

Annual Report 2003

Affluent Year of SUCCESS

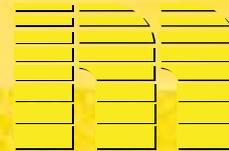


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Midland Realty (Holdings) Limited

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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

◆ 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

DBS Bank (Hong Kong) Limited
International Bank of Asia Limited
Standard Bank Asia Limited
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

◆ WEBSITE

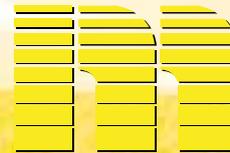
www.midland.com.hk

◆ STOCK CODE

1200

Midland Realty (Holdings) Limited

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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 11th May 2004 at 10:30 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 2003;
2. To declare a final dividend;
3. To re-elect Directors and to fix the Directors’ remuneration; and
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

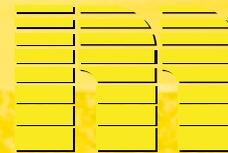
Hong Kong, 30th March 2004

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 Wednesday, 5th May 2004 to Tuesday, 11th May 2004 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 4th May 2004.

Midland Realty (Holdings) Limited

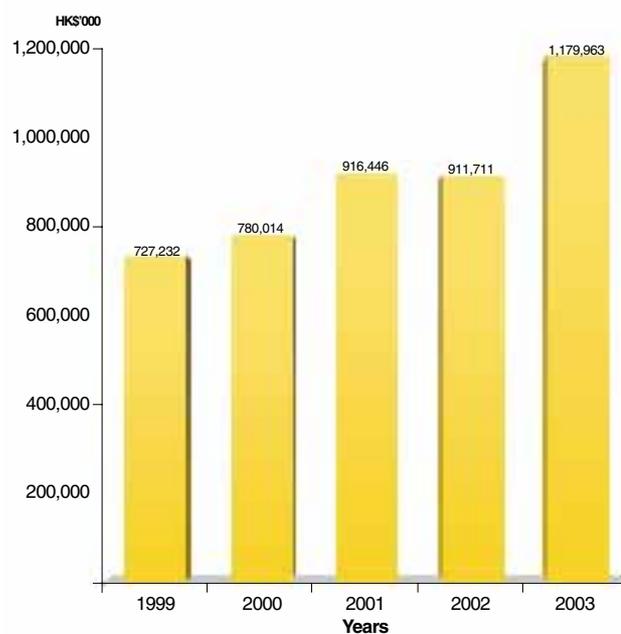
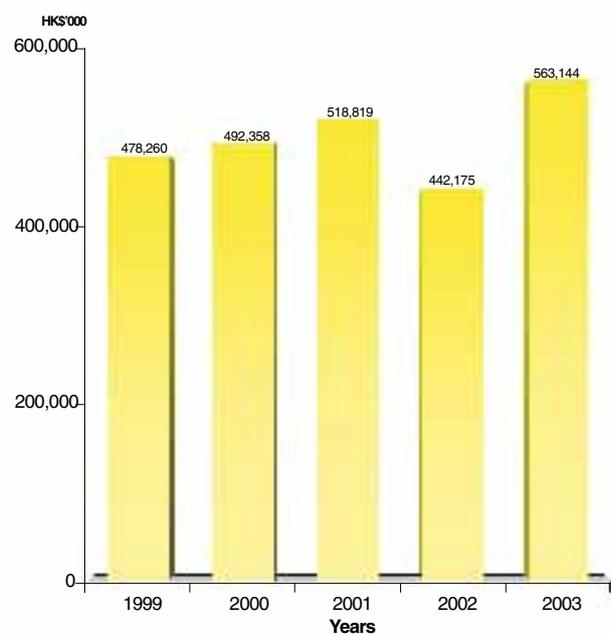
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Five Year Financial Summary

	Year ended 31st December				
	1999	2000	2001	2002 (restated)	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	727,232	780,014	916,446	911,711	1,179,963
Profit/(loss) attributable to shareholders	50,691	53,290	40,967	(73,725)	122,749
Total assets	742,185	945,303	952,109	703,690	1,013,415
Total liabilities	254,387	436,468	415,042	255,110	441,916
Minority interests	9,538	16,477	18,248	6,405	8,355
Net assets	478,260	492,358	518,819	442,175	563,144

The accounting policy on deferred taxation was changed in 2003 and the figures prior to 2002 have not been restated to reflect this change.



Net Assets

Turnover

Midland Realty (Holdings) Limited

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Chairman's Statement



WONG Kin Yip, Freddie
Chairman and Managing Director

Review

Profit at 6-year High

The Group is pleased to report profit attributable to shareholders of HK\$122,749,000, the highest level in 6 years. In 2003, the Group had performed above expectation, with turnover surging 29% from the year before to HK\$1,179,963,000.

Last year, the Land Registry recorded 87,309 sales-and-purchase transactions in properties across the board, up only 1.6% from 2002. Despite the slight overall increase in activity level, the Group had a bumper year. Our agents brokered 42,302 transactions, 13% more than in 2002, definitely outperforming the market. During the year, robust sales in the luxury residential market had contributed considerably to the Group's rising income.

Win with Foresight

With 31 years of industry experience to back it, senior management has a knack to spot the market trend and catch opportunities despite ever-changing market conditions. Branches were opened and the sales force expanded in a timely manner. In line with the wisdom of seeking opportunity in times of crisis, the Group anticipated the market to turn around after Easter, despite its drastic plunge in the first half of 2003. Arrangements were made to expand the branch network and to strengthen marketing and staff training. Armed with an obvious increase in the number of outlets, the Group was able to ride the wave up later in the year and took a considerable share of the increase in market activities.

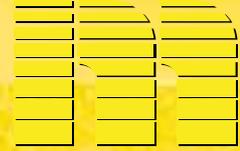
TV Commercials Snatch Market Share

The Group has been reaffirming its leading position in the industry over the years. Unable to overcome the recent downturn, many small to mid-sized real estate agencies were being phased out. Before competitors could muster the resources to expand, the Group seized the chance to launch a mass media campaign. As a result, we were able to gain an even greater market share than at the peak of the property boom in 1997. Meanwhile, the Group had set aside more budget to market its brand name, with the obvious objective of establishing a leading position and gaining market share.

Last year, the Group had the honor once again of being named a Superbrands. Using a series of advertisements that featured a positive market outlook, the Group was able to win public acceptance as a leader for the industry. We did not hesitate to invest in a series of TV commercials and arranged for prime time airing. As a result, we were able to raise further public awareness for the Company and reinforce the concept that "Midland Realty" would be a primary choice among real estate agencies.

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Chairman's Statement

The Group's good results last year were a reflection of its top position in the industry. As the property market gradually climbed from the trough, activity increased in the secondary market. When choosing an agency, many consumers will tend to pick one with credibility, abundant listings and a large pool of clientele. As a property brokerage with such resources, the Group was able to increase its market share.



Midland Realty was awarded Superbrands status again in 2003.



Renowned investors attended the opening ceremony of our first flag-ship store.

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Chairman's Statement



Senior management has contributed considerably to the group's developments over the years.



Midland Realty has been aggressively increasing its sale force and expanding its branch network.

Outlook

2004 to be a Bumper Year

The Group believes that consumer confidence will increase as economic conditions improved. As it is, unemployment has shown signs of letting up, while such policies as the solo traveler scheme for mainland Chinese and the Closer Economic Partnership Agreement have had the immediate effect of stimulating a recovery. Hong Kong's property prices have been climbing after hitting the trough. We believe that the market is about to enter a bull cycle any time.

Low Base Leaves Room for Rising Price Trend

As we see it, although having climbed some 45% from the abyss last April, with mortgage payments averaging only 23% of a household's monthly income, home prices still are at a low affordable base. Moreover, the Government has changed its policy in support of the property market. Hong Kongers still will find homes fairly affordable, thus leaving room for prices to rise. We foresee more trading-up activities this year to keep the market buoyant in the coming year.

Demand to Lend More Support

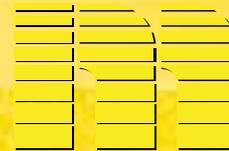
Demand for property is on the rise, notably in the luxury residential sector and retail properties. A number of investors also have been drawn to the market. The Government's decision to resume limited land sales will have a direct bearing on satisfying overseas demand. According to the schedule for outlining developable land, luxury residential sites will be limited and hardly enough to meet demand.



Midland Realty joined force with 17 developers to promote the Capital Investment Entrant Scheme.

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Chairman's Statement

Reaffirming the Flagship-Store Concept

Recognizing the positive outlook for retail properties, the Group is developing a flagship-store network to pounce on market opportunities. With management and staff pulling together, we are pleased to report some fine results so far. In the first quarter this year, the Commercial and Retail Property Division brokered exclusively quite a number of large-scale transactions, including three whole floors and the lobby area of the Mongkok Computer Centre. At a HK\$400 million, this was undoubtedly the most significant transaction of this type in that period. In addition, the Group also brokered

the sale of the first floor of the Hankow Centre in Tsimshatsui for HK\$270 million. In fact, we find the flagship store concept so successful with retail properties that we plan to extend it to other sectors.

Increase Mass Marketing, Raise Awareness to Stay Ahead

To expand its market share, the Group will increase advertising and promotion expenditure, such as, continuing with TV commercials. Moreover, for the first time, the Group will work with the Hong Kong Jockey Club in June to sponsor the "Midland Realty Cup". The event surely will raise public awareness for the Midland Realty name and sharpen its competitive edge. More than that, a competition will be held simultaneously within the sales force to boost morale and raise sales, with the ultimate objective of lifting the Group's market share by between 5% to 10%.

