



# MIDLAND REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

## ANNOUNCEMENT OF 1998 FINAL RESULTS

### RESULTS

The Board of Directors (the "Directors") of Midland Realty (Holdings) Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December 1998 together with comparative figures for the previous year as follows:

	Notes	1998 HK\$'000	1997 HK\$'000
<b>Turnover</b>		<u>906,919</u>	<u>1,769,349</u>
<b>Operating profit</b>			
Operating profit excluding exceptional items		74,233	340,771
Exceptional items	1	(54,295)	(55,142)
		<u>19,938</u>	<u>285,629</u>
<b>Share of (loss)/profit of a jointly controlled entity</b>		(704)	120
<b>Profit before taxation</b>		<u>19,234</u>	<u>285,749</u>
<b>Taxation</b>	2	(9,130)	(59,302)
<b>Profit after taxation</b>		<u>10,104</u>	<u>226,447</u>
<b>Minority interests</b>		206	(3,060)
<b>Profit attributable to shareholders</b>		<u>10,310</u>	<u>223,387</u>
<b>Earnings per share</b>	3	<u>1.7 cents</u>	<u>37.2 cents</u>

### Notes:

#### 1. Exceptional items

Exceptional items comprise:

	1998 HK\$'000	1997 HK\$'000
Deficit arising on revaluation of investment properties	25,367	-
Loss on disposal of investment properties and other properties	15,385	-
Provision for branch closure costs	13,543	55,142
	<u>54,295</u>	<u>55,142</u>

#### 2. Taxation

	1998 HK\$'000	1997 HK\$'000
Hong Kong profits tax	14,500	59,384
Over provision in prior years	(1,986)	(1,317)
Deferred taxation	(3,384)	1,235
	<u>9,130</u>	<u>59,302</u>

Hong Kong profits tax has been provided at the rate of 16% (1997: 16.5%) on the estimated assessable profit for the year.

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

#### 3. Earnings per share

- The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$10,310,000 (1997: HK\$223,387,000) and the weighted average of 594,021,000 (1997: 600,208,000) ordinary shares in issue during the year.
- The outstanding share options of the Company do not result in a dilution effect on the earnings per share in respect of the year ended 31st December 1998. Fully diluted earnings per share for the year ended 31st December 1997 is not presented as the effect of dilution is insignificant.

### DIVIDEND AND SPECIAL CASH BONUS

The Directors recommend a final dividend of HK\$0.05 (1997: HK\$0.01) and a special cash bonus of HK\$0.20 (1997: Nil) per share at the Annual General Meeting to be held on 19th May 1999. These final dividend and special cash bonus, if approved, will be paid on 26th May 1999 to shareholders whose names are on the register of members of the Company on 19th May 1999.

### MOVEMENTS IN RESERVES

	Share premium HK'000	Capital redemption HK'000	Arising on consolidation HK'000	Other properties revaluation HK'000	Exchange difference HK'000	Retained earnings HK'000	Total HK'000
At 1st January 1998	69,219	280	14,369	220	(527)	439,290	522,851
Purchase of shares	(3,893)	-	-	-	-	-	(3,893)
Transfer from retained earnings	-	522	-	-	-	(522)	-
Goodwill written off	-	-	(1,364)	-	-	-	(1,364)
Exchange differences	-	-	-	-	3	-	3
Profit for the year	-	-	-	-	-	10,310	10,310
Dividend and special cash bonus	-	-	-	-	-	(148,199)	(148,199)
At 31st December 1998	<u>65,326</u>	<u>802</u>	<u>13,005</u>	<u>220</u>	<u>(524)</u>	<u>300,879</u>	<u>379,708</u>

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13th May 1999 to Wednesday, 19th May 1999, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the 1998 final dividend and the special cash bonus, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrars, Abacus Share Registrars Limited at 10th Floor, Caroline Centre, 28 Yun Ping Road, Causeway Bay, Hong Kong, for registration, not later than 4:00 p.m. on Wednesday, 12th May 1999.

