



# MIDLAND REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)  
website: www.midland.com.hk

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2003

### INTERIM RESULTS

The Board of Directors (the "Directors") of Midland Realty (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2003 together with unaudited comparative figures for the corresponding period in 2002 as follows:

		Unaudited six months ended 30.6.2003	30.6.2002 (As restated)
	Note	HK\$'000	HK\$'000
Turnover	1	455,289	485,398
Other revenues		3,201	6,634
		458,490	492,032
Operating costs		(419,555)	(450,236)
Deficit arising on revaluation of investment properties		(910)	(1,700)
Operating profit	2	38,025	40,096
Finance costs		(818)	(3,908)
Share of profits less losses of jointly controlled entities		559	2,289
Profit before taxation		37,766	38,477
Taxation	3	(6,959)	(8,521)
Profit after taxation		30,807	29,956
Minority interests		(667)	(833)
Profit attributable to shareholders		30,140	29,123
Proposed interim dividend	4	10,339	3,018
Basic earnings per share	5	HK4.40 cents	HK4.87 cents
Diluted earnings per share	5	HK4.40 cents	HK4.56 cents

### Notes

#### 1. 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 2003					
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Total HK\$'000
Turnover						
External sales	411,322	43,828	-	139	-	455,289
Other revenues	-	-	1,050	752	-	1,802
External sales	-	-	5,315	1,554	(6,869)	-
Inter-segment sales	-	-	-	-	-	-
Segment revenues	411,322	43,828	6,365	2,445	(6,869)	457,091
Segment results	31,404	3,863	4,371	(4,670)	8,822	43,790
Unallocated costs						(7,164)
Operating profit before interest income and finance costs						36,626
Net finance income						581
Share of profits less losses of jointly controlled entities	(455)	-	-	1,014		559
Profit before taxation						37,766

	Unaudited Six months ended 30th June 2002 (As restated)					
	Residential property brokerage HK\$'000	Industrial and commercial property brokerage HK\$'000	Property leasing HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Total HK\$'000
Turnover						
External sales	441,857	43,541	-	-	-	485,398
Other revenues	-	-	1,410	2,413	-	3,823
External sales	-	-	6,120	2,064	(8,184)	-
Inter-segment sales	-	-	-	-	-	-
Segment revenues	441,857	43,541	7,530	4,477	(8,184)	489,221
Segment results	32,515	6,582	(744)	(2,202)	9,600	45,751
Unallocated costs						(8,466)
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		2,289
Profit before taxation						38,477

#### 2. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited six months ended 30.6.2003	30.6.2002 (As restated)
	HK\$'000	HK\$'000
Crediting		
Gain on disposal of trading investments	1,510	93
Charging		
Depreciation	6,246	8,558
Impairment of other properties	4,240	4,240
Provision for bad and doubtful debts	19,719	14,938
Loss on disposal of fixed assets	62	173
Staff costs	260,744	284,178

#### 3. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30.6.2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/2004.

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.

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

	Unaudited six months ended 30.6.2003	30.6.2002 (As restated)
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	7,027	7,900
Overseas taxation	87	46
Deferred taxation (Note)	(350)	200
	6,764	8,146
Share of taxation attributable to a jointly controlled entity	195	375
	6,959	8,521

Note: The change in accounting policy in accordance with the new Hong Kong Statement of Standard Accounting Practice 12 "Income taxes" has been applied retrospectively and the comparatives have been restated. An amount of HK\$200,000 was charged to taxation for the six months ended 30th June 2002, the profit after taxation was therefore reduced by HK\$200,000.

#### 4. Proposed interim dividend

	Unaudited six months ended 30.6.2003	30.6.2002 (As restated)
	HK\$'000	HK\$'000
Interim, proposed, of HK\$0.015 (six months ended 30.6.2002: HK\$0.005) per ordinary share (note)	10,339	3,018

Note: At a meeting held on 16th September 2003, the Directors declared an interim dividend of HK\$0.015 per share for the year ending 31st December 2003. 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 2003.

