

An aerial view of a dense city skyline, likely Hong Kong, with numerous skyscrapers and buildings. The image is overlaid with a semi-transparent yellow filter. The text is positioned in the upper left quadrant.

# **Midland Holdings**

## 2017 Annual Results

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# Agenda

- Financial Highlights
- Business Overview
- Prospects
- Q&A



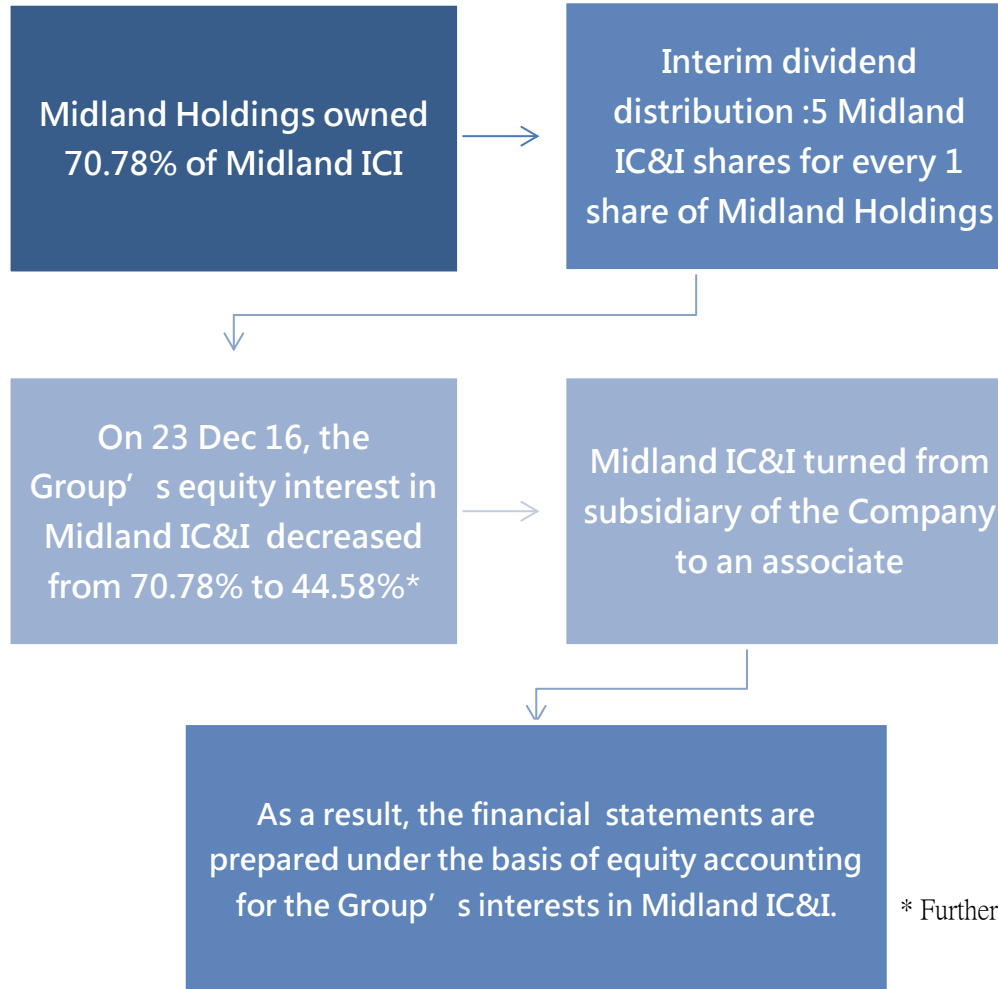
# 2017 Final Results Highlights

	2017 (HK\$' 000)	2016 (HK\$' 000)	2017 Vs 2016	2016 (HK\$' 000) Adjusted*	2017 Vs 2016 Adjusted
Revenue	5,294,115	5,076,148	+4.3%	4,689,998	+12.9%
Operating Costs	5,115,471	5,054,855	+1.2%	4,687,252	+9.1%
Operating Profit	192,080	37,489	+412.4%	18,011	+966.5%
Profit Attributable to Equity Holders	193,452	10,549	+1,700% (approx)	N/A	N/A

\*As a result of the payment of interim dividend by the distribution of the shares of Midland IC&I Limited ( "IC&I" ), IC&I has turned from a subsidiary to an associate of the Group. For comparison purpose, the adjusted figures for 2016 are presented on the basis of equity accounting for the Group' s interests in Midland IC&I.

# Midland IC&I turned from subsidiary to an associate

## Payment of interim dividend



\* Further fell to 33.84% in late March 2017



# Reasons for the improvements

## RESULTS IMPROVEMENTS

- Consolidated net profit attributable to equity holders of approximately HK\$193million
- An increase of about 1,700% as compared with that of approximately HK\$11 million for the year of 2016

## REASONS:

01

The year-on-year increase in market transaction activity of HK residential market in the year of 2017

02

The increase in market share in the HK residential market.

03

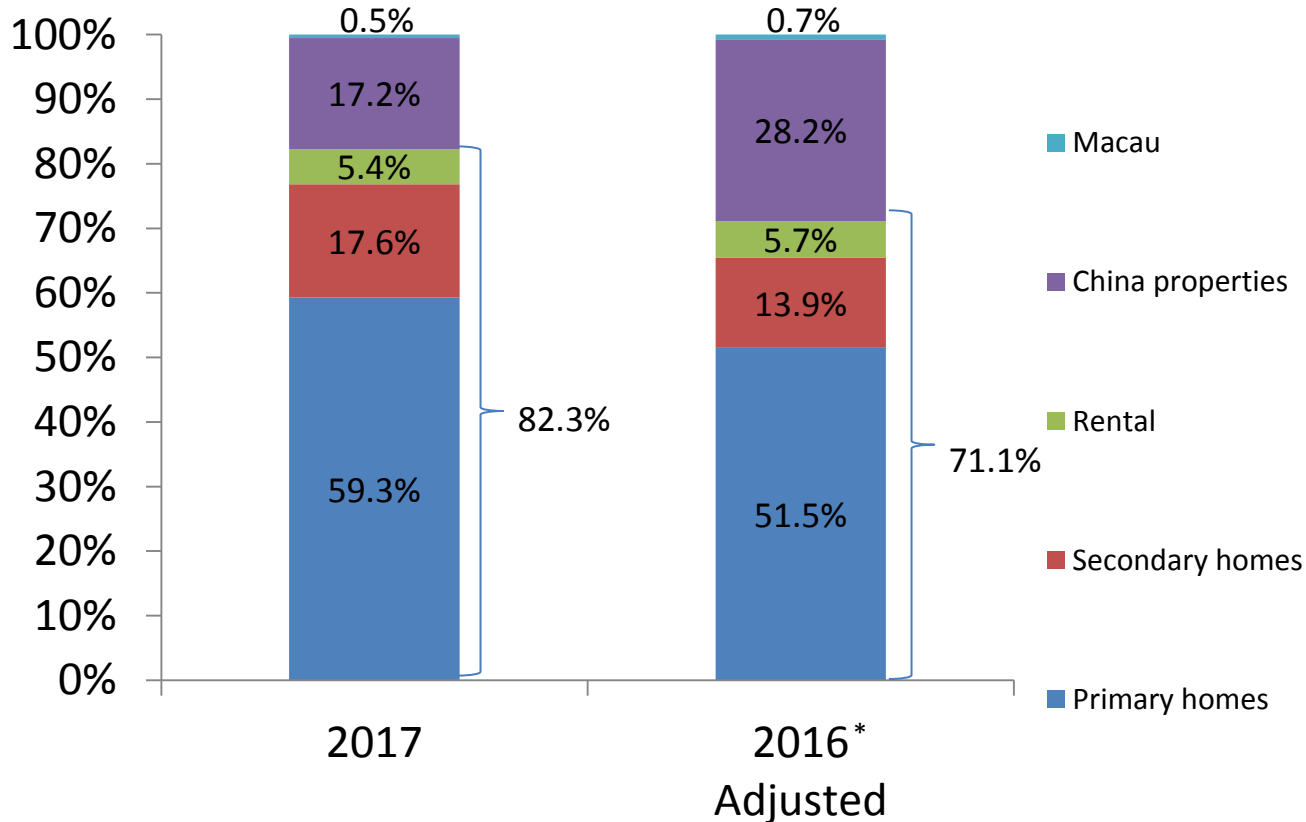
Effective reallocation and efficient utilization of resources

04

The implementation of costs control measures in response to the property market slowdown and challenging operating environment in major cities of mainland China.

# Key financial highlights - Revenue

- Revenue from HK residential market rose 31.7% while the transaction value of the overall residential market increased 30%#
- Revenue from secondary market increased more than that from primary market
- Revenue from the mainland operation fell because of the market slowdown in Shenzhen



As a result of the payment of interim dividend by the distribution of the shares of Midland IC&I Limited ( "IC&I" ), IC&I has turned from a subsidiary to an associate of the Group. Accordingly, IC&I's revenues are not included in the set of figures of 2017

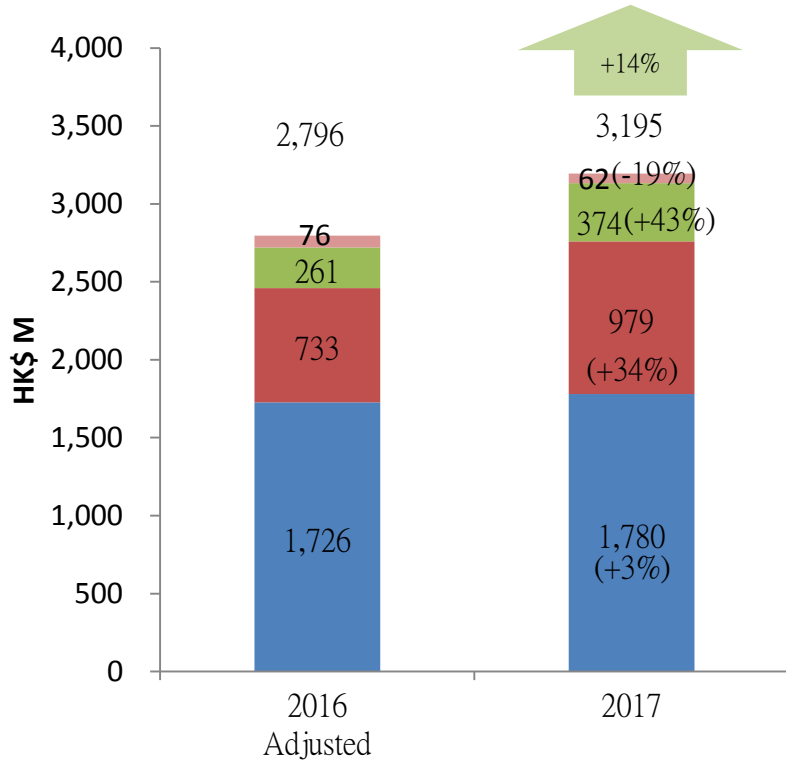
\*For comparison purpose, the adjusted figures for 2016 are presented on the basis of equity accounting for the Group's interests in Midland IC&I.

# Transaction value of the overall property market, including non-residential properties, increased 36.3%



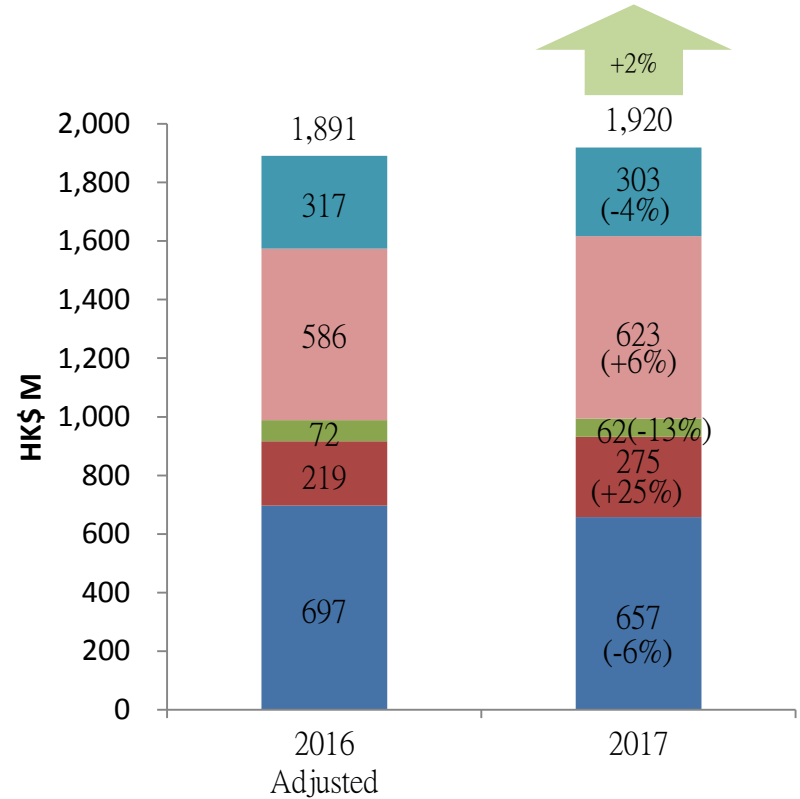
# Key Financial Highlights – Variable Vs Hard

## Variable Costs



- Impairment of Receivables
- Rebate Incentives: To Co-operative Estate Agents
- Rebate Incentives: To Customers
- Staff Commissions

## Hard Costs



- Frontline Staff Salaries
- Advertisements & Promotions
- Other Operating Costs
- Non Sales Salaries
- Rent

