

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 30 June 1998 together with the unaudited comparative figures for the corresponding period in 1997 and the audited figures for the year ended 31 December 1997 as follows:

| | Six months ended 30 June | | Year ended 31 December |
|--|-----------------------------|--------------------|------------------------------|
| | 1998 HK\$'000 | 1997 HK\$'000 | 1997 HK\$'000 |
| Turnover | <u>434,719</u> | <u>1,222,574</u> | <u>1,769,349</u> |
| Operating profit before taxation | | | |
| Operating profit excluding exceptional item | 3,632 | 402,765 | 340,771 |
| Exceptional item (Note 1) | (26,696) | - | (55,142) |
| | (23,064) | 402,765 | 285,629 |
| Share of (loss)/profit of an associated company | (331) | - | 120 |
| (Loss)/profit before taxation | (23,395) | 402,765 | 285,749 |
| Taxation (Note 2) | (107) | (67,000) | (59,302) |
| (Loss)/profit after taxation | (23,502) | 335,765 | 226,447 |
| Interest of minority shareholders | 779 | (5,905) | (3,060) |
| (Loss)/profit attributable to shareholders | <u>(22,723)</u> | <u>329,860</u> | <u>223,387</u> |
| (Loss)/earnings per share (Note 3) | <u>(3.82) cents</u> | <u>54.94 cents</u> | <u>37.22 cents</u> |

Notes:

1. Exceptional item

Exceptional item represents the provision for closure costs in respect of branches closed or in the process of closing.

2. Taxation

| | Six months ended 30 June | | Year ended 31 December |
|------------------------------------|-----------------------------|------------------|------------------------------|
| | 1998 HK\$'000 | 1997 HK\$'000 | 1997 HK\$'000 |
| Hong Kong profits tax | | | |
| - current | 580 | 67,000 | 59,384 |
| - deferred | - | - | 1,235 |
| Over-provision in previous year | (473) | - | (1,317) |
| | <u>107</u> | <u>67,000</u> | <u>59,302</u> |

Provision for Hong Kong profits tax is calculated at 16% (six months ended 30 June 1997: 16.5%, year ended 31 December 1997: 16.5%) on estimated assessable profits for the period.

No provision for overseas taxation has been made in the accounts as the Group's overseas subsidiaries and associated company have no assessable or taxable profits calculated in accordance with the tax laws of the countries in which they operate.

3. (Loss)/earnings per share

The calculation of loss per share for the six months ended 30 June 1998 is based on the loss attributable to shareholders of HK\$22,723,000 (six months ended 30 June 1997: profit of HK\$329,860,000, year ended 31 December 1997: profit of HK\$223,387,000) and on the weighted average number of 595,104,171 (six months ended 30 June 1997: 600,405,663, year ended 31 December 1997: 600,208,000) shares in issue during the period.

Since the Group incurred a loss for the period, the fully diluted loss per share has not been presented.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 1998 (six months ended 30 June 1997: HK10 cents, year ended 31 December 1997: HK1 cent).

REVIEW & OUTLOOK

Hong Kong's property market has been on the slide since the outbreak of Asia's financial turmoil. Aside from a brief pickup last spring, both sales and prices have been on a free fall. The Group recorded revenue of HK\$434.7 million in the first half ended 30 June 1998, down 64% from the first half of 1997. Loss attributable to shareholders for the period totalled HK\$22.7 million.

The Land Registry recorded 55,178 property sale-and-purchase transactions in the first half of 1998, a significant decrease of 52% from the like period in 1997. Although adversely affected by the market downturn, the Group suffered a relatively smaller decline of 31% in sales volume to 13,943 transactions.

The Group is pleased to report that in the face of an economic downturn, management aggressively went about controlling costs, downsizing operations, closing down branches that were overlapping, unprofitable, non-performing, and in the Home Ownership Scheme sector. Until 30 June 1998, the Group had trimmed its branch network by 36% from the end-1997 level to 156 outlets. Its number of staff and sales personnel was trimmed to 1,783. Meanwhile, the Group reported savings of 36% off in monthly expenditure before commission in June 1998 comparing with that in December 1997. The cost-cutting measures include reducing advertising and promotional expenditure; renegotiating the tenancy agreements of some branch premises; launching a new computer system to trim the Intranet connecting fee, etc. All these measures control the operation costs successfully.

