

**MIDLAND REALTY (HOLDINGS) LTD :  
THIS COMPANY IS WORTH MORE THAN A LITTLE PUNT**

Cheung Kong (Holdings) Ltd picked up a slice of Midland Realty (Holdings) Ltd on the cheap in spite of paying a 20-percent premium over the stock-market price.

The question must be raised as to the reason that the Chairman of Midland Realty succumbed to the charm of the Chairman of Cheung Kong, Mr Li Ka Shing.

What took place, last Tuesday, when Cheung Kong sold Hongkong Property Services (Agency) Ltd to Midland Realty, collecting, along the way, the equivalent of 10 percent of the Issued and Fully Paid-Up Share Capital of Midland Realty, was that Cheung Kong, indirectly, took a sizable position in the Hongkong property agency business which, in the fullness of time, could result in Midland Realty, becoming the '*king*' in this industry.

The only other potential contender to the crown of top of property agency industry in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), is Centaline Property Agency Ltd.

To recap what took place was that Cheung Kong sold to Midland Realty 89 percent of the equity in Hongkong Property Services (Agency) Ltd in exchange for Midland Realty, issuing Convertible Bonds to Cheung Kong, exercisable at \$HK1.20 per Midland share.

This put the value of Hongkong Property Services (Agency) Ltd at about \$HK69.60 million.

Midland Realty did not have to put up a cent for this acquisition, but, in view of what TARGET has calculated, it might have been in Midland Realty's best interests, all things considered, to pay cash for the shares in Hongkong Property Services (Agency) Ltd.

Midland Realty, today, has about 30 percent of the property agency business in the 416 square miles that constitute the HKSAR but, with the financial '*muscle*' of Cheung Kong, it is more than likely that the proposed entry of Midland's Cyber Agency (What-Have-You) Ltd to the ranks of The GEM -- The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd -- is almost guaranteed to be a success.

Because Cheung Kong has promised to take up 20 percent of this new Midland Realty offshoot -- at a cost of about \$HK40 million.

Cheung Kong is not known to be a loser when it comes to floating off investments, even floats, which are supported only by air.

**Fearless Freddie Gets Greedy**

There are 2 very interesting, and intriguing, aspects with regard to the 1999 Annual Report of publicly listed Midland Realty (Holdings) Ltd:

1. The Chairman decided to reward himself with a \$HK3-million increase in his annual emoluments, bringing them up to \$HK9.50 million; and,
2. Agency Revenue shrank nearly 20 percent, Year-On-Year, while the Profits Attributable to Shareholders rose by nearly 392 percent, Year-On-Year.

No further comment need be made about Chairman Freddie Wong Kin Yip's obvious greed, allowing him to grab a monthly take-home pay of \$HK792,000, since, if shareholders of Midland Realty think that he is worth this kind of money, then so be it.

But a great deal of comment, of a very positive nature, may be made about the way in which this Company has streamlined its operations, allowing it to be mean and lean -- and loaded with cash, to boot.

And Mr Li Ka Shing's financial analysts must have picked this up when reviewing Midland Realty's 1999 Results because the acquisition of Hongkong Property Services (Agency) Ltd means that Midland Realty will have a total workforce of about 2,100 employees, working out of 173 branches.

To begin, the 1999 Results were, all things considered, extraordinary, since, on a declining Agency Fee Revenue, which slipped from the 1998 figure of about \$HK906,919,000 to the 1999 figure of \$HK727,232,000, Management managed to turn in a Profit Attributable to Shareholders of \$HK50,691,000, compared with the 1998 figure of \$HK10,310,000.

This is an increase of about 392.17 percent, Year-On-Year.

That is some going!

Some of the reasons for the steep decline in Net Profits in the 1998 Financial Year was due to the fact that Midland Realty was forced to bite the bullet to the extent of about \$HK55 million.

These 'bites', which adversely affected Midland Realty's Bottom Line, were caused by:

1. Deficits arising on Revaluation of Investment Properties (negative: \$HK25,367,000);
2. Losses on Disposal of Investment Properties and Other Properties (negative: \$HK15,385,000);
3. Provision for Branch Closure Costs (negative: \$HK13,543,000); and,
4. Share of Loss of a Jointly Controlled Entity (negative: \$HK704,000).

In the 1999 Year, there was still another \$HK1.05 million that had to be written off, being a Deficit arising on Revaluation of Investment Properties.

But that was all she wrote.

Where Midland Realty has come up trumps is that Management has shaved down Operating Costs very considerably, from the 1998 charge on profits of about \$HK834.14 million to the 1999 figure of \$HK674.70 million.

These Operating Cost savings, of nearly \$HK160 million, are explained by Chairman Freddie Wong at Page 7 of the 1999 Annual Report.

He said:

*'In the year of 1999, the Group doggedly went about reducing rental expenses. The Group managed to shave rents by 8% to 85% at 50 branches either by renegotiating for less expensive leases or moving to premises of lower rents nearby ... The average monthly rental expenses were reduced 36% from HK\$13,222,000 in 1998 to HK\$8,510,000.*

*'The Group launched a new commission scheme in May 1999 so that instead of basing the commission on the total revenue of a branch, the average revenue of each agent will be used as the new basis for calculating remuneration; in addition, the staff with low productivity was squeezed out. Although the number of branches increased, the number of staff decreased. It significantly reduced the staff cost. Meanwhile, the Group put a great effort on debts collection, and obtained a terrific results (sic). The total expenditure declined by HK\$220,000,000 as compared with 1998.*

Page 33 of the 1999 Annual Report shows that Staff Costs dropped in the last Year, from the 1998 Figure of about \$HK425.69 million to the 1999 figure of about \$HK380.11 million -- a savings of about \$HK45.58 million, or 10.71 percent.

At the same time, the cost of operating leases fell ... [CLICK TO ORDER FULL ARTICLE](#)

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