Improve Training, Increase Recruitment

Over the years, the Group has been regarded as a pioneer in training real estate agents. It is an unwavering belief among senior management that outstanding human resources are important Group assets. Using a diverse range of training programs, we have been improving our service standards. Recently, the Group increased the floor space of its training facilities by 300%, expressing in no uncertain terms its commitment to staff education. Quite a number of these training centers are running on full steam. These include Central's World-wide House and Bank of America Tower, and Grand Tower and Prosperity Centre in Mongkok.

On the Alert for Opportunities

While the outlook on the property market may be rosy, the Group still keeps a close tab on latest changes in the business environment and maintains a cautiously optimistic view.



In 2003, the group anticipated the market to turn around after Easter.

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Chairman's Statement

Despite the current upturn, the real estate broking industry is faced with a number of challenges. The Group is ever on the ready to face any challenge, notably, the reduction of commission rate for primary-market sales. In recent years, commission from new homes has become quite a significant income stream among real estate agencies as most major developers relied on them to help sell newly developed projects. With a number of developers reducing their commission payout rate to real

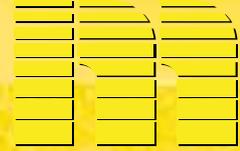
estate agencies earlier on in 2004, the real estate broking industry will feel the pinch. Take the Group, for instance, in the 12 months ended 31st December 2003, the commission income from developers in local residential market made up 52% of total income. However, rising property prices in both the primary and secondary sectors are likely to moderate the negative impact from the commission rate reduction, we believe.



As an industry leader, Midland Realty continues to put effort on brand building.

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Chairman's Statement

Control Costs to Continue Expansion

As a major industry participant, the Group will have to keep growing, especially if market activity rises. The Group plans to open more outlets, invest more in human resources development, and spend more to promote the branches and the company name. Although the budget will expand as we recruit more workers and as rents and operating costs in the branches climb, we shall stay committed to keeping costs at a reasonable level.

WONG Kin Yip, Freddie
Chairman and Managing Director

Hong Kong, 30th March 2004

Midland Realty (Holdings) Limited

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Management Discussion and Analysis

Liquidity, Financial Resources and Funding

As at 31st December 2003, the Group had bank balances and cash of HK\$373,430,000, whilst bank loans and overdrafts amounted to HK\$47,069,000. 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\$109,643,000 and with maturity profile set out as follows:

Repayable	<i>HK\$'000</i>
Within 1 year	26,425
After 1 year but within 2 years	11,797
After 2 years but within 5 years	8,847

The Group had unutilised banking facilities amounting to HK\$94,732,000 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 2003, the gearing ratio of the Group was 8%. 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

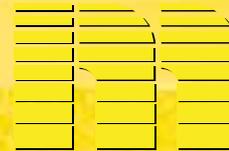
The Company has acquired 7,664,000 shares of Chun Wo Holdings Limited ("Chun Wo"), a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a total consideration including expenses of HK\$2,183,368 in 2003. Subsequent to 31st December 2003, the Group further acquired, in aggregate, 66,258,000 shares of Chun Wo for a total consideration of HK\$72,180,500. Taking into account 7,664,000 shares of Chun Wo held by the Group at 31st December 2003, the Group held in aggregate 73,922,000 shares of Chun Wo, representing approximately 10.20% of issued capital of Chun Wo.

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.

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Management Discussion and Analysis

Staff and Remuneration Policies

As at 31st December 2003, the Group employed 3,684* full time employees of which 3,280 were sales agents and 404 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.

* Including the employees employed by the jointly controlled entities of the Group.

Serving the Community

Established in 2000, Midland Charity Club aims at initiating the staff of the Group to actively participate in charitable activities so as to repay the society and to create a "beautiful" and "benevolent" life. During 2003, with the support of the Group and our colleagues, we completed more than 10 volunteer programmes, the target groups of which ranged from kids to senior citizens. Activities in 2003 included visits, outdoors tours, charity walk and children's drawing competition, which contributed to the well-being of the societies and provided support to people in need. During the SARS period, we launched fund raising activity within the Group for purchasing anti-SARS products for the senior citizens and the poor. The genuine efforts and contribution of Midland Charity Club to a better society were recognized by a number community organizations as well as governmental organizations. Midland Charity Club will continue initiatives in the years ahead, in line with its founding objective – "Better to give than to take".

Midland Realty (Holdings) Limited

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Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

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 31 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 27.

The directors have declared an interim dividend of HK\$0.015 per ordinary share, totalling HK\$10,547,000 was paid on 15th October 2003.

The directors recommend the payment of a final dividend of HK\$0.05 per ordinary share totalling HK\$35,220,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$90,000.

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 83 and 84.

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 21 to the accounts.

Distributable Reserves

At 31st December 2003, the reserves of the Company available for distribution, net of dividends paid and proposed, amounted to HK\$287,133,000.

Five Year Financial Summary

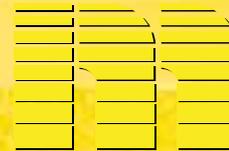
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

Purchase, Sale or Redemption of Shares

During the year, 620,000 ordinary shares of HK\$0.10 each of the Company were purchased by the Company at prices ranging from HK\$0.54 to HK\$0.55 per share through the Stock Exchange. Details of the share purchase are set out in note 21(b) to the accounts. The directors consider the share purchase will lead to an enhancement of the Group's earnings per share.

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Report of the Directors

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

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 Bye-law 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

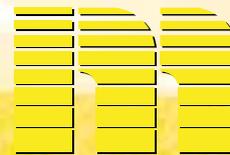
Mr WONG Kin Yip, Freddie, aged 54, is the founder and chairman of the Company. He established the Group in 1973 and is responsible for the strategic management, human resources management, marketing management, financial management and sales force management of the Group. Furthermore, he is also responsible 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 31 years of experience in the real estate broking business in overseas, China and Hong Kong. He was appointed as the chairman and the managing director of the Company.

Ms IP Kit Yee, Kitty, aged 44, 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.

Mr CHEUNG Kam Shing, aged 40, 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 17 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.

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Report of the Directors

Ms LAM Fung Fong, aged 42, has been appointed as the executive director of the Company since January 2002. She has over 18 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, company secretarial and property administration functions of the Group. Ms LAM joined the Group in 1995.

Independent non-executive directors

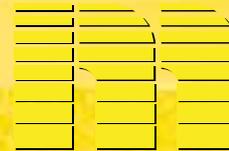
Mr AU Son Yiu, aged 59, has extensive experience in the securities industry. He is a director of The Association of Former Council Members of The Stock Exchange of Hong Kong Limited and The Institute of Securities Dealers Limited, a consultant to Dao Heng Securities Limited and member of the Election 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 57, 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 53, 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 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 HKSAR in 1999. Mr KAN was appointed as a member of GPPCC of China for the Eighth Term and the Ninth Term since January 1999. Recently, Mr KAN was appointed as the Justice of Peace on the 1st July 2003 by the Chief Executive of HKSAR. Mr KAN was also appointed as a Member of Town Planning Board by the Chief Executive of HKSAR with effect from 1st April 2004. He was appointed as an independent non-executive director of the Company in October 1994.

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Report of the Directors

Mr LAI Dominic, aged 57, 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 Kin Chu, Harry, aged 34, LL.M., is the company secretary of the Company. Mr CHAN is responsible for overseeing the divisions providing legal advisory and company secretarial services to the Group with participation in business development of 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 40, 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 formulating strategy and overseeing the operation of 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 40, 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.

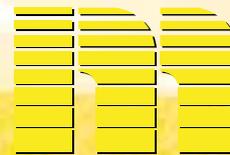
Mr LAW Kwok On, aged 43, is a director of Midland Realty (Kln Res.) Limited, a subsidiary of the Company. He is a director of the Group's sales operation, and is responsible for overseeing the divisions dealing with residential property broking in Kowloon. Mr LAW holds a Diploma in Business Management. 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.

Mr PO Siu Ming, aged 37, 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 43, joined the Group in April 1998 and has been appointed as a sales director of Hong Kong Property Services (Agency) Limited, 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.

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Report of the Directors

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

As at 31st December 2003, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

	Number of shares/underlying shares held			Percentage of shareholding
	Personal interests	Corporate interests	Family interests	
Mr WONG Kin Yip, Freddie	14,398,000 (note (a))	162,488,000 (note (b))	–	25.16%
Ms IP Kit Yee, Kitty	810,000 (note (c))	–	–	0.12%
Mr CHEUNG Kam Shing	321,000 (note (d))	–	–	0.05%
Ms LAM Fung Fong	575,000 (note (e))	–	685,000 (note (f))	0.18%

Notes:

- (a) These shares are held by Mr WONG Kin Yip, Freddie as beneficial owner.
- (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) The personal interest of Ms IP Kit Yee, Kitty comprises 310,000 shares and 500,000 underlying shares in respect of share options granted by the Company to her, the details of which are stated in the following section "Share Options". The aforesaid interest is held by Ms IP Kit Yee, Kitty as beneficial owner.
- (d) These shares are held by Mr CHEUNG Kam Shing as beneficial owner.
- (e) The personal interest of Ms LAM Fung Fong comprises 75,000 shares and 500,000 underlying shares in respect of share options granted by the Company to her, the details of which are stated in the following section "Share Options". The aforesaid interest is held by Ms LAM Fung Fong as beneficial owner.
- (f) These shares are held by the spouse of Ms LAM Fung Fong.

