

STRIKE FOR THE SUMMIT



Interim Report
2004



美聯物業
MIDLAND REALTY

Midland Realty (Holdings) Ltd.

Incorporated in Bermuda with limited liability 註冊在百慕大有限公司



www.midland.com.hk



Midland Realty (Holdings) Limited

2004 Interim Report

Corporate Information

◆ DIRECTORS

Executive Directors

Mr WONG Kin Yip, Freddie
(*Chairman and Managing Director*)

Ms IP Kit Yee, Kitty
(*Deputy Chairman*)

Mr CHEUNG Kam Shing
(*Deputy Chairman*)

Ms LAM Fung Fong

Independent non-executive Directors

Mr CHUNG Kam Wing, Calvin

Mr KAN Chung Nin, Tony

Mr LAI Dominic

◆ AUDIT COMMITTEE

Mr CHUNG Kam Wing, Calvin (*Chairman*)

Mr LAI Dominic

◆ 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

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Corporate Information (continued)

◆ **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



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Highlights of 2004 Interim Results

- Group turnover rose 109% to HK\$952 million
- Profit attributable to shareholders grew 450% to HK\$166 million
- Earning per share HK23.55 cents, up 435%
- Interim dividend: HK7 cents per share
- Operating profit margin: 20.5% (2003: 8.4%)

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Interim Results

The Board of Directors (the “Directors”) of Midland Realty (Holdings) Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June 2004 together with the comparative figures as follow:–

Condensed Consolidated Profit and Loss Account

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Note	Unaudited Six months ended	
		30.6.2004	30.6.2003
		HK\$ '000	HK\$ '000
Turnover	2	952,079	455,289
Other revenues		5,222	3,201
		<u>957,301</u>	<u>458,490</u>
Operating costs		(762,595)	(419,555)
Surplus/(deficit) arising on revaluation of investment properties		760	(910)
Operating profit	3	195,466	38,025
Finance costs		(192)	(818)
Share of profits less losses of jointly controlled entities		1,170	559
Profit before taxation		196,444	37,766
Taxation	4	(28,970)	(6,959)
Profit after taxation		167,474	30,807
Minority interests		(1,665)	(667)
Profit attributable to shareholders		<u>165,809</u>	<u>30,140</u>
Proposed interim dividend	5	49,307	10,339
Basic earnings per share	6	HK23.55 cents	HK4.40 cents
Diluted earnings per share	6	HK23.54 cents	HK4.40 cents



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Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2004 AND 31ST DECEMBER 2003

		Unaudited 30.6.2004 <i>HK\$ '000</i>	Audited 31.12.2003 <i>HK\$ '000</i>
	<i>Note</i>		
Non-current assets			
Fixed assets	7	170,466	136,682
Investments in jointly controlled entities		9,105	7,569
Investments in securities		74,626	2,184
Deferred tax assets		8,517	9,798
		262,714	156,233
Current assets			
Accounts receivable	8	426,888	424,237
Other receivables, prepayments and deposits		71,241	59,504
Trading investments		11	11
Bank balances and cash		475,041	373,430
		973,181	857,182
Current liabilities			
Accounts payable	9	245,556	225,708
Other payables and accrued charges		164,410	146,457
Bank loan – unsecured	10	20,000	–
Current portion of long-term bank loans – secured	10	12,908	11,796
Taxation payable		49,037	22,048
Bank overdrafts	10	15,290	14,629
		507,201	420,638
Net current assets		465,980	436,544
Total assets less current liabilities		728,694	592,777

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Condensed Consolidated Balance Sheet *(continued)*

AS AT 30TH JUNE 2004 AND 31ST DECEMBER 2003

		Unaudited	Audited
		30.6.2004	31.12.2003
	<i>Note</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Financed by:			
Share capital	<i>11</i>	70,439	70,309
Reserves	<i>12</i>	574,733	457,615
Proposed dividend	<i>12</i>	49,307	35,220
		<hr/>	<hr/>
Shareholders' funds		694,479	563,144
Minority interests		10,020	8,355
Non-current liabilities			
Long-term bank loans – secured	<i>10</i>	23,356	20,644
Deferred tax liabilities		839	634
		<hr/>	<hr/>
		728,694	592,777
		<hr/>	<hr/>



