

## CYBER AGENCY STRIDES INTO THE MILLENNIUM

### MIDLAND REALTY (HOLDINGS) LIMITED INTERIM REPORT 1999

#### INTERIM RESULTS

The Board of Directors (the "Directors") of Midland Realty (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 1999 together with unaudited comparative figures for the corresponding period in 1998 as follows:

	Six months ended 30th June	
	1999	1998
	HK\$'000	HK\$'000
Turnover	406,986	434,719
Operating profit/(loss) (Note 1)	22,734	(23,064)
Share of loss of a jointly controlled entity	(580)	(331)
Profit/(loss) before taxation	22,154	(23,395)
Taxation (Note 2)	324	(107)
Profit/(loss) after taxation	22,478	(23,502)
Minority interests	(891)	779
Profit/(loss) attributable to shareholders	21,587	(22,723)
Earnings/(loss) per share (Note 3)	HK3.64 cents	HK(3.82) cents

Notes:

**1. Operating profit/(loss)**

The operating loss of 1998 was stated after the provision for closure costs of HK\$26,696,000 in respect of branches closed or in the process of closing.

**2. Taxation**

	Six months ended 30th June	
	1999	1998
	HK\$'000	HK\$'000
Hong Kong profits tax	(5,255)	(580)
(Under)/over-provision in prior years	(177)	473
10% tax rebate for 1997/1998	5,756	-
	324	(107)

Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profits for the period.

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/(loss) per share**

- (a) The calculation of earnings per share for the six months ended 30th June 1999 is based on the profit attributable to shareholders of HK\$21,587,000 (1998: loss of HK\$22,723,000) and the weighted average of 593,022,713 (1998: 595,104,171) ordinary shares in issue during the period.
- (b) The outstanding share options of the Company do not result in a dilution effect on the earnings per share in respect of the six months ended 30th June 1999 and the corresponding period ended 30th June 1998.

#### INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1.5 cents per share for the six months ended 30th June 1999 (1998: Nil). 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 14th October 1999. Dividend warrants will be dispatched to shareholders of the Company on or about 21st October 1999.

#### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 12th October 1999 to Thursday, 14th October 1999, both day inclusive, during which period no transfer of shares may be registered.

In order to qualify for the 1999 interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrars, Abacus Share Registrars Limited, for registration, not later than 4:00 p.m. on Monday, 11th October 1999. (Address at 10th Floor, Caroline Centre, 28 Yun Ping Road, Causeway Bay, Hong Kong until Monday, 27th September 1999 and at 2401, Prince's Building, Central, Hong Kong with effect from Tuesday, 28th September 1999).

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### MIDLAND REALTY (HOLDINGS) LIMITED INTERIM REPORT 1999

#### REVIEW & OUTLOOK

For the first half ended 30th June 1999, the Group reported profit attributable to shareholders of HK\$21,587,000 a clear improvement over the loss of HK\$22,723,000 sustained in the same period of last year. In the same period, revenue dropped slightly by 6% to HK\$406,986,000.

Hong Kong's property market finally halted the downtrend in the first half of 1999, after falling drastically throughout 1998. While transaction volume stabilised, property prices remained soft. The Land Registry recorded 59,080 transactions in the first half of 1999, an increase of 7% over the year-ago level. However, transaction value shrank 17.2% to HK\$152,330,000,000. During the reporting period, the Group brokered 13,983 transactions, of which 3,733 were homes sold on behalf of developers. Compared to the second half of 1998, primary market properties that the Group helped broker edged up 6.7% in volume terms.

In the first half of 1999, the Group doggedly went about reducing rental expenses. We managed to shave rents by 8% to 85% at 45 branches either by renegotiating for less expensive leases or moving to premises of lower rents nearby. On the average, we reduced rental payment by HK\$1,200,000 per month. As the market stabilised, we also took the opportunity to open branches on lower rents so that by the end of June 1999, we counted 140 branches in our network.

