



## Chairman's Statement

WONG Kin Yip, Freddie  
Chairman and Managing Director

BUILD CREDIBILITY ON INTEGRITY  
DIFFERENTIATE THROUGH PROFESSIONALISM

### BUSINESS REVIEW

In the year 2006, Midland Holdings Limited (the "Company" or "Midland") and its subsidiaries (collectively referred to as the "Group") (HK 1200) is pleased to report earnings of HK\$149.9 million, of which 78.7 per cent. was attributable to the second half. Net profit reached HK\$118 million in the second half, vastly improved from the loss of HK\$20.4 million sustained in the same period in 2005. The Group's strategy of continual upgrade apparently worked. Operational efficiency also improved.

#### **Rate Uncertainty a Drag on the Market**

Dogged by uncertainty over the trend of interest rate, Hong Kong's overall property market performed below expectation last year. Both the volume and value of sales transactions\* dropped below the 2005 levels, marking the worst year since 2003. The luxury property segment was an exception, however. Luxury homebuyers closed a number of properties at record

high prices. This further bore out how lending rate uncertainty was more of a dampener on the more budget-conscious homebuyers, crimping transactions of small to mid-sized flats.

Following a first half that saw home sales slackening in the primary market, developers turned aggressive, launching projects one after another in the second half. From the third quarter onwards, a number of residential developments launched at near market prices enjoyed crisp sales. Developers who offered discounts to boost sales of new units also pulled off satisfactory results. New home sales in the second half notably exceeded the first half level, reflecting sound fundamentals that nurtured a gradual recovery since 2003 and primed the market for further rebound in both volume and value.

\* Exclude some transactions in the first half involving real estate investment trusts (REITs)

## Chairman's Statement (continued)



Top: Chairman Mr. WONG Kin Yip, Freddie (sixth left, front row) with the management team.

Right: Midland Holdings teamed with Bloomberg to organize a seminar on the property outlook of Hong Kong and Macau. Chairman Mr. WONG Kin Yip, Freddie pledged his commitment to strengthen market transparency by information in his speech to the audience.



### China-Hong Kong-Macau Sales Network Reinforced

As the US trend of interest rate became clearer in August 2006, the Hong Kong property scene saw a surge in activities and prices. When the market was undergoing consolidation, the Group made considerable efforts to improve the cost structure and control overheads. Subsequently in the second half, the Group attained a reduction in advertising expenses of 38 per cent. In the past year, the Group was cautious in the expansion of branches. Take Macau, for instance. Despite booming home sales in that market in the last quarter, the Group did not rely solely on branch expansion to cope with the market. Instead, it strengthened cross-border collaboration between the Hong Kong and Macau salesforces to market Macau properties. The cross-border strategy proved successful. Buyers introduced by the Hong Kong branches actually took up quite a few of the units sold in Macau.

In the mainland market, the Group operates under both Midland China and

HKP Estate Agency. In pace with increasing its presence last year, the Group logged a rise in revenue from the Mainland in 2006. In terms of its branch network, the Group recorded the highest growth rate among established real estate agencies in the Mainland.

### Synergy of Value-added Businesses Enhanced

While the Group remained totally committed to its core business of real estate brokerage, it also steadfastly expanded various potentially appealing value-added businesses. One such business is mReferral, which provides consumers free access to mortgage referral and mortgage news. Midland Wealth Management, meanwhile, collaborated with strategic partners to offer customers a comprehensive range of wealth management services. Midland Immigration Consultancy and Midland Surveyors continued to provide professional and reliable advisory services. Strategic partnership and synergy resulting from the workings of these business units have had the effect of broadening the Group's potential clientele, and in some cases, helped in deal making. Driving common initiatives across the Group will accelerate growth and satisfy customers.

# Chairman's Statement (continued)



Top: Midland University launched the first Diploma course in Real Estate Agency Management in a ceremony officiated by Ms CHAN Pui Shan, Sandy, Chief Executive Officer of Estate Agents Authority (second left) and Chairman Mr WONG Kin Yip, Freddie (third left).



Right: Midland Charitable Foundations sponsored the summer reading program organized by the Boys' and Girls' Clubs Association of Hong Kong to encourage reading and personal enhancement among underprivileged children.

## Strengthen Training with Focus on Integrity and Professionalism

Always mindful of the importance of training, the Group continued to devote itself to diversified development of human resources. In line with the Estate Agency Authority's Continuing Professional Development (CPD) scheme, the Group's Midland University designed and launched 31 accredited courses, total of 94 credits, ranking it among organisations being one of the top program providers. Nearly 400 front-line staff members voluntarily completed training for the required number of 10 CPD points each within the designated period. Some even received citations for excellence in CPD courses.