### REVIEW

In the financial year ended 31st December, 1998, the Group recorded revenue of HK\$906.92 million, 49% below the 1997 level. Operating profit excluding exceptional items totalled HK\$74.23 million, down by 78% compared to last year.

Hong Kong's economy continued to suffer from the Asian financial crisis in 1998. For the first time in more than a decade, Hong Kong's gross domestic product recorded negative growth. Meanwhile, the unemployment rate hit a new high, banks tightened the credit rein, consumer confidence dwindled, and businesses faced an increasingly tough operating environment. Surely the property market could not steer clear of the turmoil. Property transaction volume and property value tumbled. On top of that, developers waged a cut-throat price war, sending more shock waves through a volatile market. Records at the Land Registry indicate a 46% year-on-year plunge in property sales volume last year to 111,489 transactions, meanwhile the total transaction value slid to HK\$340.9 billion, a significant drop of 61% compared to last year.

The Group however performed much better than the overall market, brokering 28,926 rental and sales transactions, down only 12% from 1997. As can be expected in a downturn, the less competitive property agency were forced out of the market. A considerable number of small to medium-sized real estate agencies closed down. The Group thus was able to increase its market share steadfastly.

In light of the shrinking secondary property market, the Group devoted more efforts to cultivate the primary market as a source of revenue. During the year, nearly 5,000 sales transactions that the Group handled on behalf of developers contributed over 20% in revenue.

Since the outbreak of Asian financial crisis of 1997, the Group has put great efforts to improve productivity, reduce cost and streamline operations. In response to the market sentiments, the Group trimmed its operation network by 47% from 245 branches at the end of 1997 to only 131 branches by the end of 1998. As a result of cutting branches, the rental cost in December 1998 dropped by 51% to HK\$9.14 million comparing with the same period in 1997. Marketing and promotional expenses also dropped by 73% to HK\$3.54 million in the same period.

The Group started implementing the above measures in the first half of 1998 and began to bear fruit in the second half of the year. The Group recorded turnover of HK\$472.20 million in the second half year, similar to the first half. Nevertheless, the profit attributable to shareholders improved noticeably to HK\$33.03 million in the second half. It proved that the Group made a right decision.

Hong Kong's property market has now bottomed out since the Asian financial crisis and the group recorded remarkable profit in the second half of 1998. In 1999, the Group will concentrate on its core business and has no major investment plan on hand and therefore, the Group requires no such a huge cash reserve in the foreseeable future. As such, the Board of Directors has proposed a final dividend and a special cash bonus of 5 cents and 20 cents respectively per share to thank the continuing support of the shareholders. As of today, the Group still maintains a strong cash position and anticipates that after distribution of final dividend and special cash bonus, the Group still has sufficient funds for working capital.

### BUSINESS PLAN AND OUTLOOK

So far in 1999, the property market has shown some signs of revival. A semblance of stability is returning as transaction volume stabilises. In the first quarter of 1999, the Land Registry recorded 28,091 property transactions, up 11% from the same quarter in 1998. We believe that the local property scene has seen the worst and is emerging from the trough.

As it is, the Government of the Special Administrative Region is most keen to stimulate the economy. In the Budget for fiscal 1999/2000, the Government tried to jump-start the recovery by announcing plans for a cyber port, a fisherman's wharf type of commercial and leisure compound, and a theme park with none other than the famous Walt Disney Company. Meanwhile, banks have relaxed their lending policies and interest rates have trended lower. Moreover, the Mortgage Insurance Plan launched allows banks to provide top-up financing of up to 15%, thus essentially raising the mortgage ceiling to 85%. Since prices have come down considerably, to the average buyer, homes are much more affordable nowadays. All these positive factors have been supporting a recovery of the property market in 1999.

The local real estate broking industry entered a new era in this year with the implementation of the licensing system. Although raising the operating costs of real estate agencies, the licensing system is a milestone to professionalise the industry. The Group is confident that it will turn the licensing system to its advantage, being backed by ample financial resources and stringent internal controls.

