

“**Professionalism** is the core value at Midland.

What inculcated in the minds of Midland people
is the **corporate spirit** with these key reminders:

- *Customers always come first*
- *Serve promptly and efficiently*
- *Be aggressive*
- *Be innovative*
- *Treasure teamwork*
- *Reach for new heights”*



*Our
Corporate Value*

Chairman's Statement



WONG Kin Yip, Freddie
Chairman and Managing Director

REVIEW

In the year ended 31st December 2005, the Group's turnover expanded 17 per cent. to HK\$2,332 million reflecting income growth for the third consecutive year. Profit attributable to equity holders dipped 35 per cent. to HK\$214 million as market sentiment cooled and as the operating costs increased.

Volatile Market in Second Half Challenges Industry

The increase in the Group's revenue was attributable mainly to a growth in commission income. Unfortunately, the operating environment turned challenging in the second half of 2005. Not only did the market slowed down but the Group's rental expenses also rose, hurting earnings. With the overhang of an interest rate up cycle and the threat of the avian flu, the property market clearly suffered a correction in the second half of 2005. Meanwhile, the market took a longer spell to dispel the negative impact of higher mortgage rates as banks went about raising interest rates doggedly. This development was the main reason for the market downturn in the fourth quarter of last year.

In the second half last year, the operating environment unmistakably took a nose dive with the transaction value plunging 25.7 per cent. in the primary market and tumbling 37.6 per cent. in the secondary segment. Despite the obvious correction, the industry did not slow down at all with the pace of expansion. As of last December, the number of real estate agency branches hit a record high of 3,860 in Hong Kong, an increase of 272 units or 7.6 per cent. in six months from last June. Keeping in the balance the need to reinforce our market leadership and the need to manage risks, the Group implemented some necessary but prudent expansion. As a result, the operating costs rose in the second half of 2005.

November saw the Group recording the biggest loss in the year. We are pleased to report, however, that by December, the business environment improved slightly. Also we reorganised to allocate resources more efficiently so that operating expenses came down.



Chairman Mr Wong Kin Yip, Freddie (left four) with core members of the management team.



Chairman's Statement (continued)



Midland Realty scored success in a number of brand new residential projects in 2005, and was awarded a gold plaque by Henderson Land Development Chairman Dr Lee Chau Kee(right) as her top sales agency for two consecutive years.

Great Performance in the Primary Market as Group Reinforces Top Position

During the past year, the Group deployed an astute management strategy to organise and allocate resources flexibly and appropriately. With proper planning and sufficient resources, the Group managed to achieve respectable sales in a number of new project launches, including such major developments as *The Arc*, *The Legend*, *Bel Air*, *Metro Town*, *One Silver Sea*, *CentreStage*, *Royal Green*, *Seasons Palace* and *Aqua Marine*. For two consecutive years, the Group won the gold award as top sales agency from *Henderson Land Development*. Besides maintaining an amicable working alliance with major developers, the Group also proved its leading position in real estate broking.



To reinforce our market leadership, the Group's branches are located all over some major residential estates in Hong Kong Island, Kowloon and the New Territories.

Chairman's Statement (continued)

Branch Network and Market Intelligence Ensure Market Leadership

During the period, the Group was able to maintain its market leadership despite the aggressive expansion of competitors. As it was, besides enlarging our branch network, we took the pioneering step of launching "Midland 729 Property Journal", a unique media platform that offers the latest Hong Kong property market intelligence to the general public in an equitable, objective and open manner. Using our extensive branch network and free flow of information as leverage, we managed to gain greater professional recognition on the one hand, and helped front-line sales staff catch market developments insightfully and in time, our front-line sales staff and our potential customers share a common topic. Thus, getting a deal closed easier.



Midland Holdings joined force with Bloomberg in launching the "Midland 729 Property Journal" Data Service, which brings the latest Hong Kong property market intelligence to the world.



Midland Holdings was voted as the best-managed company in the medium-sized category by Asiamoney magazine.