To meet new market forces and stimulate productivity, the Group launched a new commission scheme in May 1999. Instead of basing the commission on the total revenue of a branch, the average revenue of each agent is the new basis for calculating remuneration. This new scheme not only reflects more accurately the productivity of each branch but helps branch managers quantify the deployment of human resources as well. Thus the objectives of improving performance and reducing payroll are met.

The property agent licensing regulation came into effect in January 1999. Having been prepared over a long period, 90% of our agents who took the first examination in March 1999 passed. Among them, four even passed with distinctions. In June 1999, the "Cyber Campus of Midland Realty" opened officially to teach licensing courses. The school is opened not just to our own agents but anyone interested in joining the real estate broking field. In organising courses, the Group is able to educate a new generation of professional agents and recruit the cream of the crop among them. The course materials have been compiled into the "*Estate Agents' Essential Guide*". We are planning a second edition following a successful launch.

#### BUSINESS PLAN AND OUTLOOK

In the new millennium, the real estate industry must keep up with technological advancement to survive. Recognising this, management launched the "Midland Realty Cyber Agency" early in the year. The cyber agency will integrate internet technology with the Group's established intranet to upgrade the productivity of agents in their daily routines and improve competitiveness.

Internet is crucial to the development of a cyber agency. To start with, we are committed to developing our Web site. The first step was to provide more property information to the public for free browsing. Then we proceeded to creating a "One-stop servicing centre" to expand our business opportunity and raise our leading position. With the successful completion of phase 1, the number of visitors to our site jumped 67% in July 1999 from the end-1998 level. Currently in phase 2, we are devoting efforts to add such services as home viewing and shopping for mortgages on the internet. Our cyber agency offers a comprehensive range of topics as "Cyber Search", "M-Loan", "E-property Services" and "D-I-Y Property". The Group is seeking strategic alliances actively to offer value-added services via internet.

In line with the many different mortgage packages offered by various banks, the Group set up Midland Realty Mortgage Broker Limited (M-Loan) to customise for home buyers a series of mortgage loan packages. The mortgage broking agency is a win-win situation for the Group and its customers. While customers can obtain mortgage financing on the best terms, the Group now has another source of income. Until early September 1999, the mortgage broking agency had lined up nearly 10 banks as business associates, earning commission rebate of as high as 0.6% of the mortgage value. Meanwhile, the Group aims to advertise more on the net to reduce its classified advertising and achieve savings.

Under the new licensing law, all agencies must adopt Government-approved standard documentation by November 1999. To observe this rule, an agency must deploy substantial human and financial resources so it is believed that the smaller agencies face huge operating pressure. The Group already set up a committee to phase in the documentation requirement. Meanwhile, the Cyber Campus of Midland Realty launched a web-course recently. Both our own agents and members of the public now may study real estate licensing courses on the internet, letting the group recruit more elite.

In the fourth quarter, we project that the property market will stabilise with gradually increases on transactions. Competition will escalate among real estate agencies so that the strong will dominate further over the weak to wean out yet another group of participants. To comply with the many rules under the new system, with the ultimate effect of raising professional standards, agencies will have to be financially sound. Given their limited financial resources, the smaller agencies will be at a disadvantage. As more agencies close down, the Group will expand strategically and steadfastly by negotiating low rents to open more branches, thus achieving the objectives of increasing market share and profitability.

#### COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the six months ended 30th June 1999, the Company was in compliance with the Code of Best Practice as set out in 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 in Paragraph 7 of Appendix 14 "Code of Best Practice" of the Listing Rules. According to the By-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.

The Company has set up an Audit Committee in 1998, 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. The Audit Committee has conducted two meetings this year to review the accounting principles and practices adopted by the Group and to discuss auditing and financial reporting matters.

#### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 1999 the interests of the directors and chief executives in the shares and options of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

##### 1. Interests in Share Capital

	Number of ordinary shares beneficially held		Percentage of holding
	Personal interests	Corporate interests	
Mr. Wong Kin Yip, Freddie	12,500,000 [note (a)] 10,572,000	162,500,000 [note (c)]	31.27%
Mr. Fung Yui Sum	12,500,000 [note (b)]	42,410,000 [note (d)]	9.25%
Ms. Ip Kit Yee, Kitty	310,000	-	0.05%
Mr. Cheung Kam Shing	300,000	-	0.05%

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

(b) These shares are held by Everchamp Consultants Limited in trust for Mr. Fung Yui Sum.

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

(d) These shares are owned by Everchamp Consultants Limited, a private company controlled by Bright News Limited through Bright Coin Trading Limited.

(e) Bright News Limited is wholly and beneficially owned by the Billy Fung Family Trust, a discretionary trust, the discretionary objects of which include Mr. Fung Yui Sum and his family members.

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

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#### 2. Interests in Share Options

Particulars and movements of share options to certain directors and chief executives of the Company were as follows:-

Name	Date of grant	Exercise price HK\$	Balance	Options granted during the period	Options exercised during the period	Options cancelled during the period	Balance	Exercisable period
			outstanding as at 1st January 1999				outstanding as at 30th June 1999	
Mr. Wong Kin Yip, Freddie	13th May 1997	2.91	1,500,000	Nil	Nil	Nil	1,500,000	13th May 1997 to 13th May 2000
Mr. Fung Yui Sum	13th May 1997	2.91	1,500,000	Nil	Nil	Nil	1,500,000	13th May 1997 to 13th May 2000
Ms. Ip Kit Yee, Kitty	13th May 1997	2.91	500,000	Nil	Nil	Nil	500,000	13th May 1998 to 13th May 2001
		2.91	500,000	Nil	Nil	Nil	500,000	13th May 1999 to 13th May 2002
Mr. Cheung Kam Shing	18th October 1996	1.44	825,000	Nil	Nil	Nil	825,000	18th October 1997 to 18th October 2000
		1.44	850,000	Nil	Nil	Nil	850,000	18th October 1998 to 18th October 2001
Total			<u>5,675,000</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>5,675,000</u>	

#### SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30th June 1999 the register of the Company's substantial shareholders required to be kept under section 16(1) of the SDI Ordinance showed that other than the interests of the Directors disclosed above, the Company had not been notified of any interest amounting to 10% or more of the Company's listed shares.

#### PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 1999, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

#### YEAR 2000 COMPLIANCE

The well-known Y2K problem will affect older computer systems that go by the two-digit date-recording setup. With the arrival of 2000, these computers will have trouble reading the correct year. All date-related data will be affected on the old systems and wreak havoc for a business.

Since mid-1998, a committee spearheaded by our MIS Department has been at work to meet the Y2K challenge. The committee reports regularly on progress to the Associate Director (Finance). All items on the agenda basically have been addressed on schedule by the end of June 1999. The tasks achieved include: identifying all systems or equipment that will be affected, assessing and testing such systems or equipment, devising appropriate remedial action, arranging to introduce new hardware or service, and rectifying affected systems. All main systems and electronic equipment in the Group are Y2K compliant. Less than 1% of the peripheral equipment still requires further action, which the committee expects to complete by the end of September 1999. The Group is confident that operations will not be impacted by the millennium bug materially. A revised budget of HK\$800,000 was allocated for upgrading, rectifying and replacing hardware and software. As of 30th June 1999, HK\$350,000 has been paid, services committed and equipment purchased but not yet settled amounted to HK\$320,000. According to general accepted accounting practices, the expenditures will be capitalised.

#### IN CONCLUSION

On behalf of the Board, I hereby thank the staff and shareholders for the continuing supports.

By Order of the Board  
Wong Kin Yip, Freddie  
Chairman

Hong Kong, 21st September 1999