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Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Note	Unaudited Six months ended	
		30.6.2004 HK\$ '000	30.6.2003 HK\$ '000
Total equity as at 1st January		563,144	442,175
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	12	24	78
Profit attributable to shareholders	12	165,809	30,140
Dividends	12	(35,220)	(37,909)
Exercise of share options	11 & 12	722	–
Exercise of warrants	11 & 12	–	40,611
Reserves transferred to consolidated profit and loss account upon expiry of warrants	12	–	(591)
Purchase of own shares	11 & 12	–	(755)
Total equity as at 30th June		<u>694,479</u>	<u>473,749</u>

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Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited	
	Six months ended	
	30.6.2004	30.6.2003
	HK\$ '000	HK\$ '000
Net cash inflow from operating activities	225,875	44,403
Net cash (outflow)/inflow from investing activities	(114,275)	51,995
Net cash outflow from financing activities	(10,674)	(20,240)
Net increase in cash and cash equivalents	100,926	76,158
Cash and cash equivalents at 1st January	358,812	182,620
Effect of foreign exchange rate changes	24	78
Cash and cash equivalents at 30th June	459,762	258,856
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	475,041	260,308
Bank overdrafts	(15,290)	(1,465)
Trading investments – listed equity securities	11	13
	459,762	258,856



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Notes to the Condensed Interim Accounts

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The condensed interim accounts should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

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Notes to the Condensed Interim Accounts

2. Segment information

The Group is principally engaged in property broking services.

An analysis of the Group's revenues and results for the period by business segments is as follows:

Unaudited Six months ended 30th June 2004						
	Residential property brokerage <i>HK\$'000</i>	Industrial and commercial property brokerage <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External sales	827,419	124,660	–	–	–	952,079
Other revenues						
External sales	–	–	995	3,197	–	4,192
Inter-segment sales	–	–	3,857	2,438	(6,295)	–
Segment revenues	<u>827,419</u>	<u>124,660</u>	<u>4,852</u>	<u>5,635</u>	<u>(6,295)</u>	<u>956,271</u>
Segment results	<u>162,397</u>	<u>25,620</u>	<u>3,738</u>	<u>3,152</u>	<u>22,960</u>	<u>217,867</u>
Unallocated costs						<u>(23,431)</u>
Operating profit before interest income and finance costs						194,436
Net finance income						838
Share of profits less losses of jointly controlled entities	(835)	–	–	2,005		<u>1,170</u>
Profit before taxation						196,444
Taxation						<u>(28,970)</u>
Profit after taxation						167,474
Minority interests						<u>(1,665)</u>
Profit attributable to shareholders						<u>165,809</u>



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Notes to the Condensed Interim Accounts

2. Segment information (continued)

Unaudited Six months ended 30th June 2003						
	Residential property brokerage <i>HKS'000</i>	Industrial and commercial property brokerage <i>HKS'000</i>	Property leasing <i>HKS'000</i>	Others <i>HKS'000</i>	Inter- segment elimination <i>HKS'000</i>	Total <i>HKS'000</i>
Turnover						
External sales	411,322	43,828	–	139	–	455,289
Other revenues						
External sales	–	–	1,050	752	–	1,802
Inter-segment sales	–	–	5,315	1,554	(6,869)	–
Segment revenues	<u>411,322</u>	<u>43,828</u>	<u>6,365</u>	<u>2,445</u>	<u>(6,869)</u>	<u>457,091</u>
Segment results	<u>31,404</u>	<u>3,863</u>	<u>4,371</u>	<u>(4,670)</u>	<u>8,822</u>	43,790
Unallocated costs						<u>(7,164)</u>
Operating profit before interest income and finance costs						36,626
Net finance income						581
Share of profits less losses of jointly controlled entities	(455)	–	–	1,014		<u>559</u>
Profit before taxation						37,766
Taxation						<u>(6,959)</u>
Profit after taxation						30,807
Minority interests						<u>(667)</u>
Profit attributable to shareholders						<u>30,140</u>

