美聯集團 MIDLAND HOLDINGS

**MIDLAND HOLDINGS LIMITED**

美聯集團有限公司*

(Incorporated in Bermuda with limited liability)
Website : www.midland.com.hk
(Stock Code : 1200)

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2007**

The Board of Directors (the "Board" or the "Directors") of Midland Holdings Limited ("Midland" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June 2007 (the "Interim Period") together with the comparative figures as follows:–

**UNAUDITED CONSOLIDATED INCOME STATEMENT**
FOR THE SIX MONTHS ENDED 30TH JUNE 2007

| | Note | **30.6.2007** *HK$'000* | 30.6.2006 *HK$'000* |
|---|---|---|---|
| Turnover | 2 | **1,529,175** | 914,467 |
| Other revenues | 2 | **17,899** | 20,959 |
| Total revenues | | **1,547,074** | 935,426 |
| Other income | 3 | **61,815** | 14,322 |
| Staff costs | | **(825,884)** | (498,854) |
| Depreciation and amortisation costs | | **(24,896)** | (33,830) |
| Other operating costs | 4 | **(488,856)** | (375,070) |
| Operating profit | | **269,253** | 41,994 |
| Finance costs | 5 | **(3,474)** | (1,495) |
| Share of profits less losses of jointly controlled entities | | **5,736** | 3,057 |
| Profit before income tax | | **271,515** | 43,556 |
| Income tax expenses | 6 | **(43,935)** | (15,081) |
| Profit for the period | | **227,580** | 28,475 |
| Attributable to : | | | |
| Equity holders | | **230,266** | 31,932 |
| Minority interests | | **(2,686)** | (3,457) |
| | | **227,580** | 28,475 |
| Interim dividend | 8 | **116,944** | 20,571 |
| Earnings per share | 7 | | |
| Basic | | **HK31.44 cents** | HK4.35 cents |
| Diluted | | **HK31.44 cents** | HK4.34 cents |

**For identification purpose only*

**UNAUDITED CONSOLIDATED BALANCE SHEET**
AS AT 30TH JUNE 2007

| | Note | **30.6.2007** | 31.12.2006 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **72,536** | 77,805 |
| Investment properties | | **181,970** | 27,548 |
| Leasehold land and land use rights | | **105,261** | 106,346 |
| Intangible assets | | **7,406** | 36,689 |
| Interests in jointly controlled entities | | **17,452** | 11,716 |
| Held-to-maturity investments | | **11,047** | 11,044 |
| Available-for-sale financial assets | | **-** | 49,583 |
| Financial assets at fair value through profit or loss | | **37,305** | 31,804 |
| Deferred tax assets | | **24,922** | 18,434 |
| | | **457,899** | 370,969 |
| **Current assets** | | | |
| Trade debtors | 9 | **1,124,471** | 860,483 |
| Other debtors, prepayments and deposits | | **151,811** | 146,166 |
| Available-for-sale financial assets | | **9,672** | - |
| Financial assets at fair value through profit or loss | | **70,412** | 19,984 |
| Assets held for sale | | **10,500** | - |
| Current tax assets | | **-** | 1,790 |
| Cash at bank and in hand | | **682,902** | 529,824 |
| | | **2,049,768** | 1,558,247 |
| **Total assets** | | **2,507,667** | 1,929,216 |
| **EQUITY** | | | |
| Share capital | | **73,245** | 73,245 |
| Share premium | | **273,062** | 273,062 |
| Other reserves | | **990,400** | 729,678 |
| Proposed dividend | | **-** | 52,737 |
| **Equity holders** | | **1,336,707** | 1,128,722 |
| **Minority interests** | | **37,569** | 65,697 |
| **Total equity** | | **1,374,276** | 1,194,419 |

| | Note | **30.6.2007** *HK$'000* | 31.12.2006 *HK$'000* |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **78,886** | 10,665 |
| Deferred tax liabilities | | **5,141** | 750 |
| | | **84,027** | 11,415 |
| **Current liabilities** | | | |
| Trade creditors | 10 | **586,024** | 393,960 |
| Other creditors and accrued charges | | **420,628** | 327,644 |
| Borrowings | | **6,505** | 1,778 |
| Current tax liabilities | | **31,797** | - |
| Liabilities associated with assets classified as held for sale | | **4,410** | - |
| | | **1,049,364** | 723,382 |
| **Total liabilities** | | **1,133,391** | 734,797 |
| **Total equity and liabilities** | | **2,507,667** | 1,929,216 |
| **Net current assets** | | **1,000,404** | 834,865 |
| **Total assets less current liabilities** | | **1,458,303** | 1,205,834 |