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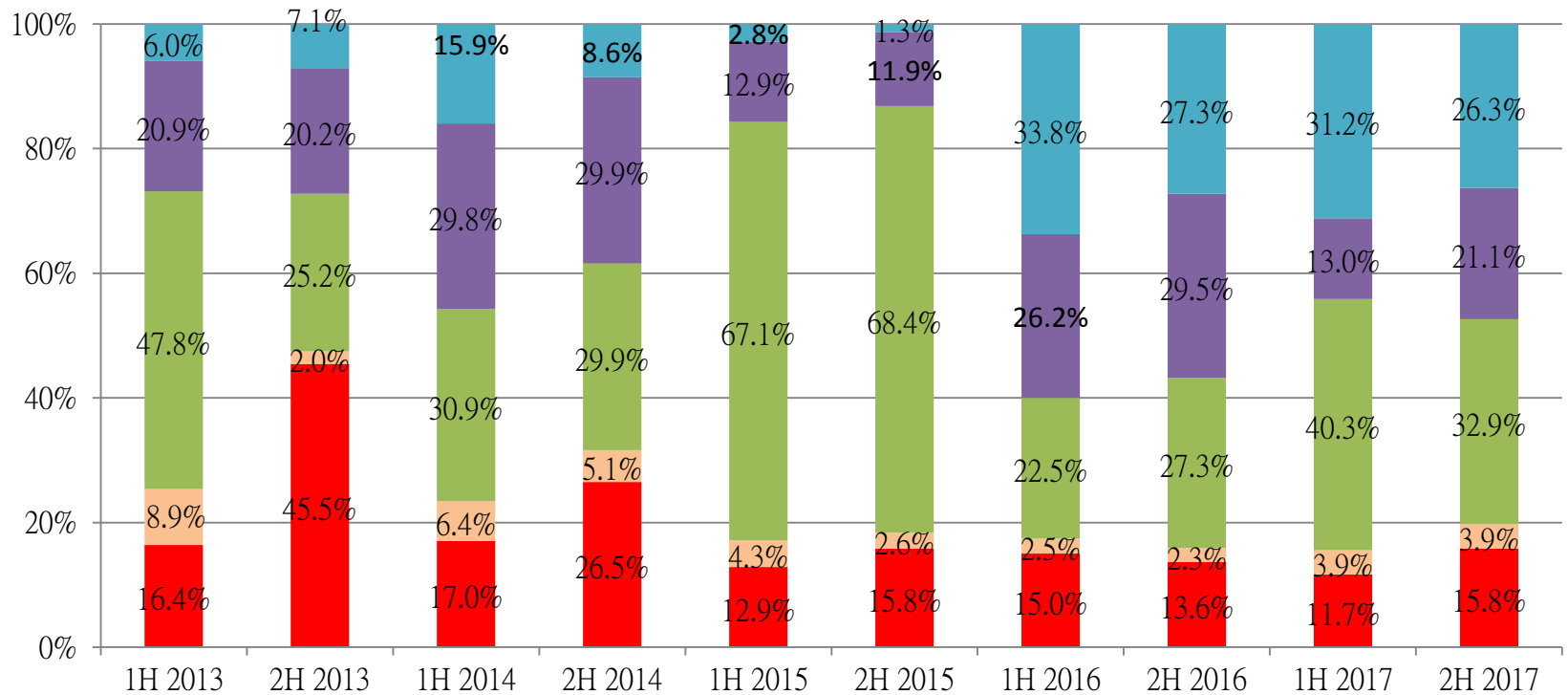


## Changes in Costs

(HK\$ '000)	2017	2016	2017 Vs 20 16	2016 Adjusted	2017 Vs 2016 Adjusted	Reasons
Advertisements & Promotions Promotions	62,319	85,431	-27.1%	71,633	-13.0%	Change in focus in Hong Kong and savings in the savings in the Mainland China
Rent	623,216	622,481	0.1%	586,377	6.3%	Mild expansion of the HK operation
Frontline Staff Salaries	657,258	760,870	-13.6%	696,669	-5.7%	Drop in the number of sale staff in the Mainland Mainland China
Staff Commissions	1,780,432	1,866,826	-4.6%	1,725,569	3.2%	Increase in revenue and increase in payout due to payout due to the progressive nature of commission scale
Non Sales Salaries	274,745	257,802	6.6%	219,419	25.2%	More than half of the increase was driven by the by the increase in market activities, 1. Increase in Increase in bonus payment as a result of improvement of profitability. 2. Increase in the in the number of supporting staff at branch level branch level due to expansion
Impairment of Receivables	61,749	97,126	-36.4%	76,097	-18.9%	Stable market conditions
Rebate Incentives: To Customers Customers	979,195	757,057	29.3%	733,548	33.5%	Total rebate incentives increased 36% : 1. Revenue from primary residential market market increased 29%.
Rebate Incentives: To Co- operative Estate Agents	373,346	257,373	45.1%	260,827	43.1%	2. Keen competition
Other Operating Costs	303,211	349,889	-13.3%	317,113	-4.4%	Effective cost control efforts

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# HK operation : Negotiations on leases

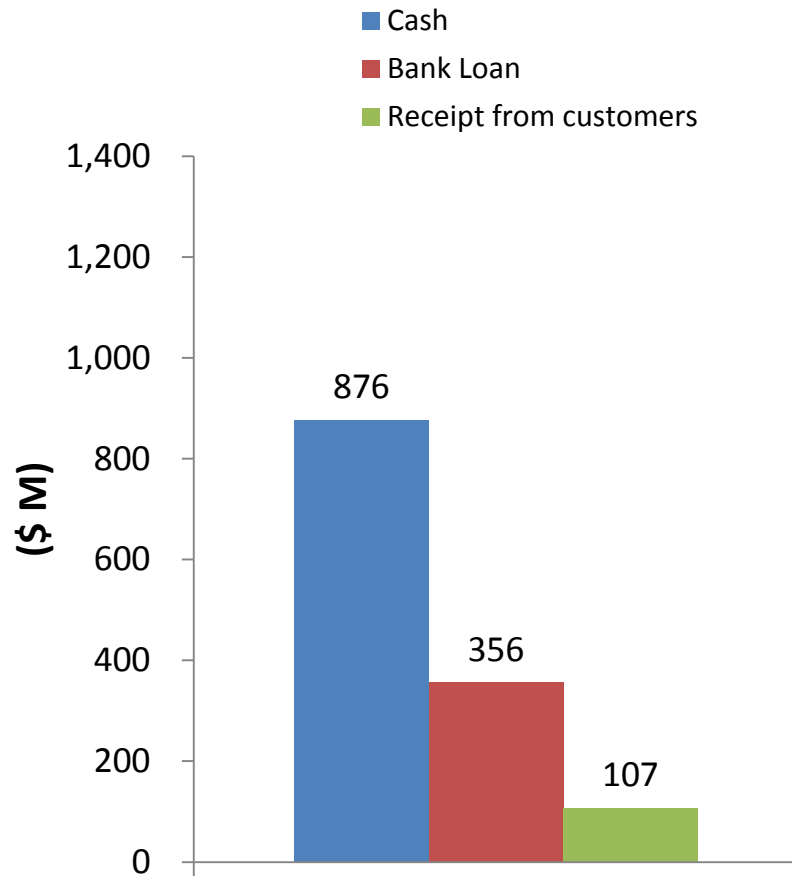


■ Closed 
 ■ Relocation 
 ■ Renewed with Rental Increase 
 ■ Renewed with No Change in Rent 
 ■ Renewed with Rental Reduction

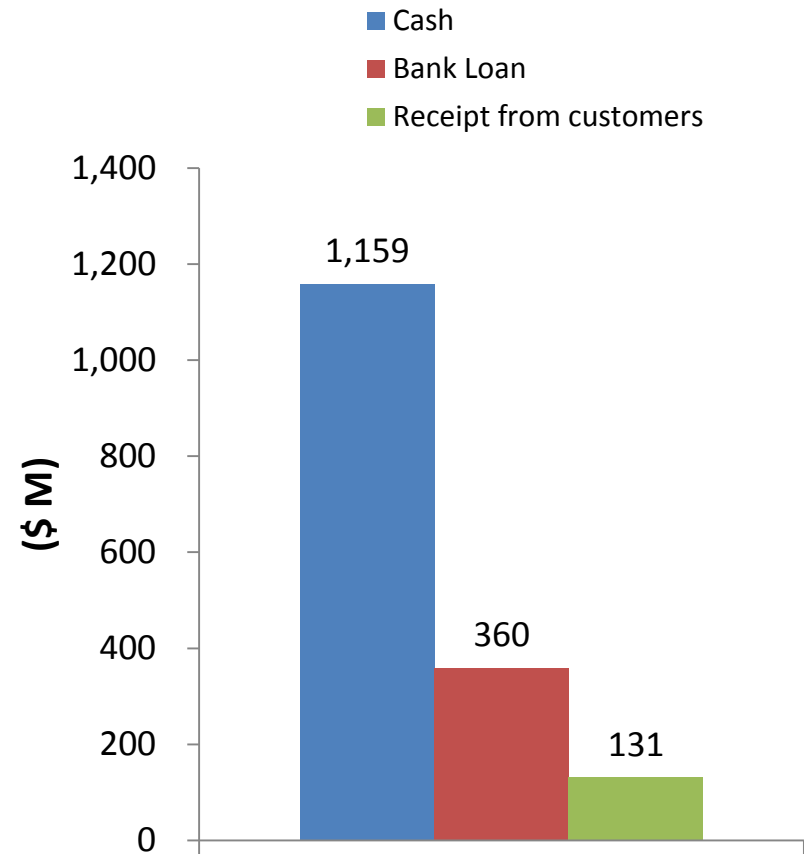


# Increase in Net Cash

2016 End



2017 End



# Payment of Dividend

Year	Dividend (\$M)	Special Dividend (\$M)	Total Dividend (\$M)	Dividend Payout Ratio
1995	31	-	31	40%
1996	125	-	125	42%
1997	66	-	66	30%
1998	30	118	148	1476%
1999	18	-	18	35%
2000	18	-	18	34%
2001	14	-	14	34%
2002	6	35	41	N.A.
2003	46	-	46	37%
2004	136	-	136	41%
2005	86	-	86	40%
2006	73	-	73	49%
2007	271	73	344	52%
2008	54	-	54	N.A.
2009	444	145	589	85%
2010	341	85	426	80%
2011	161	60	221	165%
2012	175	-	175	70%
2013	0	-	0	0%
2014	0	-	0	0%
2015	0	-	0	0%
2016	169 *	0	169*	1536%
2017	36	-	36	19%

The payment of interim dividend by the distribution of the shares of Midland IC&I Limited ( “IC&I”)

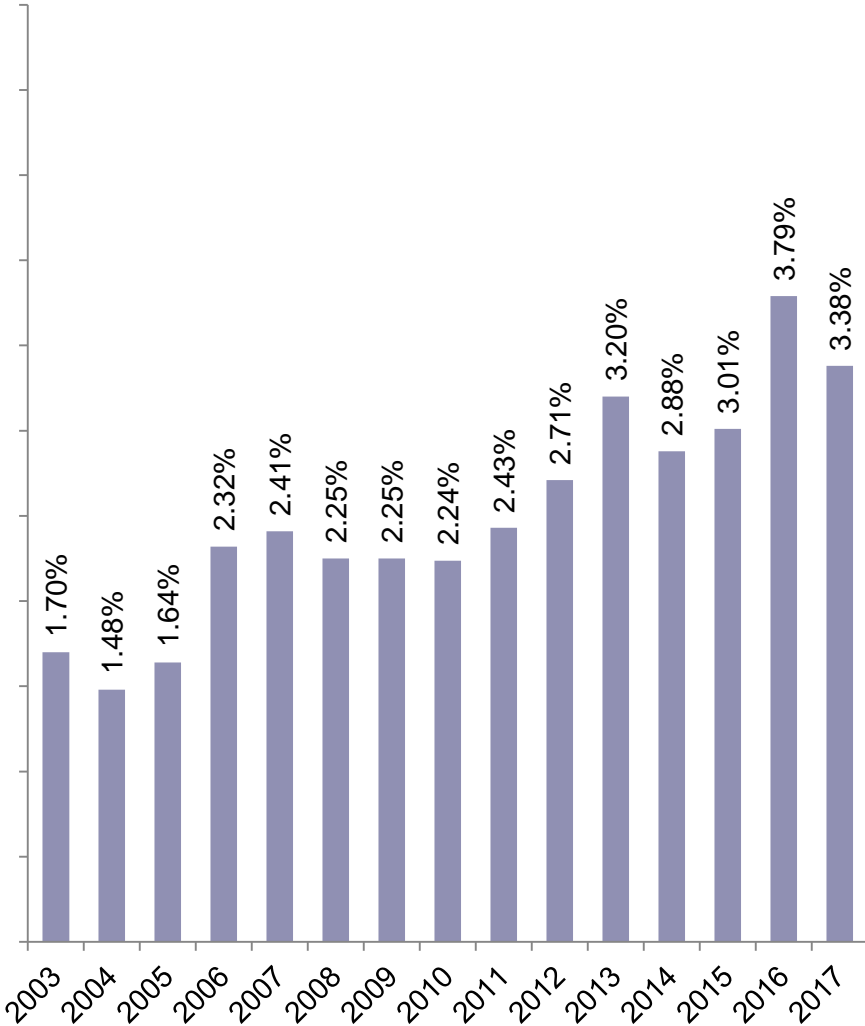
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# Commission Rate\*