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Notes to the Condensed Interim Accounts

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended	
	30.6.2004	30.6.2003
	HK\$ '000	HK\$ '000
Crediting		
Gain on disposal of trading investments	–	1,510
Charging		
Depreciation	9,043	6,246
Provision for bad and doubtful debts	29,512	19,719
Loss on disposal of fixed assets	56	62
Staff costs	528,584	260,744

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30.6.2003: 17.5%) on the estimated assessable profit for the period.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.



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Notes to the Condensed Interim Accounts

4. Taxation (continued)

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

	Unaudited Six months ended	
	30.6.2004 HK\$ '000	30.6.2003 HK\$ '000
Company and subsidiaries:		
Hong Kong profits tax	27,028	7,027
Overseas taxation	85	87
Deferred taxation	1,486	(350)
	<u>28,599</u>	<u>6,764</u>
Share of taxation attributable to a jointly controlled entity	<u>371</u>	<u>195</u>
	<u>28,970</u>	<u>6,959</u>

5. Proposed interim dividend

	Unaudited Six months ended	
	30.6.2004 HK\$ '000	30.6.2003 HK\$ '000
Interim, proposed, of HK\$0.07 (six months ended 30.6.2003: HK\$0.015) per ordinary share (note)	<u>49,307</u>	<u>10,339</u>

Note: At a meeting held on 21st September 2004, the Directors declared an interim dividend of HK\$0.07 per share for the six months ended 30th June 2004. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

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Notes to the Condensed Interim Accounts

6. Earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$165,809,000 (six months ended 30.6.2003: HK\$30,140,000) and the weighted average number of 704,219,000 (six months ended 30.6.2003: 684,537,000) ordinary shares in issue during the period.

The diluted earnings per share is based on the profit of HK\$165,809,000 (six months ended 30.6.2003: HK\$30,140,000) and 704,345,000 (six months ended 30.6.2003: 684,620,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 126,000 (six months ended 30.6.2003: 83,000) ordinary shares deemed to be issued at no consideration if the outstanding options had been exercised.

7. Fixed assets

	Unaudited <i>HK\$ '000</i>
Net book value as at 1st January 2004	136,682
Additions	42,155
Disposals	(88)
Depreciation charge	(9,043)
Surplus arising on revaluation of investment properties	760
	<hr/>
Net book value as at 30th June 2004	170,466



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Notes to the Condensed Interim Accounts

8. 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 30th June 2004, the ageing analysis of the Group's accounts receivable was set out as follows:

	Unaudited 30.6.2004 <i>HK\$ '000</i>	Audited 31.12.2003 <i>HK\$ '000</i>
Not yet due	270,811	284,100
Within 30 days	35,745	66,569
31-60 days	31,934	41,943
61-90 days	44,045	13,115
Over 90 days	44,353	18,510
	<hr/>	<hr/>
	426,888	424,237

9. 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 30th June 2004, the accounts payable included HK\$53,139,000 (year ended 31.12.2003: HK\$41,133,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.

10. Bank loans and overdrafts

	Unaudited 30.6.2004 <i>HK\$ '000</i>	Audited 31.12.2003 <i>HK\$ '000</i>
Bank loans – unsecured		
Wholly repayable within five years	20,000	–
Bank loans – secured		
Wholly repayable within five years	26,542	32,440
Not wholly repayable within five years	9,722	–
	<hr/>	<hr/>
	56,264	32,440
Current portion of long-term bank loans	(32,908)	(11,796)
	<hr/>	<hr/>
	23,356	20,644

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Notes to the Condensed Interim Accounts

10. Bank loans and overdrafts (continued)

At 30th June 2004, the Group's bank loans and overdrafts were repayable as follows:

	Bank loans and overdrafts	
	Unaudited 30.6.2004 HK\$'000	Audited 31.12.2003 HK\$'000
Within one year	48,198	26,425
In the second year	12,907	11,797
In the third to fifth year	6,283	8,847
After the fifth year	4,166	—
	<u>71,554</u>	<u>47,069</u>

11. Share capital

(a) Share capital

	Unaudited Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
<i>Authorised:</i>		
At 1st January 2003, 2004 and 30th June 2004	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 1st January 2003	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>
At 1st January 2004	703,090,000	70,309
Exercise of share options	<u>1,300,000</u>	<u>130</u>
At 30th June 2004	<u>704,390,000</u>	<u>70,439</u>



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Notes to the Condensed Interim Accounts

11. Share capital *(continued)*

(b) Share option

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, the Company has passed an ordinary resolution for the adoption of a new share option scheme (“2002 Share Option Scheme”) in compliance with the amendments made to Chapter 17 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Under the terms of the 2002 Share Option Scheme, the Directors of the Company may, at their discretion, grant options to eligible persons to subscribe for shares in the Company at a price not less than the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet 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.

Particulars and movements of share options which were granted under the 1995 Share Option Scheme and 2002 Share Option Scheme are set out on pages 30 to 31.

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Notes to the Condensed Interim Accounts

12. Reserves

	Unaudited					
	Six months ended 30th June 2004					
	Share premium	Capital redemption	Arising on consolidation	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	131,108	2,078	(36,995)	(343)	396,987	492,835
Exchange difference	–	–	–	24	–	24
Exercise of share options	592	–	–	–	–	592
Profit for the period	–	–	–	–	165,809	165,809
2003 final dividend paid	–	–	–	–	(35,220)	(35,220)
At 30th June 2004	<u>131,700</u>	<u>2,078</u>	<u>(36,995)</u>	<u>(319)</u>	<u>527,576</u>	<u>624,040</u>
Representing:						
Reserves	131,700	2,078	(36,995)	(319)	478,269	574,733
2004 interim dividend proposed (note 5)	–	–	–	–	49,307	49,307
At 30th June 2004	<u>131,700</u>	<u>2,078</u>	<u>(36,995)</u>	<u>(319)</u>	<u>527,576</u>	<u>624,040</u>



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Notes to the Condensed Interim Accounts

12. Reserves (continued)

Unaudited							
Six months ended 30th June 2003							
	Share premium	Capital redemption	Arising on consolidation	Warrants	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	76,289	1,937	(36,995)	17,618	(454)	322,835	381,230
Exchange difference	-	-	-	-	78	-	78
Purchase of own shares	(614)	-	-	-	-	-	(614)
Transfer from retained earnings	-	141	-	-	-	(141)	-
Exercise of warrants	49,516	-	-	(17,027)	-	-	32,489
Release of warrants reserve upon the expiry of warrants	-	-	-	(591)	-	-	(591)
Profit for the period	-	-	-	-	-	30,140	30,140
2002 final dividend paid	-	-	-	-	-	(37,909)	(37,909)
At 30th June 2003	<u>125,191</u>	<u>2,078</u>	<u>(36,995)</u>	<u>-</u>	<u>(376)</u>	<u>314,925</u>	<u>404,823</u>
Representing:							
Reserves	125,191	2,078	(36,995)	-	(376)	304,586	394,484
2003 interim dividend proposed (note 5)	-	-	-	-	-	10,339	10,339
At 30th June 2003	<u>125,191</u>	<u>2,078</u>	<u>(36,995)</u>	<u>-</u>	<u>(376)</u>	<u>314,925</u>	<u>404,823</u>

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Business Review & Outlook

Review

The Group is pleased to report above-expectation performance in the first half ended 30th June 2004. Earnings attributable to shareholders reached HK\$166 million, up 450% from the first half of 2003. Contributing to the profit increase was a 109% surge in revenue to HK\$952 million. In the first half this year, the Group brokered 26,239 property transactions, among which 18,528 were sales transactions, a volume increase of 80% over the first six months of 2003. For the same period, adjusted records* at the Land Registry showed a 76.6% rise in sale-and-purchase agreements. The Group thus had outperformed the market. By successfully translating our positive market forecast into business plan, we were able to ride the crest of the surging tide in property activities and enjoy higher earnings growth than other major market players.

