

# MIDLAND REALTY (HOLDINGS) LIMITED

## INTERIM REPORT 2000

### 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, 2000 together with unaudited comparative figures for the corresponding period in 1999 as follows:

		<b>Six months ended 30th June</b>	
		<b>2000</b>	<b>1999</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		343,674	406,986
Other revenues		8,040	8,764
Other income		5,993	334
		<hr/>	<hr/>
Operating costs		357,707	416,084
Deficit arising on revaluation of investment properties		(325,470)	(385,035)
		<hr/>	<hr/>
		(5,959)	(1,450)
Operating profit		26,278	29,599
Finance costs		(6,267)	(6,865)
Share of profit /(loss) of a jointly controlled entity		534	(580)
		<hr/>	<hr/>
Profit before taxation		20,545	22,154
Taxation (charge) / credit	<i>1</i>	(3,892)	324
		<hr/>	<hr/>
Profit after taxation		16,653	22,478
Minority interests		(341)	(891)
		<hr/>	<hr/>
Profit attributable to shareholders		<u>16,312</u>	<u>21,587</u>
Earnings per share	<i>2</i>		
Basic		<u>HK 2.75 cents</u>	<u>HK 3.64 cents</u>
Diluted		<u>HK 2.59 cents</u>	<u>N/A</u>

Notes:

#### 1. Taxation (charge)/credit

	<b>Six months ended 30th June</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	(3,720)	(5,255)
Under provision in prior years	(172)	(177)
10% tax rebate for 1998/1999	-	5,756
	<hr/>	<hr/>
	<u>(3,892)</u>	<u>324</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit 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 estimated assessable or taxable profits calculated in accordance with the tax laws of the countries in which they operate.

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### 2. Earnings per share

The calculation of the basic and diluted earnings per share for the six months ended 30th June, 2000, together with comparative figures for 1999, is based on the following data:-

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Earnings:		
Basic earnings – profit attributable to shareholders	16,312	21,587
Number of shares		
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	593,323,000 shares	593,023,000 shares
Effects of dilutive potential ordinary shares		
Outstanding warrants	35,518,000 shares	N/A
Share options	207,000 shares	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	629,048,000 shares	N/A
Basic earnings per share	HK 2.75 cents	HK 3.64 cents
Diluted earnings per share	HK 2.59 cents	N/A

### INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1.0 cent per share for the six months ended 30th June, 2000 (1999: HK1.5 cents). 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, 2000. Dividend warrants will be dispatched to shareholders of the Company on or about 17th October, 2000.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 9th October, 2000 to Wednesday, 11th October, 2000, both days inclusive, during which period no transfer of shares may be registered.

In order to qualify for the 2000 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 at 2401, Prince's Building, Central, Hong Kong not later than 4:00 p.m. on Thursday, 5th October, 2000.

Registered holders of the Company's warrants who wish to exercise their subscription rights attaching to their warrants so as to participate in the 2000 interim dividend should complete and sign the subscription forms and lodge the same together with the relevant warrant certificates and the appropriate subscription moneys with the Company's Hong Kong Branch Registrars at the above address not later than 4:00 p.m. on Thursday, 5th October, 2000.

### BUSINESS REVIEW

For the six months ended 30th June, 2000, the Group recorded turnover of HK\$343,674,000, a decline of 16% from the same period in 1999. Profit attributable to shareholders fell 24% to HK\$16,312,000, basic earnings per share is HK2.75 cents. The Directors recommend an interim dividend of HK1.0 cent.

Pressured by repeated interest rate hikes and plentiful new supply, developers were driven to launch uncompleted units at low prices in the first half. Home prices in the secondary market fell in tandem to test new lows. With only 40,683 purchase and sale agreements registered at the Land Registry in the first half, the sale volume plunged 31% from the year-ago level of 59,080 transactions. Meanwhile, the total value of properties transacted had decreased 30% to HK\$105.9 billion. In that period, the Group was responsible for broking 13,324 transactions, a slight decline of 5% from the year-ago volume. Of these transactions, 51% pertained to purchase and sale, while 49% were leases.

Due to prudent management, the Group was able to out perform the market. In a difficult market, management went by the strategy of maintaining the bottom line while keeping an eye out for growth opportunity. In terms of cost reduction, the Group continued to shave rental expenses by negotiating better renewal terms and/or moving to nearby lower-rent premises. In the first half, the Group got commitments from landlords and developers to reduce rent for 20 premises by a range of 2% to 81%. Meanwhile, the Group also made provisions for its investment properties. Profit before taxation (excluding deficit arising on revaluation of investment properties) up 12% from the same period last year to HK\$26,504,000. Operating profit margin (excluding deficit arising on revaluation of investment properties) increases from 7.6% in the first half of 1999 to 9.4% in the current period.

In terms of business expansion, the Group steadfastly broadened its income base in the reporting period. *m-Loan*, the cyber mortgage referral agency, grew and contributed a respectable amount of income. Advertising on the Midland CyberNet also began to gain advertisers' attention. The Group projects that as Hong Kong's economy recovers, this will be one of its major and steady sources of income.

In less than two years, the Group was able to complete its plan to restructure for greater efficiency. It is now in a better position than the average competitor to benefit early from the market's recovery. On 30th June, 2000, the Group acquired Hong Kong Property Services (Agency) Limited, a subsidiary of Cheung Kong (Holdings) Limited ("Cheung Kong"), and raised the market share substantially. Meanwhile, Cheung Kong acquired through a wholly owned subsidiary 20% of Midland CyberNet Limited, the Internet business vehicle of Midland Realty Group. The Group has plans to list Midland CyberNet Limited which specializes in developing agency and e-commerce via Internet.

