

Midland Realty (Holdings) Limited

2003 Annual Report



Chairman's Statement



WONG Kin Yip, Freddie
Chairman and Managing Director

Review

Profit at 6-year High

The Group is pleased to report profit attributable to shareholders of HK\$122,749,000, the highest level in 6 years. In 2003, the Group had performed above expectation, with turnover surging 29% from the year before to HK\$1,179,963,000.

Last year, the Land Registry recorded 87,309 sales-and-purchase transactions in properties across the board, up only 1.6% from 2002. Despite the slight overall increase in activity level, the Group had a bumper year. Our agents brokered 42,302 transactions, 13% more than in 2002, definitely outperforming the market. During the year, robust sales in the luxury residential market had contributed considerably to the Group's rising income.

Win with Foresight

With 31 years of industry experience to back it, senior management has a knack to spot the market trend and catch opportunities despite ever-changing market conditions. Branches were opened and the sales force expanded in a timely manner. In line with the wisdom of seeking opportunity in times of crisis, the Group anticipated the market to turn around after Easter, despite its drastic plunge in the first half of 2003. Arrangements were made to expand the branch network and to strengthen marketing and staff training. Armed with an obvious increase in the number of outlets, the Group was able to ride the wave up later in the year and took a considerable share of the increase in market activities.

TV Commercials Snatch Market Share

The Group has been reaffirming its leading position in the industry over the years. Unable to overcome the recent downturn, many small to mid-sized real estate agencies were being phased out. Before competitors could muster the resources to expand, the Group seized the chance to launch a mass media campaign. As a result, we were able to gain an even greater market share than at the peak of the property boom in 1997. Meanwhile, the Group had set aside more budget to market its brand name, with the obvious objective of establishing a leading position and gaining market share.

Last year, the Group had the honor once again of being named a Superbrands. Using a series of advertisements that featured a positive market outlook, the Group was able to win public acceptance as a leader for the industry. We did not hesitate to invest in a series of TV commercials and arranged for prime time airing. As a result, we were able to raise further public awareness for the Company and reinforce the concept that "Midland Realty" would be a primary choice among real estate agencies.

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The Group's good results last year were a reflection of its top position in the industry. As the property market gradually climbed from the trough, activity increased in the secondary market. When choosing an agency, many consumers will tend to pick one with credibility, abundant listings and a large pool of clientele. As a property brokerage with such resources, the Group was able to increase its market share.



Midland Realty was awarded Superbrands status again in 2003.



Renowned investors attended the opening ceremony of our first flag-ship store.

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Senior management has contributed considerably to the group's developments over the years.



Midland Realty has been aggressively increasing its sale force and expanding its branch network.

Outlook

2004 to be a Bumper Year

The Group believes that consumer confidence will increase as economic conditions improved. As it is, unemployment has shown signs of letting up, while such policies as the solo traveler scheme for mainland Chinese and the Closer Economic Partnership Agreement have had the immediate effect of stimulating a recovery. Hong Kong's property prices have been climbing after hitting the trough. We believe that the market is about to enter a bull cycle any time.

Low Base Leaves Room for Rising Price Trend

As we see it, although having climbed some 45% from the abyss last April, with mortgage payments averaging only 23% of a household's monthly income, home prices still are at a low affordable base. Moreover, the Government has changed its policy in support of the property market. Hong Kongers still will find homes fairly affordable, thus leaving room for prices to rise. We foresee more trading-up activities this year to keep the market buoyant in the coming year.

Demand to Lend More Support

Demand for property is on the rise, notably in the luxury residential sector and retail properties. A number of investors also have been drawn to the market. The Government's decision to resume limited land sales will have a direct bearing on satisfying overseas demand. According to the schedule for outlining developable land, luxury residential sites will be limited and hardly enough to meet demand.



Midland Realty joined force with 17 developers to promote the Capital Investment Entrant Scheme.

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Reaffirming the Flagship-Store Concept

Recognizing the positive outlook for retail properties, the Group is developing a flagship-store network to pounce on market opportunities. With management and staff pulling together, we are pleased to report some fine results so far. In the first quarter this year, the Commercial and Retail Property Division brokered exclusively quite a number of large-scale transactions, including three whole floors and the lobby area of the Mongkok Computer Centre. At a HK\$400 million, this was undoubtedly the most significant transaction of this type in that period. In addition, the Group also brokered

the sale of the first floor of the Hankow Centre in Tsimshatsui for HK\$270 million. In fact, we find the flagship store concept so successful with retail properties that we plan to extend it to other sectors.

Increase Mass Marketing, Raise Awareness to Stay Ahead

To expand its market share, the Group will increase advertising and promotion expenditure, such as, continuing with TV commercials. Moreover, for the first time, the Group will work with the Hong Kong Jockey Club in June to sponsor the "Midland Realty Cup". The event surely will raise public awareness for the Midland Realty name and sharpen its competitive edge. More than that, a competition will be held simultaneously within the sales force to boost morale and raise sales, with the ultimate objective of lifting the Group's market share by between 5% to 10%.

Improve Training, Increase Recruitment

Over the years, the Group has been regarded as a pioneer in training real estate agents. It is an unwavering belief among senior management that outstanding human resources are important Group assets. Using a diverse range of training programs, we have been improving our service standards. Recently, the Group increased the floor space of its training facilities by 300%, expressing in no uncertain terms its commitment to staff education. Quite a number of these training centers are running on full steam. These include Central's World-wide House and Bank of America Tower, and Grand Tower and Prosperity Centre in Mongkok.

On the Alert for Opportunities

While the outlook on the property market may be rosy, the Group still keeps a close tab on latest changes in the business environment and maintains a cautiously optimistic view.



In 2003, the group anticipated the market to turn around after Easter.

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Despite the current upturn, the real estate broking industry is faced with a number of challenges. The Group is ever on the ready to face any challenge, notably, the reduction of commission rate for primary-market sales. In recent years, commission from new homes has become quite a significant income stream among real estate agencies as most major developers relied on them to help sell newly developed projects. With a number of developers reducing their commission payout rate to real

estate agencies earlier on in 2004, the real estate broking industry will feel the pinch. Take the Group, for instance, in the 12 months ended 31st December 2003, the commission income from developers in local residential market made up 52% of total income. However, rising property prices in both the primary and secondary sectors are likely to moderate the negative impact from the commission rate reduction, we believe.



As an industry leader, Midland Realty continues to put effort on brand building.

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Control Costs to Continue Expansion

As a major industry participant, the Group will have to keep growing, especially if market activity rises. The Group plans to open more outlets, invest more in human resources development, and spend more to promote the branches and the company name. Although the budget will expand as we recruit more workers and as rents and operating costs in the branches climb, we shall stay committed to keeping costs at a reasonable level.

WONG Kin Yip, Freddie
Chairman and Managing Director

Hong Kong, 30th March 2004