* *The adjusted sale-and-purchase records are based on the revised monthly buy-sell transactions at the Land Registry available only in the month after the reporting period.*

Farsighted Expansion Catches Market Rally

Given its strong financial position and management foresight, the Group was well prepared to expand. Accordingly, we allocated more resources to grow the business, including launching major advertising and promotional programmes. The efforts paid off. We were able to take a lead over industry participants and spearhead further development of the market. As early as in September 2003, we announced our expansion plan of adding 100 branches to reinforce our market share, further our penetration and catch opportunities from a rebound. Between last year-mid to 31st August 2004, our network has expanded from 187 branches to 292. Meanwhile, our personnel increased from about 3,000 to 4,800. Having surpassed our targets with increasing our branch network and employee numbers, we have been able to ride the upturn of the market to broker more transactions and prove the success of our strategy.

The Group also launched flagship stores, a brand new concept in the Hong Kong real estate broking market. Large branches were opened to represent major functional and geographic segments, including retail premises, commercial properties, industrial properties, and the luxury residential sector in Hong Kong, Kowloon and the New Territories. Often spacious and in prominent locations, these branches attracted much attention and served a promotional purpose. More importantly, they drew a number of large-scale transactions and raised the Group's revenue. Recognizing the concept's success, some competitors have taken to opening flagship stores also.



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Business Review & Outlook (continued)

Image Building Peaks with Horse Race Sponsorship

In the first half of this year, the Group started reinforcing raising brand awareness and building a corporate image with a series of campaigns, including television commercials. On 6th June, these promotional activities culminated in the Midland Realty Cup, a first racing event that a real estate agency sponsored jointly with the Hong Kong Jockey Club. The event was a success all around, be it the awareness generated by the advertising ahead of the race, the large attendance at the race, and the post-event market response. Besides strengthening our branding, the race sponsorship also boosted staff morale. We believe certain large-scale property transactions completed not long afterwards were partly the result of this successful image-building exercise.

Market Upturn Benefits Major Players

With market sentiment improving and property segments performing better across the board, the Group is pleased to report a rise in revenue. Since emerging from the doldrums last year, overall property prices have climbed about 50%. With a considerable number of property owners logging substantial profit on paper, Hong Kongers have regained confidence in the property market. According to the latest Hong Kong Monetary Authority tally, the number of residential units with negative asset value in the second quarter this year has dropped 30% to 28,200 from the first quarter. Quite a number of homeowners are now free from the burden of negative assets. It follows that consumers are showing more of a desire to buy homes again. Data collected by the Land Registry also showed an 80% increase in secondary market home sales to 47,886 transactions in the first eight months, compared to the same period last year. Residential resale activities certainly have been picking up.

In the second quarter, property transaction volume dropped noticeably from the first quarter level as the market softened. Even so, the overall home prices came down only slightly. That prices did not tumble was one indication that the market found support at a certain level and that demand for residential property was still substantial. With our extensive branch network, we believe that we are well positioned to attract more customers and source more property listings to increase our market share and improve our returns on investment. We shall continue to demonstrate the clear competitive edge that a major market player enjoys.

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Business Review & Outlook (continued)

Outlook

The Hong Kong economy is clearly on the mend. With prices emerging from a six-year deflationary spiral, consumer confidence in the property market is picking up. Although interest rates may be on the rise in the near future, the costs of borrowing still trend low. The Group is of the opinion that mild upward adjustments in interest rates will not have a dampening effect on the property market. Since the property sales volume fell noticeably in the second quarter, we believe that the market had digested all the negative factors. By the third quarter, the market had resumed an upturn. Given the positive factors emerging, the Group predicts that the bull is about to return and that property sales will surpass the third-quarter level in the fourth quarter. Accordingly, we shall continue to sharpen our competitive edge to ride the crest of the wave and increase our market share.

