

## Chairman's Statement



**WONG Kin Yip, Freddie**  
*Chairman and Managing Director*

### Review

The Group enjoyed robust performance in 2004, breaking financial records across the board. More than the revival of the secondary property market, financial strength was boosted by our forward-thinking corporate culture and effective marketing strategies. For the financial year ended 31st December 2004, net profit attributable to Shareholders rose 191% to HK\$357 million on a 68% surge in revenue to HK\$1.987 billion.

### Trading-up of homes lift sales

In 2004, the property market enjoyed its biggest boom since 1997. Drawn by a series of positive developments – including the resumption of land sales, the elimination of rental controls and the raising of the mortgage ceiling to 95% – property sales surged higher in two successive upward

cycles. For the full year, resale property prices climbed an average of nearly 30% after consolidating over two or three intervals. The year also saw over 120,000 properties changing hands on a total value of HK\$351.8 billion, the highest level since 1998.

Records at the *Land Registry* show 25,874 first-hand residential properties sold in 2004 and 76,668 transactions in the secondary market. The uptrend in resale activities was surely more definite. A breakdown of the Group's commission income shows the secondary-market income rising from 37% of total income in 2003 to 62% in 2004. This goes to show the secondary market's increasingly significant contribution to the Group's income structure.

### Board revamped to ride upturn, stay at the top

To catch the upturn of an economic recovery, the Group increased the number of branches by 64% from 214 to 350 during the year. At the same time, the number of staff soared more than 50% from 3,700 to 5,700. Both the size of the branch network and that of the staff hit record high.

The Group had adopted a proactive approach by way of corporate strategy. Besides continuing to raise brand awareness through advertising and promotion, we also restructured management to sharpen our competitive edge.

To revitalize management mentality and strengthen sales initiatives at the district level so that we follow more closely market trends, the Group's management team was restructured last year. In the process, the Board was shifted from a "defensive" to "offensive" mode, reinforcing further the corporate culture of being innovative. Following the restructuring, the Group was able to score success with a number of income streams, including winning the gold award as *Henderson Land Development's* sales agent.



*Henderson Land Development Chairman Dr Lee Shau Kee awards Midland Realty with a gold plaque to commemorate the latter's record-breaking efforts with the marketing of units at a number of Henderson's brand new residential developments.*

### **Macau business recorded slight profit**

In our efforts to diversify, we leveraged on our solid base in Hong Kong and extended our presence to Macau at the end of June last year. We successfully brought to Macau the Midland Realty management technology and corporate culture, thus helping to shift higher the gear of its economic boom. In our view, our entry to Macau has had the effect of stimulating property transactions, introducing order, equity, openness and integrity to the property market there. Our presence in Macau will help the Group integrating market activities in the Pearl River Delta. In just over half a year, we increased our Macau network to five outlets. Both the pace of development and bottom-line contribution of our Macau business are satisfactory.



*Several experienced employees were promoted to CEO grades as part of an ongoing programme to strengthen management.*

# STRIKE FOR THE SUMMIT

## Chairman's Statement



*The Group entered Macau by setting up a network there in 2004.*

### Income streams diversified

From its core real estate business, the Group first tried diversification by forming *mReferral*, a joint venture with *Cheung Kong Holdings* and *American Express Bank*. *mReferral* offers the property-buying customers free mortgage referral service and access to the most update mortgage information. Last year, we further launched

*Midland Wealth Management* to offer customers a comprehensive range of wealth management services, including, offshore savings plan, general and life insurance products, employee benefit schemes, personal financial planning, the Mandatory Provident Fund and other related services.

### Ahead with talent recruitment, development in competitive environment

Records at the Estate Agents Authority show that, as of 31st January 2005, Hong Kong had 18,280 licensed real estate agents, up 24% from 14,746 a year ago. Meantime, the number of the licenses for Shops grew to 3,166. Our reputation as an industry leader with comprehensive support, coupled with the regulatory climate requiring higher professional standards, has given us a competitive edge in attracting a large number of those seeking to enter this industry or to change agency allegiance.



*With a large number of department heads breaking the HK\$10 million sales record, the Group founded the Ten-million-dollar Round Table Club to give credit where credit is due.*

## Caring corporate citizen

The Group has spared no effort in promoting social welfare. We became a forerunner in charity work. Midland Charitable Foundation which was set up last year holds in trust a fraction (0.1%) of the Group's resale commission income for the needy. When the tsunami struck Southeast Asia at the end of last year, we initiated a drive for donations in the name of the foundation and channel the donations through a host of non-government organizations, namely, the *Hong Kong Red Cross*, *World Vision Hong Kong*, *Oxfam*, the *United Nations' Children's Fund*, and the *Salvation Army – Hong Kong and Macau Command*. By donating to some domestic charity organizations, our foundation also helps other needy persons in Hong Kong. We have been recognized for our efforts in charity. Last year, for the second year in a row, the Group was given the award as a "Caring Company." Our objective is to work with more charity organizations to return to society part of the gains we reap.