## Notes

### 1. Basis of preparation and accounting policies

The interim financial information has been prepared under the historical cost convention as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value, and also presented in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The interim financial information should be read in conjunction with the 2006 annual financial statements.

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those adopted in the 2006 annual financial statements. For the six months ended 30th June 2007, the Group has also applied a number of new standards, amendments and interpretations that are effective for the accounting periods beginning on or after 1st January 2007 as follows:

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures |
| HK (IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK (IFRIC)-Int 10 | Interim Reporting and Impairment |
| HKFRS 7 | Financial Instruments: Disclosures |

The adoption of these new standards, amendments and interpretations does not have any significant impact on the results and financial position or changes in the accounting policies of the Group, with the exception of HKAS 1 (Amendment) and HKFRS 7 which require additional disclosures in the annual financial statements.

The Group has not early adopted HKFRS 8 "Operating Segments" that is relevant to its operation and mandatory for accounting period beginning or after 1st January 2009. HKFRS 8 requires the reporting of financial and descriptive information about the reportable segments on the basis of internal reports that are regularly reviewed by its management. The Group will apply HKFRS 8 for the accounting period beginning on 1st January 2009, but it does not expect application of this standard to have significant impact on its financial statements.

## 2. Segment information

The Group is organised into four main business segments including residential property brokerage, industrial and commercial property brokerage, property leasing and internet education services. Sales transactions between the business segments are eliminated on presentation of segment information of the Group.

Other operations of the Group mainly comprise immigration consultancy services, web advertising services, advertising services and valuation business.

An analysis of the Group's segment information for the period by business segments is as follows:

| | Six months ended 30th June 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Residential property brokerage** | **Industrial and commercial property brokerage** | **Property leasing** | **Internet education services** | **Others** | **Corporate and elimination** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | | | | | | | |
| **External sales** | **1,335,344** | **193,831** | **-** | **-** | **-** | **-** | **1,529,175** |
| **Other revenues** | | | | | | | |
| **External sales** | **-** | **-** | **1,328** | **9,682** | **6,889** | **-** | **17,899** |
| **Inter-segment sales** | **-** | **-** | **5,043** | **-** | **1,638** | **(6,681)** | **-** |
| **Segment revenues** | **1,335,344** | **193,831** | **6,371** | **9,682** | **8,527** | **(6,681)** | **1,547,074** |
| **Segment results** | **219,016** | **37,885** | **25,979** | **(30,408)** | **605** | **43,243** | **296,320** |
| **Unallocated costs** | | | | | | | **(36,586)** |
| **Operating profit before interest income and finance costs** | | | | | | | **259,734** |
| **Net finance income** | | | | | | | **6,045** |
| **Share of profits less losses of jointly controlled entities** | **53** | **-** | **-** | **-** | **5,683** | **-** | **5,736** |
| **Profit before income tax** | | | | | | | **271,515** |
| **Income tax expenses** | | | | | | | **(43,935)** |
| **Profit for the period** | | | | | | | **227,580** |

| | Six months ended and as at 30th June 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Residential property brokerage | Industrial and commercial property brokerage | Property leasing | Internet education services | Others | Corporate and elimination | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment assets** | **1,455,602** | **145,203** | **307,559** | **36,266** | **34,297** | **-** | **1,978,927** |
| **Interests in jointly controlled entities** | **3,500** | **-** | **-** | **-** | **13,952** | **-** | **17,452** |
| **Unallocated assets** | | | | | | | **511,288** |
| **Total assets** | | | | | | | **2,507,667** |
| **Segment liabilities** | **842,511** | **104,917** | **563** | **3,768** | **7,391** | **-** | **959,150** |
| **Unallocated liabilities** | | | | | | | **174,241** |
| **Total liabilities** | | | | | | | **1,133,391** |