Midland Holdings Limited

Chairman's Statement (continued)

Management Skills Accredited

The investment community also approved the Group's credible performance in terms of overall management strategy, vision and corporate governance. For the year 2005, *Forbes Asia* magazine ranked it the most successful listed company with annual revenue below US\$1 billion in Asia while *Asiamoney* magazine voted it the best-managed company in the medium-sized category. Securing these two international awards last year, the Group demonstrates:

- Good management capability and vision
- Sound financial and business performance
- High level of transparency
- Care for the benefit of shareholders



Midland Holdings was awarded by *Forbes Asia* as one of the "Best Under A Billion" company in Asia.

In our continual effort to strengthen corporate governance, the Group added two other functions to its long-standing Audit Committee during this reporting period. These are the Remuneration Committee and the Nomination Committee respectively. Although the Group has been performing corporate governance effectively, it still went ahead with establishing an independent internal audit function in 2005 to ensure proper protection of shareholders' interest and the Company's assets.



The Group initiated a "Property Celebrities' Reading Programme for Youth" as part of its effort in charity work.

Care for the Community to Fulfill Corporate Responsibility

As a responsible corporate citizen, the Group has always been active in participating in charity activities to show care for the disadvantaged in society. In recognition of the Group's community contribution, the *Hong Kong Council of Social Services* awarded the Group with the "Caring Company" honor for the third consecutive year in 2005. Community affairs are practised at two levels – first at the management level through the "Midland Charitable Foundation" and second at the staff level through volunteer work of the "Midland Volunteer Team". Moreover, in line with our focus on promoting continuous education, the Group spearheaded the "Property Celebrities' Reading Programme for Youth" to inculcate a wholesome reading habit among youngsters. Our theme as enhancing one's value and broadening one's horizons as theme, the program received warm endorsement from industry representatives. Towards the end of last year, the Group also participated in the Orbis Pin Day Appeal to raise funds for operating the Orbis flying eye clinic. We are pleased to report that we raised the second highest amount for Orbis among commercial organizations in Hong Kong.

Chairman's Statement (continued)



Having total support from major developers in town, the 2nd Hong Kong Estate Agents Award Presentation was held to give credit to those outstanding performers in the Group over the past year.

OUTLOOK

The Group takes an optimistic view on the year 2006. We are confident that not only will the property market clearly revive but we shall make greater efforts towards refining a flexible cost structure to strengthen our market position.

Sound Economic Fundamentals to Boost Upgrading Demand

We take the business viewpoint that 2006 will be a better year for the property market than 2005. Our belief is based on these seven factors:

1. Hong Kong's economic recovery will become more complete. As sectors across the board revive and expand, head hunting and job hopping will become a common phenomenon in different industries, so that the unemployment rate will trend low. As salaries rise for the working masses, consumer spending power will expand. Meanwhile, more consumers will be qualified to upgrade their living conditions, thus triggering more housing demand.
2. The government's policy remains positive to the property market. The current land policy has made it difficult for developers to replenish their land supply. This means that developers will have to keep requesting for land sales in writing, the government will continue to maintain property prices at certain levels instead of letting it go at fire-sale prices.
3. Interest rates are likely to peak within the year. The market consensus is that after several rate hikes this year, interest rates will be coming off the peak in the second half. In fact, the property market had begun to firm again last December, an indication that the negative impact of higher mortgage rates was wearing off.



Chairman's Statement (continued)

