



CORPORATE INFORMATION

Directors

Executive Directors

Mr WONG Kin Yip, Freddie
(Chairman and Managing Director)
Ms IP Kit Yee, Kitty
(Deputy Chairman)
Mr CHEUNG Kam Shing
(Deputy Chairman)
Ms LAM Fung Fong

Independent non-executive Directors

Mr AU Son Yiu
Mr CHUNG Kam Wing, Calvin
Mr KAN Chung Nin, Tony
Mr LAI Dominic

Audit Committee

Mr CHUNG Kam Wing, Calvin
(Chairman)
Mr AU Son Yiu

Company Secretary

Mr CHAN Kin Chu, Harry

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Website

www.midland.com.hk

Head Office and Principal Place of Business in Hong Kong

Rooms 2505-8, 25th Floor
World-wide House
19 Des Voeux Road Central
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Principal Bankers

Dao Heng Bank Limited
International Bank of Asia Limited
Standard Chartered Bank
The Hongkong and Shanghai Banking
Corporation Limited



Midland Realty (Holdings) Limited
2002 Interim Report



Hong Kong Legal Advisers

Iu, Lai & Li
20th Floor
Gloucester Tower
The Landmark
Central
Hong Kong

Bermuda Legal Advisers

Conyers Dill & Pearman
Suite 2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

**Principal Registrar and Transfer
Office**

Butterfield Fund Services (Bermuda)
Limited (formerly known as
Butterfield Corporate Services
Limited)
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

**Hong Kong Branch Share
Registrar, Warrant Registrar
and Transfer Office**

Abacus Share Registrars Limited
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong



Midland Realty (Holdings) Limited

2002 Interim Report



FINANCIAL HIGHLIGHTS

	Unaudited		Percentage increase
	30.6.2002	30.6.2001	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Turnover	485,398	454,534	7%
Profit attributable to shareholders	29,323	28,465	3%
Basic earnings per share	HK4.90 cents	HK4.78 cents	3%



Midland Realty (Holdings) Limited

2002 Interim Report



INTERIM RESULTS

The Board of Directors (the “Directors”) of Midland Realty (Holdings) Limited (the “Company”) is pleased to present the Interim Report and condensed accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2002. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2002, and the consolidated balance sheet as at 30th June 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out below:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH JUNE 2002

		Unaudited Six months ended	
	Note	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Turnover	2	485,398	454,534
Other revenues		6,634	18,669
Other income		–	1,154
		<hr/>	<hr/>
		492,032	474,357
Operating costs		(450,236)	(426,909)
Deficit arising on revaluation of investment properties		(1,700)	(6,120)
		<hr/>	<hr/>
Operating profit	3	40,096	41,328
Finance costs		(3,908)	(6,967)
Share of profits less losses of jointly controlled entities		2,289	1,597
		<hr/>	<hr/>
Profit before taxation		38,477	35,958
Taxation	5	(8,321)	(5,763)
		<hr/>	<hr/>
Profit after taxation		30,156	30,195
Minority interests		(833)	(1,730)
		<hr/>	<hr/>
Profit attributable to shareholders		29,323	28,465
Proposed interim dividend	6	3,018	2,979
		<hr/>	<hr/>
Basic earnings per share	7	HK4.90 cents	HK4.78 cents
		<hr/>	<hr/>
Diluted earnings per share	7	HK4.59 cents	HK4.42 cents
		<hr/>	<hr/>



Midland Realty (Holdings) Limited
2002 Interim Report



CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2002 AND 31ST DECEMBER 2001