| | Residential property brokerage | Industrial and commercial property brokerage | Property leasing | Internet education services | Others | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Capital expenditure** | **14,442** | **156** | **155,977** | **68** | **24** | **-** | **170,667** |
| **Depreciation** | **14,799** | **3,488** | **91** | **387** | **39** | **64** | **18,868** |
| **Amortisation** | **-** | **-** | **914** | **4,943** | **-** | **171** | **6,028** |
| **Impairment charges** | **-** | **-** | **-** | **24,340** | **-** | **376** | **24,716** |
| **Other non-cash expenses / (income)** | **56,039** | **23,663** | **(18,279)** | **(6)** | **30** | **-** | **61,447** |

| | Six months ended 30th June 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Residential property brokerage | Industrial and commercial property brokerage | Property leasing | Internet education services | Others | Corporate and elimination | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | | | | | | | |
| External sales | 782,899 | 131,568 | - | - | - | - | 914,467 |
| Other revenues | | | | | | | |
| External sales | - | - | 1,723 | 12,558 | 6,678 | - | 20,959 |
| Inter-segment sales | - | - | 5,366 | - | 2,227 | (7,593) | - |
| Segment revenues | 782,899 | 131,568 | 7,089 | 12,558 | 8,905 | (7,593) | 935,426 |
| Segment results | 4,104 | 27,742 | 12,096 | (9,143) | 2,366 | 12,917 | 50,082 |
| Unallocated costs | | | | | | | (13,899) |
| Operating profit before interest income and finance costs | | | | | | | 36,183 |
| Net finance income | | | | | | | 4,316 |
| Share of profits less losses of jointly controlled entities | (92) | - | - | - | 3,149 | - | 3,057 |
| Profit before income tax | | | | | | | 43,556 |
| Income tax expenses | | | | | | | (15,081) |
| Profit for the period | | | | | | | 28,475 |

| Six months ended 30th June 2006 and as at 31st December 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Residential property brokerage *HK$'000* | Industrial and commercial property brokerage *HK$'000* | Property leasing *HK$'000* | Internet education services *HK$'000* | Others *HK$'000* | Corporate and elimination *HK$'000* | Total *HK$'000* |
| Segment assets | 1,013,233 | 117,409 | 103,513 | 153,126 | 22,033 | - | 1,409,314 |
| Interests in jointly controlled entities | 385 | - | - | - | 11,331 | - | 11,716 |
| Unallocated assets | | | | | | | 508,186 |
| Total assets | | | | | | | 1,929,216 |
| Segment liabilities | 601,037 | 67,218 | 1,026 | 6,264 | 8,095 | - | 683,640 |
| Unallocated liabilities | | | | | | | 51,157 |
| Total liabilities | | | | | | | 734,797 |

| | Residential property brokerage *HK$'000* | Industrial and commercial property brokerage *HK$'000* | Property leasing *HK$'000* | Internet education services *HK$'000* | Others *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|
| Capital expenditure | 9,341 | 808 | - | 567 | 16 | - | 10,732 |
| Depreciation | 24,860 | 2,140 | 90 | 501 | 59 | 77 | 27,727 |
| Amortisation | - | - | 896 | 4,952 | - | 255 | 6,103 |
| Impairment charges | - | - | - | 131 | - | - | 131 |
| Other non-cash expenses / (income) | 34,936 | 11,160 | (6,833) | 2 | (43) | - | 39,222 |

No analysis of the Group's segment information by geographical segments is presented as no activities and operations of an internally reported geographical segment attributable to markets outside Hong Kong is more than 10% of the Group's activities and operations.