As a % of New Property Price

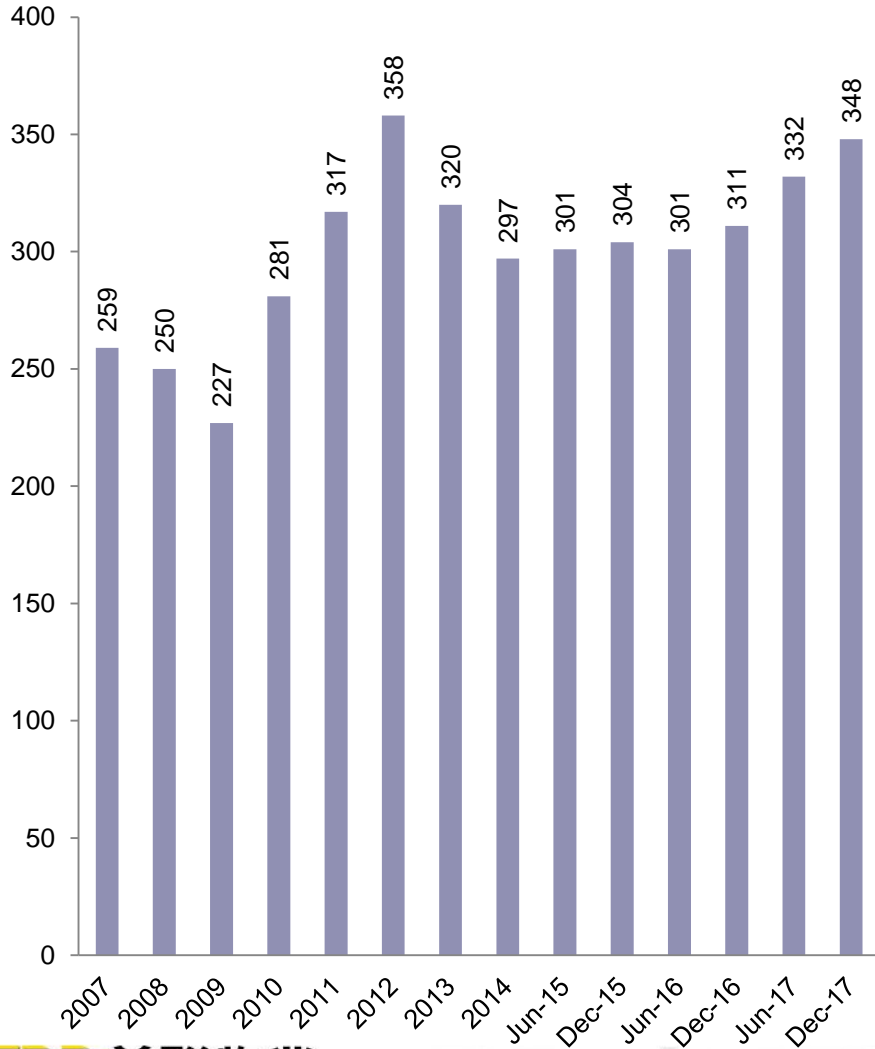


As a % of Resale Property Price

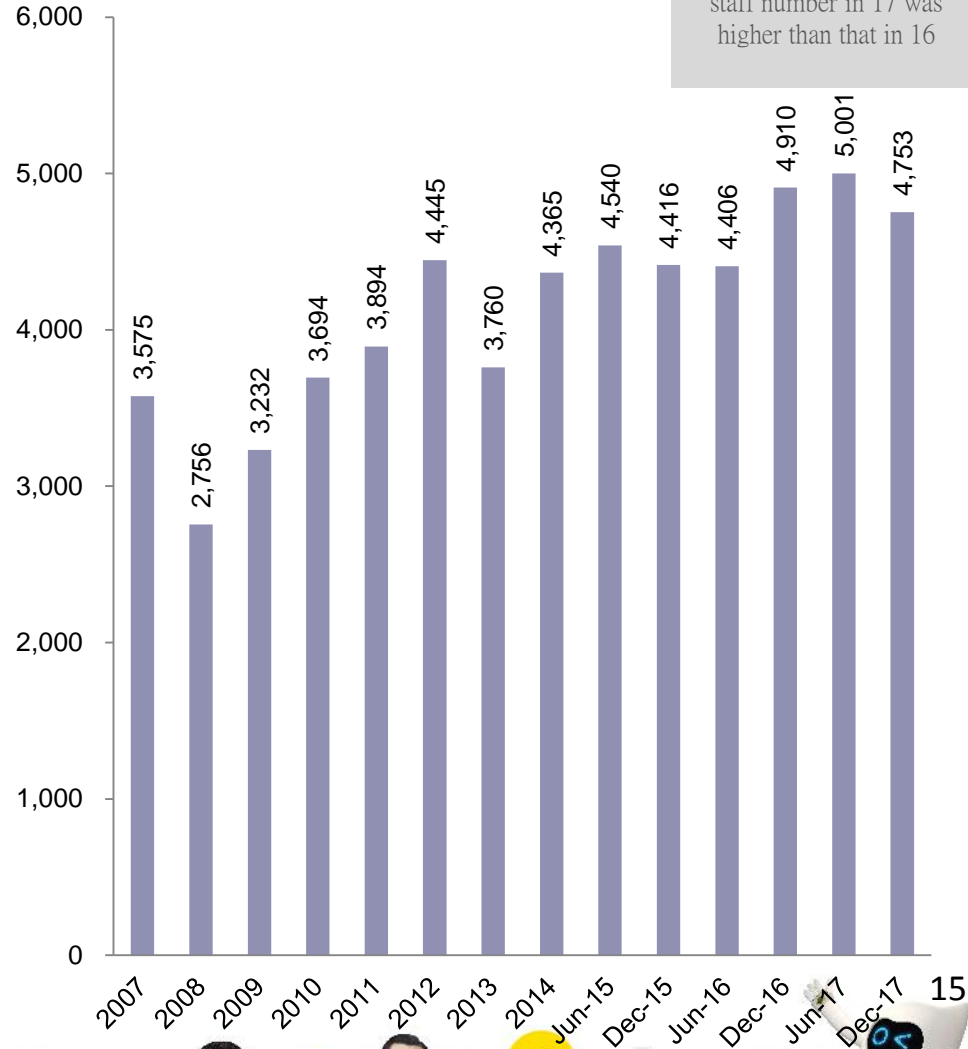


# Local: Mild increase in HK

Number of Local Branches  
(Not including Midland ICT)

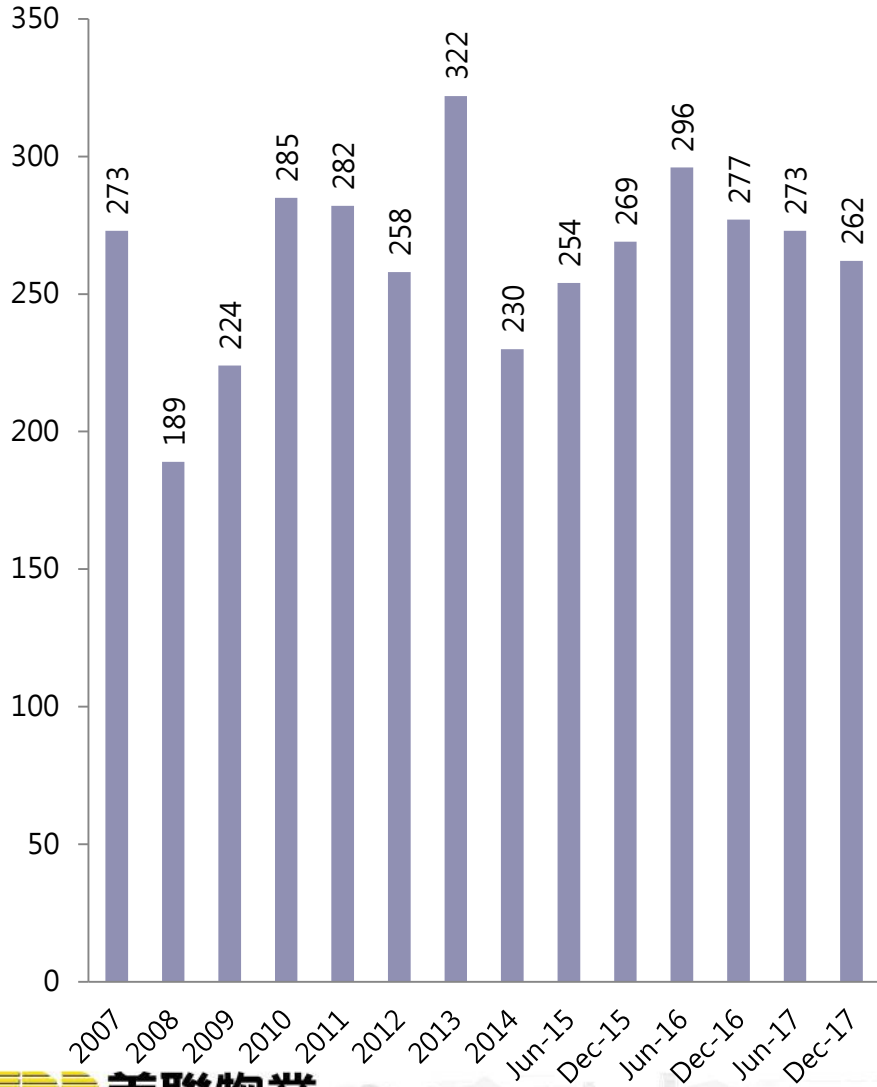


Number of Staff in HK  
(Not including Midland ICT)

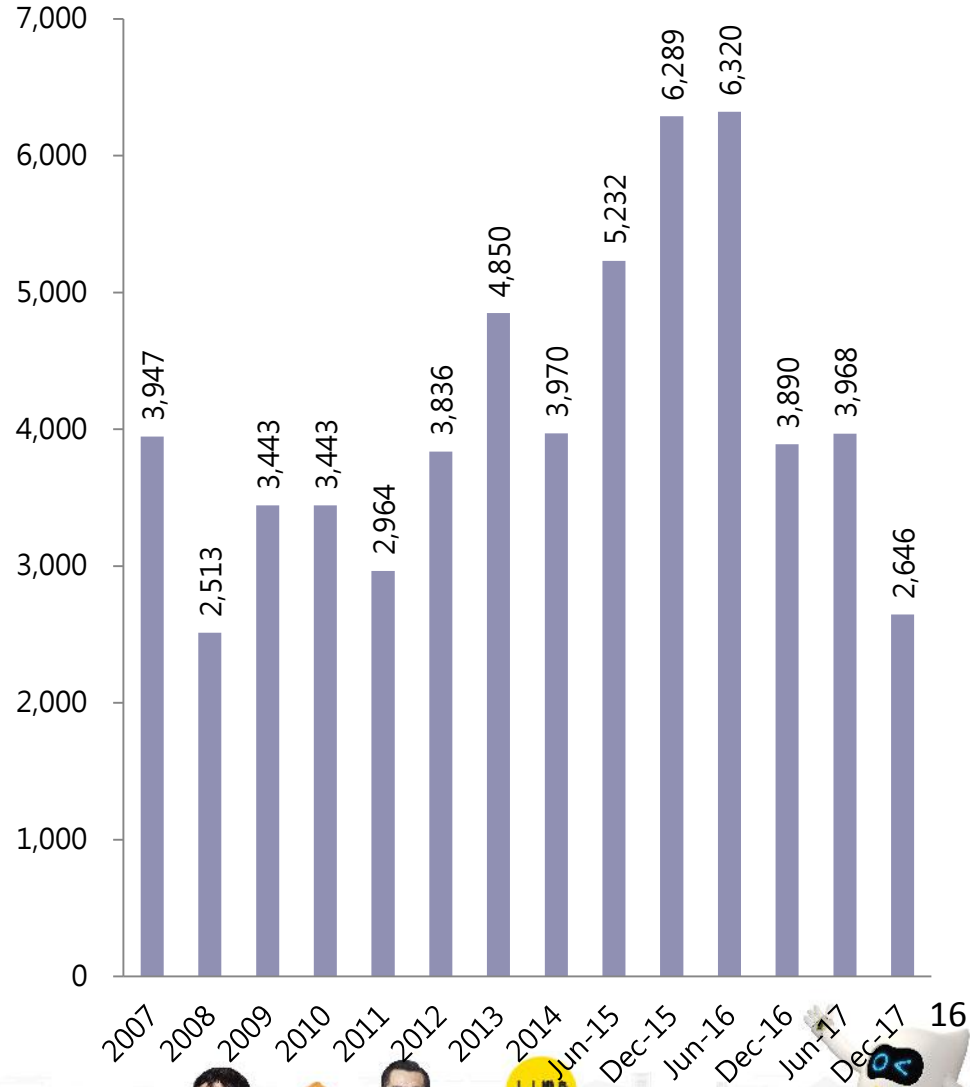


# China Division : Cost Control

Number of Branches in China



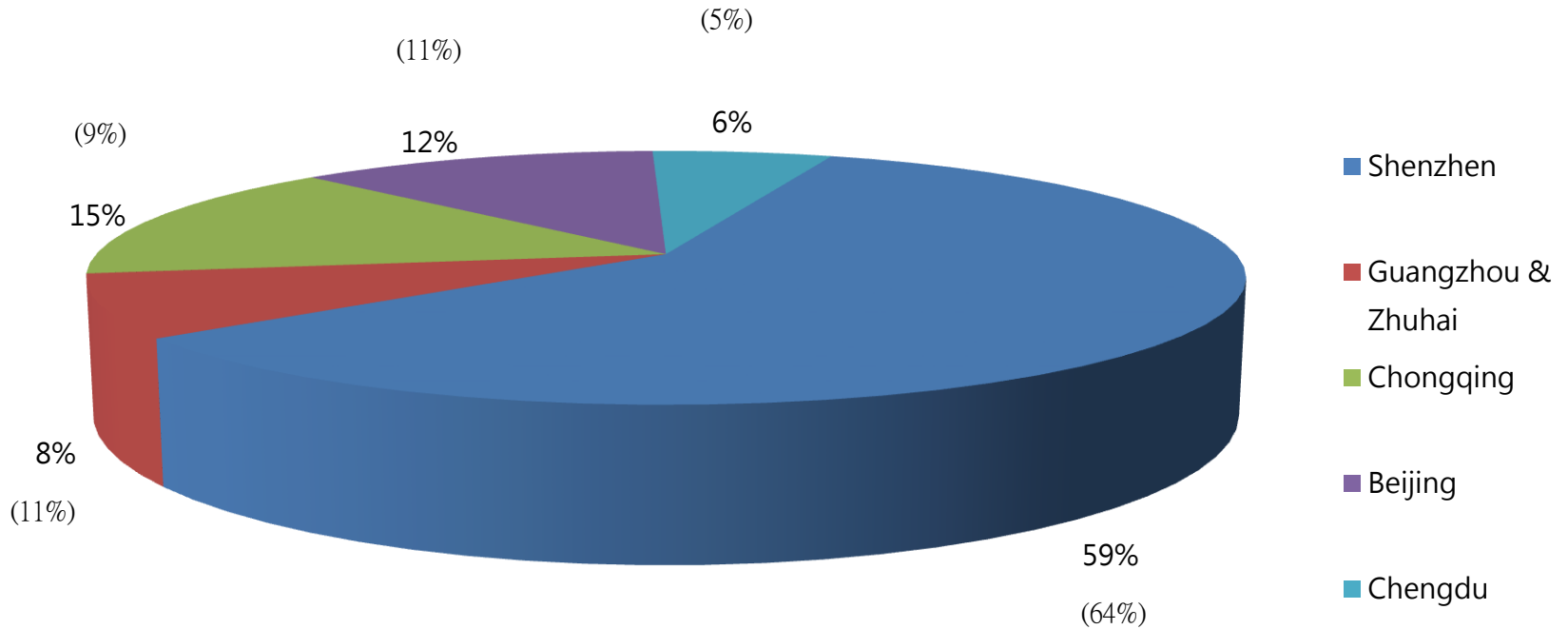
Number of Staff in China





# Mainland operation

Revenue Breakdown in Mainland China  
Shenzhen accounted for about 60% of the revenue