	<i>Note</i>	Unaudited 30.6.2002 HK\$'000	Audited 31.12.2001 HK\$'000
Non-current assets			
Fixed assets	8	278,604	304,295
Investments in jointly controlled entities		13,142	11,292
		<u>291,746</u>	<u>315,587</u>
Current assets			
Accounts receivable	9	225,862	233,038
Other receivables, prepayments and deposits		49,292	56,187
Trading investments		9,780	13,213
Bank balances and cash		384,222	334,084
		<u>669,156</u>	<u>636,522</u>
Current liabilities			
Accounts payable	10	114,523	112,242
Other payables and accrued charges		62,172	63,275
Short-term bank loan		20,000	–
Current portion of long-term bank loans			
– secured	11	23,594	28,191
Convertible note	13	70,000	70,000
Deferred income	13	30,443	–
Taxation payable		11,819	7,382
Bank overdrafts		10,402	5,758
		<u>342,953</u>	<u>286,848</u>
Net current assets		<u>326,203</u>	<u>349,674</u>
Total assets less current liabilities		<u>617,949</u>	<u>665,261</u>
Financed by:			
Share capital	12	60,368	59,569
Reserves		478,158	448,528
Proposed dividend		3,018	10,722
Shareholders' funds		<u>541,544</u>	<u>518,819</u>
Minority interests		19,082	18,248
Non-current liabilities			
Long-term bank loans – secured	11	57,196	97,624
Deferred income	13	–	30,443
Deferred taxation		127	127
		<u>617,949</u>	<u>665,261</u>



Midland Realty (Holdings) Limited
2002 Interim Report



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited	
	Six months ended	
	30.6.2002	30.6.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	59,688	5,905
Net cash inflow from investing activities	17,460	4,618
Net cash outflow from financing activities	<u>(31,752)</u>	<u>(12,196)</u>
Increase/(decrease) in cash and cash equivalents	45,396	(1,673)
Cash and cash equivalents at 1st January	328,353	343,941
Effect of foreign exchange rate changes	<u>98</u>	<u>-</u>
Cash and cash equivalents at 30th June	<u>373,847</u>	<u>342,268</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	384,222	347,949
Bank overdrafts	(10,402)	(5,709)
Trading investments – listed equity securities	<u>27</u>	<u>28</u>
	<u>373,847</u>	<u>342,268</u>



Midland Realty (Holdings) Limited
2002 Interim Report



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2002

Unaudited
Six months ended 30th June 2002

	Share capital	Share premium	Capital redemption	Arising on consolid- ation	Warrant	Other properties revaluation	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	59,569	66,908	1,307	(36,995)	21,824	220	(583)	406,569	518,819
Net gains or losses not recognised in the consolidated profit and loss account - exchange differences	-	-	-	-	-	-	129	-	129
Exercise of warrants	799	4,871	-	-	(1,675)	-	-	-	3,995
Profit for the period	-	-	-	-	-	-	-	29,323	29,323
2001 final dividend paid	-	-	-	-	-	-	-	(10,722)	(10,722)
At 30th June 2002	<u>60,368</u>	<u>71,779</u>	<u>1,307</u>	<u>(36,995)</u>	<u>20,149</u>	<u>220</u>	<u>(454)</u>	<u>425,170</u>	<u>541,544</u>

Unaudited
Six months ended 30th June 2001

	Share capital	Share premium	Capital redemption	Arising on consolid- ation	Warrant	Other properties revaluation	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001	59,519	66,581	1,297	(36,995)	21,824	220	(583)	380,495	492,358
Exercise of share options	60	366	-	-	-	-	-	-	426
Profit for the period	-	-	-	-	-	-	-	28,465	28,465
2000 final dividend paid	-	-	-	-	-	-	-	(11,904)	(11,904)
At 30th June 2001	<u>59,579</u>	<u>66,947</u>	<u>1,297</u>	<u>(36,995)</u>	<u>21,824</u>	<u>220</u>	<u>(583)</u>	<u>397,056</u>	<u>509,345</u>



NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and complied with the disclosures requirements of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

(a) *SSAP 11 (revised): Foreign currency translation*

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.



NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies *(continued)*

(a) SSAP 11 (revised): Foreign currency translation (continued)

In prior periods, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

(b) SSAP 34: Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for the annual leave as a result of services rendered by employees up to the balance sheet date.