Market Resumes Upturn

The Beijing Government's various policies to boost Hong Kong's economy are taken positively by prospective property market players. Since the launch of the "solo traveler scheme" allowing mainlanders to visit as individuals rather than members of a tour group, the number of visitors from across the border has increased steadily. With the retail industry and the hospitality trade getting a boost in the arm, both the value and the transaction volume of retail premises in prime shopping areas have been climbing. We believe that as the second phase of the Closer Economic Partnership Arrangement announced is implemented, the integration of economic activities between Hong Kong and its immediate hinterland will be stimulated further, thus expanding the Special Administrative Region's ("SAR") scope of economic activities.

Mainland Enterprises to Bring New Opportunities

On 6th September, China's Ministry of Commerce, and the Hong Kong and Macau Affairs Office of the State Council announced jointly a new investment facilitation policy for Mainland enterprises to invest in Hong Kong and Macau. The new policy essentially would make it easier for smaller mainland companies to set up in the two SARs. In simplifying business setup procedures, Beijing tacitly encourages mainland entrepreneurs to invest in Hong Kong and Macau. In response, Invest Hong Kong, the quasi-government agency responsible for attracting businesses to the city, also launched the free assistance as the welcome mat for mainland enterprises. Office space and relatively upper-scale residential units will be needed to accommodate the companies and their executives. Recognizing the ample opportunities arising from this new policy, the Group recently dedicated a team to offer "One-Stop Service" to mainland business people. These specialists will keep a close tab on the market to take timely action.



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Business Review & Outlook (continued)

Mainland Enterprises to Bring New Opportunities (continued)

On the supply side, only a handful of lots were outlined for auction by guaranteed bids in the first eight months. Moreover, some of these sold sites are unlikely to be developed in 2007. Moreover, the market consensus is that new home supply will decline. Between now and 2007, the annual supply of new homes will be about 19,557, roughly 26.1% below the annual supply of 26,472 units between 1997 to 2003. As demand increases steadily, supply just might not be able to meet demand in 2007. Less new supply will give a boost to the secondary market. With this perspective, the Group has revised upwards twice our forecast of the transaction volume of homes in the secondary market for 2004. With the Land Registry recording a 80% jump in secondary-market sales transactions in the first eight months, compared to an increase of only 13% in primary-market home sales, the Group is confident that the resale market will outperform the rest of the year.

After the Government stopped sales of Home Ownership Scheme units, a number of homebuyers have turned to the private sector for supply. The 95% financing scheme launched recently by the government-backed *Hong Kong Mortgage Corporation* also is making it easier for homebuyers to enter the market. These developments have the combined effect of facilitating the decision making process of potential homebuyers.

In February, we had cautioned that our profit margin could be pinched as developers slashed the commission rate paid real estate agents to market new projects. Fortunately, as more buyers entered the market, the commission income from developers also stabilized.

Seek New Market in Macau

As can be expected, Beijing's policies are benefiting not just Hong Kong but Macau. In fact, Macau's economic performance has been exceptional. As economic ties strengthen between the two SARs, properties in Macau as well as Mainland China will become increasingly popular with investors. With this in mind, the Group will develop the business in Macau while expanding in the hinterland. We opened our first branch in Macau earlier this year and will establish a network as business picks up or as opportunities arise.

The property market has emerged from the doldrums. In fact, the secondary market is rebounding with a substantial increase in resale activities. Given our optimistic view of the market, we shall invest more resources in recruitment, establish more physical locations, and penetrate in full what we deem as the most promising market segments. It is our belief that as the market recovers, real estate agencies will be able to take advantage of numerous opportunities and look forward to good times ahead.