( ) 2016 Annual Figures

Both primary and secondary home transaction volume dropped in Shenzhen in 2017



# New three-year plan

 <b>01</b>	Improving the efficiencies and effectiveness of our online platform whilst Increasing the mobility of our internal IT systems and platform
 <b>02</b>	Developing a holistic sales platform which caters for all the property-related needs of our customers
 <b>03</b>	Establishing solid relationships with the mainland developers who entered the local market in recent years
 <b>04</b>	Improving the strategies of the mainland operations

A new three year plan was formulated in the middle of 2017.  
The previous three year plan have borne good fruits – 1. Increase in market share 2. Improvements of the sales operations

# Improvements of the Online Platform – Online chatroom services



35%

Buy-n-sell Transaction

For Midland Realty, Buy-n-sell transaction accounted for more than 50% of the total



A high rent-to-sale ratio suggests low cannibalization effect

An edge over small players

65%

Rental Transaction



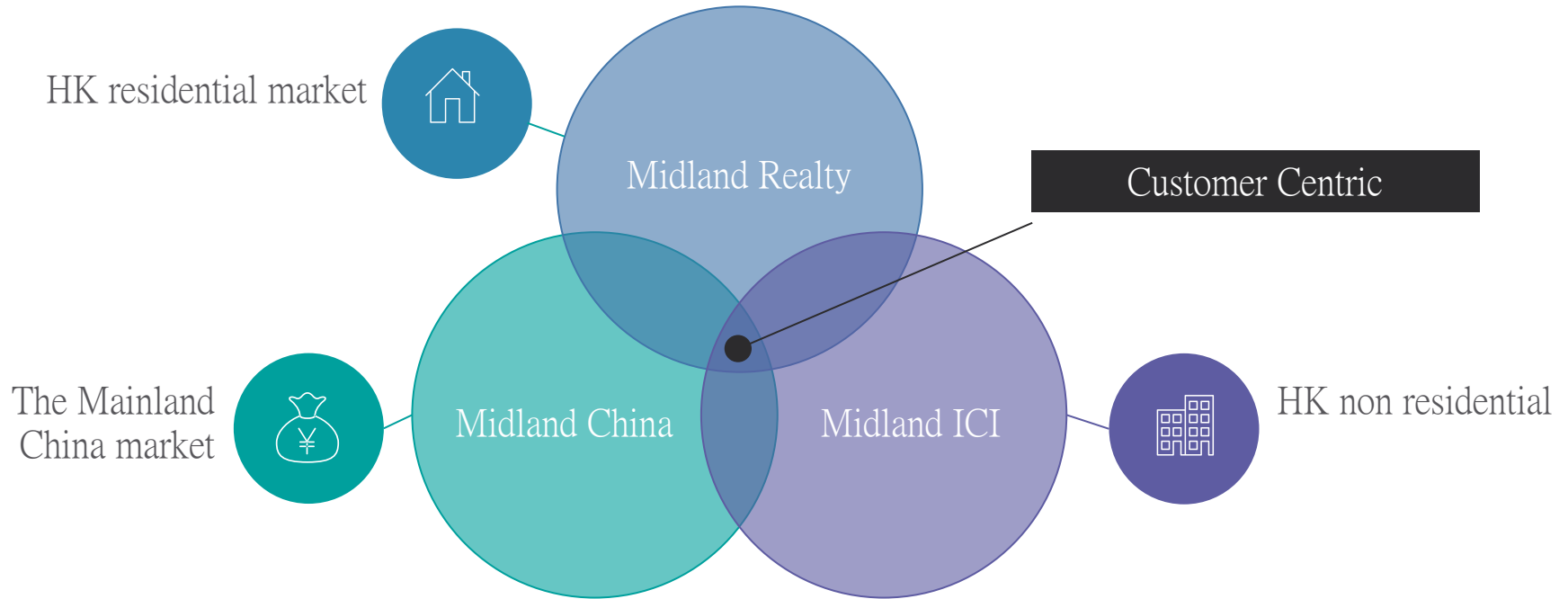
# Enhanced Features



- The official website has undergone continuous improvement with new features added
- Further differentiate Midland from small players

# To Build a Holistic Platform

Started from the formation of a task force integrating HK and the mainland operations

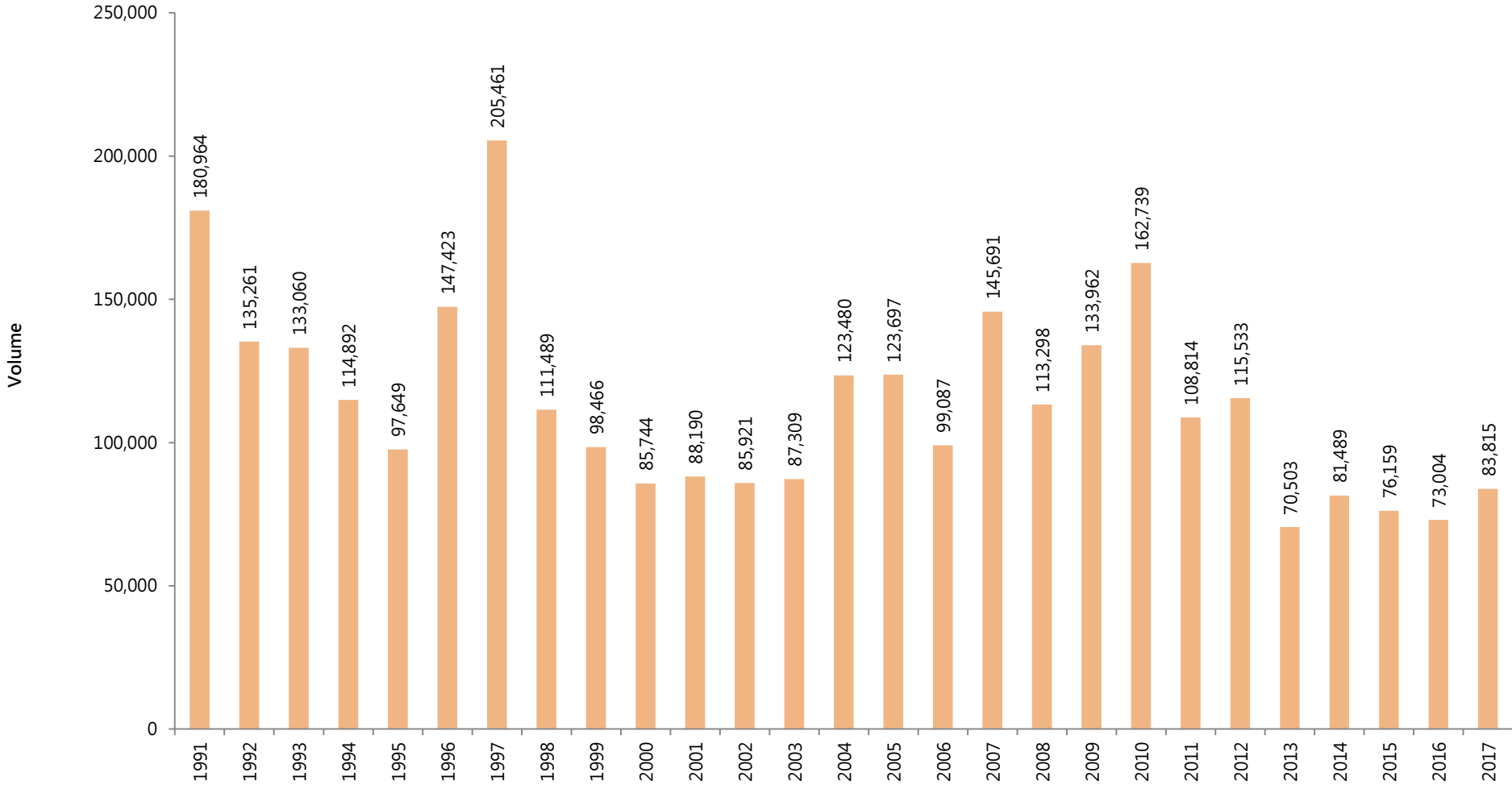


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# 2017 - The best in 5 years