In prior periods, no provision was made for employee annual leave entitlements. The SSAP 34 has been applied prospectively as the effect on profit for the six months ended 30th June 2001 and 2002 and retained earnings as at 1st January 2001 and 2002 is insignificant.



Midland Realty (Holdings) Limited

2002 Interim Report



NOTES TO THE CONDENSED INTERIM ACCOUNTS

2. Segment information

The Group is principally engaged in property broking services.

An analysis of the Group's revenues and results for the period by business segments is as follows:

	Unaudited					
	Six months ended 30th June 2002					
	Residential property brokerage <i>HK\$'000</i>	Industrial and commercial property brokerage <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External sales	441,857	43,541	-	-	-	485,398
Other revenues						
External sales	-	-	1,410	2,413	-	3,823
Inter-segment sales	-	-	6,120	2,064	(8,184)	-
Segment revenues	<u>441,857</u>	<u>43,541</u>	<u>7,530</u>	<u>4,477</u>	<u>(8,184)</u>	<u>489,221</u>
Segment results	<u>32,515</u>	<u>6,582</u>	<u>(744)</u>	<u>(2,202)</u>	<u>9,600</u>	45,751
Unallocated costs						<u>(8,466)</u>
Operating profit before interest income and finance costs						37,285
Net finance costs						(1,097)
Share of profits of jointly controlled entities	20	-	-	2,269		<u>2,289</u>
Profit before taxation						38,477
Taxation						<u>(8,321)</u>
Profit after taxation						30,156
Minority interests						<u>(833)</u>
Profit attributable to shareholders						<u>29,323</u>



NOTES TO THE CONDENSED INTERIM ACCOUNTS

2. Segment information (continued)

	Unaudited Six months ended 30th June 2001					
	Residential property brokerage <i>HK\$'000</i>	Industrial and commercial property brokerage <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External sales	416,267	38,267	-	-	-	454,534
Other revenues						
External sales	-	-	1,620	9,651	-	11,271
Inter-segment sales	-	-	7,771	2,868	(10,639)	-
Segment revenues	<u>416,267</u>	<u>38,267</u>	<u>9,391</u>	<u>12,519</u>	<u>(10,639)</u>	<u>465,805</u>
Segment results	<u>25,307</u>	<u>3,067</u>	<u>359</u>	<u>3,353</u>	<u>9,180</u>	41,266
Unallocated costs						<u>(7,336)</u>
Operating profit before interest income and finance costs						33,930
Net finance costs						431
Share of profits less losses of jointly controlled entities	(11)	-	-	1,608		<u>1,597</u>
Profit before taxation						35,958
Taxation						<u>(5,763)</u>
Profit after taxation						30,195
Minority interests						<u>(1,730)</u>
Profit attributable to shareholders						<u>28,465</u>

No analysis of the Group's segment information by geographical segments is presented as less than 10% of the Group's activities and operations are attributable to markets outside Hong Kong.



NOTES TO THE CONDENSED INTERIM ACCOUNTS

3. Operating profit

Operating profit is stated after charging the following:

	Unaudited	
	Six months ended	
	30.6.2002	30.6.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	8,558	12,854
Impairment of other properties (<i>note 8</i>)	4,240	–
Provision for bad and doubtful debts	14,938	10,598
	<u> </u>	<u> </u>

4. Staff costs

	Unaudited	
	Six months ended	
	30.6.2002	30.6.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances (<i>note</i>)	274,444	270,677
Retirement benefit costs	9,734	8,498
	<u> </u>	<u> </u>
	284,178	279,175

Note: Salaries and allowances disclosed above include emoluments paid to directors of HK\$8,821,400 (six months ended 30.6.2001: HK\$6,262,500).