4. Consumer prices are rising again in Hong Kong after years of deflation. Triggered by rising rental rates, inflation returned to the city in 2005. In the first two months this year, the consumer price index actually rose 2.6 per cent. However, the consensus forecast is still for inflation to be tame. Moreover, rising prices will reduce the effective interest rates and encourage investment in properties.
5. Banks have been expanding their mortgage financing business aggressively with various mortgage packages. In February 2006, *HongkongBank* introduced a mortgage rate of prime less 2.75 per cent. This move not only opened up the arena for competition but also restored the mortgage rate to the low level of 5 per cent, thus greatly lightening the homeowners' financing burden. This surely looks set to stimulate buying interest. In fact, at the start of the latest price war, secondary sales of home rebounded noticeably.
6. Consumer confidence is on the comeback as a result of firming home value. With home prices having risen over 70 per cent. in the past three years to March this year, most of the homebuyers who entered the market in the past two years have been able to enjoy the wealth factor of the rise in the value of their homes. Moreover, the affordability rate is about 35 per cent.. This wealth factor certainly will have a positive influence on market sentiment.
7. Upgrading as well as first-time-buying activities will drive home sales in the Year of the Dog. According to the Chinese almanac, this is a good year for weddings. In such a traditionally auspicious year, more newly weds will be coming to the market the first time to shop for homes. This will have the ripple effect of stimulating upgrade activities and boosting sales in the small to mid-sized housing segment. Meanwhile, with rental rates firming, others may be persuaded to buy their own living quarters instead.

Flexible Cost Structure to Raise Market Share

Late last year, the Group had begun reducing operating costs in response to market volatility. We shall continue to do so with a view towards achieving maximum operating efficiency and elasticity. In terms of operations, we believe that the rental rates of retail space have peaked. As the Group consolidates its branch network, rental expenses are likely to come down also.

If the market momentum accelerates enough to boost both transaction volume and transaction prices noticeably, the Group may open more outlets within this year. Some of the branches will serve newly completed property developments. At the same time, the Group will expand its physical presence to achieve more market share. As home sales pick up, districts that have been lagging behind probably will see some room to improve the value of homes there. The Group will keep tab of each district's operating potential, then pounce on any opportunity to further penetrate a district when the opportunity arises.

Besides having a firm foothold in the residential property sector, the Group also leads the industry in terms of broking of retail premises. Shortly into this year, the Group led with securing the exclusive agency right for the *Tokyo Town* shopping centre in Mongkok. In fact, our broking of retail projects in recent years – notably substrata sale of the *Red Mall* in Causeway Bay, the *Ginza Plus* and *Chic Castle* in Mongkok, the *In-Citi* in Yuen Long, and *U-Mall* in Kwun Tong – had netted considerable commission income. We believe that this line of real estate broking will continue to boost the Group's income in 2006.

Main Target Segment: End-User

On the strength of past experience, the Group will continue to allocate resources efficiently and deploy promotion to enlarge its market share. In terms of a target segment, this year's focus will be on homebuyers seeking to trade up or upgrade.

Chairman's Statement (continued)

With a leap month, this happens to be a traditionally auspicious year for getting married. Long queues are expected at the *Marriage Registry* as couples rush to make their vows. These prospective newly weds will create a substantial buying force in the home market. Meanwhile, as banks go about their tactical campaigns to lure borrowers with lower mortgage rates, a number of homeowners just might be tempted to upgrade their living quarters. To catch this new wave of buying interest, the Group will set objectives, then allocate resources and plan tactics to go after both the first-time buyers and upgraders.

Professionalism to Sharpen Competitive Edge

The Group is devoted to raising professional standards and its own ranking in the industry. The objective is to sharpen our competitive edge by maintaining management excellence, delivering high service quality, and disseminating astute market analysis and industry knowledge.

Human resources development always has been high on management's agenda. Besides offering personnel diversified continued education at the *Midland University* training centre, the Group will introduce two brand-new programmes within the year. The first involves taking into account an employee's work history and position and tailoring for him or her specific

career development programmes, including course offered by the *Hong Kong Institute of Directors*. This will cover employees at all levels and in different positions. The second is a master's degree course in business administration targeting middle to senior managers. With this move, we are hopeful that management will be infused with new elements.

Showcasing Responsible Corporate Citizenship

To meet our corporate responsibility, the Group will continue to help promote social causes and donate to charities. Funds will be channeled to the needy through various charity organizations. We are hopeful that more and more non-government organizations will become beneficiaries so that the Group can contribute in a meaningful way to Hong Kong.

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

Hong Kong, 9th March 2006



The Group leads the industry with an excellent management team.