Subsequent to 31st December 2003, Mr WONG Kin Yip, Freddie and through Sunluck Services Limited had disposed of 1,898,000 shares and 45,384,000 shares respectively, totalling 47,282,000 shares, at an average price of HK\$2.287 per share.

Midland Realty (Holdings) Limited

2003 Annual Report



Report of the Directors

Directors' Interests in Equity or Debt Securities *(continued)*

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, at as 31st December 2003, none of the Directors or the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Share Option Scheme

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.

Midland Realty (Holdings) Limited

2003 Annual Report



Report of the Directors

Share Option Scheme *(continued)*

(3) Total number of shares available for issue

Total number of shares available for issue are 59,618,900, representing approximately 8.46% of the issued share capital of the Company as at the date of this report.

(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 1% of the shares in issue.

(5) Time of exercise of option

An option may be exercised in accordance with the terms of the 2002 Share 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 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:

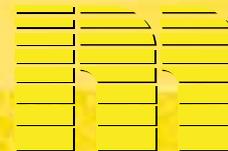
- (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer;
- (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer; and
- (iii) 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

2003 Annual Report



Report of the Directors

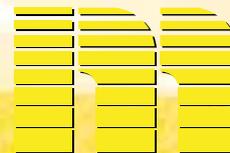
Share Option Scheme (continued)

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:

Name	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2003	Options exercised during the year	Options lapsed during the year	Balance outstanding as at 31st December 2003	Exercisable period
Directors							
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	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	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>3,125,000</u>	<u>825,000</u>	<u>1,300,000</u>	<u>1,000,000</u>	

Midland Realty (Holdings) Limited

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Report of the Directors

Share Option Scheme (continued)

	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2003	Options exercised during the year	Options lapsed during the year	Balance outstanding as at 31st December 2003	Exercisable period
Continuous contract employees							
	1st March 1998	1.30	1,443,000	–	1,443,000 [#]	–	1st March 2000 to 1st March 2003
	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>3,343,000</u>	<u>–</u>	<u>3,043,000</u>	<u>300,000</u>	
Total for directors and continuous contract employees			<u>6,468,000</u>	<u>825,000</u>	<u>4,343,000</u>	<u>1,300,000</u>	

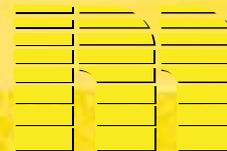
[#] During the year ended 31st December 2003, 4,343,000 share options were lapsed in accordance with the terms of 1995 Share Option Scheme.

^{*} Share options were exercised on 26th January 2004.

^{**} Share options were exercised on 21st January 2004.

Midland Realty (Holdings) Limited

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Report of the Directors

Share Option Scheme (continued)

Particulars and movements of share options outstanding during the year under the 2002 Share Option Scheme are as follows:

	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2003	Options granted during the year	Options exercised during the year	Options lapsed during the year	Balance outstanding as at 31st December 2003	Exercisable period
Continuous contract employee	9th June 2003	0.53	–	6,500,000	6,500,000	–	–	9th June 2003 to 8th June 2006
Consultant	9th June 2003	0.53	–	6,500,000	6,500,000	–	–	9th June 2003 to 8th June 2006
Total			–	13,000,000	13,000,000	–	–	

Midland Realty (Holdings) Limited

2003 Annual Report



Report of the Directors

Valuation of Share Options

The share options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange states that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to participants as referred to in (i) to (v) of Rules 17.07 during the financial year/period. The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

Interests of Other Persons Discloseable Under the SFO

As at 31st December 2003, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the directors or chief executive of the Company, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

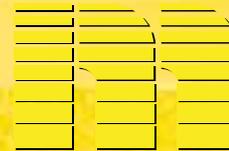
Name	Number of shares	Percentage of shareholding
Sunluck Services Limited	162,488,000	23.11% (note (a))
Southern Field Trading Limited	162,488,000	23.11% (note (b))
Arisaig Greater China Fund	83,818,000	11.92% (note (c))
Arisaig Partners (Mauritius) Limited	83,818,000	11.92% (note (d))
Lindsay William Ernest Cooper	83,818,000	11.92% (note (e))
J.P. Morgan Chase & Co.	46,606,000	6.63% (note (f))
Universities Superannuation Scheme Limited	37,950,000	5.40% (note (g))

Notes:

- (a) These shares are held by Sunluck Services Limited as beneficial owner and duplicate the interest held by Mr WONG Kin Yip, Freddie in the Company.
- (b) Sunluck Services Limited is a wholly owned subsidiary of Southern Field Trading Limited and Southern Field Trading Limited is accordingly taken to have an interest in the 162,488,000 shares in which Sunluck Services Limited is interested. The interest of Southern Field Trading Limited in the Company duplicate those of Mr WONG Kin Yip, Freddie and Sunluck Services Limited.
- (c) These shares are held by Arisaig Greater China Fund as beneficial owner.
- (d) These shares are held by Arisaig Partners (Mauritius) Limited as the investment manager of Arisaig Greater China Fund and duplicate the interest held by Arisaig Greater China Fund in the Company.
- (e) Arisaig Partners (Mauritius) Limited is indirectly owned as to 33.33% by Lindsay William Ernest Cooper and Lindsay William Ernest Cooper is accordingly taken to have an interest in the 83,818,000 shares in which Arisaig Partners (Mauritius) Limited is interested. The interest of Lindsay William Ernest Cooper in the Company duplicates those of Arisaig Greater China Fund and Arisaig Partners (Mauritius) Limited.
- (f) The interest of J.P. Morgan Chase & Co. comprises 40,880,000 shares held in a lending pool and 5,726,000 shares held as investment manager.
- (g) Universities Superannuation Scheme Limited is holding the 37,950,000 shares as trustee.

Midland Realty (Holdings) Limited

2003 Annual Report



Report of the Directors

Interests of Other Persons Discloseable Under the SFO *(continued)*

All the interests disclosed above (save and except those 40,880,000 shares held by J.P. Morgan Chase & Co. in a lending pool) represent long position in the shares of the Company.

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. Sales to the five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 8%.

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 2003 are set out in note 31 to the accounts.

Bank Loans, Overdrafts and Other Borrowings

An analysis of bank loans and overdrafts at 31st December 2003 is set out in note 23 to the accounts.

Apart from the above, the Group has no other borrowings at 31st December 2003.

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.

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. The principal duties of the committee include the review and supervision of the Company's financial reporting process and internal controls. 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.

Midland Realty (Holdings) Limited

2003 Annual Report



Report of the Directors

Directors' Interest in Competing Business

None of 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, 30th March 2004

Auditors' Report

PRICEWATERHOUSECOOPERS 

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 27 to 82 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

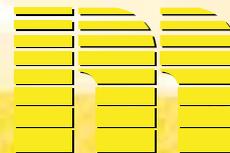
In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30th March 2004

Midland Realty (Holdings) Limited

2003 Annual Report



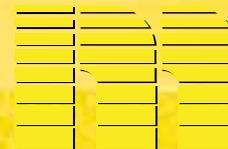
Consolidated Profit and Loss Account

For the year ended 31st December 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (restated)
Turnover	2	1,179,963	911,711
Other revenues	2	6,529	11,834
		1,186,492	923,545
Operating costs		(1,036,351)	(888,725)
Surplus/(deficits) arising on revaluation of			
Investment properties	13	670	(3,160)
Other properties	13	–	(99,880)
Operating profit/(loss)	3	150,811	(68,220)
Finance costs	5	(1,122)	(5,871)
Share of profits less losses of jointly controlled entities		1,796	3,212
Profit/(loss) before taxation		151,485	(70,879)
Taxation	6	(26,786)	(1,919)
Profit/(loss) after taxation		124,699	(72,798)
Minority interests		(1,950)	(927)
Profit/(loss) attributable to shareholders	7 & 22	122,749	(73,725)
Dividends	8	45,767	40,893
Basic earnings/(loss) per share	9	HK17.8 cents	(HK12.3 cents)
Diluted earnings per share	9	HK17.7 cents	N/A

Midland Realty (Holdings) Limited

2003 Annual Report



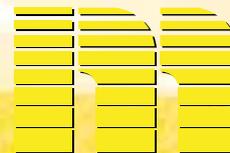
Consolidated Balance Sheet

As at 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000 (restated)
Non-current assets			
Fixed assets	13	136,682	157,650
Investments in jointly controlled entities	15	7,569	8,243
Investments in securities	16	2,184	–
Deferred tax assets	24	9,798	8,533
		<u>156,233</u>	<u>174,426</u>
Current assets			
Accounts receivable	17	424,237	201,467
Other receivables, prepayments and deposits	18	59,504	82,468
Trading investments	19	11	31,500
Tax recoverable		–	1,853
Bank balances and cash		373,430	211,976
		<u>857,182</u>	<u>529,264</u>
Current liabilities			
Accounts payable	20	225,708	91,201
Other payables and accrued charges		146,457	73,931
Current portion of long-term bank loans – secured	23	11,796	16,067
Taxation payable		22,048	–
Bank overdrafts	23	14,629	29,369
		<u>420,638</u>	<u>210,568</u>
Net current assets		<u>436,544</u>	<u>318,696</u>
Total assets less current liabilities		<u>592,777</u>	<u>493,122</u>
Financed by:			
Share capital	21	70,309	60,945
Reserves	22	457,615	343,321
Proposed dividend	22	35,220	3,446
Proposed special cash bonus	22	–	34,463
Shareholders' funds		563,144	442,175
Minority interests		8,355	6,405
Non-current liabilities			
Long-term bank loans – secured	23	20,644	44,459
Deferred tax liabilities	24	634	83
		<u>592,777</u>	<u>493,122</u>
WONG Kin Yip, Freddie		LAM Fung Fong	
Director		Director	