### 3. Other income

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **9,519** | 5,811 |
| Dividend income from listed investments | **2,530** | 1,484 |
| Fair value gains on investment properties | **18,279** | 6,833 |
| Net realised and unrealised gains on financial assets at fair value through profit or loss | **19,556** | 194 |
| Realised gain on available-for-sale financial assets | **8,719** | - |
| Gain on disposal of an investment property | **3,212** | - |
| | **61,815** | 14,322 |

### 4. Other operating costs

Other operating costs include the following charges:

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Impairment of goodwill | **24,340** | - |
| Impairment of property, plant and equipment | **-** | 131 |
| Impairment of trade debtors | **79,726** | 46,055 |
| Loss on disposal of property, plant and equipment | **1,491** | 2,851 |

### 5. Finance costs

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans and overdrafts | **907** | 1,217 |
| Interest on securities margin financing | **2,567** | 278 |
| | **3,474** | 1,495 |

## 6. Income tax expenses

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current taxation | | |
| Hong Kong profits tax | **45,019** | 12,488 |
| Overseas taxation | **1,013** | 45 |
| Deferred taxation | **(2,097)** | 2,548 |
| | **43,935** | 15,081 |

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30.6.2006: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

## 7. Earnings per share

The calculation of basic and diluted earnings per share for the period is based on the following:

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders | **230,266** | 31,932 |
| Effect of dilutive potential ordinary shares | **-** | - |
| Profit for calculation of diluted earnings per share | **230,266** | 31,932 |

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| Weighted average number of shares for calculating basic earnings per share (thousands) | **732,451** | 734,663 |
| Adjustment for assumed conversion of share options (thousands) | **-** | 1,534 |
| Weighted average number of shares for calculating diluted earnings per share (thousands) | **732,451** | 736,197 |
| Basic earnings per share (HK cents per share) | **31.44** | 4.35 |
| Diluted earnings per share (HK cents per share) | **31.44** | 4.34 |

## 8. Interim dividend

| | **30.6.2007** | 30.6.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend declared of HK$0.16 (2006: HK$0.028) per ordinary share | **116,944** | 20,571 |

## 9. Trade debtors

The trade debtors mainly represents agency fee receivable from customers whereby no general credit facilities is available. The customers are obliged to settle the amounts due upon the completion of the relevant agreements. The aging analysis of the Group's trade debtors was set out as follows:

| | **30.6.2007** | 31.12.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not yet due | **1,008,388** | 762,661 |
| Within 30 days | **47,009** | 32,588 |
| 31-60 days | **23,642** | 22,318 |
| 61-90 days | **26,829** | 14,366 |
| Over 90 days | **18,603** | 28,550 |
| | **1,124,471** | 860,483 |

## 10. Trade creditors

The trade creditors mainly represents the commission payable to property consultants and cooperative estate agents, and are due for payment only upon the receipt of corresponding agency fees from customers. The trade creditors included HK$76,276,945 (31st December 2006: HK$45,599,990) commissions payable which were due for payment within 30 days, with all the remaining trade creditors were not yet due.

## BUSINESS REVIEW

We are pleased to announce the best interim results in terms of net profit growth in a decade for the Group. In the first six months of 2007, the Group recorded earnings of HK$230 million, rose 621% from the same period a year earlier. While achieving strong earnings growth, the Group found further success with improving operations, thus lowering costs. In the reporting period, our profit margin rose from 3% in the first half of 2006 to 15%, reflecting earnings growth in all business divisions. The Group has been steadfast in developing professional property brokerage and related value-added businesses; the first-half's strong results proved that we are on the right track.

### Management Culture: Pursuit of Excellence

In the first half, the Group's revenue climbed while fixed rental expenses – a major cost item – declined, thus testifying to our efforts in raising operating efficiency. The Group persisted in its pursuit of excellence to sharpen its competitive edge. Following through on the foundation laid last year, the Group persevered to negotiate proactively with developers and landlords more favourable leasing arrangements, thus achieving cost savings in this respect. Meanwhile, the Group also spent advertising dollars effectively. In terms of total costs, the weightings of both major expense items came down markedly. The Group will continue to improve operational flexibility so as to raise sales prowess to meet changing market conditions.