To maintain its market leader position, the Group will take the following course of action:

#### Control Costs & Trimming Structure

Given the prevailing downturn, the Group has taken the initiative to negotiate for lower rental costs with landlords for its numerous branches. In the first quarter of 1999, 11 branches have been relocated from high rental premises to less expensive properties in the same neighbourhood, thus achieving substantial savings on respective branches' rental costs with the reduction percentage ranging from 9% to 85%. The Group will renegotiate the tenancy agreement of other 46 branch premises of which rental expenses will be reduced greatly. Similarly, back office support departments such as M.I.S., Training, Accounts and Search Departments will be relocated to the Golden Era Plaza in Mongkok within 1999. Other operating costs such as marketing and administrative expenses will also be strictly monitored to improve cost efficiency.

#### Strengthen Management Team

To meet the challenge ahead, the Group has invited various professionals, including finance, information technology and surveying, to join our management team. Integrating with existing management, it will surely improve the competitive edge of the Group. The Group has also selected a group of the potential front-line staff, providing them with appropriate training that make them become "Second Tier Management Prospects".

#### Intensify Training

Training to raise agent standards and reduce staff turnover is a long-standing tradition at Midland Realty. Under the licensing system, it is tougher to recruit good quality agents. As a result, the turnover rate may be on the rise. Besides upgrading its training programmes, the Group recently launched the "Midland Realty Elite," a meritorious fraternity that rewards top performers and inspires new recruits.

#### Reinforce the Branch Network

In view of the improved market condition, the Group has opened new branches where it sees potentials and the rent is considerably reasonable so as to increase the market share. Until the first quarter of 1999, the Group established six new branches.

#### Enhance the Web Site

For customers and agents alike, property search will be made easier with technological assistance on the Web site. To stay on the leading edge, the Group will introduce within the year new technology to facilitate agents in daily property transactions. All this is part of the Group's efforts to improve service quality.

#### Develop New Business

On the basis of a complementary relationship cultivated with developers over years, the Group will utilise the advantage of its vast branch network and large market intelligence gathering web to market primary market projects on behalf of developers. Our "Asset Enhancement Group" which is staffed by some of the best in sales, finance, and property valuation, will help corporate clients restructure their assets by identifying opportunities to acquire properties with appreciation potentials and improving the value of their existing portfolios. The Group will also devote more resources to enhance the business of surveying and property valuation.

#### Strengthen the China Business

Having restructured in 1998, the Group's China and Overseas Department is set squarely on a new course. Business has improved noticeably, especially at the Shanghai office. In 1999, the Department will continue to penetrate the Eastern seaboard while cultivating the Shenzhen market. Besides marketing new projects, the Department also provides developers with preliminary market intelligence gathering in the form of feasibility studies, after-sales service such as property management, and marketing functions such as advertising and promotion strategies. The Department also handles rental service, retail management, and referrals for secondary market mortgage financing. The Group is therefore optimistic in the future of the China business.

On the whole, the Group believes that 1999 will be a better year. Through the above measures and the support of the staff, the Group is cautiously optimistic in the prospect of this year.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company purchased a total of 5,226,000 of its own shares through The Stock Exchange of Hong Kong Limited. Details of the purchases are as follows:-

Month of purchase	Number of shares	Purchase price per share		Aggregate Consideration paid including expenses
		Highest paid HK\$	Lowest paid HK\$	
January 1998	3,690,000	1.37	0.74	3,481,000
April 1998	40,000	0.90	0.90	36,000
May 1998	782,000	0.79	0.65	588,000
June 1998	306,000	0.65	0.49	166,000
July 1998	20,000	0.51	0.50	10,000
August 1998	388,000	0.35	0.33	134,000
	<u>5,226,000</u>			<u>4,415,000</u>

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

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

### THE MILLENNIUM BUG ISSUE

The Millennium Bug ("Y2K") issue stems from the fact that traditionally, some computer systems and electronic devices use only two digits to record years. Hence they may mistake dates in 2000 and beyond as dates from a century earlier. Serious errors would be resulted if data based on dates in the millennium were to be calculated, compared or tabulated under the old system. That would have been detrimental to the Group's business.