Midland Realty (Holdings) Limited

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Balance Sheet

As at 31st December 2003

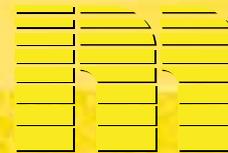
	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	<i>14</i>	504,357	472,534
Investments in securities	<i>16</i>	2,184	–
		<u>506,541</u>	<u>472,534</u>
Current assets			
Other receivables, prepayments and deposits		123	466
Trading investments	<i>19</i>	11	13
Tax recoverable		51	43
Bank balances and cash		30,065	54,788
		<u>30,250</u>	<u>55,310</u>
Current liabilities			
Other payables and accrued charges		10,943	1,495
		<u>10,943</u>	<u>1,495</u>
Net current assets			
		<u>19,307</u>	<u>53,815</u>
Total assets less current liabilities			
		<u>525,848</u>	<u>526,349</u>
Financed by:			
Share capital	<i>21</i>	70,309	60,945
Reserves	<i>22</i>	420,319	427,495
Proposed dividend	<i>22</i>	35,220	3,446
Proposed special cash bonus	<i>22</i>	–	34,463
		<u>525,848</u>	<u>526,349</u>
Shareholders' funds			
		<u>525,848</u>	<u>526,349</u>

WONG Kin Yip, Freddie
Director

LAM Fung Fong
Director

Midland Realty (Holdings) Limited

2003 Annual Report



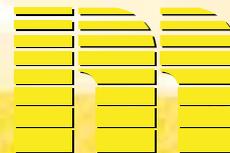
Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (restated)
Total equity at 1st January, as previously reported		432,744	518,819
Effect of change in accounting policy	<i>1(n)</i>	<u>9,431</u>	<u>4,327</u>
Total equity at 1st January, as restated		442,175	523,146
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	22	111	129
Profit/(loss) attributable to shareholders	22	122,749	(73,725)
Reserves transferred to consolidated profit and loss account upon revaluation of other properties	22	–	(220)
Dividends	22	(48,456)	(13,706)
Exercise of share options	<i>21 & 22</i>	7,300	–
Exercise of warrants	<i>21 & 22</i>	40,611	10,032
Reserves transferred to consolidated profit and loss account upon expiry of warrants	22	(591)	–
Purchase of own shares	<i>21 & 22</i>	<u>(755)</u>	<u>(3,481)</u>
Total equity as at 31st December		<u>563,144</u>	<u>442,175</u>

Midland Realty (Holdings) Limited

2003 Annual Report



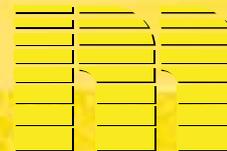
Consolidated Cash Flow Statement

For the year ended 31st December 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash flows from operating activities			
Cash generated from operations	25(a)	166,755	44,743
Interest paid		(1,122)	(5,871)
Hong Kong profits tax paid		(2,918)	(14,783)
Overseas taxation paid		(168)	(107)
		<u>162,547</u>	<u>23,982</u>
Net cash from operating activities			
Cash flows from investing activities			
Purchase of fixed assets		(11,774)	(6,626)
Proceeds from disposal of fixed assets		19,606	26,600
Interest received		2,424	4,623
Purchase of trading investments			
– listed corporate bonds		–	(32,571)
– listed shares		(112)	–
Purchase of non-trading securities		(2,184)	–
Proceeds from disposal of trading investments			
– listed corporate bonds		32,997	13,279
– listed shares		119	–
Acquisition of a subsidiary, net of cash acquired	25(c) & (d)	(111)	1,569
Acquisition of additional interest in a subsidiary		–	(40,000)
(Advance to)/repayment from a jointly controlled entity		(1,043)	2,778
Repayment of loan from a jointly controlled entity		–	3,000
Dividend received from a jointly controlled entity		3,000	–
		<u>42,922</u>	<u>(27,348)</u>
Net cash from/(used in) investing activities			

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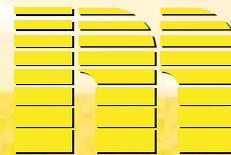
Consolidated Cash Flow Statement (continued)

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Cash flows from financing activities	25(b)		
Net proceeds from exercising of warrants		40,611	10,032
Exercise of share options		7,300	–
Purchase of own shares		(755)	(3,481)
Dividends paid		(48,456)	(13,706)
Redemption of convertible note		–	(70,000)
Repayment of bank loans		(28,086)	(65,289)
		<u>(29,386)</u>	<u>(142,444)</u>
Net cash used in financing activities		<u>(29,386)</u>	<u>(142,444)</u>
Net increase/(decrease) in cash and cash equivalents		176,083	(145,810)
Cash and cash equivalents at 1st January		182,620	328,353
Decrease in trading investments			
– listed equity securities		(2)	(14)
Effect of foreign exchange rate changes		111	91
		<u>109</u>	<u>(5)</u>
Cash and cash equivalents at 31st December		<u>358,812</u>	<u>182,620</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		373,430	211,976
Bank overdrafts		(14,629)	(29,369)
Trading investments – listed equity securities		11	13
		<u>358,812</u>	<u>182,620</u>

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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 Statement of Standard Accounting Practice (“SSAP”) 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The change to the Group’s accounting policy and the effect of adoption of the new SSAP 12 are set out in note 1(n) below.

(b) Consolidation

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

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

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

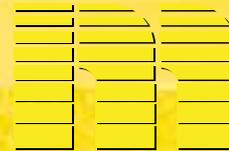
The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised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

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

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

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Notes to the Accounts

1. Principal accounting policies *(continued)*

(c) Jointly controlled entities

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

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

(d) Reserve arising on consolidation

Reserve arising on consolidation comprises:

(i) Capital reserve arising on shares exchange on merger

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

(ii) Goodwill/negative goodwill arising on acquisitions

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

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

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

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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.

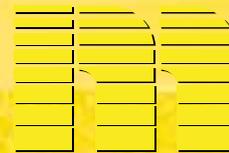
(e) Investment properties

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.

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Notes to the Accounts

1. Principal accounting policies *(continued)*

(e) Investment properties *(continued)*

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

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

(f) Other properties and fixed assets

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

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

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

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

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

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

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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) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

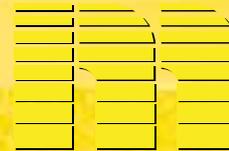
The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment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

(i) 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.

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Notes to the Accounts

1. Principal accounting policies *(continued)*

(j) 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.

(k) Cash and cash equivalents

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

(l) Contingent liabilities

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

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

(m) 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.

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Notes to the Accounts

1. Principal accounting policies *(continued)*

(m) Employee benefits *(continued)*

(iii) Equity compensation benefits

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

(n) Deferred taxation

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

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

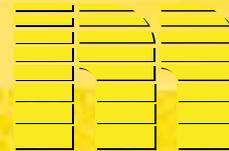
Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 22 to the accounts, opening retained earnings at 1st January 2003 and 2002 have been increased by HK\$9,431,000 and HK\$4,327,000, respectively, which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and a decrease in deferred tax liabilities at 31st December 2002 by HK\$8,533,000 and HK\$898,000 respectively, and a decrease in loss attributable to shareholders for the year ended 31st December 2002 by HK\$5,104,000.

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Notes to the Accounts

1. Principal accounting policies *(continued)*

(o) Translation of foreign currencies

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

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

(p) Revenue recognition

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

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

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

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

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

(q) Borrowing costs

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

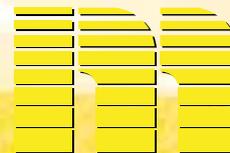
(r) Segment reporting

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.