#### 5. Earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$30,140,000 (six months ended 30.6.2002 as restated: HK\$29,123,000) and the weighted average number of 684,537,000 (six months ended 30.6.2002: 597,817,000) ordinary shares in issue during the period. The diluted earnings per share is based on the adjusted profit of HK\$30,140,000 and 684,620,000 ordinary shares which is the weighted average number of ordinary shares in issued during the period plus the weighted average of 83,000 ordinary shares deemed to be issued at no consideration if the outstanding options had been exercised.

For the six months ended 30th June 2002, the diluted earnings per share is based on adjusted profit of HK\$31,223,000 as restated on the assumption that all the outstanding convertible note had been exercised at the date of issued and had saved interest payable thereon, and 684,843,000 ordinary shares which is the weighted average number of ordinary shares in issued during the period plus the weighted average of 87,026,000 ordinary shares deemed to be issued at no consideration if all outstanding warrants, options and convertible note had been exercised.

### BUSINESS REVIEW AND OUTLOOK

#### Business Review

In the first half of 2003, despite the Severe Acute Respiratory Symptom ("SARS") outbreak and the high unemployment rate, the Group still managed to record its best interim results since 1998\*. Such results reflect that the Group possesses sound and excellent management skills, which are not only able to enhance its competitiveness during the boom, but also in the bust. And thanks to the dedication and hard work of all the staff, the Group outpaced its competitors again during the market downturn.

In the first 6 months of 2003, the real estate market remained weak. According to the Land Registry's figures, the number of sales and purchase agreements dropped 26%. However, the Group's transaction volume fell less than 5% for the same period, showing the strong performance of the Group even under unfavorable economic situation. More importantly, the Group's commission intake ratio from both the primary and secondary market also recorded an increase, demonstrating once again that the Group is a prominent leader in the industry.

Meanwhile, the Group worked aggressively to lower its operating costs during the difficult economic environment. In fact, the Group initiated a detailed restructuring plan to help the company maintain its competitive edge when negative signs just began to emerge. In the first half of 2003, the company successfully reduced its operating costs by 7%, reflecting the flexibility of its cost structure. What's more, it also shows that the Group knows the market well.

With regard to the mainland market, the Group's jointly controlled entity acquired 7 branches of 廣州市天河大地物業發展有限公司 in GuangZhou in June. For the first half of 2003, the branch network in the mainland expanded from 22 to 35, equivalent to a 60% increase.

In the first six months, the implementation of the "Productivity-Enhancing Program" in the local market led those low performers to leave the company, making the number of local staff drop by 182.

\* Interim results from 1998 to 2001 have not been restated.

#### Prospects

Notwithstanding the challenging global economic environment, the Board of Directors is optimistic about the future of the real estate agency business. The collapse of Fortune Realty Company Limited reflects a structural change in the industry, where only large agencies such as Midland Realty, are able to survive. Clearly, the Group's leading position in the industry is now even stronger than that in the year of 1996 and 1997. Also, the group's market share is now higher than that in the boom.

Despite the high unemployment rate and persisting deflation, the economy has already hit rock bottom and is showing signs of recovery. The Group anticipates that the business environment will improve very soon. A solid foothold for the steady recovery of the local economy is based on its sound fundamentals. For one thing, the Closer Economic Partnership Agreement (CEPA) was signed in June. Then, the individual travel scheme was launched in July. And in near future, construction of the Hong Kong-Zhuhai-Macau Bridge is expected to be announced. All these have provided enormous momentum for Hong Kong's growth on a medium to long term perspective. Above all, the Chinese government will encompass more significant initiatives and measures to support Hong Kong. Under the help of the Motherland, together with the improvement of the US economy, Hong Kong is now well positioned to meet the challenges and capitalize on new business opportunities that may arise.