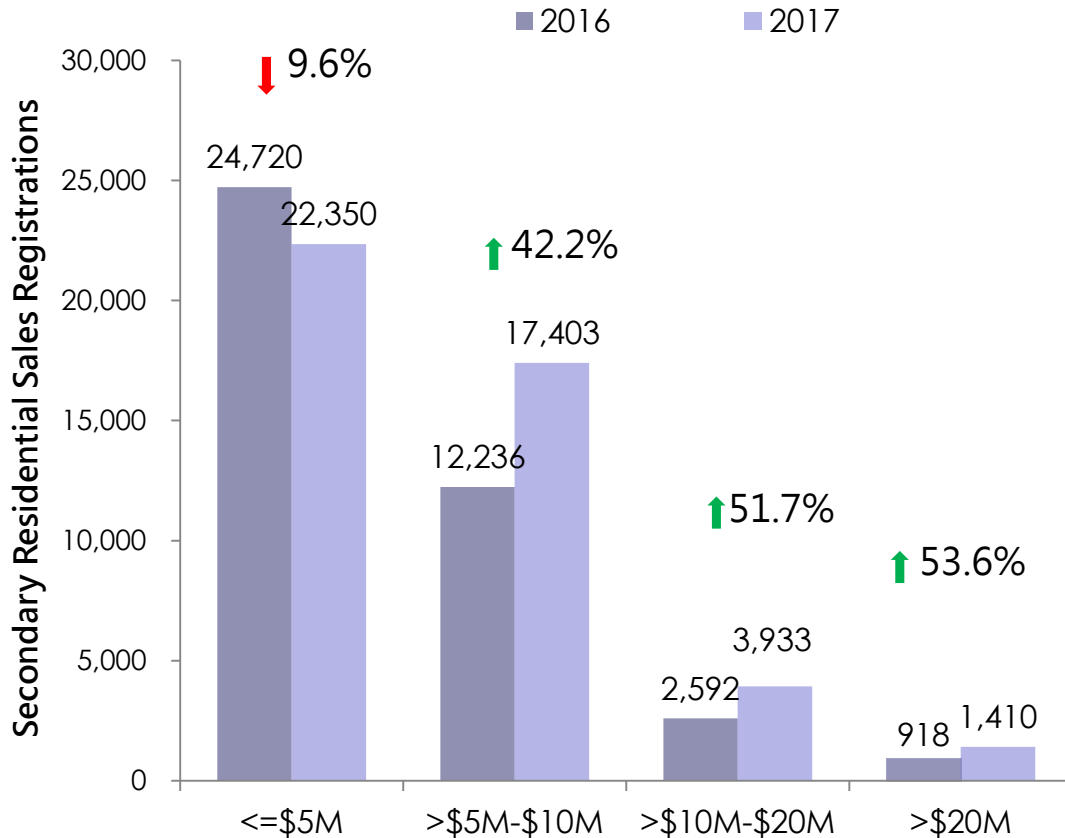


Source : Land Registry and Midland Property Data and Research Centre



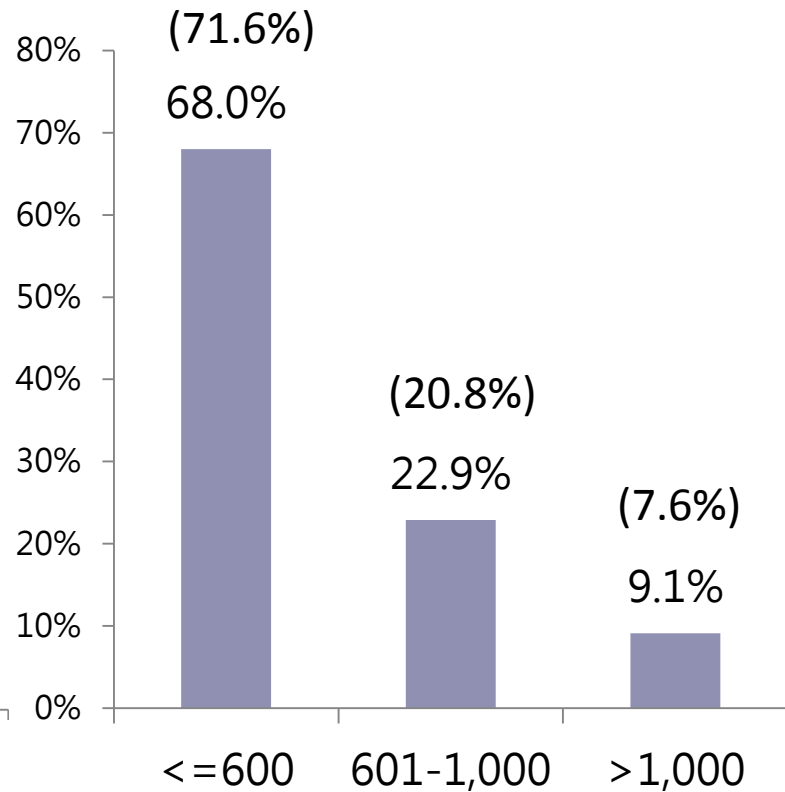
# High-end sector outperformed

## Secondary Market



## Primary Market

### Breakdown of Primary Sales



( ) 2016 Projects Ratio

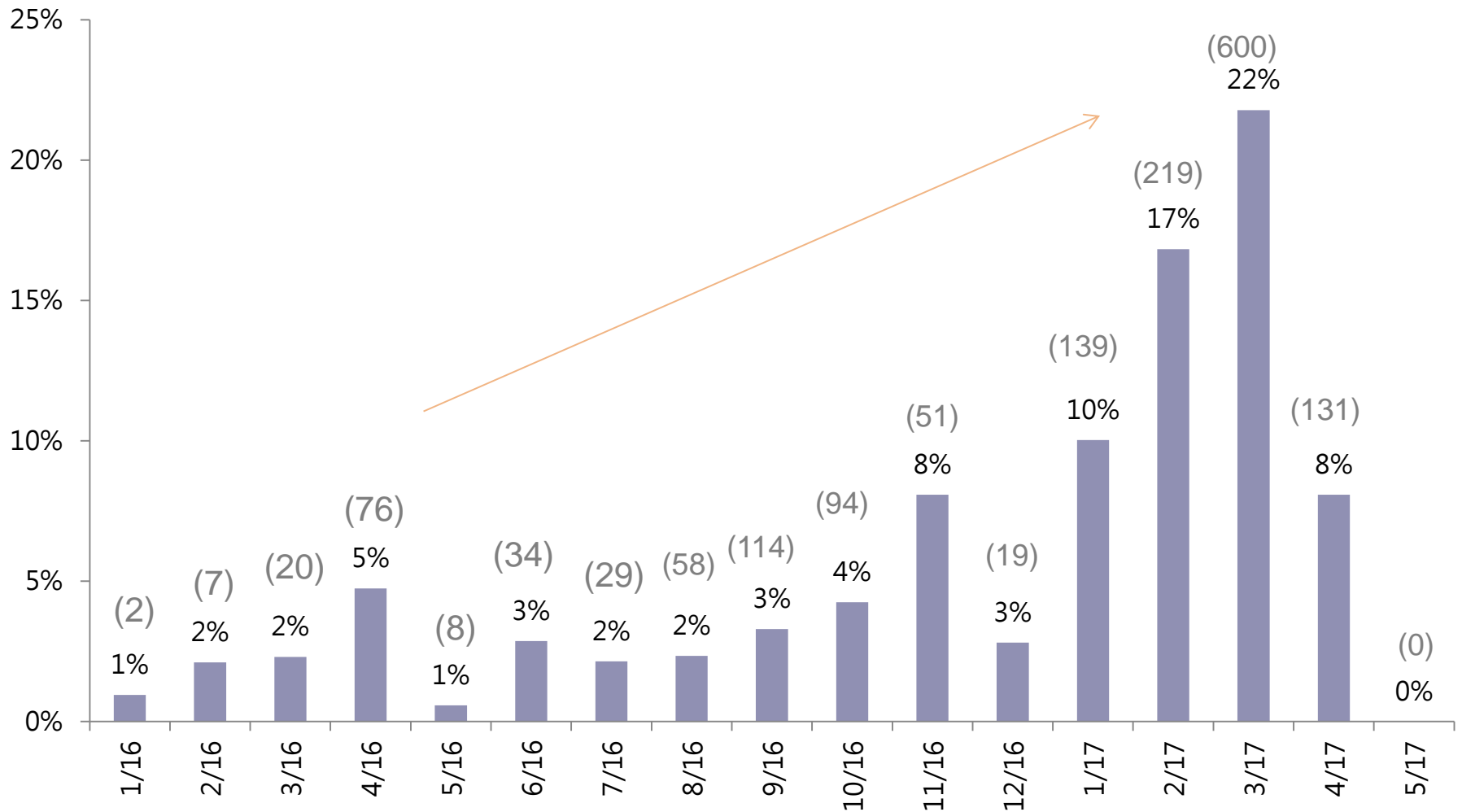
Based on the information in Sales of First-hand Residential Properties Electronic Platform. Default Transactions are excluded.

Source : Land Registry and Midland Property Data and Research Centre





# Transactions of multiple new units in a single contract

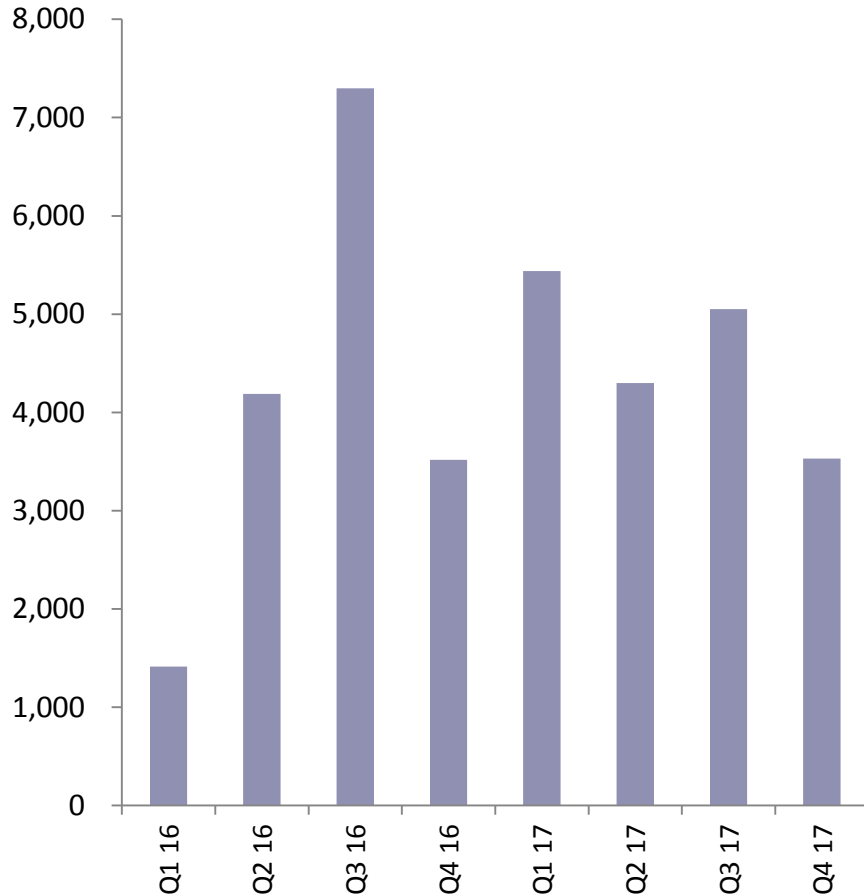


Remarks : Based on the information in Sales of First-hand Residential Properties Electronic Platform. Default Transactions are excluded.  
 ( ) No. of Units

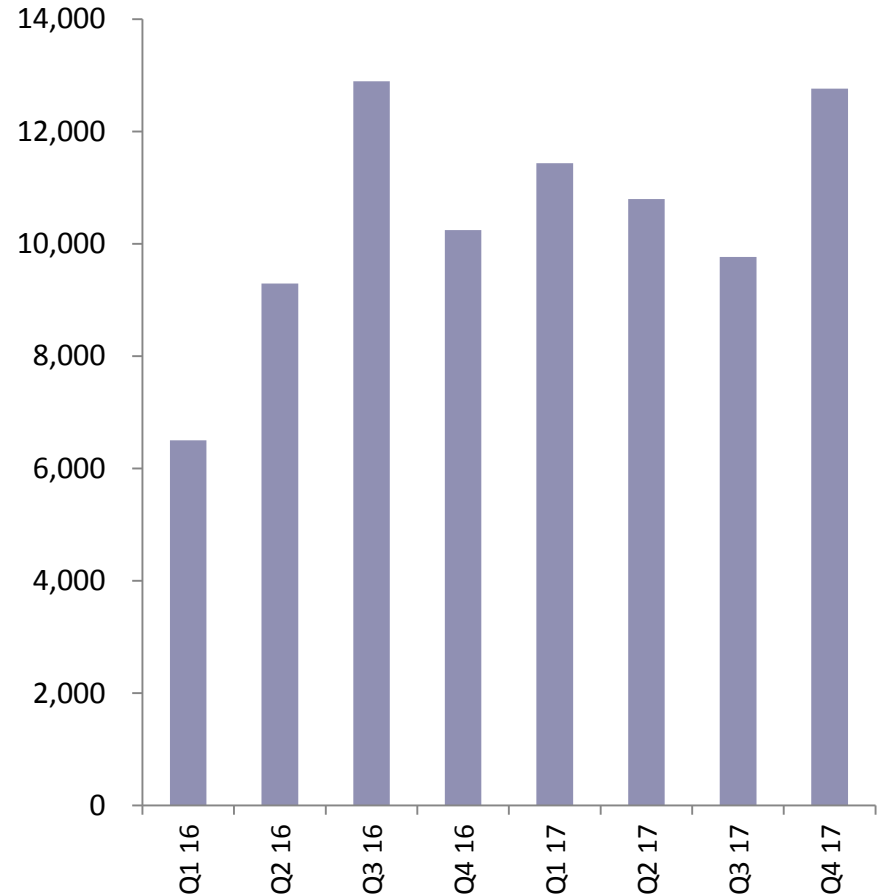


# Primary Market transactions rebounded in Q3

Primary Home Sales\*



Secondary Home Sale^



\*Based on the information in Sales of First-hand Residential Properties Electronic Platform. Default Transactions are excluded.

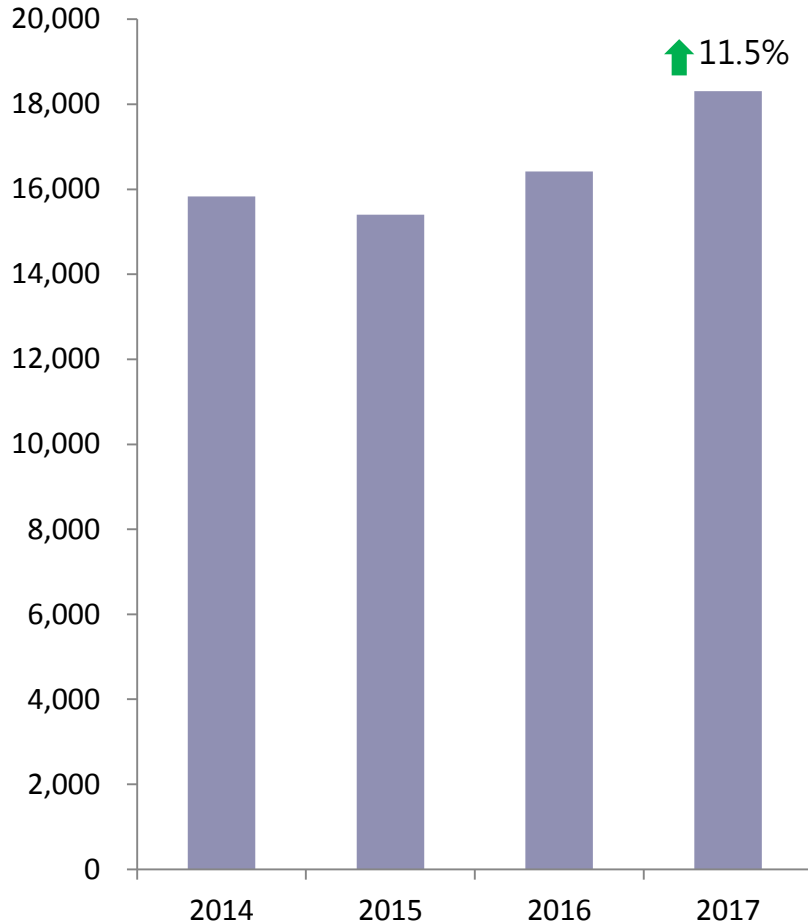
^Secondary Residential Transactions do not include sales of units under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme except those after payment of premium.

Source : Land Registry and Midland Property Data and Research Centre

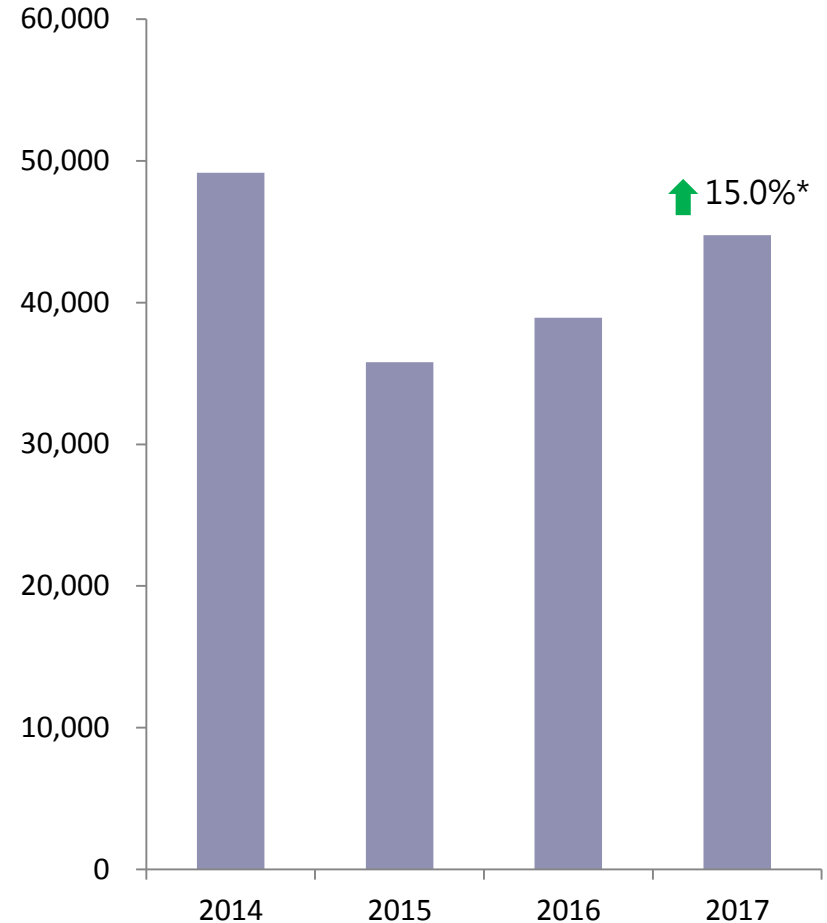


# Secondary market marginally outperformed

Primary Home Sales\*



Secondary Home Sale^



\*Based on the information in Sales of First-hand Residential Properties Electronic Platform. Default Transactions are excluded.