### Property Market Recovery: Rising Housing Demand

Hong Kong's economy was on a growth path throughout the first half. Demand for housing was boosted as consumers and investors regained confidence and as interest rates remained stable. Sales transaction volume rose 35.3% in the reporting period, up noticeably from the year-ago level. Reflecting a true revival across the board, the market saw increased activity in all segments, ranging from luxury to mass residential units.

In addition, as the unemployment rate came down and salaries rose along with rental rates, a number of Hong Kong people opted to switch from renting to owning their homes. Property investment for rental returns also was on the rise, thus helping to boost market activity. Property sales, meanwhile, were stimulated by the government's reduction of stamp duty at the start of the year for homes valued at HK$1 million to HK$2 million. A bull run on the local stock market, meanwhile, gave extra impetus to buying in the luxury residential segment.

Driven by developers' aggressive project launches, the number of transactions in the primary market more than doubled in the first half. We are pleased to report that the Group was able to excel in representing developers to sell brand new homes in a number of projects. In fact, in response to society's incessant demand that real estate agents raise professional standards, the Group has been strengthening collaborative efforts with developers and reaffirming the given value of the industry in the market.

**Spin-off of Midland IC&I : Eye on High-end Segment**

The Group also performed well in industrial and commercial (office and shop) property brokerage business. ***Midland IC&I Limited*** (stock code : 8090), the unit that the Group spun off on the Growth Enterprise Market in the middle of the year, reported net profit rise of 65 per cent as well as a wider profit margin in the first half. We believe that the spin-off adds flexibility to the operation of this specialised division and will stimulate future growth, especially in the higher-end segments of the industrial and commercial properties market.

**Rapid Economic Expansion: Improved Mainland Business**

Across the border in the mainland and Macau, robust economic growth benefited the Group's mainland and Macau divisions. Turnover on the mainland rose 69% from the year-ago level, reflecting that a prudent but proactive strategy paid off. A marked improvement in our mainland business can be explained by these three factors: first, the mainland's property market was extremely strong in the first half, with value and volume both rising noticeably; second, the Group was able to ride the boom, expanding the scale of its network by 37%; third, operations became more established on the mainland, especially in Shenzhen, where successful collaboration with neighbouring Hong Kong to cross-sell formed a solid foundation for future growth.

**International Accreditation: Industry Recognition**

The Group once again won international kudos this year, having been named a "Consumers Choice 2007" company. To attain this recognition, the Group has been promoting a corporate culture of integrity and sincerity, as well as internationally conferred professional standards. The organizer of Consumers Choice 2007 had commissioned international market research firm ***Synovate*** to conduct a survey in the fourth quarter of 2006. The results showed that a larger number of more highly educated individuals and professionals picked Midland Realty as their first choice for real estate services. The Group gained international recognition in many areas, namely, management, branding, professional conduct, and corporate responsibility towards the community.

## PROSPECTS

We are confident of the Group's further growth. We believe that armed with a number of competitive edges in terms of strategy and financial resources, we shall be able to catch every market opportunity to take the Group one notch higher.

The second half of the year will be positive for real estate broking. Besides a sound local economy, property broking is likely to be helped by an interest rate cut in the US. If Hong Kong follows suit with rate reductions, the negative deposit rate phenomenon may reappear to spur property transactions. However, the legislation passed in the middle of the year requiring commissions to be included into the salary payouts will raise the Group's personnel costs.

### Favourable Central Policy: Bright Sector Outlook

On an optimistic note, we project that the mass residential market will pick up steam in the second half. Although it is still too early to tell if the US subprime mortgage crisis will gravely dampen consumption sentiment, we have reason to believe that its impact so far has been to rock the stock markets and divert some investment capital to relatively healthy property markets, such as Hong Kong's. Moreover, as part of China and backed by the tremendous economic prowess of its hinterland, Hong Kong's fate increasingly will be tied more to the motherland than to overseas developments. In late August, the State Administration of Foreign Exchange announced that on a trial basis out of Tianjin, mainland individuals would be allowed to invest in the Hong Kong stock market directly. We believe that this so-called "through train" scheme will direct funds to Hong Kong as a whole, so that not just its stock market will expand to reinforce the city's position as a financial hub, but its property sector will also benefit.

