

Midland Realty (Holdings) Limited

2001 Interim Report

BUSINESS REVIEW & OUTLOOK

Business Review

For the six months ended 30th June 2001, the Group reported turnover of HK\$454,534,000, up 35% from the same period in 2000. Profit attributable to shareholders rose 75% to HK\$28,465,000 and the basic earnings per share is HK4.78 cents. The Board of Directors is pleased to declare an interim dividend of HK0.5 cent per share.

During this reporting period, Hong Kong's prime rate was shaved five times by a total of 2.5%, which has had a positive effect on property transactions. The Land Registry registered 43,725 sale and purchase transactions in the first half, up 7.5% from the year-ago level. Especially active was the market for low-end residential units of below HK\$1 million. The number of transactions of such properties jumped 34% year-on-year. As activity picked up notably from investors and homeowners trading up, the overall market sentiment improved.

The Group was able to achieve respectable results by promoting the concept that it would be "cheaper to pay mortgage than to rent". The Group brokered 17,533 transactions in the first half, a notable increase of 32% over last year's level. Commission income also out performed the market. Operating profit rose 57% to HK\$41,328,000.

The Group also performed well in terms of sole agency arrangement, tender and auction. Having completed a number of major transactions in the hundreds-of-million-dollar range, the Group made a considerable amount in commission. In addition, the Group's Surveyors & Project Management Department conducted property valuation for candidate of initial public offerings. Backed by the approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for valuation, the Group was able to gain further professional recognition and increase its income streams.

Our business in the People's Republic of China ("PRC") expanded rapidly. During the reporting period, the Group obtained sole agency rights for a number of quality projects while increasing exposure in property management and consultancy service. The Group now ranks among major real estate agencies in China.

mReferral Corporation Limited ("mReferral"), a joint venture among Midland CyberNet Limited, Cheung Kong (Holdings) Limited (0001) and American Express Bank Limited, was able to gain a front-runner advantage in the mortgage broking business. In the first half, mReferral helped arrange mortgages worth over HK\$4 billion gradually gaining a leading market share to over 10%.

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Business Plan and Outlook – Grow by Diversification Excel on Proven Strength

In a further attempt to reduce supply, the Government announced in early September that it would halt sales of Home Ownership Scheme Units for 10 months and increase home buying loans substantially. The move is likely to have a considerable stabilizing effect on the housing market, restoring homebuyers' confidence and stimulating turnover. As China joins the World Trade Organization, we believe that property markets across both sides of the border are likely to benefit. However, any optimism is likely to be discounted by uncertainties clouding the United States and global economies and the subsequent slowdown domestically.

As it implies that competition will intensify among real estate agencies, the market will have much more room for mergers and acquisitions. We predict that 20% of real estate agents just might be forced out from the industry. The Group will continue to seek opportunity in crisis and leverage our established advantage to win more market share.

Our strategy is to ride on our diversified business model and grab every opportunity that may arise from a consolidating industry and a market turnaround. By adding revenue streams and broadening the scope of service, the Group will continue to grow and reinforce its market leader position.


Invest in People to Expand

To sharpen our competitive edge and increase market share, we shall recruit more talents into our sales force. As the largest real estate agency in Hong Kong, we have an advantage over our competitors in attracting good people. In the first half, we were successful in recruiting a number of capable and experienced sales teams from the industry. Resources will be strengthened to upgrade and update training programmes with the ultimate objective of raising the service level.

The Group has a comprehensive branch network that caters to all market segments and all districts. In terms of expansion, we shall focus on those markets of new completed projects.

Stay Trim Raise Efficiency

A number of Hong Kong companies have been migrating some production capabilities and administrative functions across the border to cut overhead expenses. The Group, in fact, has been testing the same approach – with satisfactory results. We shall keep a close tab on this development and examine more closely business on both sides of the border to arrive at a most efficient solution.

The header image features a cityscape with a prominent modern building on the left, set against a bright, hazy sky. The text is overlaid on this image.

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Stay Trim Raise Efficiency (*continued*)

In the second half, quite a number of leases for branch premises will be up for renewal. We are hopeful that larger rental reductions be attained in upcoming negotiations.

Expand Geographically to Grow Income

Besides real estate broking in Hong Kong, the Group plans to develop further two other lines of business with high potentials.

Mortgage Broking – Following the dissolution of the interest rate cartel in July, banks have stepped up their scramble for mortgage business. As a result, mReferral has more room to maneuver by offering consumers myriad choices of mortgage packages. Mortgage brokers and real estate agents have a symbiotic relationship in that they must provide customers with a competitive and comprehensive package of services. It is our strategy to encourage our sales force to take more initiative, enhance the commission incentive scheme and strengthen resources at mReferral.

The PRC Market – China's market is expected to open in a big way following the PRC's accession to the World Trade Organization. Meanwhile, property development activities will increase as the real estate law takes shape. Taking the usual discreetly aggressive approach, the Group shall increase its investment weighting in China gradually with a view towards attaining steady earnings growth year on year. We shall continue to strengthen our business in Shenzhen, Guangzhou, Beijing and Shanghai by securing more sole agency rights for quality projects. At the same time, we shall make substantial commitment to build our business in the secondary market, marketing consultancy, leasing and sales of commercial premises and property management. To catch the full range of opportunities developing in China, we shall recruit aggressively qualified local personnel and strengthen our training program.