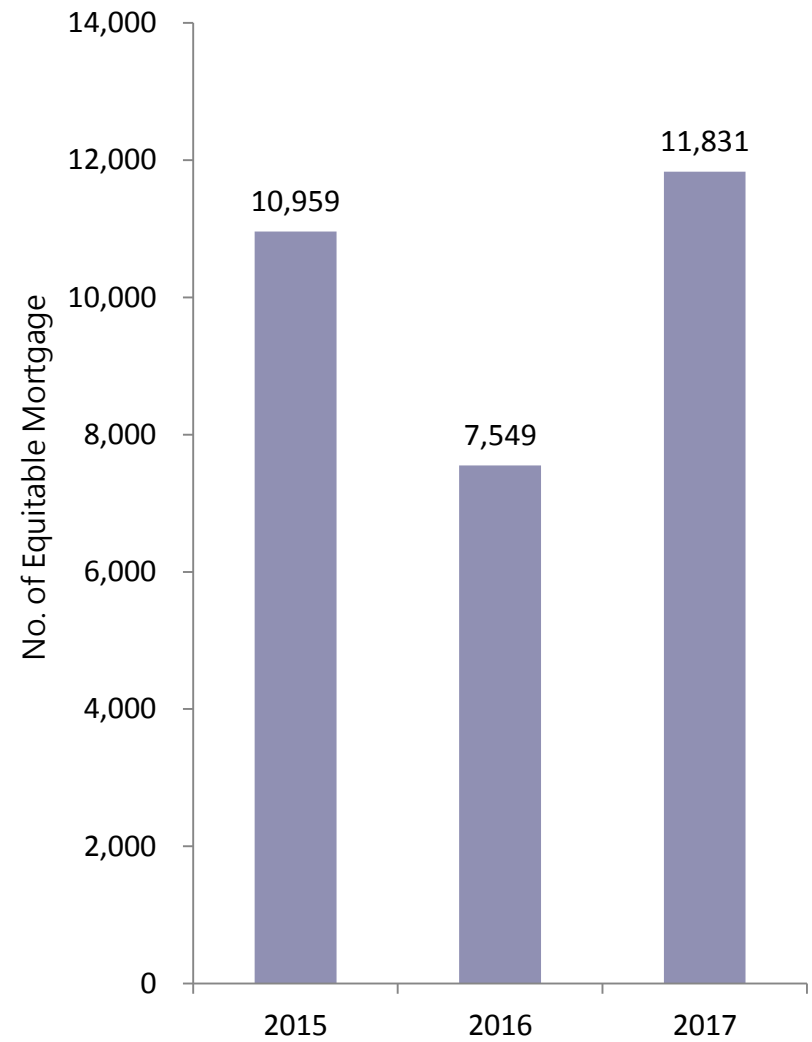
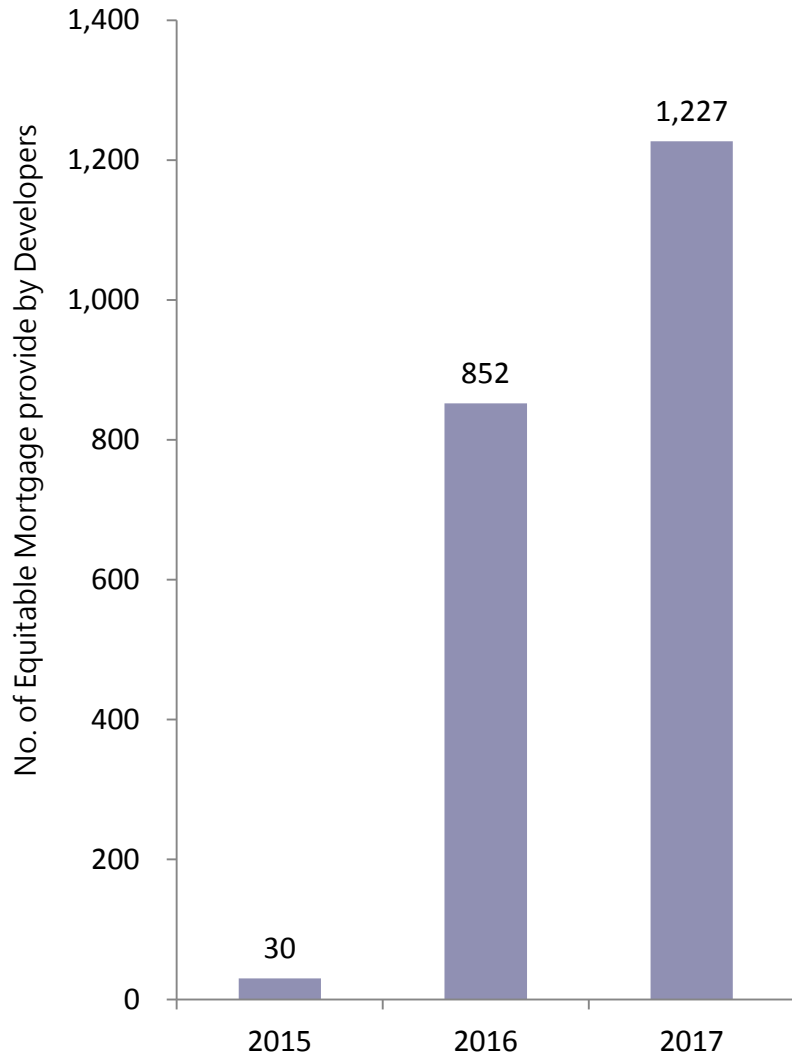
\* Adjustment is made for one month time lag for property registration. The number of registration volume in 2017 grew by 13%.

^Secondary Residential Transactions do not include sales of units under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme except those after payment of premium.

Source : Land Registry and Midland Property Data and Research Centre



# Developers as Lenders



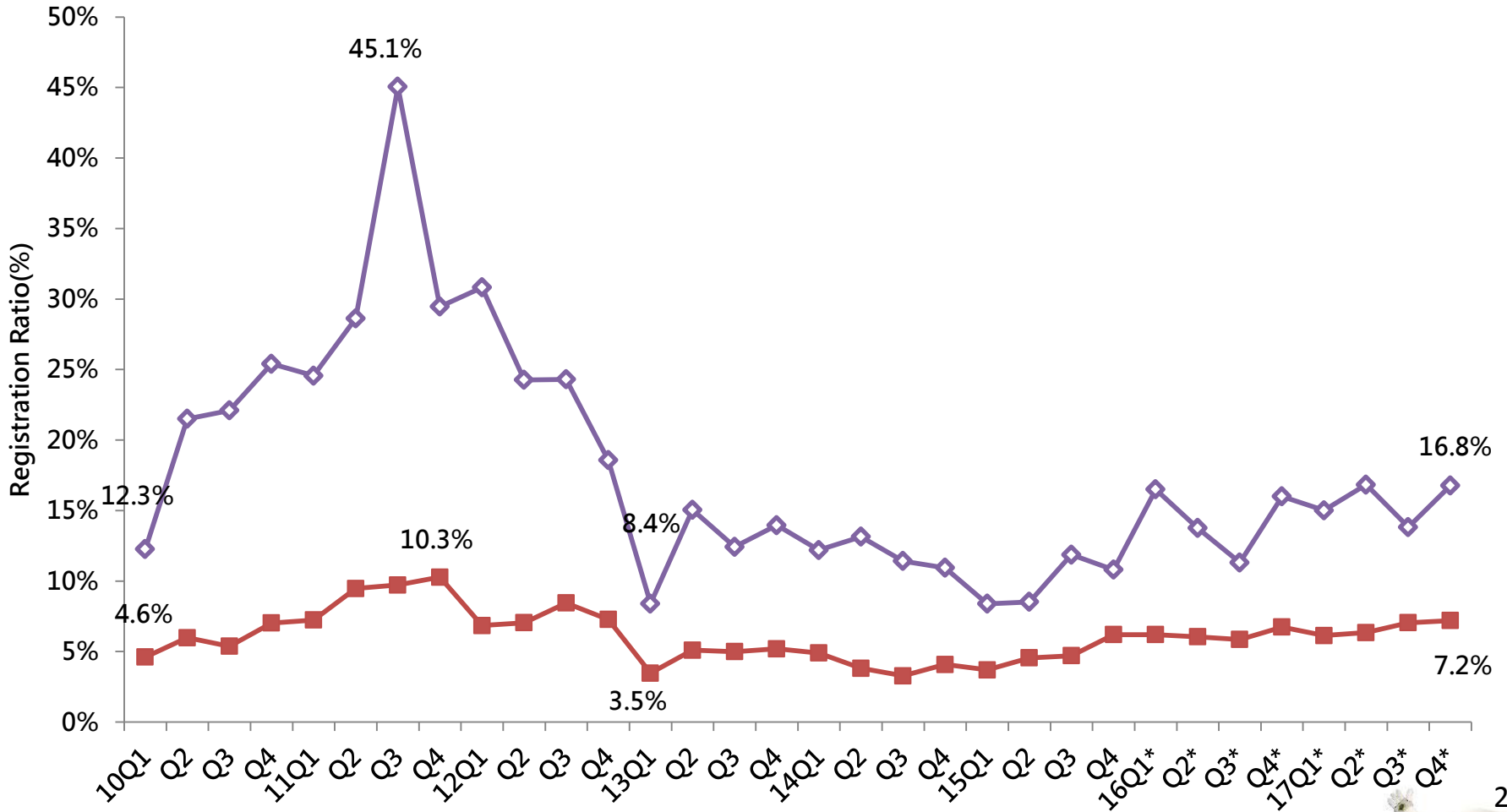
Source : Land Registry and Midland Property Data and Research Centre



# Mainland buyers prefer new to old

◆ Mainlanders Volume Ratio in Primary Market

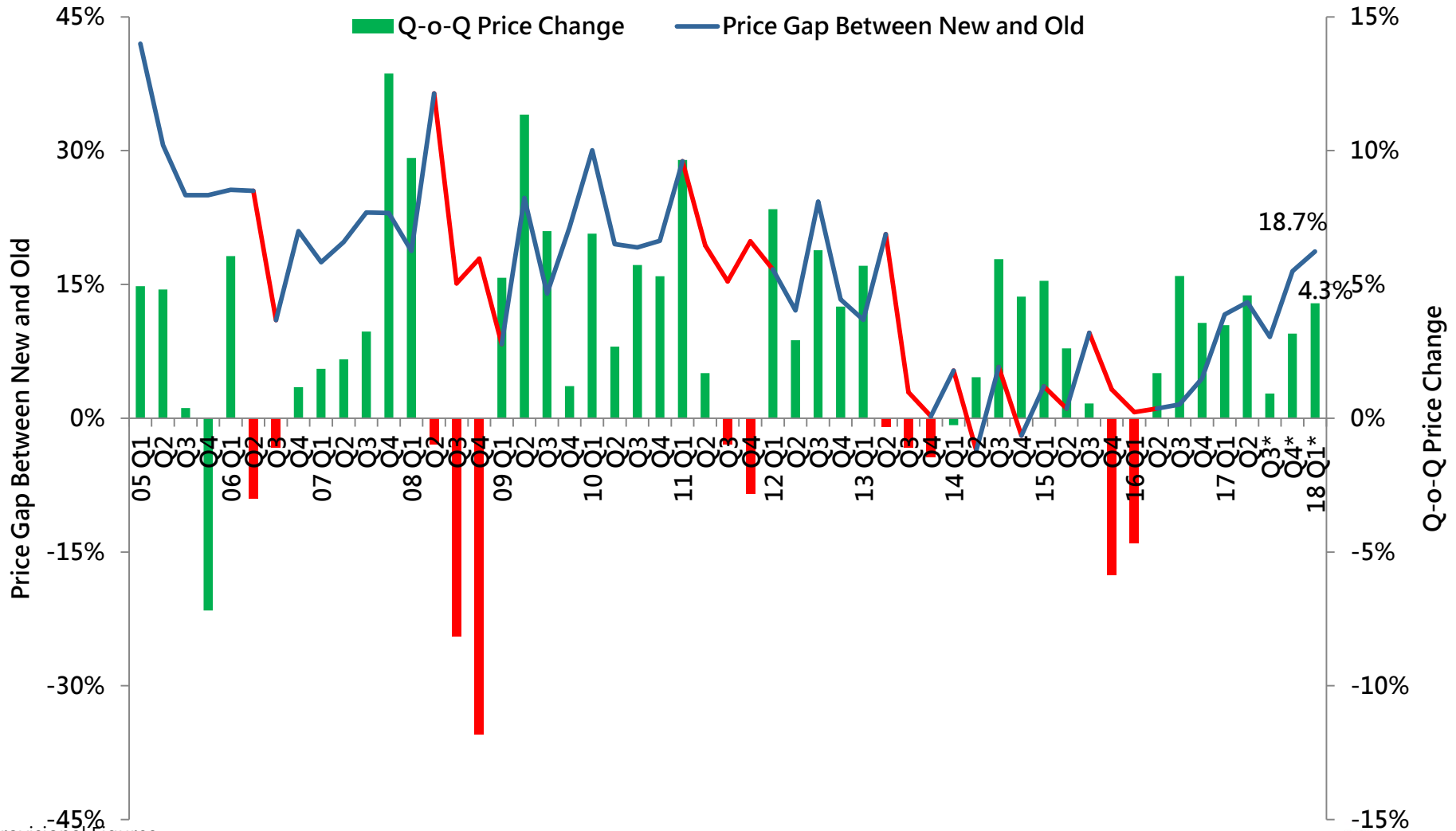
■ Mainlanders Volume Ratio in Secondary Market



\*Provisional Figures  
Source: Midland Realty Data and Research Centre



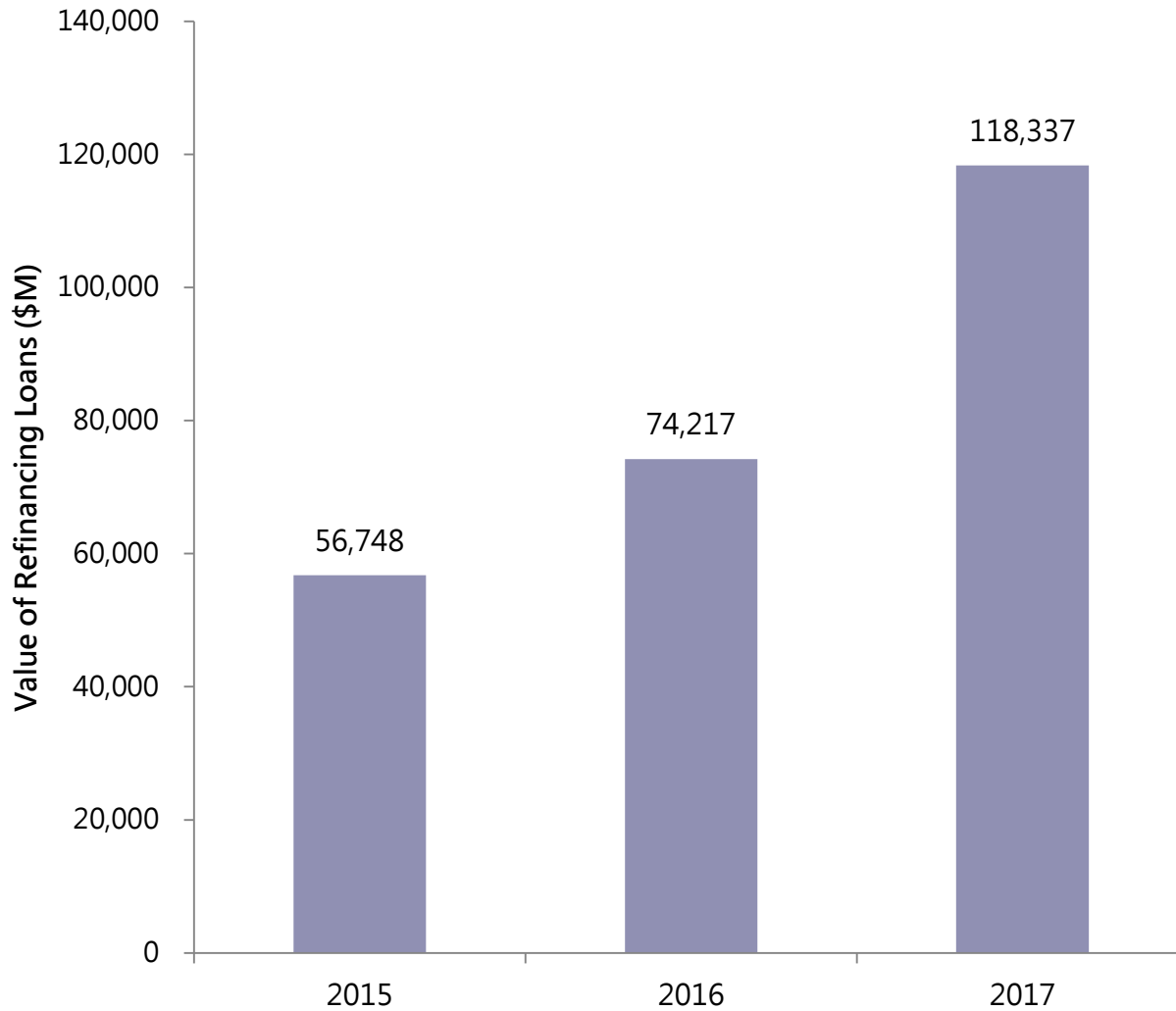
# Price Differential has continued to Widen