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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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Agency fee revenue	1,179,963	911,711
Other revenues		
Bank interest income	2,424	4,502
Bond interest income	–	121
Gross rental income from investment properties	2,070	2,468
Web advertising income	618	1,617
Other services fee income	1,417	3,126
	6,529	11,834
Total revenues	1,186,492	923,545

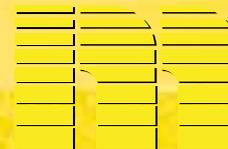
(b) Segment information

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

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

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Notes to the Accounts

2. Turnover, revenues and segment information (continued)

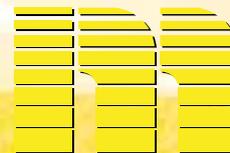
(b) Segment information (continued)

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

	2003					Total HK\$'000
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	
Turnover						
External sales	1,053,336	126,627	–	–	–	1,179,963
Other revenues						
External sales	–	–	2,070	2,035	–	4,105
Inter-segment sales	–	–	9,204	2,926	(12,130)	–
Segment revenues	<u>1,053,336</u>	<u>126,627</u>	<u>11,274</u>	<u>4,961</u>	<u>(12,130)</u>	<u>1,184,068</u>
Segment results	<u>122,760</u>	<u>20,874</u>	<u>8,343</u>	<u>(5,306)</u>	<u>30,035</u>	176,706
Unallocated costs						<u>(28,319)</u>
Operating profit before interest income and finance costs						148,387
Net finance income						1,302
Share of profits less losses of jointly controlled entities	(930)	–	–	2,726		<u>1,796</u>
Profit before taxation						151,485
Taxation						<u>(26,786)</u>
Profit after taxation						124,699
Minority interests						<u>(1,950)</u>
Profit attributable to shareholders						<u>122,749</u>

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Notes to the Accounts

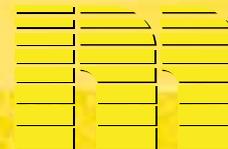
2. Turnover, revenues and segment information (continued)

(b) Segment information (continued)

	2003					Total HK\$'000
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	
Segment assets	474,325	58,692	72,953	7,952		613,922
Investments in jointly controlled entities	1,926	–	–	5,643		7,569
Unallocated assets						377,295
Total assets						<u>998,786</u>
Segment liabilities	321,095	37,783	829	1,011		360,718
Unallocated liabilities						<u>66,569</u>
Total liabilities						<u>427,287</u>
Capital expenditure	9,267	2,547	–	107		
Depreciation	9,187	613	3,422	417		
Impairment charges	1,003	–	–	–		
Other non-cash expenses/(income)	31,362	5,806	(670)	2		

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Notes to the Accounts

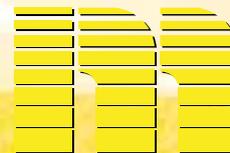
2. Turnover, revenues and segment information (continued)

(b) Segment information (continued)

	2002 (restated)					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		<u>3,212</u>
Loss before taxation						(70,879)
Taxation						<u>(1,919)</u>
Loss after taxation						(72,798)
Minority interests						<u>(927)</u>
Loss attributable to shareholders						<u>(73,725)</u>

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Notes to the Accounts

2. Turnover, revenues and segment information (continued)

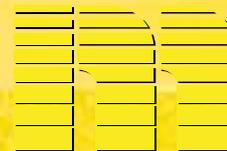
(b) Segment information (continued)

	2002 (restated)				Inter- segment elimination HK\$'000	Total HK\$'000
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000		
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						282,196
Total assets						<u>674,321</u>
Segment liabilities	148,435	13,145	1,016	718		163,314
Unallocated liabilities						62,427
Total liabilities						<u>225,741</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		

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.

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Notes to the Accounts

3. Operating profit/(loss)

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

	2003 HK\$'000	2002 HK\$'000
Crediting		
Amortisation of negative goodwill (<i>note 12</i>)	–	3,213
Net realised gains on disposal of trading investments	1,517	93
Charging		
Auditors' remuneration	1,200	1,144
Depreciation	13,639	16,571
Impairment of goodwill (<i>note 12</i>)	1,003	4,699
Loss on disposal of fixed assets	314	7,741
Net unrealised losses on trading investments	2	1,098
Operating leases in respect of land and buildings	85,015	90,854
Outgoings in respect of investment properties	72	3
Provision for bad and doubtful debts	37,170	20,170

4. Staff costs

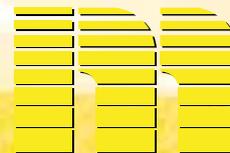
Staff costs (including directors' emoluments as disclosed in note 11) represents:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	287,771	272,768
Commissions	366,062	260,359
Retirement benefit costs (<i>note 10</i>)	17,384	19,389
	671,217	552,516

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

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Notes to the Accounts

5. Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	1,122	3,765
Interest on convertible note	—	2,106
	<u>1,122</u>	<u>5,871</u>

6. Taxation

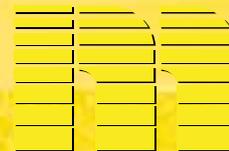
Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated 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:

	2003 HK\$'000	2002 HK\$'000 (restated)
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	28,249	9,260
Overseas taxation	168	113
Over provision in prior years	(1,430)	(3,718)
Deferred taxation relating to the origination and reversal of temporary differences (<i>note 24</i>)	78	(4,250)
Deferred taxation resulting from an increase in tax rate (<i>note 24</i>)	(792)	—
	<u>26,273</u>	<u>1,405</u>
Share of taxation attributable to jointly controlled entities	513	514
	<u>26,786</u>	<u>1,919</u>

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Notes to the Accounts

6. Taxation (continued)

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

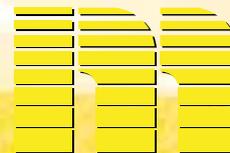
	2003 HK\$'000	2002 HK\$'000
Profit/(loss) before taxation	151,485	(70,879)
Calculated at a taxation rate of 17.5% (2002: 16%)	26,510	(11,341)
Effect of different taxation rates in other countries	(55)	(44)
Income not subject to taxation	(699)	(940)
Expenses not deductible for taxation purposes	1,934	14,236
Utilisation of previously unrecognised tax losses	(4,519)	(14)
Increase in opening net deferred tax assets resulting from an increase in tax rate	(792)	-
Temporary differences unrecognised	391	(40)
Tax losses not recognised	5,355	2,948
Others	(1,339)	(2,886)
Taxation charge	<u>26,786</u>	<u>1,919</u>

7. Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders for the year includes a profit of the Company to the extent of HK\$1,390,000 (2002: HK\$256,961,000).

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8. Dividends

	2003 HK\$'000	2002 HK\$'000
Interim, paid, of HK\$0.015 (2002: HK\$0.005) per ordinary share	10,547	2,998
Final, proposed of HK\$0.05 (2002: HK\$0.005) per ordinary share (<i>note</i>)	35,220	3,446
30th anniversary special cash bonus, proposed, of HK\$Nil (2002: HK\$0.050) per ordinary share	–	34,463
Adjustment to prior years' final dividends	–	(14)
	<u>45,767</u>	<u>40,893</u>

Note: At a meeting held on 30th March 2004, the directors declared a final dividend of HK\$0.05 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

9. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$122,749,000 (2002: loss attributable to shareholders of HK\$73,725,000 as restated) and the weighted average number of 691,464,000 (2002: 600,290,000) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2003 was based on the profit of HK\$122,749,000 and 695,137,000 ordinary shares which are the weighted average number of ordinary shares in issue during the year plus the weighted average of 3,673,000 ordinary shares deemed to be issued at no consideration if all outstanding warrants and options had been exercised.

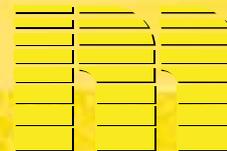
The diluted loss per share for the year ended 31st December 2002 was not presented as the conversion of warrants, options and convertible note was anti-dilutive.

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 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.

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Notes to the Accounts

10. Retirement benefit costs (continued)

The MPF scheme cost charged to the consolidated profit and loss account represents contributions payable by the Group to the fund. Contributions totalling HK\$2,919,000 (2002: HK\$1,818,000) which are payable to the fund are included in accounts payable as at 31st December 2003.

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

11. Directors' and senior management's emoluments

(a) Directors' emoluments

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

	2003 HK\$'000	2002 HK\$'000
Fees	240	240
Basic salaries, housing allowances and other allowances	18,361	17,236
Benefits in kind (note)	1,076	–
Discretionary bonuses	8,726	69
Contributions to MPF scheme for directors	48	48
	<u>28,451</u>	<u>17,593</u>

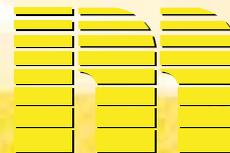
Note: On 30th September 2003, Mr CHEUNG Kam Shing, a director of the Company, in aggregate, exercised options for 825,000 shares at an exercise price of HK\$0.496 per share. The difference between the aggregate value of the Company's shares issued upon the exercise of these options at the exercise price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

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

Certain directors and senior management have been granted options to acquire ordinary shares of the Company under the Company's share option scheme. Details of which are set out in note 21(c).

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Notes to the Accounts

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

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emoluments bands <i>HK\$</i>	Number of directors	
	2003	2002
0 – 1,000,000	4	4
1,000,001 – 1,500,000	–	1
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
5,000,001 – 5,500,000	1	–
11,500,001 – 12,000,000	–	1
18,500,001 – 19,000,000	1	–
	<u>8</u>	<u>8</u>

No directors waived their emoluments in respect of the years ended 31st December 2003 and 2002.

