kin Tak House Nos. 93, 95, 99, 101, 103, 105, 107, 109, 111, 113, 115 Hip Wo Street Kowloon	Commercial	Medium	564 sq.ft.	100%
10.	Portion B of Shop No. 110 on the car park level 1 of Podium C of Riviera Gardens Nos. 2-12 Yi Hong Street & Nos. 7-9 Yi Lok Street Tsuen Wan New Territories	Commercial	Medium	432 sq.ft.	100%
11.	Shop 2 on Level 1 & open yard of the Podium Greenland Garden No. 15 Shek Pai Tau Road Tuen Mun New Territories	Commercial	Medium	372 sq.ft.	100%
12.	Commercial Unit 15 on G/F Carado Garden Nos. 20-30 Tin Sam Street Shatin New Territories	Commercial	Medium	515 sq.ft.	100%
13.	Shop A on G/F including a lavatory Chu Po Building Nos. 117/125 Wo Tong Tsui Street Kwai Chung New Territories	Commercial	Medium	700 sq.ft.	100%
* 14.	Clinic Premises on the Ground Floor of Commercial Block B Pokfulam Gardens No. 180 Pok Fu Lam Road Hong Kong	Commercial	Short	600 sq.ft.	100%

* *The directors have intention to negotiate with the HKSAR Government for renewal of lease term of this property upon its expiry.*