\*Provisional Figures  
Source : Midland Property Data and Research Centre



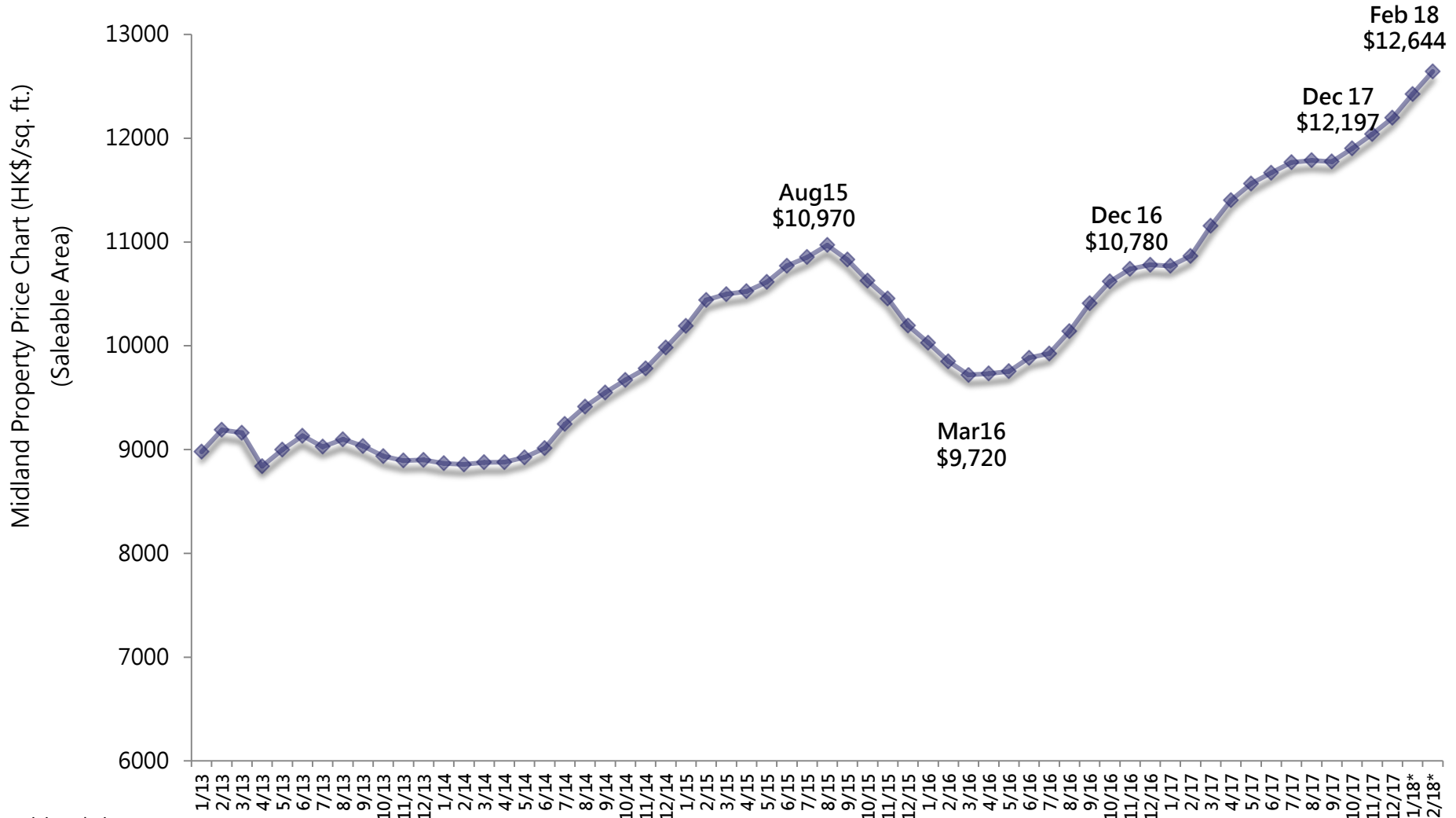
# Refinancing is growing



Source : Midland Property Data and Research Centre



# Uptrend of Prices are expected to continue

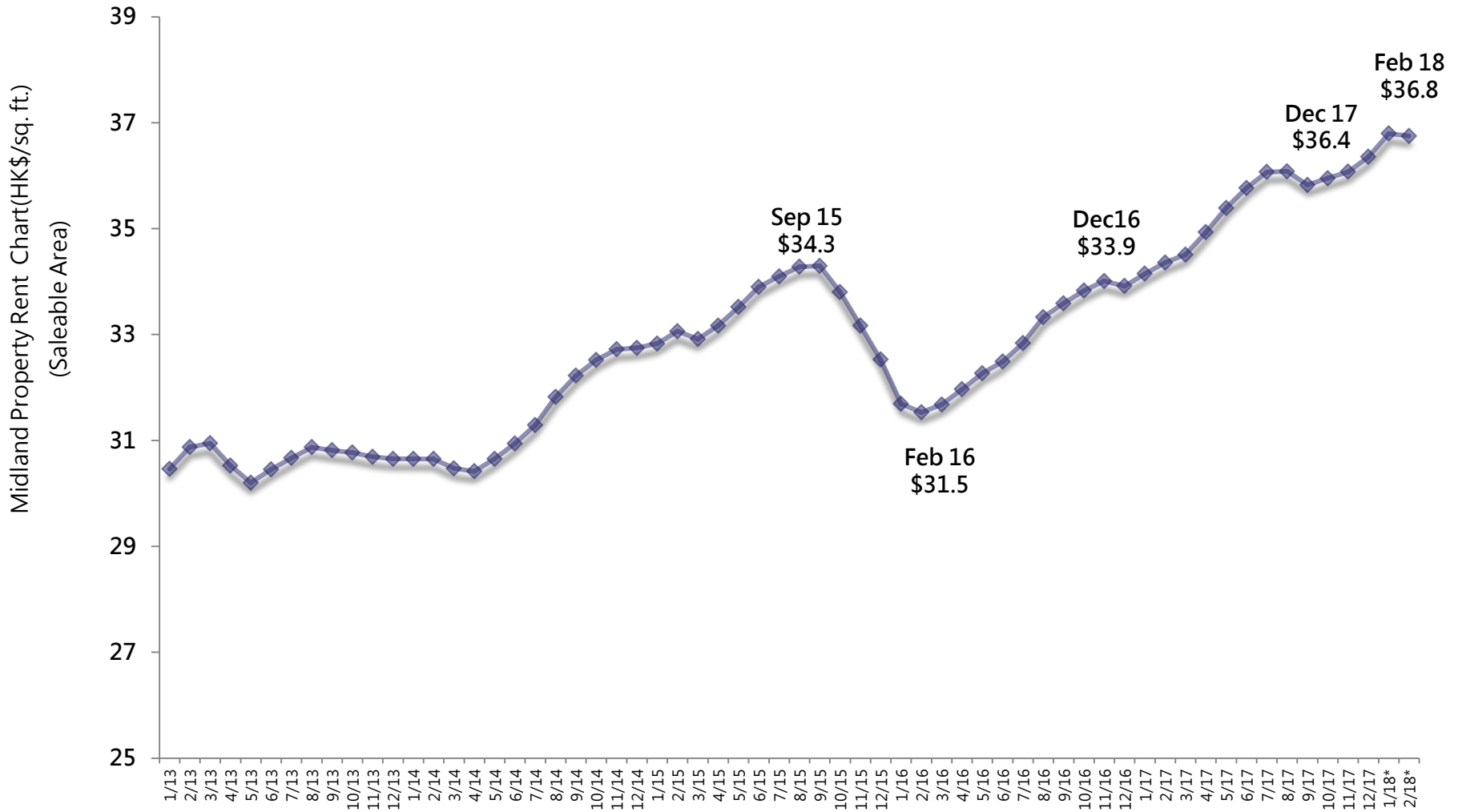


\*Provisional Figures  
Source : Midland Property Data and Research Centre





# Rental market is strong as well



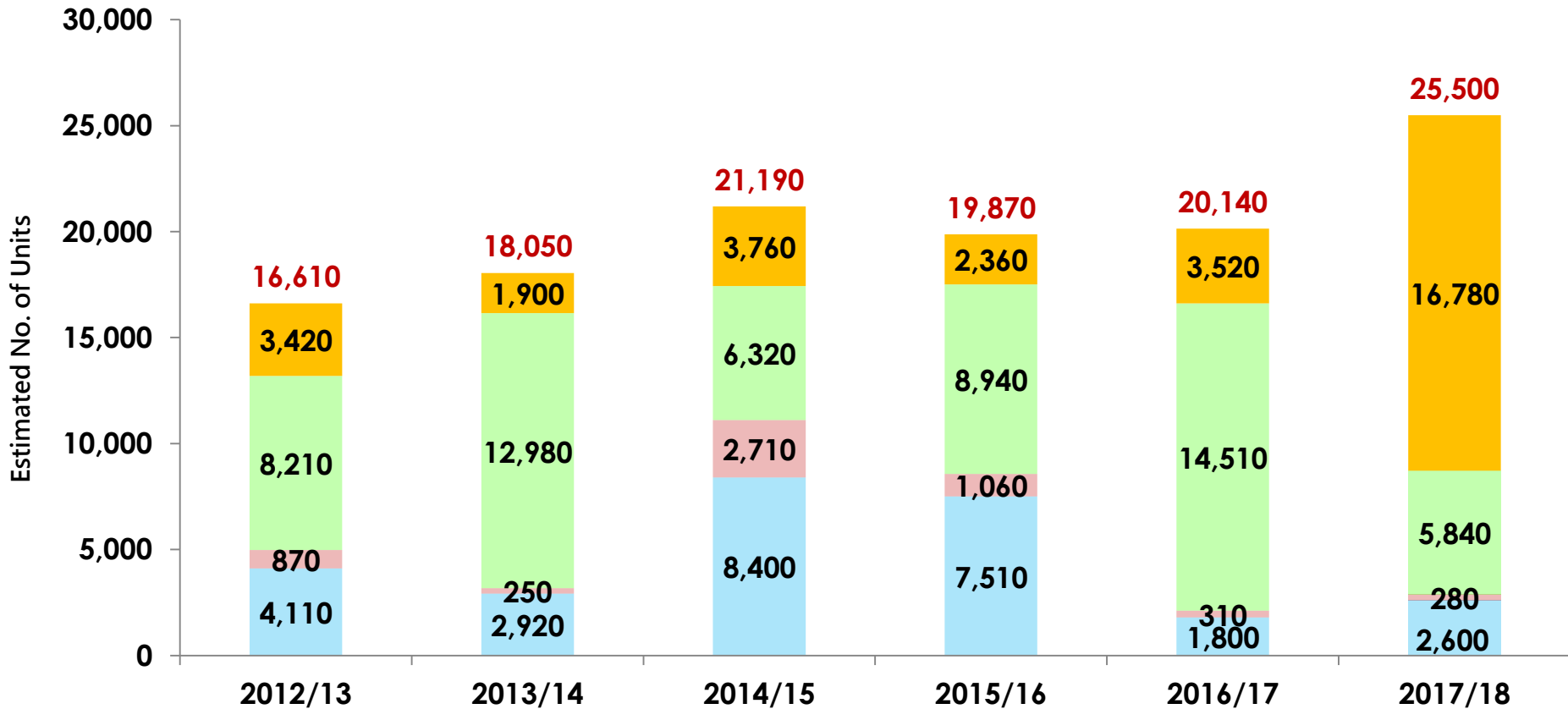
\*Provisional Figures

Source : Midland Property Data and Research Centre



# Increase in Land Supply

- Railway property development projects
- Government Land Sale Programme
- Projects of Urban Renewal Authority
- Private redevelopment/development projects
- Total**



Remarks : (1) Actual flat number is subject to developers' design ; (2) The 2016-17 private housing land supply is forecast only, and will be adjusted at the end of the financial year with reference to the actual land supply.