The following factors will support growth in the property market in the second half:

1. ***Limited supply***
   In recent years, developers have been aggressive with launching projects but slow in replenishing their land banks. Even though their pace of making offers to trigger land auctions quickened in the past half year, the number of units that can be built on the restocked land is smaller than that of the units sold. In the first three quarters this year, the number of units sold exceeded the number that will be restocked by about 5,000. If the pace of replenishing land falls further behind, future supply will suffer a shortfall.

2. ***Negative deposit rate***
   On the one hand, inflation probably will not let up as rental rates rise. On the other hand, interest rates are expected to come down in the fourth quarter, given that the backwash of subprime woes may force the US Federal Reserve to lower its Fed funds rate. The two juxtaposed developments will create the negative deposit rate syndrome, making it no longer attractive to leave money in the bank. Money will flow instead into the property market, possibly triggering a repeat of the phenomenon in the mid 90's when negative interest rates led to a mini boom in Hong Kong properties.

3. ***Low loan weighting***
   Local home buyers have been quite cautious in recent years. On the affordability index, mortgage payments make up only about 30 per cent of a household's take-home pay. Not only do Hong Kongers bear a relatively low mortgage burden but their borrowing weighting is also remarkably low. In other words, the potential buying power is huge.

4. ***High savings rate***
   The latest figures from the Hong Kong Monetary Authority indicated that Hong Kong's savings rate reached HK$5,335.6 billion, the highest in the past decade. By contrast, in 1997 just before the Asian financial crisis, the total amount of savings was merely HK$2,650.8 billion. Hong Kong is cash rich.

5. ***Funds flow from the north***
   As the price gap between mainland and Hong Kong properties close and as funds begin to flow in from the "through train" investment scheme, a trend is likely to develop for mainlanders to enter the Hong Kong real estate market. We anticipate mainland Chinese to play an increasingly active part in the sector.

**Strengthened Cross-border Collaboration: Three-way Opportunities**

In the past two years, Shenzhen's home prices have been catching up rapidly with Hong Kong levels. In fact, certain quality residential projects in that fast-developing Southern Chinese city are commanding higher prices than homes in the Northwest New Territories. In Macau, the breakup of the casino monopoly has led to a major boom. In light of these developments, the Group will strengthen co-operative efforts among the three cities to maximize business opportunities. Given the Group's tradition of managing with policies and procedures as opposed to letting individual preferences lead, we are confident that we can enhance the interactiveness of the three locations to scale new heights.

**Bright Mainland Prospects: Step-by-step Expansion**

The outlook is rosy in the mainland property scene. As it is, the room for expansion is certainly much more on the mainland than in Hong Kong. As the mainland property market has strong fundamentals, the various cooling measures introduced by the central government have done little to dent demand. We are of the opinion that a modest amount of tightening at the right time will help the market grow in an orderly manner in the long run. As the weaker links disintegrate and the market consolidates under such pressure, we believe that the Group will gain more opportunities to increase its market presence.

The Group will expand its operations on the mainland, using the strategy of first finding a firm foothold in core cities, then spreading its presence into peripheral areas. The objective is to balance risks and returns in the long run. At the Group's three major bases of Shenzhen, Shanghai and Chongqing, operations are established. This is especially so with Shenzhen, which is the main earnings driver for our mainland business.

This year marks the 10th anniversary of Hong Kong's return to Chinese sovereignty. In the past decade, the Group witnessed the perseverance that Hong Kongers showed to overcome setbacks and challenge the future. Backed by our competitive advantage, we shall continue to steer the Group along the growth track to reward investors for their support. I take this opportunity to express my gratitude to the Board of Directors and the entire staff for their dedication and devotion.