*Those in management participate eagerly and regularly in charity work sponsored by the Group.*



*The Group is a forerunner with charity work, giving back to society some of its fruits of labor.*

### Outlook

#### Volume and value to rise in property market

Quality, higher-end properties in the luxury residential sector, retail sector and grade-A office sector have been the main driver behind the current rebound. Recently, the upturn appears to be spreading to the mass residential sector as well. If the overall economy continues to improve and consumer confidence strengthens, then we can look forward to a 10% year-on-year increase in the buy-sell volume to 135,000 transactions this year. In value, sales are likely to breach HK\$400 billion.

Depending on the type of property, we forecast that home prices will rise by 15%. We also may find a few record-breaking transactions in the luxury residential sector. Meanwhile, residential rental rates may go up by 10% and more. In the commercial real estate sector, the shortage of supply will accentuate. We are of the opinion that the rental rates for office units and retail space have room to move up by another 20%. The overall upturn in properties surely will benefit the Group and ring in a bumper year for the real estate broking industry.

A large number of homeowners holding assets below their home's purchase value had been the biggest bane for the property market in the past few years. But the negative-asset problem is expected dissipate this year, helping revitalize the resale home market.



*Market intelligence reports are distributed regularly to keep customers and the general public informed of trends and conditions.*

On the rental front, rents for properties across the board rose in 2004 from the year before. We project that rental rates will soar even more in 2005, stimulating more rental activities and indirectly encouraging more investors to buy properties for longer-term yields.

#### Share of resale market is expected to rise

The government looks set to keep land prices high, so developers have been more aggressive with pricing their new projects. This has had the effect of raising the competitive advantage of the secondary properties.

In this light, developers will be firm with pricing new projects and drive primary-market home prices above the resale levels. This, in turn, will shift more buying power to the secondary market, giving it a positive boost. Backed by upgrading of residential properties, growth in resale activities are likely to exceed that of sales of brand new units this year.

#### Market to be boosted by user-driven sales

Despite of a number of high-profile investor-led transactions last year, we believe that end-users still drive the market and that speculative activities are at an acceptable harmless level. If the US maintains an upward interest rate cycle, then Hong Kong will be under pressure to follow suit eventually. On the other hand, local interest rates are still at low levels, mild increase in interest rate can make the property market healthier.

#### Manage risks with prudence, expand with caution

Even before the market turnaround set in last year, the Group had the foresight to expand aggressively. We did so by opening flagship stores to cover all potentially key and strategic locations. Now the number of outlets at Midland Realty is at an



*The Hong Kong Estate Agents Award Presentation is the first official accreditation for outstanding performers in the Group. In recognition of the painstaking objective behind the event, a number of major developers pitched in as co-sponsors.*

all-time high. Having thus extended our coverage to virtually all key locations, we shall direct more of our efforts to managing risk, slow the pace of expansion and reduce capital expenditure this year. Any further expansion will be in response to market opportunities, possibly in emerging townships and newly developed districts, and for the purpose of maintaining our network advantage.

### **Competition stays keen**

The Group believes that while the property market will continue its uptrend in 2005, competition will intensify. Large real estate agencies will step up their branch expansion. The number of agencies also will increase. However, new entrants mainly will be small and operate with a distinctly different modus operandi from established industry leaders. Their market positioning also will be different.

Given that resale activities will drive the market, we shall allocate more resources to secondary-market sales in 2005. At the same time, however, we shall continue to participate in marketing brand new homes, keeping a close watch on developers, their launch schedule and commission payout.

### **Keep tight cost control**

As the market heats up, our overhead costs will rise proportionally. Governed by a prudent risk-management policy, management shall keep track of cost control while maintaining its competitive edges and flexibility. For instance, to counter whopping rental rate increases, we shall pull out of certain retail locations and move to shops that offer more reasonable rents. This way, we shall be able to reduce our overhead costs. In terms of staff remunerations, we shall continue to use bonus and special payouts to award outstanding performers.

## Chairman's Statement

### Strengthen branding to raise consumer confidence

The Group is committed to building brand awareness and raising its image. To this end, it held various promotional activities, the most high profile of which was the sponsorship of the "Midland Realty Cup" horse race at the *Hong Kong Jockey Club* last year. Recognizing how such activities reinforce the company's public image and increase its market share, the Group will repeat the horse racing sponsorship later this year.

In an effort to further reinforce branding, the Group won accreditation from the *Federation of Hong Kong Industries' Hong Kong Q-mark Council* under the Hong Kong Q-mark Service Scheme. Meanwhile, it was named a Superbrands and a Caring Company, winning commendation from various community quarters. The Group will

continue to promote brand recognition and hope to instill more confidence in potential and existing customers.

### On the alert for opportunities

Undoubtedly, the Group maintains an optimistic on the business environment. But we also notice that the industry is faced with some challenges, such as interest rate hikes and rising operating costs. The Group shall stay committed to keep costs at a reasonable level and will ride on the favorable housing policies and the market upturn to set new records.

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

Hong Kong, 10th March 2005



Following the success of the Midland Realty Cup horse race, the Group will sponsor another such event at the Hong Kong Jockey Club in 2005.