(b) Five highest paid individuals

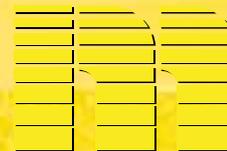
The five individuals whose emoluments were the highest in the Group for the year include four (2002: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2002: one) individual during the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries, housing allowances and other allowances	875	1,110
Benefits in kind (note)	4,305	–
Discretionary bonus	3,300	–
Contributions to MPF scheme	9	12
	<u>8,489</u>	<u>1,122</u>

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

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Notes to the Accounts

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

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

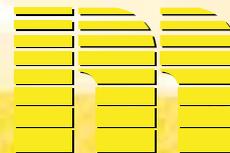
Emoluments bands <i>HK\$</i>	Number of individuals	
	2003	2002
1,000,001 – 1,500,000	–	1
8,000,001 – 8,500,000	1	–
	<u>1</u>	<u>–</u>

12. Intangible assets

	Group		
	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st December 2003			
Opening net book amount	–	–	–
Acquisition of a subsidiary (note 25(c))	1,003	–	1,003
Impairment charge (note 3)	(1,003)	–	(1,003)
	<u>–</u>	<u>–</u>	<u>–</u>
Closing book amount	–	–	–
At 31st December 2003			
Cost	5,702	(3,213)	2,489
Accumulated amortisation and impairment losses	(5,702)	3,213	(2,489)
	<u>–</u>	<u>–</u>	<u>–</u>
Net book amount	–	–	–
At 31st December 2002			
Cost	4,699	(3,213)	1,486
Accumulated amortisation and impairment losses	(4,699)	3,213	(1,486)
	<u>–</u>	<u>–</u>	<u>–</u>
Net book amount	–	–	–

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Notes to the Accounts

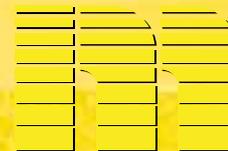
13. Fixed assets

	Group							
	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	Total HK\$'000
Cost or valuation:								
At 1st January 2003	14,140	8,300	117,183	56,545	15,925	93,806	2,487	308,386
Additions	-	-	-	6,188	1,581	4,005	-	11,774
Acquisition of a subsidiary	-	-	-	-	147	-	-	147
Transfer from other properties	1,690	-	(1,703)	-	-	-	-	(13)
Disposals	(2,100)	-	(16,998)	(4,653)	(936)	(6,716)	(31)	(31,434)
Revaluation surplus/(deficits)	770	(100)	-	-	-	-	-	670
At 31st December 2003	14,500	8,200	98,482 [#]	58,080	16,717	91,095	2,456	289,530
Accumulated depreciation and impairment:								
At 1st January 2003	-	-	-	52,897	13,702	81,850	2,287	150,736
Charge for the year	-	-	3,421	3,721	737	5,657	103	13,639
Reclassification	-	-	(13)	-	-	-	-	(13)
Disposals	-	-	(69)	(4,467)	(897)	(6,076)	(5)	(11,514)
At 31st December 2003	-	-	3,339	52,151	13,542	81,431	2,385	152,848
Net book value:								
At 31st December 2003	14,500	8,200	95,143	5,929	3,175	9,664	71	136,682
At 31st December 2002	14,140	8,300	117,183	3,648	2,223	11,956	200	157,650

[#] The carrying cost of other properties in Hong Kong at 31st December 2003 of HK\$98,482,000 (2002: HK\$117,183,000) includes an amount of HK\$8,394,000 (2002: HK\$11,898,000) transferred from investment properties.

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Notes to the Accounts

13. Fixed assets (continued)

The analysis of the cost or valuation at 31st December 2003 and 2002 of the above assets is as follows:

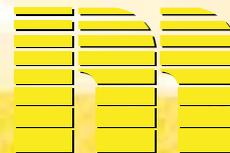
	Group							Total HK\$'000
	Investment properties in Hong Kong HK\$'000	Investment properties outside Hong Kong HK\$'000	Other properties in Hong Kong HK\$'000	Leasehold Improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	
At 31st December 2003:								
At cost	-	-	-	58,080	16,717	91,095	2,456	168,348
At 2002 professional valuation	-	-	98,482	-	-	-	-	98,482
At 2003 professional valuation	14,500	8,200	-	-	-	-	-	22,700
	<u>14,500</u>	<u>8,200</u>	<u>98,482</u>	<u>58,080</u>	<u>16,717</u>	<u>91,095</u>	<u>2,456</u>	<u>289,530</u>
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>

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

	Group	
	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	62,138	74,510
Leases of between 10 to 50 years	47,505	56,813
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	8,200	8,300
	<u>117,843</u>	<u>139,623</u>

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Notes to the Accounts

13. Fixed assets (continued)

Investment properties were revalued at 31st December 2003 on the basis of their open market value carried out by Mr Ronald Y.F. CHEUNG, a member of the Hong Kong Institute of Surveyors employed by the Group. The surplus arising on revaluation of investment properties at 31st December 2003 amounted to HK\$670,000 was credited to the consolidated profit and loss account. The deficit of arising on revaluation of investment properties at 31st December 2002 amounted to HK\$3,160,000 was charged to the consolidated profit and loss account.

Other properties were revalued at 31st December 2002 on the basis of their open market value carried out by Mr Ronald Y.F. CHEUNG, the deficit arising on revaluation of other properties as at 31st December 2002 amounted to HK\$100,100,000 was first offset against the other properties revaluation reserve of HK\$220,000 and the remaining balance of HK\$99,880,000 was charged to the consolidated profit and loss account. The directors reviewed the carrying value of the Group's other properties as at 31st December 2003 and are of the opinion that the fair value of other properties is not materially different from the carrying amount.

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\$178,894,000 (2002: HK\$216,665,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

At 31st December 2003, the net book value of investment properties and other properties pledged as security for the Group's long-term bank loans amounted to HK\$109,643,000 (2002: HK\$131,323,000) (note 23).

14. Investments in subsidiaries

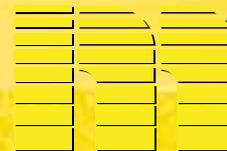
	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	108,501	108,501
Amounts due from subsidiaries	860,985	855,818
Amounts due to subsidiaries	(465,129)	(491,785)
	<u>504,357</u>	<u>472,534</u>

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 31 to the accounts.

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Notes to the Accounts

15. Investments in jointly controlled entities

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	6,372	8,089
Amount due from a jointly controlled entity	1,197	154
	<u>7,569</u>	<u>8,243</u>

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 31 to the accounts.

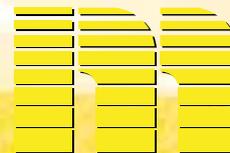
16. Investments in securities

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Equity securities listed in Hong Kong:		
At cost	<u>2,184</u>	<u>–</u>
At market value	<u>3,755</u>	<u>–</u>

Subsequent to 31st December 2003, the Group further acquired, in aggregate, 66,258,000 shares of Chun Wo Holdings Limited (“Chun Wo”), a company incorporated in Bermuda and listed in The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for a total consideration of HK\$72,180,500. Taking into account 7,664,000 shares of Chun Wo held by the Group at 31st December 2003, the Group held in aggregate 73,922,000 shares of Chun Wo, representing approximately 10.20% of issued capital of Chun Wo.

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Notes to the Accounts

17. Accounts receivable

The accounts receivable represents principally agency fee receivable from customers whereby no general credit facilities is available. The customers are obliged to settle the amounts due upon the completion of the relevant agreements. At 31st December 2003, the ageing analysis of the Group's accounts receivable is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not yet due	284,100	142,360
Within 30 days	66,569	30,919
31 – 60 days	41,943	11,203
61 – 90 days	13,115	10,506
Over 90 days	18,510	6,479
	<u>424,237</u>	<u>201,467</u>

18. Other receivables, prepayments and deposits

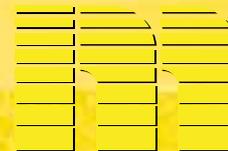
Included in other receivables, prepayments and deposits of the Group is a loan due from an officer as follows:

Name	Terms of the loan	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st December 2003 HK\$'000	Amount outstanding at 31st December 2002 HK\$'000
KWOK Ying Lung	Unsecured, interest free and repayable on demand	194	194	194

No provision has been made against the loan due from an officer together with any interest due as disclosed in the above.

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19. Trading investments

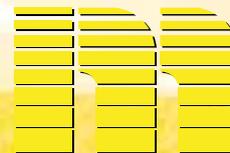
	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Corporate bonds – listed outside Hong Kong	–	31,487	–	–
Equity securities – listed in Hong Kong	11	13	11	13
At market value of listed trading investments	<u>11</u>	<u>31,500</u>	<u>11</u>	<u>13</u>

20. Accounts payable

The accounts payable represents principally the commissions payable to property consultants and cooperative estate agents, and are due for payment only upon the receipt of corresponding agency fees from customers. As at 31st December 2003, the accounts payable included HK\$41,133,000 (2002: HK\$18,734,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.

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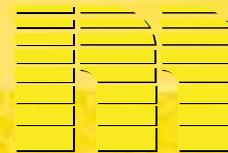
21. Share capital

(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 2003 and 2002	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
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>
At 31st December 2002	609,447,000	60,945
Exercise of warrants	81,224,000	8,122
Exercise of share options	13,825,000	1,383
Cancellation of purchased shares	<u>(1,406,000)</u>	<u>(141)</u>
At 31st December 2003	<u>703,090,000</u>	<u>70,309</u>

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Notes to the Accounts

21. Share capital (continued)

(b) Purchase of shares

During the year, the Company purchased a total of 620,000 ordinary shares of HK\$0.10 each of the Company through the Stock Exchange. Details of the purchases are as follows:

Month of purchase	Number of shares	Purchase price per share		Aggregate consideration paid including expenses HK\$'000
		Highest paid HK\$	Lowest paid HK\$	
January 2003	<u>620,000</u>	0.55	0.54	<u>339</u>

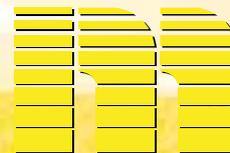
During the year, 1,406,000 shares were cancelled subsequent to purchase of shares by the Company comprising (i) 786,000 shares purchased by the Company at an aggregate consideration paid including expenses of HK\$416,000 in December 2002; and (ii) the above 620,000 shares purchased in January 2003. The 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 capital redemption reserve (note 22).

(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.

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Notes to the Accounts

21. Share capital (continued)

(c) Share options (continued)

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 8.46% of the shares in issue as at the date of this report.