Over the years, real estate brokerage in Hong Kong has evolved into a profession requiring expertise and certain standards to be met. The Group will continue to strengthen professional training and instill among its agents a greater sense of integrity and other values, while encouraging them to continue education to increase their own worth and sharpen their competitive edge.

## Corporate Responsibility Reinforced

For the fourth consecutive year in 2006, the Group received accolade as a Caring Company from the Hong Kong Council of Social Services, once again reflecting public recognition of the Group's contribution to the community and willingness to help the underprivileged. Through the Midland Charitable Foundation (the "Charitable Foundation") and the Midland Volunteers Team, the Group participated in various community affairs to aid different needy segments. In the name of Charitable Foundation, the Group once again sponsored the summer holidays reading program organized by the Boys' and Girls' Clubs Association of Hong Kong. Designed to encourage reading among youth, the program offered books of their choice to 150 children. It further organized a trip to Beijing for underprivileged youth to stimulate cultural exchange and to broaden perspectives.

For the third year in a row, the Group ranked third as having raised the most funds among businesses for the Orbis Flying Eye

Hospital at the Orbis Pin Day Appeal. During the year, through participation in Ronald McDonald House's Home activities, the Charitable Foundation also raised funds to help chronically ill children lead a normal daily life. In sponsoring certain community activities, the Group was able to encourage healthy living among its own staff as well. At the Soccer King Charity Cup organized by Metro Radio, the Group's team won two trophies – as first runner-up and the team with the "best defense".

Meanwhile, our Midland Volunteer Team was active in other affairs, including the Community Chest's Dress Special Day, Skip Lunch Day, and visits to "home-alone" old people and to children's homes.

## Chairman's Statement (continued)



Top: Committed to maintain leadership in market information, Mr CHAN Kwan Hing, Executive Director and CEO (Residential) (second left) conducted press conferences regularly with district Directors on market events and developments.

Right: Due to continual influx of capital in 2006, Mr WONG Tsz Wa, CEO (Shops, Industrial & Commercial) (second left) with his team of sales directors namely Mr. LO Chin Ho, Tony, COO, Mr. WONG Hon Shing, Daniel, Sales Director (Commercial); and Mr. CHAN Wai Chi, Alvan, Sales Director (Industrial) enjoyed another year of recovery in the shops, industrial and commercial property market.



## OUTLOOK

Further testifying to Hong Kong's status as a capital-raising centre, more mainland Chinese companies are likely to seek listings on the stock market here in 2007. Meanwhile, multinational corporations expanding here also will help improve the employment market. Hong Kong's economy is still on an upswing. As individual income rises, so does consumption power. It follows that the property market will strengthen as well. In the fourth quarter of 2006, we already saw how the luxury sector lead the rally. At the start of 2007, the secondary market also turned active, as evidenced in a transaction volume increase of flats in major residential estates. Three-bedroom units especially have been most sought after, indicating that as the economy improves, consumers also express a greater desire to upgrade their living conditions, notably by seeking more spacious accommodations.

### Demand Potential Accumulating

However, rising income levels are likely to throw a wet towel over sales of Home

Ownership Scheme units, which resumed early in the year. A considerable amount of quality properties still are available at reasonable prices in the private sector, especially in the secondary market. Moreover, rental rates are on a gentle uptrend. Hence, the rally spearheaded by the luxury sector last year is likely to spread to the small to mid-sized mass residential sector and give the overall market a bull run in 2007.

According to the "Hong Kong 2006 Population By-census Summary Results", the population growth has been slowing in the Special Administrative Region over the past decade, with growth of a mere 7 per cent. to around 6.86 million. On the other hand, a change in the population matrix itself is likely to benefit the property market. Census data indicate that the number of households has expanded from around 1.86 million in 1996 to 2.23 million last year, a climb of 20 per cent. Reflecting the trend towards smaller households, the average number of persons in each family dropped from 3.3 to only three in the same

period. This has had the effect of driving housing demand. Although the average household is downsizing, a rising number of consumers have been looking for more living space. As a result, the average number of partitioned rooms of each household (living area and bedrooms inclusive) edged up from 3.15 in 2001 to 3.22 in 2006.

The potential to upgrade living quarters also has been accumulating. Statistics indicate that some 613,000 households were no longer under the burden of mortgage or loans in 2006, up 20 per cent from only 505,000 households in 2001.

## Chairman's Statement (continued)



### Negative Interest Rates to Divert Funds to Property

This is the 10th anniversary of Hong Kong's handover to The People's Republic of China. On 6th February, the Group celebrated this occasion in advance at the Hong Kong Property Agents' Award Ceremony alongside developers and toasted in a year of total property market recovery. We are of the opinion that with transaction volume and value both firming, the desire to buy properties will rise correspondingly.