NOTES TO THE CONDENSED INTERIM ACCOUNTS

5. Taxation

Hong Kong profits tax has been provided at the rate of 16% (six months ended 30.6.2001: 16%) on the estimated assessable profit for the period.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. No provision for overseas taxation had been made in 2001 as the Group had no assessable or taxable profits calculated in accordance with the tax laws of the countries in which the Group operated.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited	
	Six months ended	
	30.6.2002	30.6.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company and subsidiaries:		
Hong Kong profits tax	7,900	6,200
Overseas taxation	46	–
Over provision in prior years	–	(6)
Deferred taxation	–	(575)
	<u>7,946</u>	<u>5,619</u>
Share of taxation attributable to a jointly controlled entity	<u>375</u>	<u>144</u>
	<u>8,321</u>	<u>5,763</u>



NOTES TO THE CONDENSED INTERIM ACCOUNTS

6. Proposed interim dividend

	Unaudited	
	Six months ended	
	30.6.2002	30.6.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim, proposed, of HK\$0.005 (six months ended 30.6.2001: HK\$0.005) per ordinary share (<i>note</i>)	<u>3,018</u>	<u>2,979</u>

Note: At a meeting held on 17th September 2002, the Directors declared an interim dividend of HK\$0.005 per share for the year ending 31st December 2002. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

7. Earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$29,323,000 (six months ended 30.6.2001: HK\$28,465,000) and the weighted average number of 597,817,000 (six months ended 30.6.2001: 595,623,000) ordinary shares in issue during the period.

The diluted earnings per share is based on the adjusted profit of HK\$31,423,000 (six months ended 30.6.2001: HK\$30,229,000) on the assumption that all outstanding convertible note had been exercised at the date of issue and had saved interest payable thereon, and 684,843,000 (six months ended 30.6.2001: 683,448,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 87,026,000 (six months ended 30.6.2001: 87,825,000) ordinary shares deemed to be issued at no consideration if all outstanding warrants, options and convertible note had been exercised.



NOTES TO THE CONDENSED INTERIM ACCOUNTS

8. Fixed assets

	Unaudited <i>HK\$'000</i>
Net book value as at 1st January 2002	304,295
Additions	1,852
Disposals	(13,045)
Depreciation charges	(8,558)
Impairment charges (<i>note 3</i>)	(4,240)
Deficit arising on revaluation of investment properties	(1,700)
	<hr/>
Net book value as at 30th June 2002	<u>278,604</u>

9. Accounts receivable

The accounts receivable represents principally agency fee receivable from customers whereby no general credit facilities is available. The customers are obliged to settle the amounts due upon the completion of the relevant agreements. At 30th June 2002, the ageing analysis of the Group's accounts receivable was set out as follows:

	Unaudited 30.6.2002 <i>HK\$'000</i>	Audited 31.12.2001 <i>HK\$'000</i>
Not yet due	167,503	180,821
Within 30 days	35,616	22,342
31-60 days	8,611	11,827
61-90 days	5,302	8,414
Over 90 days	8,830	9,634
	<hr/>	<hr/>
	<u>225,862</u>	<u>233,038</u>



NOTES TO THE CONDENSED INTERIM ACCOUNTS

10. Accounts payable

The accounts payable represents principally the commissions payable to property consultants and cooperative estate agents, and are due for payment only upon the receipt of corresponding agency fees from customers. As at 30th June 2002, the accounts payable included HK\$30,702,000 (year ended 31.12.2001: HK\$18,580,000) commissions payable which were due for payment within 30 days. All the remaining accounts payable were not yet due.

11. Long-term bank loans – secured

	Unaudited 30.6.2002 <i>HK\$'000</i>	Audited 31.12.2001 <i>HK\$'000</i>
Secured bank loans wholly repayable within five years	80,790	125,815
Current portion of long-term bank loans	(23,594)	(28,191)
	<u>57,196</u>	<u>97,624</u>

At 30th June 2002, the Group's bank loans and overdrafts were repayable as follows:

	Bank loans and overdrafts	
	Unaudited 30.6.2002 <i>HK\$'000</i>	Audited 31.12.2001 <i>HK\$'000</i>
Within one year	53,996	33,949
In the second year	17,534	28,280
In the third to fifth year	39,662	69,344
	<u>111,192</u>	<u>131,573</u>