An option may be exercised in accordance with the terms of the 2002 Share Option Scheme at any time during a period, in relation to relevant option, to be notified by the directors to the grantee, such period not earlier than the commencement date and not more than 10 years from the commencement date.

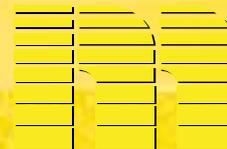
The 2002 Share Option Scheme will remain in force for a period of 10 years commencing on the adoption date.

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

	Number of options	
	2003	2002
At the beginning of the year	6,468,000	9,884,000
Granted (note (i))	13,000,000	–
Exercised (note (ii))	(13,825,000)	–
Lapsed (note (iii))	(4,343,000)	(3,416,000)
At the end of the year (note (iv))	<u>1,300,000</u>	<u>6,468,000</u>

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21. Share capital (continued)

(c) Share options (continued)

Notes:

- (i) In 2003, share options were granted on 9th June 2003 under the 2002 Share Option Scheme at the exercise price of HK\$0.53 per share. Consideration of HK\$1 was received from each grantee in respect of the share options granted. All of the respective share options were exercised as at 31st December 2003 (note (ii)).

No share options were granted under 1995 Share Option Scheme and the 2002 Share Option Scheme during the year ended 31st December 2002.

The share options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Rules Governing the Listing of Securities on the Stock Exchange states that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year/period. The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

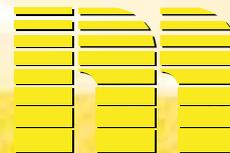
- (ii) In 2003, options exercised on the following dates resulted in 13,825,000 shares being issued yielding the following proceeds:

	2003 HK\$000	2002 HK\$000
Ordinary share capital – at par	1,383	–
Share premium	5,917	–
Proceeds	<u>7,300</u>	<u>–</u>

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

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Notes to the Accounts

21. Share capital (continued)

(c) Share options (continued)

Notes: (continued)

(iii) During the year, 4,343,000 (2002: 3,416,000) share options were lapsed in accordance with the terms of the 1995 Share Option Scheme.

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

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

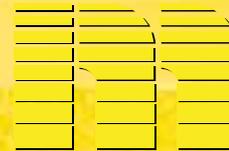
* Share options were exercised on 26th January 2004.

** Share options were exercised on 21st January 2004.

No share options were cancelled during the year (2002: Nil).

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Notes to the Accounts

21. Share capital *(continued)*

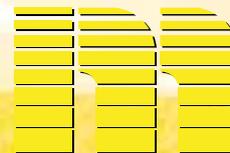
(d) Warrants

In January 2003, 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.

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

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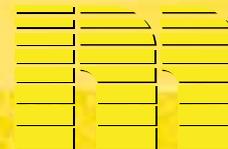
Notes to the Accounts

22. Reserves

	Group							
	Share premium HK\$'000	Capital redemption HK\$'000	Arising on consolidation HK\$'000	Warrants HK\$'000	Other properties revaluation HK\$'000	Exchange difference HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2002 as previously reported	66,908	1,307	(36,995)	21,824	220	(583)	406,569	459,250
Change in accounting policy	-	-	-	-	-	-	4,327	4,327
At 1st January 2002, as restated	66,908	1,307	(36,995)	21,824	220	(583)	410,896	463,577
Exchange differences	-	-	-	-	-	129	-	129
Loss for the year	-	-	-	-	-	-	(73,725)	(73,725)
Reserves transferred to consolidated profit and loss account upon revaluation of other properties	-	-	-	-	(220)	-	-	(220)
2001 final dividend paid	-	-	-	-	-	-	(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>(36,995)</u>	<u>17,618</u>	<u>-</u>	<u>(454)</u>	<u>322,835</u>	<u>381,230</u>
Representing:								
Reserves	76,289	1,937	(36,995)	17,618	-	(454)	284,926	343,321
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>(36,995)</u>	<u>17,618</u>	<u>-</u>	<u>(454)</u>	<u>322,835</u>	<u>381,230</u>
Company and subsidiaries	76,289	1,937	(36,995)	17,618	-	298	317,806	376,953
Jointly controlled entities	-	-	-	-	-	(752)	5,029	4,277
At 31st December 2002	<u>76,289</u>	<u>1,937</u>	<u>(36,995)</u>	<u>17,618</u>	<u>-</u>	<u>(454)</u>	<u>322,835</u>	<u>381,230</u>

Midland Realty (Holdings) Limited

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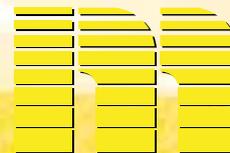
Notes to the Accounts

22. Reserves (continued)

	Group						
	Share premium HK\$'000	Capital redemption HK\$'000	Arising on consolidation HK\$'000	Warrants HK\$'000	Exchange difference HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003 as previously reported	76,289	1,937	(36,995)	17,618	(454)	313,404	371,799
Change in accounting policy	–	–	–	–	–	9,431	9,431
At 1st January 2003, as restated	76,289	1,937	(36,995)	17,618	(454)	322,835	381,230
Exchange differences	–	–	–	–	111	–	111
Profit for the year	–	–	–	–	–	122,749	122,749
2002 final dividend paid (note 8)	–	–	–	–	–	(3,446)	(3,446)
2002 special cash bonus paid (note 8)	–	–	–	–	–	(34,463)	(34,463)
2003 interim dividend paid (note 8)	–	–	–	–	–	(10,547)	(10,547)
Purchase of own shares	(614)	–	–	–	–	–	(614)
Transfer from retained earnings	–	141	–	–	–	(141)	–
Exercise of share options	5,917	–	–	–	–	–	5,917
Exercise of warrants	49,516	–	–	(17,027)	–	–	32,489
Release of warrants reserve upon expiry of warrants	–	–	–	(591)	–	–	(591)
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>(36,995)</u>	<u>–</u>	<u>(343)</u>	<u>396,987</u>	<u>492,835</u>
Representing:							
Reserves	131,108	2,078	(36,995)	–	(343)	361,767	457,615
2003 final dividend proposed (note 8)	–	–	–	–	–	35,220	35,220
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>(36,995)</u>	<u>–</u>	<u>(343)</u>	<u>396,987</u>	<u>492,835</u>
Company and subsidiaries	131,108	2,078	(36,995)	–	409	393,675	490,275
Jointly controlled entities	–	–	–	–	(752)	3,312	2,560
At 31st December 2003	<u>131,108</u>	<u>2,078</u>	<u>(36,995)</u>	<u>–</u>	<u>(343)</u>	<u>396,987</u>	<u>492,835</u>

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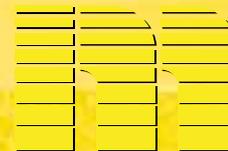
Notes to the Accounts

22. Reserves (continued)

	Company					Total HK\$'000
	Share premium HK\$'000	Capital redemption HK\$'000	Warrants HK\$'000	Contributed surplus HK\$'000	Retained earnings 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	–	–	–	–	(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>

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Notes to the Accounts

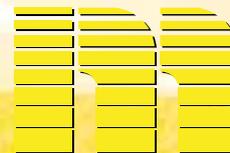
22. Reserves (continued)

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

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.

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Notes to the Accounts

23. Long-term bank loans – secured

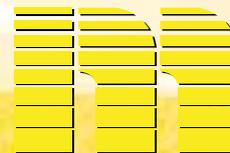
	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Secured bank loans – wholly repayable within five years	32,440	60,526
Current portion of long-term bank loans	(11,796)	(16,067)
	<u>20,644</u>	<u>44,459</u>

At 31st December 2003, the Group's bank loans and overdrafts were repayable as follows:

	Group			
	Bank overdrafts		Bank loans	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	14,629	29,369	11,796	16,067
In the second year	–	–	11,797	16,155
In the third to fifth year	–	–	8,847	28,304
	<u>14,629</u>	<u>29,369</u>	<u>32,440</u>	<u>60,526</u>

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Notes to the Accounts

24. Deferred taxation (continued)

Deferred tax liabilities

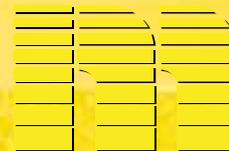
	Accelerated tax depreciation	
	2003 HK\$'000	2002 HK\$'000
At 1st January	83	205
Charged/(credited) to profit and loss account	551	(122)
At 31st December	<u>634</u>	<u>83</u>

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

	2003 HK\$'000	2002 HK\$'000
Deferred tax assets	(9,798)	(8,533)
Deferred tax liabilities	634	83
	<u>(9,164)</u>	<u>(8,450)</u>
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	(9,102)	(6,543)
Deferred tax liabilities to be settled after more than 12 months	218	34
	<u>218</u>	<u>34</u>

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Notes to the Accounts

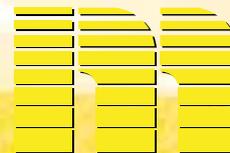
25. Consolidated cash flow statement

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

	2003 HK\$'000	2002 HK\$'000
Operating profit/(loss)	150,811	(68,220)
Depreciation	13,639	16,571
Loss on disposal of fixed assets	314	7,741
(Surplus)/deficits on revaluation of investment properties and other properties	(670)	103,040
Reserve transferred to consolidated profit and loss account upon expiry of warrants	(591)	–
Impairment of goodwill	1,003	4,699
Amortisation of negative goodwill	–	(3,213)
Interest income	(2,424)	(4,623)
Net realised and unrealised (gains)/losses on trading investments	(1,515)	1,005
	<hr/>	<hr/>
Operating profit before working capital changes	160,567	57,000
(Increase)/decrease in accounts receivable, other receivables, prepayment and deposits	(199,141)	11,844
Increase/(decrease) in accounts payable, other payables and accrued charges	205,329	(24,101)
	<hr/>	<hr/>
Cash generated from operations	<u>166,755</u>	<u>44,743</u>