Recognising the grave consequences of the "Y2K" bug, the Group had established a team back in mid-1998 to tackle the issue. The team of computer specialists has been reporting on problems and progress to the Financial Controller regularly. The ground work is basically complete. This involved identifying the systems and equipment that would be affected, evaluating and testing such systems for possible problems, then determining what measures to be taken and arranging for the necessary equipment or service accordingly. Management expects the "Y2K" project to be completed as scheduled by the end of June 1999, at an estimated cost of HK\$1.5 million. As of 31st December, 1998, the Group had spent about HK\$200,000 or 13% of the total budget on the "Y2K" project, mainly to upgrade, update, amend or replace various systems.

### AUDIT COMMITTEE

The Company has set up an Audit Committee, comprised of two independent non-executive directors, to comply with the additional requirement in the Code of Best Practice as set out in Appendix 14 of the Listing Rules. In establishing the terms of reference for the Audit Committee, the Directors have referred to the Guide For The Formation of An Audit Committee issued by the Hong Kong Society of Accountants in December 1997.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors are pleased to confirm that throughout the year ended 31st December 1998, the Company has complied with the Code of Best Practice of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that non-executive directors are not appointed for a specified term as recommended under the Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, non-executive directors of the Company will retire by rotation and their appointments will be reviewed when they are due for re-election. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

### IN CONCLUSION

The Group hereby thanks the staff and shareholders for the continuing supports and made the Group pull through with passing grades in 1998.

By order of the Board  
**Wong Kin Yip, Freddie**  
Chairman

Hong Kong, 12th April 1999

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Company will be held at Rooms 2505-8, 25th Floor, World-wide House, 19 Des Voeux Road Central, Hong Kong on 19th May 1999 at 11:00 a.m. for the following purposes:

- To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31st December 1998;
- To declare a final dividend and a special cash bonus;
- To re-elect Directors and to fix the Directors' remuneration;
- To re-appoint Auditors and to authorise the Directors to fix their remuneration;

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

- To approve the appointment of Mr. Cheng Sai Kei, Johnnie as additional director of the Company;
- "THAT:

- subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make and grant offers, agreements and options which would or might require shares to be allotted after the end of the Relevant Period;
- the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to shares issued as a result of a Rights Issue (as hereinafter defined) or pursuant to the exercise of options under the share option scheme of the Company or any shares allotted in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and
- for the purposes of this resolution:-  
"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:-  
(i) the conclusion of the next annual general meeting of the Company;  
(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws of Bermuda to be held; or  
(iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any

recognised regulatory body or any stock exchange in, any territory outside, Hong Kong.)"

- "THAT:-  
(a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its own securities, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;
- the aggregate nominal amount of securities purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval be limited accordingly; and
- for the purposes of this resolution:-  
"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:-  
(i) the conclusion of the next annual general meeting of the Company;  
(ii) the expiration of the period within which the next annual general meeting of Company is required by the Bye-laws of the Company or any applicable laws of Bermuda to be held; or  
(iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting."
- "THAT subject to the passing of resolution nos. 6 and 7, the aggregate nominal amount of shares which are to be purchased by the Company pursuant to the authority granted to the Directors of the Company as mentioned in resolution no.7 shall be added to the aggregate nominal amount of share capital that may be allotted or agreed to be allotted by the Directors of the Company pursuant to resolution no. 6."

By order of the Board  
**LAM Fung Fong**  
Company Secretary

Hong Kong, 12th April 1999

### Notes:-

- A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company.
- In order to be valid, a form of proxy must be deposited at the Company's Hong Kong Branch Registrars, Abacus Share Registrars Limited at 10th Floor, Caroline Centre, 28 Yun Ping Road, Causeway Bay, Hong Kong, together with a power of attorney or other attorney, if any, under which it is signed or a notarially certified copy of that power of attorney, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- The register of members of the Company will be closed from Thursday, 13th May 1999 to Wednesday, 19th May 1999 both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's Hong Kong Branch Registrars, Abacus Share Registrars Limited at 10th Floor, Caroline Centre, 28 Yun Ping Road, Causeway Bay, Hong Kong not later than 4:00 p.m. on Wednesday, 12th May 1999.