NOTES TO THE CONDENSED INTERIM ACCOUNTS

12. Share capital

(a) *Share capital*

	Unaudited	
	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
<i>Authorised:</i>		
At 1st January 2001, 2002 and 30th June 2002	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 1st January 2001	595,189,000	59,519
Exercise of share options	600,000	60
Purchase of shares	<u>(100,000)</u>	<u>(10)</u>
At 31st December 2001	<u>595,689,000</u>	<u>59,569</u>
At 1st January 2002	595,689,000	59,569
Exercise of warrants	<u>7,990,000</u>	<u>799</u>
At 30th June 2002	<u>603,679,000</u>	<u>60,368</u>



NOTES TO THE CONDENSED INTERIM ACCOUNTS

12. Share capital (continued)

(b) Share options

The Company has a share option scheme which was adopted on 12th May 1995 (“1995 Share Option Scheme”). Particulars and movements of share options which were granted under the 1995 Share Option Scheme are as follows:

	Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2002	Options lapsed during the period	Balance outstanding as at 30th June 2002	Exercisable period
Directors						
Mr WONG Kin Yip, Freddie	15th May 2000	0.5312	1,300,000	–	1,300,000	15th May 2000 to 15th May 2003
Ms IP Kit Yee, Kitty	13th May 1997	2.91	500,000	500,000*	–	13th May 1999 to 13th May 2002
	14th May 2001	0.5088	250,000	–	250,000	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	250,000	–	250,000	14th May 2003 to 14th May 2006
Mr CHEUNG Kam Shing	19th October 2000	0.496	412,500	–	412,500	19th October 2001 to 19th October 2004
	19th October 2000	0.496	412,500	–	412,500	19th October 2002 to 19th October 2005
Ms LAM Fung Fong	13th May 1997	2.91	500,000	500,000*	–	13th May 1999 to 13th May 2002
	14th May 2001	0.5088	250,000	–	250,000	14th May 2002 to 14th May 2005
	14th May 2001	0.5088	250,000	–	250,000	14th May 2003 to 14th May 2006
Sub-total for directors			<u>4,125,000</u>	<u>1,000,000</u>	<u>3,125,000</u>	



NOTES TO THE CONDENSED INTERIM ACCOUNTS

12. Share capital (continued)

(b) Share options (continued)

Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2002	Options lapsed during the period	Balance outstanding as at 30th June 2002	Exercisable period
Continuous contract employees					
1st March 1998	1.30	1,257,000	1,257,000*	–	1st March 1999 to 1st March 2002
1st March 1998	1.30	1,802,000	316,000#	1,486,000	1st March 2000 to 1st March 2003
21st June 1999	0.86	800,000	–	800,000	21st August 1999 to 21st August 2002
21st June 1999	0.86	1,600,000	–	1,600,000	21st June 2000 to 21st June 2003
17th February 2000	0.71	150,000	–	150,000	17th February 2001 to 17th February 2004
17th February 2000	0.71	150,000	–	150,000	17th February 2002 to 17th February 2005
Sub-total for continuous contract employees		<u>5,759,000</u>	<u>1,573,000</u>	<u>4,186,000</u>	
Total for directors and continuous contract employees		<u>9,884,000</u>	<u>2,573,000</u>	<u>7,311,000</u>	

* During the six months ended 30th June 2002, 2,257,000 share options were lapsed in accordance with the terms of 1995 Share Option Scheme.

During the six months ended 30th June 2002, certain continuous contract employees resigned from the Group and their respective share options for a total of 316,000 shares lapsed accordingly.



NOTES TO THE CONDENSED INTERIM ACCOUNTS

12. Share capital *(continued)*

(b) Share options (continued)

There was no share options granted by the Company and exercised by the holders thereof in accordance with the terms of the 1995 Share Option Scheme during the six months ended 30th June 2002.

