

Midland Realty (Holdings) Limited

2001 Annual Report

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND OUTLOOK

Business Review

In 2001, the Group recorded turnover of HK\$916,446,000, up 17% from the preceding year. However, with the Mandatory Provident Fund raising operating costs, and 911 Incident seriously dampening demand, operating profit dipped 24% to HK\$62,465,000. Profit attributable to shareholders declined 23% to HK\$40,967,000. The Directors propose a final dividend of HK\$0.018 per share. Taking into account the interim dividend, the total dividend for 2001 will be HK\$0.023 per share.



Wong Kin-Yip, Freddie
Chairman and Managing Director

During the year, market sentiment improved, thanks to 11 rounds of rate cuts that pared 4.375% off interest rates, the suspension of Home Ownership Scheme (“HOS”) sales and the cutback in land sales. According to the Land Registry, sale-and-purchase transactions edged up 3% to 88,190 with the primary market logging 20,563 transactions and the secondary market, 50,983. This was the first increase since the Asian financial crisis. As the buying and selling of small to mid-sized flats still dominated activities, residential prices continued to fall. The total property transaction value tumbled 13% to HK\$192.8 billion. Taking the pulse of the market, the Group launched successful the “more-affordable-to buy” campaign along with awareness-building commercials on television. As a result, we were able to boost our transaction volume by 26% to 37,863, on top of cornering 80% of residential sales in the primary market.



Certificate from *CIO Asia* magazine recognizing **Midland Realty** as among 100 companies to provide the best information technology systems in Asia.

In the face of an economic downturn, the Group steadfastly struck a balance between prudence and expansion to sharpen the competitive edge. We pursued aggressively project-marketing opportunities and devoted more resources to sole agency tendering and auctions, at the same time, reinforcing our status as a top brokerage for luxury homes. Our efforts were rewarded with a number of large-scale transactions during the year. Meanwhile, we installed in our branch network the Midland Realty Management System that helps the Group save up HK\$7,000,000 annually, in addition to increasing service quality and competitive edge significantly. This comprehensive online listing system earned the Group a place among 100 companies in Asia named by international magazine “CIO Asia” as being best in information technology management.

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In China Mainland, the Group enjoyed substantial growth. Our Shanghai residential property division, for one, captured 70% of sole agency sales of quality new units available to overseas buyers. Our track record speaks for itself, winning us trust among developers and customers.

Despite sluggish conditions, the development of mortgage referral business was outstanding. mReferral Corporation (HK) Limited ("mReferral") lined up mortgage loans exceeding HK\$11.3 billion, representing the leading position in market. Not only did mReferral add a respectable revenue stream but it also formed co-operative alliances with about 50 small to mid-sized real estate agencies for better networking.

Business Outlook – Grow on Diversification and the China Market

Plaguing the market these days is the economic downturn. With layoffs and pay cuts virtually a daily occurrence, the desire of consumers to own their own home is diminished. However, the government did paint a fairly rosy economic picture in the 2002/03 Budget and appears determined to reverse its negative housing policy by suspending sales of HOS units and reducing land sales. All these should bode well for market demand. We believe that as the US economy recovers, more business opportunities open up following China's entry to the World Trade Organisation ("WTO") and rates remain low, the property market should resume a growth trend in the longer run.

In light of this, our strategy is to reinforce our base in Hong Kong while continuing to develop the China Mainland market. Using Midland CyberNet Limited as a flagship company and building on the success of mReferral, the Group also will develop further synergic referral services to broaden the earnings base.

Make Inroads in China Set Professional Standards

In nearly a decade since entering China in 1992, the Group has made a name as a pioneer that introduced superior service standards and rich management experience to a virgin market. On this sound basis, we shall develop further our business using the following three strategies to capture the opportunities resulting from China's WTO accession and the globalisation of economies:

1. Expand geographically to broaden our business coverage;
2. Recruit more talents, step up training and raise service standards to cut a professional image; and
3. Implement network operations to accelerate development and expand the corporate structure.



Subsidiary Hong Kong Property is presented with the "Henderson Best Selling Award for Year 2001", the first agency to retain its championship in three consecutive years.

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Focus on Training to Boost Core Strength

Last year, the Group organised 350 wide-ranging training programmes for about 8,000 headcounts. The service industry is people-dependent. The Group has always accepted that human resources are key. Faced with intensifying competition, we are determined to pioneer in human resources development. In the coming year, we shall continue to recruit seasoned agents and boost our sales force.

Control Costs to Raise Profits

To stay competitive, starting in 2002, we lowered the agents' commission rate for selling units in the primary market. At the same time, we instituted a profit-sharing scheme for supervisory personnel within the sales force, also with a view towards managing resources efficiently and controlling expenses prudently. We are investigating the feasibility of transferring some operations to the mainland. As long as we do not compromise service quality, we shall control operating expenses to improve efficiency.

Conclusion

The Group is pleased to report strong support from shareholders and customers on the basis of its sound financial strength, a professional management structure, and stable earnings. Moreover, as a major player, we have the advantage of coming out tops in a market where only the fittest survives. Our competitive edge allows us to attract highly qualified personnel and to diversify while reinforcing our core business. The Directors are confident that the Group is positioned well to grasp the opportunities of the imminent economic recovery and to improve our performance. The Directors are optimistic that we are in for a better year.

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 Board of Directors, I sincerely thank shareholders & clients for their support and our staff & agents for their diligence and dedication over the past year.



It is better to give than to receive. Management participates alongside *Sun Hung Kai Properties Limited* in the "SPS Walkathon 2002" to raise funds for charity.

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

Hong Kong, 19th March 2002