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Business Review & Outlook (continued)

Seek New Market in Macau (continued)

In the coming year, the Group will conduct a multitude of advertising and promotional campaigns to reinforce brand awareness and increase our market share. We plan to sponsor another horse race as well. More than that, in line with our tradition of instilling professionalism among sales agents and employees, we shall spare no effort in providing more training, including courses open to the public, for the benefit of industry aspirants and participants alike.

We estimate that to keep pace with our expansion plan, we shall incur rising expenses in branch rentals, remunerations for additional human resources and other key overhead items. Despite the rise in operating costs, the Group will uphold the policy to maintain a certain profit margin and to control costs steadfastly. At the management level, the Group will restructure the sales division by promoting a number of senior employees to the positions of front-line executive directors. In their new capacity, these executives will strengthen central supervision and coordination between the head office and the various front-line divisions, with the end objective of lifting the Group's market share during the coming bull run and attaining even better returns for shareholders.

Management Discussion and Analysis

Liquidity, Financial Resources and Funding

As at 30th June 2004, the Group had bank balances and cash of HK\$475,041,000, whilst bank loans and overdrafts amounted to HK\$71,554,000. 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\$126,370,000 and with maturity profile set out as follows:

Repayable	HK\$ '000
Within 1 year	48,198
After 1 year but within 2 years	12,907
After 2 years but within 5 years	6,283
After the fifth year	4,166

The Group had unutilised banking facilities amounting HK\$115,733,000 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.



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Management Discussion and Analysis *(continued)*

Liquidity, Financial Resources and Funding *(continued)*

As at 30th June 2004, the gearing ratio of the Group was 10%. 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 the Group's capital commitments and on-going working capital requirements.

Acquisition and Investment

During the period under review, the Company had further acquired 66,258,000 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"). As at 30th June 2004, the Company was interested in 73,922,000 shares in Chun Wo, representing 10.2% of its issued share capital. The total consideration paid for the above acquisition is HK\$74,626,000 (including brokerage fee).

Subsequent to the period under review, the Company also acquired in the open market through broker 3.38% HKSAR Government Bonds B0807 (stock code: 2585) due July 2008 for a total consideration of HK\$11,026,000 (including brokerage fee).

Contingent liabilities

The Company executed corporate guarantees as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries. In addition, the Company guaranteed the payment of operating lease rentals in respect of certain premises for its wholly-owned subsidiaries.

Staff and remuneration policies

As at 30th June 2004, the Group employed 4,662[#] full time employees of which 4,173 were sales agents and 489 were back office supportive 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.

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Interim Dividend

The Directors have resolved to declare an interim dividend of HK\$0.07 per share for the six months ended 30th June 2004 (six months ended 30.6.2003: HK\$0.015). The interim dividend will be paid to shareholders of the Company whose names are recorded on the register of members of the Company as at the close of business on 11th October 2004. Dividend warrants will be dispatched to shareholders of the Company on or about 15th October 2004.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 7th October 2004 to Monday, 11th October 2004 both days inclusive, during which period no transfer of shares may be registered.

In order to qualify for the 2004 interim dividend, all transfer documents accompanied by the relevant share 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 6th October 2004.



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Directors' Interests in Equity or Debt Securities

As at 30th June 2004, 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 Futures 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 Issuers (“Model Code”), to be notified to the Company and the Stock Exchange were as follows:

	Number of ordinary shares/ underlying shares held			Percentage of shareholding
	Personal interests	Corporate interests	Family interests	
Mr WONG Kin Yip, Freddie	29,636,000 <i>(note (a))</i>	117,104,000 <i>(note (b))</i>	–	20.83%
Ms IP Kit Yee, Kitty	810,000 <i>(note (c))</i>	–	–	0.11%
Mr CHEUNG Kam Shing	321,000 <i>(note (d))</i>	–	–	0.05%
Ms LAM Fung Fong	575,000 <i>(note (e))</i>	–	685,000 <i>(note (f))</i>	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) These shares are held by Ms IP Kit Yee, Kitty as beneficial owner.
- (d) These shares are held by Mr CHEUNG Kam Shing as beneficial owner.
- (e) These shares are held by Ms LAM Fung Fong as beneficial owner.
- (f) These shares are held by the spouse of Ms LAM Fung Fong.