## FINANCIAL REVIEW

### Liquidity, financial resources and funding

As at 30th June 2007, the Group had bank balances and cash of HK$682,902,000, whilst bank loans and overdrafts amounted to HK$85,391,000. The Group's bank loans were secured by certain investment properties and other properties held by the Group with a total net book value of HK$165,744,000 and with maturity profile set out as follows:

| Repayable | HK$'000 |
|---|---|
| Within 1 year | 6,504 |
| After 1 year but within 2 years | 55,241 |
| After 2 years but within 5 years | 10,551 |
| Over 5 years | 13,095 |

The Group had unutilised banking facilities amounting to HK$91,796,000 from various banks. The Group's bank balances and cash are deposited in Hong Kong Dollar, United States Dollar, Renminbi and Macau Pataca, and the Group's borrowings are in Hong Kong Dollar. Therefore the Directors consider the Group has no significant exposure to foreign exchange rate fluctuation. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 30th June 2007, the gearing ratio of the Group was 6.2%. The gearing ratio is computed on the basis of total bank borrowings divided by the shareholders' funds of the Group.

The Directors are of the view that there are sufficient financial resources to satisfy the Group's capital commitments and on-going working capital requirements.

### Contingent liabilities

The Company executed corporate guarantees as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries. In addition, the Company guaranteed the payment of operating lease rentals in respect of certain premises for its wholly-owned subsidiaries.

### Human Resources

As at 30th June 2007, the Group employed 6,932 full time employees of which 6,049 were sales agents and 883 were back office supportive employees.

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, profit sharing and share option may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as education subsidies, medical and retirement benefits. On staff development, both in-house and external training and development programmes are conducted on a regular basis.

**Interim Dividend**

The Board has resolved to declare an interim dividend of HK$0.16 per share for the Interim Period (six months ended 30th June 2006: HK$0.028) to shareholders of the Company whose names are recorded on the register of members of the Company as at the close of business on 27th September 2007. Dividend warrants will be dispatched to shareholders of the Company on or around 9th October 2007.

**Closure of Register of Members**

The register of members of the Company will be closed from Friday, 28th September 2007 to Tuesday, 2nd October 2007, both days inclusive, during which period no transfer of shares may be registered.

In order to qualify for the 2007 interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Abacus Limited not later than 4:00 p.m. on 27th September 2007.

**Group Restructuring**

On 6th June 2007, the Company completed a group restructuring by transferring from Midland Realty (Strategic) Limited, the Company's indirect wholly-owned subsidiary, to Midland IC&I Limited ("Midland IC&I"), formerly known as "EVI Education Asia Limited", the Company's indirect non-wholly owned listed subsidiary, the entire issued share capital of Ketanfall Group Limited, the holding company of a group of companies principally engaged in the business of industrial and commercial (office and shops) property brokerage in Hong Kong at a total consideration of HK$640 million satisfied by Midland IC&I issuing the convertible note in the principal amount of HK$540 million and HK$100 million by cash.

**Purchase, Sale or Redemption of the Company's Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Interim Period.

**Review by Audit Committee**

The Audit Committee has reviewed and discussed with the management of the Company the unaudited interim report. PricewaterhouseCoopers, the Company's auditor, has reviewed the unaudited interim financial information for the six months ended 30th June 2007 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

**Code on Corporate Governance**

The Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the Interim Period.

**Code of Conduct Regarding Securities Transactions by Directors**

The Company has established its own code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

On specific enquiries made, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions for the Interim Period.

**Appreciation**

The Group's success is attributable to all staff working together to scale new heights. On behalf of the Directors, let me offer our sincere thanks to all shareholders for their support and to all staff for their dedication.

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

Hong Kong, 17th September 2007

As at the date of this announcement, the Board of the Company comprises eight directors, of which five are executive directors, namely Mr. Wong Kin Yip, Freddie, Ms. Tang Mei Lai, Metty, Ms. Lam Fung Fong, Mr. Chan Kwan Hing and Mr. Kwok Ying Lung and three are independent non-executive directors, namely Mr. Koo Fook Sun, Louis, Mr. Sun Tak Chiu and Mr. Wang Ching Miao, Wilson.