Source : Development Bureau

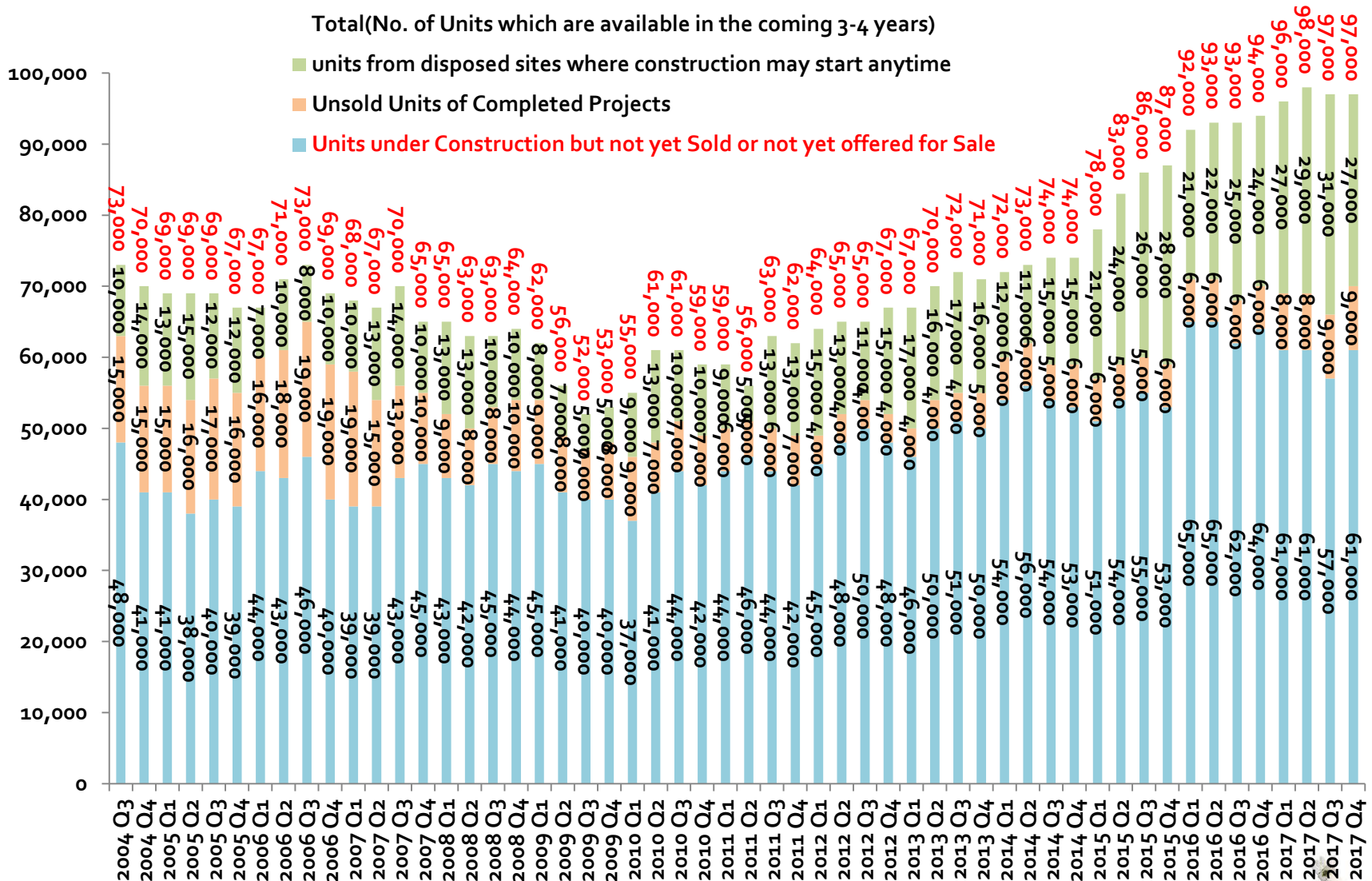
Last Update Date : 29.9.2017



# Private Housing Supply in Primary Market

Total (No. of Units which are available in the coming 3-4 years)

- units from disposed sites where construction may start anytime
- Unsold Units of Completed Projects
- Units under Construction but not yet Sold or not yet offered for Sale



Source : Transport and Housing Bureau



# Where do the new projects come from?

## Presale Consent Approved but not yet launched (up to 21.3.2018):

District	Address / Development Name	No. of Units*
South	45 Tai Tam Road	7
South	Deep Water Bay Drive, Shouson Hill	54
Shau Kei Wan	No. 1 Oi Tak Street	75
Ma On Shan	No. 9 Yiu Sha Road (Phase 2)	67
Shatin	No. 68 Lai Ping Road	158
Shatin	No. 83 Lai Ping Road	69
Shatin	No. 88 Lai Ping Road	59
Shatin	No. 23 Lai Ping Road	160
Tuen Mun	Kwun Fat Street, Siu Lam	14
Yuen Long	38 Kam Sheung Road	8
<b>Total</b>		<b>671</b>

## Pending Approval of Presale Consent (up to Feb, 2018):

District	Address / Development Name	No. of Units
Kwun Tong	Hong Ning Road, Mut Wah Street and Hip Wo Street (Phase 1)	1,024
Kwun Tong	Hong Ning Road, Mut Wah Street and Hip Wo Street (Phase 2)	975
Hung Hom	No. 8 Hok Yuen Street	493
To Kwa Wan	No. 38 Pak Tai Street	231
Tai Po	Junction of Fo Chun Road and Pok Yin Road, Pak Shek Kok (Phase 1)	804
Tai Po	Junction of Fo Chun Road and Pok Yin Road, Pak Shek Kok (Phase 2)	640
Tai Po	Fo Chun Road, Pak Shek Kok	667
Tai Po	Chong San Road, Pak Shek Kok	1,122
Tuen Mun	No. 8 King Sau Lane (Phase 1)	522
Tuen Mun	Yip Wong Road	371
Tuen Mun	No. 99 So Kwun Wat Road	1,154
Yuen Long	No. 18 Castle Peak Road, Tam Mi	538
Yuen Long	Tai Tong	504
Tseung Kwan O	Site N, No. 1 Lohas Park Road	2,392
Others		1,255
<b>Total</b>		<b>12,692</b>

Source: Lands Department & Midland Property Data and Research Centre

# Market in 2018

Primary Transaction Volume : 20,000

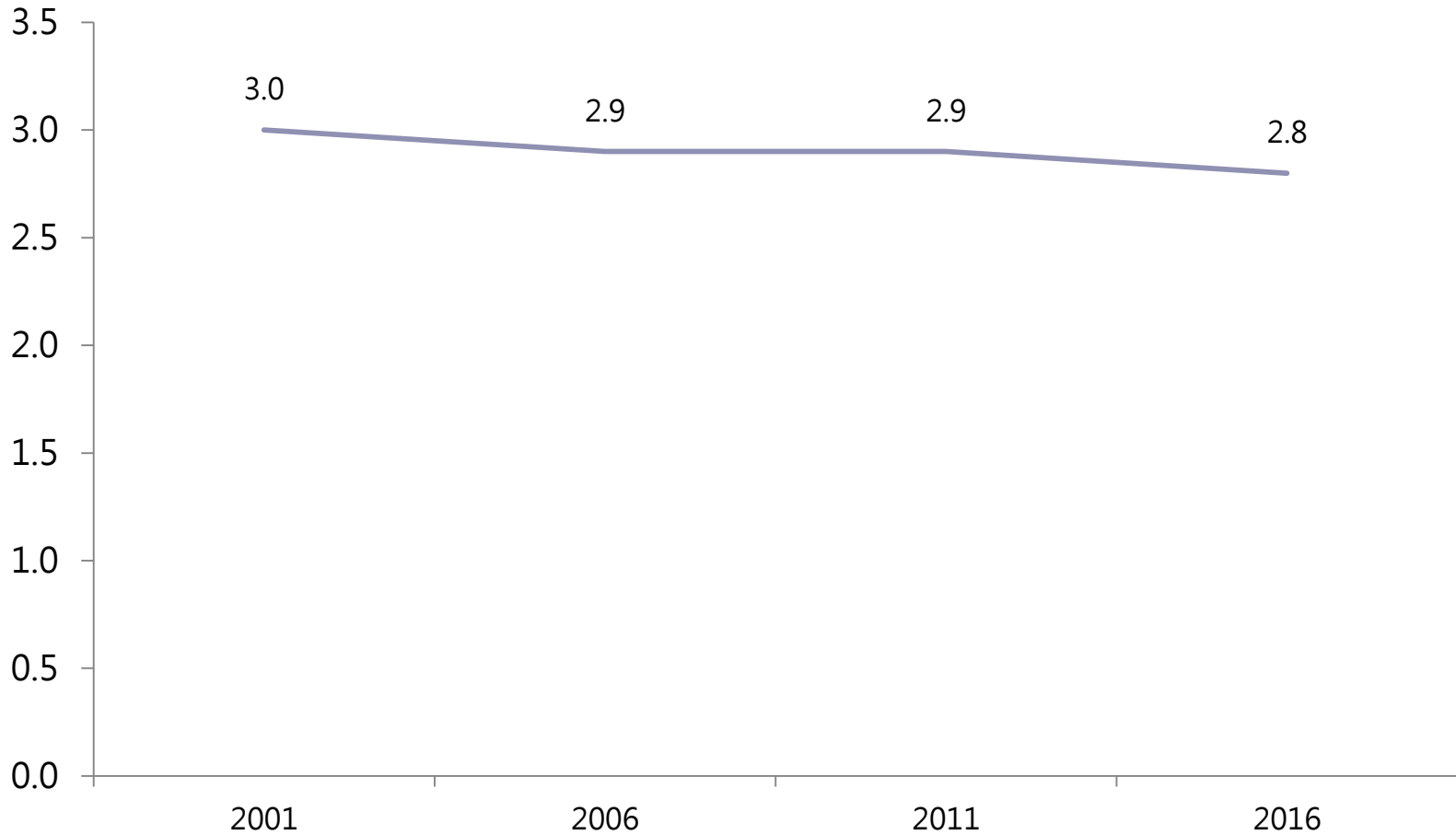
Secondary Transaction Volume : 48,000

Home Prices : +5-10%



# Size of the household living in Private Housing Unit

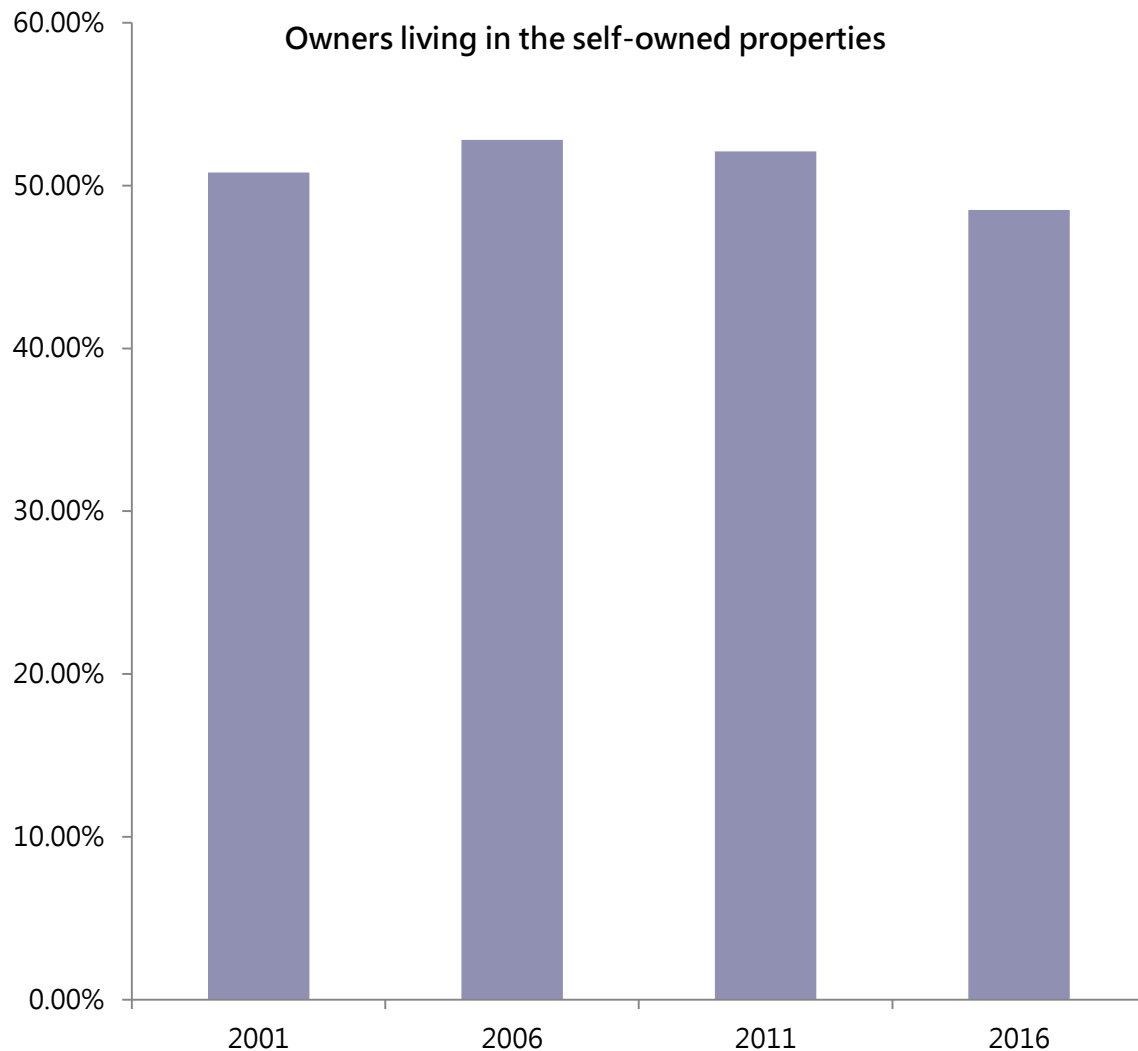
Average domestic household size in private permanent housing



Source : Hong Kong Population Census, Census and Statistics Department



# Owners living in the self-owned properties



- Reason for the decrease:
1. Switching from buy to rent
  2. Drop in new demand
  3. Rent self-owned property out and rent another unit

Source : Hong Kong Population Census, Census and Statistics Department



# Appendix I : Reasons for DIS

- Reward the support of the Shareholders. The last time that the Company paid a dividend to its Shareholders was in 2013. But the Group needs to preserve its cash resources for its business
- Allow the Shareholders to have a direct investment exposure through IC&I Group specializing in this high growth sector (IC & I sector)
- Both listed groups will be able to benefit from a greater clarity and better delineation of the management focus and formulate their corporate and business development strategies best suit to their own purposes
- Midland Holdings remains to be a Controlling Shareholder of IC&I. Cross referral services has been and will continue to be provided by the members of the Group and IC&I Group to each other
- The Shareholders will have direct beneficial ownerships in IC&I Shares
- This expansion of the shareholders' base of IC&I could bring about an overall improvement to the liquidity of the IC&I Shares





# Appendix II : Effects of DIS on P/L & Balance Sheet

- Midland Holdings' ownership of Midland ICI dropped from 70.78% to 44.58% after the Distribution and then further dropped to 33.84%.
- IC&I Group' s financial results and assets and liabilities ceased to be consolidated into those of the Group' s financial statements
- The Group accounts for the results and net assets of IC&I Group using equity accounting method after completion of the Distribution

## Profit and Loss

- P/L of Midland ICI was consolidated from 1 Jan 2016 to 22 Dec 2016.
- The contributions from Midland ICI was reflected by the item of share of result of associates

## Balance Sheet

- The cash level of the group no longer includes the amount of held by Midland ICI after the deconsolidation
- At the balance sheet, the item of interests associates represents the share of net asset of IC&I

# Thank You