If the local economy can genuinely get back on track towards steady recovery as anticipated, the real estate business will benefit in the end. In fact, subsequent to the SARS threat, the local real estate market has rebounded quickly. Transaction volume for both the primary and secondary markets have picked up while property prices have increased as well. And if the government seizes this opportunity and launches stimulating measures such as freezing land sales, the local residential property market is likely to resume its upward trend. In our view, the impact of the abolition of the Home Ownership Scheme ("HOS") program will emerge in the coming six to nine months. Figures indicate that between the year 1991 to 2000, the annual average supply of HOS housing reached in excess of ten thousand units. So the Group anticipates that those eligible applicants who have originally applied for HOS housing will gradually shift from the public market to the private market, causing the demand for private residential units increase substantially. In the foreseeable future, real estate market is expected to become more and more active.

#### Coping with the Secondary Market Recovery

The Group believes that the real estate market is now in its revival stage, and secondary home market will outperform the overall home market. And there are two reasons for our belief. First, most developers have held off new launches and raised prices of the new flats; pressure on the secondary market has eased. Moreover, huge upgrading demand has been accumulating in the past few years. Recently, more and more homeowners have changed flats and there are signs that investors are feeling more confident in the property market. In an effort to capitalize on these tremendous business opportunities, the Group has been aggressively increasing its sale force and expanding its branch network, with the aim to further enhance its market share.

#### Capitalizing on the Immigration-linked investment scheme

In early September, the Group announced the establishment of an immigration consulting service company in order to cope with the introduction of the Capital Investment Entrant Scheme. The Group expects that the foreigners who are planning to migrate to Hong Kong, will have a propensity to invest in the local real estate sector through the new program. Moreover, the Group's newly formed company will conduct feasibility studies on the launch of other related added value property-related services such as property management and rent collection, to enhance the Group's competitiveness.

#### Enhancing Ties and Two-way traffic between China and Hong Kong

Supported by a robust economy in the Mainland, mutual ties between China and Hong Kong have become closer. Mainland residents visiting Hong Kong on an individual basis will encourage more mainlanders to spend in Hong Kong and will accelerate the future growth of the local economy. The Group will leverage on its extensive branch network in the mainland to bolster a collaboration effect by referring and channeling potential prospects across the border.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Liquidity, Financial Resources and Funding

As at 30th June 2003, the Group had bank balances and cash of HK\$260,308,000, whilst bank loans and overdrafts amounted to HK\$39,803,000. 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\$110,659,000 and with maturity profile set out as follows:

	HK\$'000
Repayable	
Within 1 year	13,261
After 1 year but within 2 years	11,796
After 2 years but within 5 years	14,746

The Group had utilised banking facilities amounting HK\$83,067,000 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 2003, the gearing ratio of the Group was 8%. 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 the Group's capital commitments and on-going working capital requirements.

#### Acquisition and Investment

In 2002, the Group acquired a 30% equity interest in a company which was in the process of applying for the listing of its shares in the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year at a consideration of HK\$29,800,000. During the six months ended 30th June 2003, the Group decided to withdraw from the investment as certain conditions of the sale and purchase agreement entered into between the Group and the vendors cannot be fulfilled. The whole amount of HK\$29,800,000 paid by the Group was fully refunded.

#### 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.

#### Staff and remuneration policies

As at 30th June 2003, the Group employed 3,132\* full time employees of which 2,773 were sales agents and 359 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.

\* Including the employees employed by the jointly controlled entities of the Group.

### INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK\$0.015 per share for the six months ended 30th June 2003 (six months ended 30.6.2002: 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 7th October 2003. Dividend warrants will be dispatched to shareholders of the Company on or about 15th October 2003.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 3rd October 2003 to Tuesday, 7th October 2003 both days inclusive, during which period no transfer of shares may be registered.

In order to qualify for the 2003 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 2nd October 2003.

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 2003, the Company purchased 620,000 shares of HK\$0.10 each of the Company through the Stock Exchange. Details of the purchases are as follows:

Month of purchase	Number of shares	Purchase price per share		Aggregate consideration paid including expenses HK\$'000
		Highest paid HK\$	Lowest paid HK\$	
January 2003	620,000	0.55	0.54	339

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the six months ended 30th June 2003, 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 Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. 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 2003 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

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, 16th September 2003