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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 the Latest Practicable Date, 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 to be notified to the Company and the Stock Exchange.

Substantial Shareholders' in Equity

As at 30th June 2004, 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	117,104,000	16.62% <i>(note (a))</i>
Southern Field Trading Limited	117,104,000	16.62% <i>(note (b))</i>
J.P. Morgan Chase & Co.	42,154,000	5.98% <i>(note (c))</i>
Universities Superannuation Scheme Limited	37,950,000	5.39% <i>(note (d))</i>



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Substantial Shareholders' in Equity *(continued)*

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 117,104,000 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) The interest of J.P. Morgan Chase & Co. comprises 38,328,000 shares held in a lending pool and 3,826,000 shares held as investment manager.
- (d) Universities Superannuation Scheme Limited is holding the 37,950,000 shares as trustee.

All the interests disclosed above (save and except those 38,328,000 shares held by J.P. Morgan Chase & Co. in a lending pool) represent long position in the shares of the Company.

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Share Option Schemes

Particulars and movements of the share options which were granted under a share option scheme which was adopted on 12th May 1995 (“1995 Share Option Scheme”) are as follows:

Name	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2004	Options exercised during the period	Balance outstanding as at 30th June 2004	Exercisable period
Directors						
Ms IP Kit Yee, Kitty	14th May 2001	0.5088	250,000	250,000 ¹	–	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	250,000	250,000 ¹	–	14th May 2003 to 14th May 2006
Ms LAM Fung Fong	14th May 2001	0.5088	250,000	250,000 ¹	–	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	250,000	250,000 ¹	–	14th May 2003 to 14th May 2006
Sub-total for directors			<u>1,000,000</u>	<u>1,000,000</u>	–	
Continuous contract employee	17th February 2000	0.71	150,000	150,000 ²	–	17th February 2001 to 17th February 2004
	17th February 2000	0.71	150,000	150,000 ²	–	17th February 2002 to 17th February 2005
Sub-total for continuous contract employee			<u>300,000</u>	<u>300,000</u>	–	
Total for directors and continuous contract employee			<u>1,300,000</u>	<u>1,300,000</u>	–	

Note:

1. Exercise date was 26th January 2004. At the date before the options were exercised, the market value per share was HK\$3.200.
2. Exercise date was 21st January 2004. At the date before the options were exercised, the market value per share was HK\$2.875.



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Share Option Schemes *(continued)*

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

There were no share options granted to and exercised by directors and employees in accordance with the terms of the share option scheme adopted on 30th April 2002 (“2002 Share Option Scheme”) during the period and up to the date of the approval of the accounts. As at 30th June 2004, there are no outstanding share options under 2002 Share Option Scheme.

Purchase, Sale or Redemption of Shares

During the six months ended 30th June 2004, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed shares.

Compliance with Model Code

Having made specific enquiry of all Directors of the Company, during the six months ended 30th June 2004, the Directors had strictly complied with the Model Code set out in Appendix 10 of the Rules Governing the Listing of Securities (“Listing Rule”). The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors of the Company.

Compliance with the Code of Best Practice of the Listing Rules

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, save and except that independent non-executive directors are not appointed for a specified term of office but are subject to retirement by rotation and re-election at each annual general meeting in accordance with bye-laws 87(1) and 87(2) of the Company’s Bye Laws.

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Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2004 with the directors.

Publication of Interim Report on the Stock Exchange's Website

All the information required by paragraphs 37(1) to 37(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.midland.com.hk as soon as practicable.

A Word of Thanks

The Group's success is attributable to all staff working together to scale new heights. On behalf of the Directors, let me offer my sincere thanks to all shareholders for their support and to all staff for their dedication.

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

Hong Kong, 21st September 2004