At the special general meeting of the Company held on 30th April 2002, the Company has passed an ordinary resolution for the adoption of a new share option scheme (“2002 Share Option Scheme”) in compliance with the amendments made to Chapter 17 of the Listing Rules. Under the terms of the 2002 Share Option Scheme, the Directors of the Company may, at their discretion, grant options to eligible persons to subscribe for shares in the Company at a price not less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The 1995 Share Option Scheme was terminated on 30th April 2002 without prejudice to the rights and benefits of and attached to those options granted thereunder which were outstanding as at 30th April 2002.

There were no options granted under the 2002 Share Option Scheme during the period from 30th April 2002 to 30th June 2002.



NOTES TO THE CONDENSED INTERIM ACCOUNTS

12. Share capital (continued)

(c) Warrants

As at 30th June 2002, there were 96,118,000 outstanding warrants, which entitle the holders thereof to subscribe for the ordinary shares of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.50 per share (subject to adjustment) at any time up to and including 11th January 2003. During the period, 7,990,000 warrants were exercised, resulting in the issue of 7,990,000 ordinary shares of HK\$0.10 each by the Company at a subscription price of HK\$0.50 per share.

13. Subsequent events

- (a) The convertible note with an aggregate principal amount of HK\$70,000,000 was wholly repaid on 2nd July 2002.
- (b) Pursuant to a subscription agreement (the “Subscription Agreement”) dated 10th April 2000 made between Midland CyberNet Limited (“Midland CyberNet”) (formerly known as Midland Realty Cyber Agency Limited), Gorich Profits Limited (“Gorich”) (formerly known as Hong Kong Property Services (Holdings) Limited) and the Company, Gorich agreed to subscribe for 20% of the entire issued share capital of Midland CyberNet at the subscription price of HK\$40,000,000 (the “Subscription Price”). At 30th June 2000, the completion date of the Subscription Agreement, Midland CyberNet allotted and issued 20,000 shares (“Subscription Shares”) representing 20% of its entire issued share capital immediately after the allotment to Litech Investment Limited (“Litech”), the nominee appointed by Gorich (the “Disposal”).



NOTES TO THE CONDENSED INTERIM ACCOUNTS

13. Subsequent events *(continued)*

(b) *(continued)*

Under the Subscription Agreement, Midland CyberNet and Gorich agreed that if within two years from 30th June 2000 Midland CyberNet is not listed (with market capitalisation of not less than HK\$250,000,000 upon listing) on a recognised stock exchange, Gorich may require the Subscription Shares be transferred to a person nominated by the Company and the Company shall pay or procure the payment of the Subscription Price and bear any stamp duty payable in relation to such transfer (the “Right”). The gain of HK\$30,443,000 resulting from the Disposal was deferred and included as a non-current liability in prior periods.

On 8th July 2002, Gorich exercised the Right pursuant to the Subscription Agreement as Midland CyberNet has not listed on or before 30th June 2002 and the Subscription Shares were transferred from Litech to Atomic Resources Limited, a wholly owned subsidiary of the Company, at a consideration of HK\$40,000,000 (equivalent to the Subscription Price). Accordingly, the deferred income was reclassified as a current liability as at 30th June 2002.



BUSINESS REVIEW & OUTLOOK

Performance Review

In the first half ended 30th June 2002, the Group recorded turnover of HK\$485,398,000, up 7% from the same period in 2001. The Group has had satisfactory results in that it raised turnover continually. Hence, the Directors are pleased to thank management for keeping a close tab of the market to seek new business venues.

Hong Kong's economic outlook remains cloudy. The unemployment rate is at record high. Despite these bleak circumstances, however, first-time homebuyers were the driving force, boosting home sales by a considerable margin in the first half.

Undoubtedly, the market has benefited from the revised housing policy. In September 2001, the Government announced that it would halt the sale of Home Ownership Scheme ("HOS") units for nine months, while increasing the quota for home loan subsidies. This had the effect of easing competition for homebuyers between the private and public housing sectors and reducing the overlapping of prospective customer bases. Moreover, the mortgage rate was

pared to a historic low of 2.625%, easing the financial burden of homeowners. Meanwhile, the prices of private homes have fallen to affordable levels for quite a number of Hong Kongers. It is increasingly apparent that monthly mortgage repayments often cost less than the monthly rents.