In the first half, the Group extended its business overseas. An alliance was formed between Midland CyberNet Limited and Singapore's iProperty Pte Ltd. to provide B2B (business-to-business) application software programming. By forming an Internet real estate databank and hyperlinking to each other's web site, the allies are able to list and promote Hong Kong and Singapore properties via Internet, with synergistic results.

The Group is pleased to report that as it adds to the scope of its Internet-related business, its web site is gaining public recognition for various achievements. Our Midland CyberNet is a classic example how the old economy melds successfully into the new economy. Early this year, the Group's web site was awarded a commendation as one of the ten Best Local Web sites in "Hong Kong Web Awards 2000" organized by Commercial Radio. The Hong Kong Chamber of Commerce also accredited it with the Web Marketing Excellence Award in its the Internet Commerce Expo.

## BUSINESS PLAN AND OUTLOOK

### *A Visionary Approach to Catch Growth Opportunities and Power Up*

Historically, the Group takes a forward-thinking approach. We are prepared at all times to expand when opportunity strikes so as to increase market share and improve profitability. In the past two years, the real estate agency industry went through a major shakeout with nearly 15,000 lesser agents or half of the practitioners throwing in the towel. A number of unprofitable real estate agencies also went under. In contrast, by taking a prudent approach, the Group has been able to grow from strength to strength. The Group is now the largest real estate agency in Hong Kong and the only one listed on the main board. As of today, the Group has 173 branches in its network.

### *Positive Outlook: Home Prices to Firm Notably*

As the property market's outlook improves, the Group will continue with its policy of interchanging offensive with defensive moves to gain new grounds. Consumer confidence is on a rebound because of the Government's public admission that it had all but dropped the target of supplying 85,000 housing units a year. It also helped that the Housing Authority cut back on the sale of Home Ownership Scheme units and the Mortgage Insurance Scheme received good response. Given these circumstances, the Group believes that the secondary market will recover and that home prices will rise considerably in the next two years. The Group is standing by to take up expansion opportunities as they arise.

### *Network and Sales Force Expansion*

To start with, the Group will open more branches in strategic locations to penetrate further the various districts and property segments. This will have the effect of increasing market share. In the process, the Group will draw up a network expansion policy and recruit experienced agents. Training will be enhanced to cater for the expected increase in personnel. Moreover, the Group will seek strategic alliances proactively with a view towards landing more business as the exclusive agency for property projects.

### *Information Technology: Synergy in Property Broking*

To diversify its income base, the Group intends to develop further its e-commerce business. In September 2000, the Group formed an equal, three-way partnership with Cheung Kong and American Express Bank Limited to launch "mReferral Corporation Limited". This Internet portal will offer customers a wide range of services – from property to personal finance to lifestyle and entertainment. It promises to be the most comprehensive of portals in its category. Meanwhile, Midland CyberNet launched "CyberMall", which offers a wide range of merchandise, and "m-Insurance" with a selection of insurance products. Upcoming features will include "i-Shop" and "m-Search" for property data.

### *Increasing Presence in the People's Republic of China ("PRC")*

China is about to enter the "World Trade Organization". At the same time, a clear trend has emerged for Hong Kong people to buy homes across the border. Demand is on the rise in the PRC property market. The Group will strengthen its operations in the PRC and expand in both the primary and secondary market for residential and commercial properties. Besides real estate broking, the Group will strengthen its role as project managers. To catch the boom, the Group has plans to open a branch shortly in the key autonomous administrative regions of Beijing and Chongqing respectively in order to catch up this business opportunity.

Property transactions will increase notably as the market recovers in the second half. The Group looks forward to considerably improved performance and better return for shareholders. Its position as an industry leader will be strengthened as various strategies are implemented to foster growth.

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June, 2000 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)) 12,678,000	162,500,000 (note (b))	31.60%
Ms. Ip Kit Yee, Kitty	310,000	–	0.05%
Mr. Cheung Kam Shing	500,000	–	0.08%

Notes:

- (a) These shares are held by Sunluck Services Limited in trust for Mr. Wong Kin Yip, Freddie.
- (b) These shares are owned by Sunluck Services Limited, a private company controlled by Mr. Wong Kin Yip, Freddie through Southern Field Trading Limited.

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.

#### 2. Interests in Share Options

Particulars and movements of share options to certain directors of the Company were as follows:–

Name	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2000	Options granted during the period	Options exercised during the period	Options lapsed during the period	Balance outstanding as at 30th June 2000	Exercisable period
Mr. Wong Kin Yip, Freddie	13th May, 1997	2.91	1,500,000	Nil	Nil	1,500,000	Nil	13th May, 1997 to 13th May, 2000
	15th May, 2000	0.5312	Nil	1,300,000	Nil	Nil	1,300,000	15th May, 2000 to 15th May, 2003
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			4,175,000	1,300,000	Nil	1,500,000	3,975,000	

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

At 30th June, 2000 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, 2000, the Company purchased a total of 500,000 of its own shares through The Stock Exchange of Hong Kong Limited (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\$	
May, 2000	<u>500,000</u>	0.58	0.52	<u>273</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 capital redemption reserve.

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

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

Throughout the six months ended 30th June, 2000, 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 (the "Listing Rules") except that non-executive directors are not appointed for a specified term as recommended in Paragraph 7 of Appendix 14 "Code of Best Practice" of the Listing Rules. According to the Bye-laws of the Company, 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.

**IN CONCLUSION**

Lastly, I thank sincerely for the staff and the shareholders for their continued supports.

By Order of the Board  
**Wong Kin Yip, Freddie**  
*Chairman and Managing Director*

Hong Kong, 18th September, 2000