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Notes to the Accounts

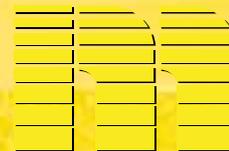
25. Consolidated cash flow statement (continued)

(b) Analysis of change in financing during the year

	Dividend payable HK\$'000	Share capital, share premium, share options and warrants HK\$'000	Bank loans HK\$'000	Convertible note HK\$'000	Minority interests HK\$'000
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
At 1st January 2003	–	154,852	60,526	–	6,405
Minority interests' share of profits	–	–	–	–	1,950
Cash (outflows)/inflows	(48,456)	47,156	(28,086)	–	–
Release of warrant reserve after the expiry of warrants	–	(591)	–	–	–
Dividends	48,456	–	–	–	–
At 31st December 2003	–	201,417	32,440	–	8,355

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Notes to the Accounts

25. Consolidated cash flow statement (continued)

(c) Acquisition of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	147	894
Accounts and other receivables	665	6,554
Bank balances and cash	175	2,729
Accounts and other payables	(1,704)	(13,716)
	<u>(717)</u>	<u>(3,539)</u>
Goodwill	1,003	4,699
	<u>286</u>	<u>1,160</u>
Satisfied by:		
Cash	<u>286</u>	<u>1,160</u>

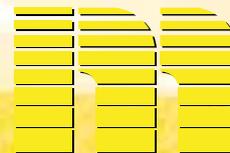
The subsidiary acquired during the year contributed HK\$45,000 in respect of the Group's net operating cash flows. The subsidiary acquired in 2002 utilised HK\$170,000 in respect of the Group's net operating cash flows and HK\$533,000 for investing activities.

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

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash in hand acquired	175	2,729
Cash consideration	(286)	(1,160)
	<u>(111)</u>	<u>1,569</u>

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Notes to the Accounts

26. Future lease rental payments receivable

At 31st December 2003, the Group had future minimum lease rental payments receivable under non-cancellable operating leases as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	2,028	1,066
Later than one year and not later than five years	1,079	747
	<u>3,107</u>	<u>1,813</u>

27. Commitments under operating leases

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	67,952	62,395
Later than one year and not later than five years	36,864	28,710
	<u>104,816</u>	<u>91,105</u>

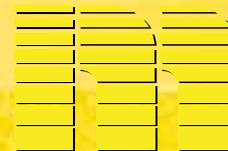
At 31st December 2003, the Company did not have any significant commitments (2002: Nil).

28. Pending litigations

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.

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Notes to the Accounts

29. Contingent liabilities

During the years ended 31st December 2003 and 2002, 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.

30. Approval of accounts

The accounts were approved by the board of directors on 30th March 2004.

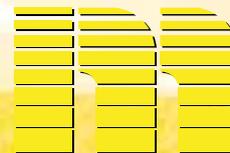
31. List of principal subsidiaries and jointly controlled entities

The following is a list of the principal subsidiaries and jointly controlled entities at 31st December 2003:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid up 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	Hong Kong	Provision of referral services in Hong Kong	2 Ordinary shares of HK\$1 each	100

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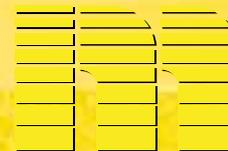
Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held %
Subsidiaries (continued)				
<i>– indirectly held by the Company (continued)</i>				
Grand World Advertising Company Limited	Hong Kong	Marketing and advertising management in Hong Kong	2 Ordinary shares of HK\$1 each	100
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 (formerly known as Hong Kong Property Services (Investment) Limited)	Hong Kong	Property agent in Hong Kong	2 Ordinary shares of HK\$1 each	100
Hong Kong Property Services (IC&I) Limited (note c)	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 Auctioneers Limited (formerly known as Midland Realty (LKW) Limited)	Hong Kong	Property Auctioneers in Hong Kong	500,000 Ordinary shares of HK\$1 each	100

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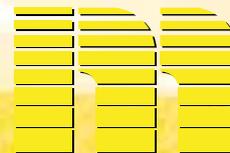
Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company (continued)</i>				
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	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 HKP Services (Administration) Limited (formerly known as Hong Kong Property Services (Agency) Limited)	Hong Kong	Administration and management in Hong Kong	2 Ordinary shares of HK\$1 each	100
Midland Professional Consulting Services Limited (formerly known as Midland Realty (North Point) Limited)	Hong Kong	Immigration consultancy in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Property (China) Limited	Hong Kong	Investment holding in Hong Kong	500,000 Ordinary shares of HK\$1 each	100
Midland Property Consultants Limited	Hong Kong	Investment holding in Hong Kong	100 Ordinary shares of HK\$1,000 each	100

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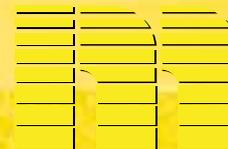
Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held %
Subsidiaries <i>(continued)</i>				
<i>– indirectly held by the Company <i>(continued)</i></i>				
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 b)</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100
Midland Realty (China) Limited (formerly known as Midland Realty Property Management Limited)	Hong Kong	Property agent in Hong Kong	500,000 Ordinary share of HK\$1 each	100
Midland Realty Consultancy (Shanghai) Co. Ltd. <i>(note b)</i>	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100
Midland Realty (Comm. & Ind.) Limited (formerly known as 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
Midland Realty (Kln Res.) Limited	Hong Kong	Property agent in Hong Kong	800,000 Ordinary shares of HK\$1 each	90

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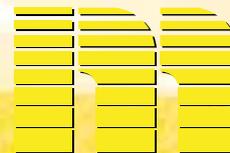
Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held %
Subsidiaries (continued)				
<i>– indirectly held by the Company (continued)</i>				
Midland Realty (Strategic) Limited	Hong Kong	Investment holding in Hong Kong	10,000 Ordinary shares of HK\$1 each 2,000,000 Non-voting Deferred shares of HK\$1 each	100
Midland Surveyors Limited	Hong Kong	Property valuer in Hong Kong	1,000,000 Ordinary shares of HK\$1 each	100
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
Worldboss Limited	Hong Kong	Property investment in Hong Kong	2 Ordinary shares of HK\$1 each	100

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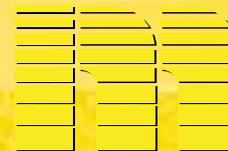
Notes to the Accounts

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held %
Subsidiaries (continued)				
<i>– indirectly held by the Company (continued)</i>				
美聯物業代理(深圳)有限公司 (note b)	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$1,000,000	100
Beijing Midland Property Agency Company Limited (notes a and b)	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$150,000	100
Midland Realty (Su Zhou Industrial zone) Consultancy Limited (notes b and c)	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$13,000	100
重慶美聯營銷策劃有限公司 (notes b and c)	The People's Republic of China (as a wholly foreign-owned enterprise)	Property agent in the People's Republic of China	US\$40,000	100

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Notes to the Accounts

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

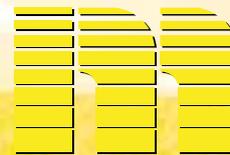
Name	Place of incorporation/ establishment	Principal activities and place of operation	Percentage of interest in ownership/voting power/ profit sharing
Jointly controlled entities			
<i>– indirectly held by the Company</i>			
Midland (Guangzhou) Real Estate Consultants Ltd. (note b)	The People's Republic of China (as a cooperative joint venture)	Property agent in the People's Republic of China	70%/50%/70%
mReferral Corporation Limited (note b)	British Virgin Islands	Investment holding in Hong Kong	33.33%/33.33%/33.33%

Notes:

- (a) The Group acquired the entire equity interest in this subsidiary on 1st October 2003.
- (b) These subsidiaries and jointly controlled entities are not audited by PricewaterhouseCoopers, Hong Kong.
- (c) These subsidiaries were set up during the year.

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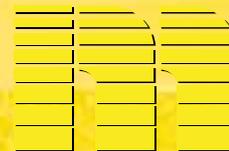
List of Investment Properties

At 31st December 2003

	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.	Shop No. 42, Sun Hing Garden, No. 2 On Po Lane, Tai Po, New Territories.	TPTL 26	Commercial	Medium	100%
3.	Section B of Shops 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%
4.	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%
5.	Shop No. 21, G/F., Mayfair Centre, No. 6 Anchor Street, Tai Kok Tsui, Kowloon.	KIL 2206	Commercial	Long	100%

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List of Investment Properties (continued)

At 31st December 2003

	Location	Lot Number	Existing use	Lease term	Group's interest
6.	Room 707, Fortress Tower, No. 250 King's Road, Fortress Hill, Hong Kong.	IL 8416	Commercial	Long	100%
7.	Portion B of Shop No.110 on the Car Park Level 1 of Podium C of Riviera Gardens, Nos. 2-12 Yi Hong Street & 7-9 Yi Lok Street, Tsuen Wan, New Territories.	TWTL 303	Commercial	Medium	100%

* Property located in PRC without lot number.