In the first half, the Group took initiative in a soft market to increase the market share. The Group added 10 branches to bring our network to 192 outlets. In line with market changes, the Group also relocated some branches to take advantage of better exposure and lower rents. As the Group see it, commercial rents will have further room to adjust downwards.

In terms of human resources, the Group added 214 staff members in the first half. The Group provided employment for 2,796 individuals. During this period, the Group expanded its sales force for primary-market sales by 72% to 470 agents. Thanks to the extensive branch network and substantial penetration of each market, the Group is developing increasingly close ties with developers. In the first half, the Group was able to secure a number of sole agency contracts for brand new projects, including Oscar by the Sea in Tseung Kwan O.



Outlook

Business in Hong Kong

The Directors are cautiously optimistic about the domestic property market. Doubtless, local economic growth is hamstrung by external uncertainties, massive unemployment, and unrelenting deflation. In the face of difficult times, the Group managed to reduce overhead costs, in line with the downward adjustment in Hong Kong's operating costs. Hong Kong's economy is on the mend.

The Group believes that the competitive edge of major real estate agencies will sharpen. As it is, the Group has been able to win over many small to medium-sized property agency to market primary-market projects for developers. Recognizing this, the Group will focus more on allying with developers for primary-market sales.

The local property scene will remain active in the second half, the Group believes. The mortgage rate is at a record low. The average price of private homes is as much as 60% below the peak level. One can save an average of 26% on

monthly housing costs by taking out a mortgage instead of renting. All this favours the housing market. Moreover, the Government had taken the conciliatory step to rectify its erroneous housing policy and reduced public housing supply to stabilize the private housing market. In 2002, the number of HOS units available for sale are around 2,450, which is 61% below last year's level.

In fact, HOS units are no longer as favoured as before. Only 5,117 applications were received for the 24th phase of type A HOS units, the smallest number of applications in HOS's 24-year history. On the other hand, private housing projects launched around that time were taken up at a satisfactory level. Take Park Island, for example, over 10,000 applications were received and 2,500 units taken up in a short period. Needless to say, private residential projects are competitive. The Group is of the opinion that more and more prospective homebuyers will prefer private homes to HOS units. On the whole, this year's residential property market will outperform last year's while property sales across the board will increase slightly.



The Hong Kong-Mainland Market as Added Advantage

China is the ray of hope in the gloom of a worldwide recession. That is why the Group will continue to expand its business on the mainland to increase market share. The Group is in the process of integrating the Hong Kong-based commercial clientele with the property clientele on the mainland to spark more synergy. Since China's accession to the World Trade Organization, the demand for office premises in prime cities has increased dramatically, driving retail sales as a matter of course. The Group believes that an increasing number of businesses will turn north for new opportunities. They will need retail or office space. With this in mind, the Group's commercial and mainland divisions will ride the market trend to strengthen human resources and improve internal communications, with the objective of assisting Hong Kong businesses develop across the border.

Expanding Midland CyberNet

Networking for related business was the rationale behind the establishment of Midland CyberNet Limited ("CyberNet"). In the first half, CyberNet did meet its objective. Meanwhile, mReferral Corporation Limited, a three-way equal joint venture with American Express Bank Limited and Cheung Kong (Holdings) Limited, became the top mortgage referral agency in Hong Kong. The Group shall continue to develop new markets to spark synergy in diversification.

Upgrade Image to Boost Primary Market Sales

Throughout the years, the Group has been devoted to honing the skills of the sales force, maintaining public awareness with aggressive advertising and public relations, and advertising project launches to develop the sole-agency business. The Group shall continue to do so to meet market demand.



MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial Resources and Funding

As at 30th June 2002, the Group had bank balances and cash of HK\$384,222,000, whilst bank loans and overdrafts amounted to HK\$111,192,000. The Group's bank loans were secured by certain investment properties and other properties held by the Group with a total net book value of HK\$270,304,000 and with maturity profile set out as follows:

Repayable

	<i>HK\$'000</i>
Within 1 year	53,996
After 1 year but within 2 years	17,534
After 2 years but within 5 years	39,662

The Company has an aggregate principal amount of HK\$70,000,000 convertible note which carries interest 6% per annum payable in arrears and is wholly due to be repayable on 30th June 2002. The Company repaid the whole outstanding principal with interest on 2nd July 2002.

In addition, the Group had unutilised banking facilities amounting HK\$72,300,000 from various banks. The Group's borrowings are in Hong Kong Dollars, there is no significant exposure to foreign exchange rate fluctuation. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 30th June 2002, the gearing ratio of the Group was 21%. The gearing ratio is computed on the basis of total bank borrowings divided by the shareholders' funds of the Group.

The Directors are of the view that there are sufficient financial resources to satisfy its capital commitments and on-going working capital requirements.

Contingent liabilities

The Company executed corporate guarantees as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries. In addition, the Company guaranteed the payment of operating lease rentals in respect of certain premises for its wholly-owned subsidiaries.



Midland Realty (Holdings) Limited

2002 Interim Report



Staff and remuneration policies

As at 30th June 2002, the Group employed 2,796 full time employees of which 2,480 were sales agents and 316 were back office supportive employees.

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, profit sharing and share option may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as education subsidies, medical and retirement benefits for both the directors and employees. On staff development, both in-house and external training and development programmes are conducted on a regular basis.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK\$0.005 per share for the six months ended 30th June 2002 (six months ended 30.6.2001: HK\$0.005). 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 8th October 2002.

Dividend warrants will be dispatched to shareholders of the Company on or about 11th October 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 4th October 2002 to Tuesday, 8th October 2002, both days inclusive, during which period no transfer of shares may be registered.

In order to qualify for the 2002 interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Abacus Share Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on 3rd October 2002.

Registered holders of the Company's warrants who wish to exercise their subscription rights attaching to their warrants so as to participate in the 2002 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 Warrant Registrar at the above address not later than 4:00 p.m. on 3rd October 2002.



DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2002 the interests of the directors and chief executives in the ordinary shares and warrants of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of ordinary shares of HK\$0.10 each in the Company beneficially held			Number of warrants in the Company beneficially held
	Personal interests	Corporate interests	Family interests	Personal interests
Mr WONG Kin Yip, Freddie	12,500,000 <i>(note (a))</i>	162,500,000 <i>(note (b))</i>	–	22,000,000
	15,898,000			
Ms IP Kit Yee, Kitty	310,000	–	–	–
Mr CHEUNG Kam Shing	500,000	–	–	–
Ms LAM Fung Fong	75,000	–	685,000 <i>(note (c))</i>	–

Note:

- (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.
- (c) These shares are held by the spouse of Ms LAM Fung Fong.

Certain directors and chief executives of the Company have been granted options to subscribe for shares in the Company under the Company's share option scheme. Details of which are set out in note 12(b) to the accounts.

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.



Midland Realty (Holdings) Limited

2002 Interim Report



SUBSTANTIAL SHAREHOLDERS

At 30th June 2002, the register of the substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than that of a director as disclosed above.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 2002, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the six months ended 30th June 2002, the Company was in compliance with the Code of Best Practice as set out in 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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2002 with the directors. The Committee comprises two independent non-executive directors, namely Mr AU Son Yiu and Mr CHUNG Kam Wing, Calvin.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.midland.com.hk as soon as practicable.



ACKNOWLEDGMENT

With respectable results, we have sound reasons to view our future optimistically. Key to this success is our workforce, which is constantly in search of excellence. On behalf of the Directors, I take this occasion to thank deeply the shareholders for their unquestionable support, and the staff for their tireless aptitude, devotion and commitment to serve.

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

Hong Kong, 17th September 2002