Meanwhile, the Group has disposed certain properties in order to boost working capital and paying off some loans and reducing interest expenses. At the same time, the Group's Collection Department scored satisfactory results for its efforts, and certain provision for bad and doubtful debts has been written back.

Besides streamlining its operations, the Group also pursued actively the business of assisting developers offload homes in the primary market. Relying on its distinct market positioning, its wealth of sales experience and its extensive sales network, the Group won a number of appointments from leading developers to act as sales agents for primary-market residential properties. Our considerable success in this area has helped us offset the adversity of a shrinking secondary market.

All in all, some small to medium size real estate agencies have been squeezed out of the market after the financial turmoil. The Group was able to weather the storm better and to raise operating efficiency because the Group is good at risk management and providing excellent services to the clients. In the first half, the average number of transactions completed by a **Midland Realty** sales person was 36% above that of the second half of 1997 and the agency fees per branch also increased 12%.

MARKET OUTLOOK

Hong Kong has not been spared the backlash of the region's economic maelstrom. Back in May and June this year, the Hong Kong Special Administrative Region Government launched measure after measure to check the slide of the property market. Subsequently, the Government also increased the quota for the Home Starter Loan Scheme and the Home Purchase Loan Scheme. All these steps helped somewhat to stabilise the market. Since most home buyers are seeking flats valued at under \$3 million, the small to medium sized residential sector is likely to lead the market. Recognising this, the Group will devote more efforts to cultivating this sector.

The Group has already benefited from improved operating efficiency by having begun the process of streamlining and cost savings at the end of 1997. In addition, the tenancy commitment signed on 1996 and 1997 will be reviewed in next year so that the Group is able to canvass for the reasonable rental rates in order to reducing the costs. The Group will sharpen its competitive edge in the long run. On the strength of sound finances and good cash flow, the Group is well equipped to meet the challenges of a tough operating environment. The Group will continue to operate proactively with a view towards "maintaining profitability and steady growth." The Group maintains a sanguine long-term view on the property market.

The licensing of real estate agents will begin in earnest in 1999. For this momentous change, the Group has been preparing its sales personnel extensively by conducting courses on licensing and professional standards and establishing a central database to manage property-related information that customers must be offered by law. While the licensing requirement will increase the operating costs of real estate agencies, it will raise the professional standards of agents, and in time, their calibre and social standing. Poorly managed and financially unsound smaller agencies are likely to be eliminated in the competitive environment of licensing. On the other hand, companies that are backed by plentiful resources and a comprehensive management system will have an advantage in this new regulatory climate.

Now that Beijing laid down clear objectives to reform the property market on Mainland China, the Group restructured the management team and reviewed the positioning of its business in that market and established more specific strategies. The Group will pursue steadfastly the business of selling homes in the primary and secondary market, in line with China's push for housing reforms. Turning to profit in the near term also is a major objective.

Due to the correction of Hong Kong's economy, the second half of 1998 will remain an uphill battle for the industry. However, given the stringent cost controls in place and the sharpening of the Group's competitive edge, the directors are confident of overcoming the hurdles of the financial turmoil. They further look forward to grasping every opportunity to take the business to new heights once the property market stabilises.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors are pleased to confirm that throughout the six months ended 30 June 1998, the Company has complied with the Code of Best Practice of 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 Bye-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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

1. Interests in Share Capital

At 30 June 1998 the directors, chief executives and their associates had the following interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:-

| | Number of ordinary shares beneficially held | | Percentage of holding |
|---------------------------|--|---|--------------------------|
| | Personal interests | Corporate interests | |
| Mr. Wong Kin Yip, Freddie | 12,500,000 [note (a)] 10,232,000 | 255,000,000 [note (c)] 35,000,000 [note (d)] | 52.67% |
| Mr. Fung Yui Sum | 12,500,000 [note (b)] | 255,000,000 [note (c)] 44,910,000 [note (e)] | 52.61% |
| Ms. Ip Kit Yee, Kitty | 310,000 | - | 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 Rollas Enterprises Limited, a private company in which each of Mr. Wong Kin Yip, Freddie and Bright News Limited holds a 50% interest.
- (d) These shares are owned by Sunluck Services Limited, a private company controlled by Mr. Wong Kin Yip, Freddie through Southern Field Trading Limited.
- (e) These shares are owned by Everchamp Consultants Limited, a private company controlled by Bright News Limited through Bright Coin Trading Limited.
- (f) 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 and the Model Code.