Hong Kong's housing market is driven mainly by internal forces. It is only when confidence to make long-term investment re-emerges that the desire to buy properties will follow and provide the market with a stable growth environment. In terms of basic factors, the market has never had it better in 10 years. We believe that favorable conditions will remain, namely, rising salaries, low affordability ratio and softening interest rates. Hong Kong is entering an inflationary period. If interest rates come down further within the year, deposit rates at banks are unlikely to catch

up with inflation. In case the negative interest rate scenario arises, investors are likely to channel a certain amount of funds into the property market and lift transaction volume.

Given that financial markets worldwide are coming under increasing volatility this year, the property market is likely to be a harbour for investors seeking to diversify risks. The prolonged weakness of the US dollar, meanwhile, also has the effect of making the property in Hong Kong more attractive. Liberalization of the Renminbi is likely to take some time. Given that foreign exchange risk is manageable, some funds are likely to seek opportunity in the local property market.

### Sizing of Branch Networks to be Kept Flexible

Despite the bright outlook on the market, the Group will upgrade continually to improve operational efficiency. As the branch expansion among real estate agencies turned moderate, the number of local branches within the Group has settled at a manageable level. To meet changing external conditions, the Group will deploy branch resources on a discretionary basis instead of rushing to open or close outlets.

Regarding the branch network development outside Hong Kong, Mainland China will remain the focus. In fact, mainland branches under the Midland Realty label surged from 22 in 2003 to 121 by the end of 2005. Last year, Midland China devoted more attention to raising operational efficiency, with noticeable effect. Business improvement at the Shenzhen division was most significant. This year, the Group looks forward to replicating Shenzhen's efficiency-raising experience in other cities in China. Certainly, competition is severe in the mainland market. We shall strengthen

## Chairman's Statement (continued)



Top: Confident about the outlook of the Mainland property market, the Group will continue to expand its branch network and strengthen its presence in China.

Right: The Group has a mix of branding strategies to increase market share. It extended the branch network of Hong Kong Property to Mainland China in 2006.



### Industry Intelligence to Stretch Marketing Dollar

further our presence in various regions to sharpen our competitive advantage and build a solid reputation in China.

The Group's other line in Shenzhen – HKP Estate Agency – also enjoyed marked improvement in the bottom line. It is our belief that by operating under two brands on the mainland, not only may we gain a larger market share but also to able to complement fully one brand name with the other to compete better. Recognizing that the mainland market poses a certain amount of risks despite its growth potentials, we shall continue to exercise prudence to build the business on solid foundation.

In the past few years, the Group has been diversifying marketing channels actively. Since December 2005, we have been working with Bloomberg to provide Hong Kong property market intelligence to professional investors worldwide, using the 729 Property Intelligence. During the year, the Group also worked with Focus Media Hong Kong to launch a breakthrough platform whereby potential customers may obtain the latest transaction data and market news via a dedicated TV channel at various branches throughout the network. Aside from market news (including the 729 property programs), viewers are able to obtain related information and commercial messages, thus getting added-value when seeking services to view or buy or sell a home.

Last year, the Group further enhanced the capacity and content of its website, enabling browsers, for instance, to look up 10-year-old transaction records. Moreover, video clips featuring listings in both the primary

and secondary market are posted on 729's Web TV for viewing. The program is a hit with consumers. Providing up-to-date and credible market intelligence will remain a Group priority. At the same time, we shall cultivate more channels of marketing and communication to close the gap with customers, with the ultimate objective of enhancing promotional efficiency.



## Chairman's Statement (continued)



The former Secretary for Justice, Ms LEUNG Oi Sie, Elsie (third left), with Chairman Mr WONG Kin Yip, Freddie (fourth left), attended the Hong Kong Property Annual Dinner as honourable guest.

### Conclusion

For the property market in general, favourable factors outweigh unfavourable ones in 2007, compared to the year before. Against this backdrop is the fact that the market had started to recover since the third quarter of 2006 after the consolidation from the second half of 2005. Our outlook for the year is optimistic, provided that external economic factors remain stable, internal growth momentum is maintained and both salary costs and rental expenses climb less dramatically.

On behalf of the board of directors (the "Directors" or the "Board") of the Company, let me take these pages to express my heart-felt gratitude to all staff members for their dedication, perseverance, and especially their enthusiasm and sincerity in serving customers. I strongly believe that they will continue to do their best to meet the commitment of raising shareholder value.

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

Hong Kong, 12th March 2007