Chairman's Statement

WONG Kin Yip, Freddie
Chairman and Managing Director

Business Review and Outlook

Business Review

Bolstered by low lending rates, Hong Kong's property market put up a credible performance in the first half last year, bringing considerable earnings to the Group. However, as the rally ebbed after the successful launch of Park Island, the property market headed south. Transaction volume in the second half was 20% off the first-half level.

That the property market waned in the second half was largely attributable to the persistently weak overall domestic economy. The Government tried to prop the market by announcing a nine-point rescue platform in November, but with little positive effect. For the whole of 2002, Hong Kong's transaction volume slid 2.6% year-on-year. Thanks to the hard work of all staff, the Group completed 37,403 transactions during the year, down only 1.2% from 2001 and still leading the market. The Group's commission intake ratio also rose continually. However, ever falling property prices were a drag on the market. Moreover, some competitors had started a incentives war, even though the costs of marketing primary-market units were on the rise. As a result, the Group's overhead also rose, cutting into the full-year earnings.

For the year ended 31st December 2002, the Group recorded operating profit before charging of deficits arising on revaluation of the Group's properties of HK$34,820,000, down 45% from 2001. Such a profit level was only possible given such difficult times because of the tireless contribution from the staff and tight management control. The Group's management is especially laudable for running a tight ship with financial control. As of March 2003, the Group had cash and cash equivalents of approximately HK$0.3 billion, making it possible for the Directors to declare a special cash bonus for shareholders to commemorate the Group's 30th anniversary. In addition to the cash bonus, one bonus warrant for five shares was also proposed.

The property scene in Hong Kong has undergone a marked change. Instead of being driven by the secondary market, it is now driven by the primary sector. That has reduced considerably the importance of property ownership for strategic presence and investment. As a prudent measure, the Group decided to reassess its various properties at this point in time. Due to revaluation of such properties, the Group has to report a loss for the first time since going public. As of December last year, the Group charged the revaluation deficits of HK$99.88 million to reflect the current reduced market value of other properties. This was the major factor behind the decrease in the shareholders' funds.

Chairman's Statement

The Brand Name Effect

Last year, the Group became the first among Hong Kong's real estate agencies to be recognized as a Superbrand, thus reaffirming its market position. The recognition was especially significant as the Group entered its 30th year in business. Midland Realty's contributions to Hong Kong's real estate broking are just as apparent as its leadership in the industry.

Founded in the United Kingdom, Superbrands has assessment facilities in 17 locations worldwide. These facilities are run by experienced marketing and advertising professionals, who appraise and rate a candidate according to its market share, market reputation, customer support, history and overall market acceptance. Recognition is given only to companies that meet all standards. In being rated a Superbrand, the Group thus proved that it met stringent international standards in real estate broking.

The Group has a tradition of devotion to service excellence. With a far-flung presence and branches throughout Hong Kong and in key points in China, the Group has wide acceptance among the public. With the latest international affirmation as a Superbrand, the Group is sure of winning more public confidence and reinforcing its leading position in the market.

Always quick to recognize talents, senior management has contributed considerably to the industry's development over the years.

Midland Realty is the only property agency in Hong Kong with a Superbrand accreditation.

Outlook

With lending rates at low levels for years on end, it is indeed more economic for some to own rather than to rent a residential unit. In other words, private homes have become more affordable to Hong Kongers. Moreover, now that the Government halted the sale of Home Ownership Scheme units, a considerable number of prospective buyers are likely to enter the private housing sector instead. The first batch of applicants for the Government home loan subsidy was approved in March 2003 and more will be on the way, giving the market new momentum. The latest population policy announced also should have a positive influence. If the health scare posed by the severe acute respiratory syndrome (SARS) abates within the second quarter, the Group believes that the property market will become active as more projects are launched in the second half. And as developers are increasingly reliant on real estate agencies to help with marketing, the Group is likely to raise its income from new project sales.

Chairman's Statement

A conscientious corporate citizen, Midland Realty contributes regularly to charity. Last year, a team of managers and executives participated in a walk for charity.

In the near term, however, the market will continue to come under pressure from oversupply. Developers are likely to keep profit margins thin to increase sales, thus keeping property prices low. With war raging in Iraq and the SARS disease ravishing Hong Kong, the property sector will remain weak. The Group is keen to see SARS come under control so that the local economy gets on track for a recovery.

Cost Savings

The Group will continue to reduce costs this year. As a first step, the salary scale of new employees was lowered earlier this year to achieve savings in fixed overhead. To save on rents, the Group will negotiate on an ongoing basis with landlords for better lease terms or less expensive premises. One positive development appears to be a letting up in the commission discount war among real estate agents. All these, we believe, will benefit the Group's business.

In February 2003, the Group had considered taking over Fortune Realty Company Limited ("Fortune"), which declared bankruptcy, to increase market share. Fortune's demise reflects a structural change in the industry. It is difficult for mid-sized real estate brokers to stay afloat; only large agencies such as the Group will be able to survive.

As an industry leader and the only listed real estate agency in Hong Kong, Midland Realty attends roadshows organised by securities houses and fund managers from time to time to offer its analysis of the property market and the industry.

Since 1997, the value of property transactions has been on the decline. Cash flow became an issue with many real estate agencies. As a listed company, the Group had the advantage of raising funds on the equities market. The Group's warrants that became due in January 2003 was well received with a subscription rate of 97.4% raising nearly HK$80 million. With its financial position thus bolstered, the Group is able to outpace competitors substantially.

Chairman's Statement

A strong cash flow makes it easier to attract higher-calibre sales people and professionals. Armed with this advantage, the Group believes it will extend its market presence. In the first quarter this year, Midland Realty made good sales at a number of luxury residential projects, once again proving its worth as a top real estate brokerage.

In the Budget for 2003-04, the Government included a new immigration policy to allow investment in properties of at least HK$6.5 million. A potential immigrant may qualify by investing that amount in either property or some accredited financial asset. The objective is clearly to stimulate the economy, notably, the property sector. As property is not the only accredited investment instruments, the Group will await further details before conducting a feasibility study to explore this as a new line of business. A division set up to handle this will have be staffed with investment advisers and financial consultants, immigration experts and legal advisers, and property trust and management specialists. The Group sees an opportunity in this emerging market. With solid cash flow and a sound reputation, the Group believes that it is well positioned to explore a potentially big market.

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, 8th April 2003