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 | Options | Options | Balance | Exercisable period |
|----------------------------------|---------------|------------------------|----------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------|
| | | | outstanding as at 1 January 1998 | granted during the period | exercised during the period | cancelled during the period | outstanding as at 30 June 1998 | |
| Directors | | | | | | | | |
| Mr. Wong Kin Yip, Freddie | 13/5/1997 | 2.91 | 1,500,000 | Nil | Nil | Nil | 1,500,000 | 13/5/1997 to 13/5/2000 |
| Mr. Fung Yui Sum | 13/5/1997 | 2.91 | 1,500,000 | Nil | Nil | Nil | 1,500,000 | 13/5/1997 to 13/5/2000 |
| Ms. Ip Kit Yee, Kitty | 13/5/1997 | 2.91 | 500,000 | Nil | Nil | Nil | 500,000 | 13/5/1998 to 13/5/2001 |
| | | | 500,000 | Nil | Nil | Nil | 500,000 | 13/5/1999 to 13/5/2002 |
| Mr. Cheung Kam Shing | 18/10/1996 | 1.44 | 825,000 | Nil | Nil | Nil | 825,000 | 18/10/1997 to 18/10/2000 |
| | | | 850,000 | Nil | Nil | Nil | 850,000 | 18/10/1998 to 18/10/2001 |
| Sub-total for directors | | | 5,675,000 | Nil | Nil | Nil | 5,675,000 | |
| Employee | | | | | | | | |
| Ms. Lam Fung Fong | 13/5/1997 | 2.91 | 500,000 | Nil | Nil | Nil | 500,000 | 13/5/1998 to 13/5/2001 |
| | | | 500,000 | Nil | Nil | Nil | 500,000 | 13/5/1999 to 13/5/2002 |
| Sub-total for employee | | | 1,000,000 | Nil | Nil | Nil | 1,000,000 | |
| Total for directors and employee | | | 6,675,000 | Nil | Nil | Nil | 6,675,000 | |

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 June 1998, other than the interests disclosed above and in respect of directors, the following interests of 10% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name | Number of shares | Percentage of holding |
|--------------------------------------|------------------|-----------------------|
| The Hong Kong Parkview Group Limited | 67,285,000* | 11.33% |

* 30,001,000 shares are held by Gembrook Developments Limited and the remaining 37,284,000 shares are held by Parkview Property Development Limited, both of which are subsidiaries of The Hong Kong Parkview Group Limited.

Apart from the above, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance at 31 December 1997 shows that the Company had not been notified of any interest which represents 10 per cent. or more of the Company's issued share capital.

PURCHASE, SALE OR REDEMPTION OF SHARES

Details of the purchases of its shares made by the Company on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 1998 were as follows:-

| Trading month | Number of shares purchased | Price per share | | Consideration paid excluding expense (HK\$) |
|---------------|----------------------------|---------------------------|--------------------------|---|
| | | Highest price paid (HK\$) | Lowest price paid (HK\$) | |
| 1998 | | | | |
| January | 3,690,000 | 1.35 | 0.74 | 3,431,940 |
| April | 40,000 | 0.90 | 0.90 | 36,000 |
| May | 782,000 | 0.79 | 0.65 | 584,300 |
| June | 306,000 | 0.65 | 0.49 | 164,900 |
| TOTAL: | 4,818,000 | | | 4,217,140 |

A total of 4,818,000 shares of HK\$0.10 each were purchased during the period, at an aggregate consideration, including expenses, of HK\$4,273,457, and were subsequently cancelled by the Company, 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 a 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.

THE MILLENNIUM BUG ISSUE

As per the Group's understanding, the problem arising from the turn of the millennium is due to the fact that some computer systems are programmed to identify years only by two digits and so cannot tell the difference between 1900 and 2000. As both 1900 and 2000 will appear as the "year 00" to these computers, confusion will result in data compilation.

Recognising the destructive nature of the "millennium bug," the Group conducted a thorough review of its computer systems to assess the effect on its operations. Most of the Group's systems already address the issue. Only two systems or 5% of the entire computerised operations still fall short of expectation. These will be updated or replaced. Tackling the issue is a special committee made up of software and hardware technicians and headed by the Management Information Systems chief. The committee reports regularly to the Financial Controller on its progress in this area.

The Group expects to resolve the millennium issue by June 1999. Hence, the "millennium bug" should not pose a threat to any part of the Group's operations. For the purpose of upgrading hardware and programming software, related cost of HK\$1.5 million is expected.

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

Hong Kong, 29 September 1998