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Midland IC&I Limited

美聯工商舖有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 459)

CONTINUING CONNECTED TRANSACTIONS

PROPOSED CROSS REFERRAL SERVICES AGREEMENT (2018), NEW ANNUAL CAPS AND REVISED ANNUAL CAP

On 25 October 2018, the Company entered into the Cross Referral Services Agreement (2018) with Midland.

The Cross Referral Services Agreement (2018) seeks to renew the Cross Referral Services Agreement (2015) due to end after 31 December 2018. Subject to the approval by the Independent Shareholders, the Cross Referral Services Agreement (2018) will come into effect on 1 January 2019, and be valid for three financial years from 1 January 2019 to 31 December 2021. The Cross Referral Services Agreement (2018) has incorporated the substantive provisions of the Cross Referral Services Agreement (2015) for continuation of the provision of the Cross Referral Services between the respective members of the Group and Midland Group.

The Company is also proposing the New Annual Caps for the financial years ending 31 December 2019, 2020 and 2021 respectively. The Revised Annual Cap in place of the existing annual cap on the referral fees to Midland Group for the current financial year ending 31 December 2018 will also be proposed.

As required by the Listing Rules, the proposed Cross Referral Services Agreement (2018), the New Annual Caps and the Revised Annual Cap will be put to vote by the Independent Shareholders at the EGM. The Circular containing, among other things, further information on the Cross Referral Services Agreement (2018), the New Annual Caps, the Revised Annual Cap, the letter from the Independent Board Committee and the recommendation of the independent financial adviser, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or before 15 November 2018.

* For identification purpose only

1. INTRODUCTION

- 1.1** On 25 October 2018, the Company entered into the Cross Referral Services Agreement (2018) with Midland. The Cross Referral Services Agreement (2018) seeks to renew the Cross Referral Services Agreement (2015) due to end after 31 December 2018. Subject to the approval by the Independent Shareholders, the Cross Referral Services Agreement (2018) will come into effect on 1 January 2019, and be valid for three financial years from 1 January 2019 to 31 December 2021. The Cross Referral Services Agreement (2018) has incorporated the substantive provisions of the Cross Referral Services Agreement (2015) for continuation of the provision of the Cross Referral Services between the respective members of the Group and Midland Group.
- 1.2** The Company is also proposing the New Annual Caps for the financial years ending 31 December 2019, 2020 and 2021 respectively. The Revised Annual Cap in place of the existing annual cap on the referral fees to Midland Group for the current financial year ending 31 December 2018 will also be proposed.

2. PROPOSED CROSS REFERRAL SERVICES AGREEMENT (2018), NEW ANNUAL CAPS AND REVISED ANNUAL CAP

2.1 Term

Subject to the approval by the Independent Shareholders, the Cross Referral Services Agreement (2018) will come into effect on 1 January 2019, and be valid for three financial years from 1 January 2019 to 31 December 2021.

2.2 Transactions under the Cross Referral Services Agreement (2018)

The transactions under the Cross Referral Services Agreement (2018) are of the same nature as those covered by the Cross Referral Services Agreement (2015). They are essentially referrals of business opportunities in property transactions, between the counterparties in the Group and the Midland Group, to secure engagements by the customers for estate agency services. Midland Group has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of the Group any business opportunity relating to or falling within the Group's estate agency business in respect of industrial and commercial properties and shops in the Relevant Territory; similarly, the Group also has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of Midland Group any business opportunity relating to or falling within Midland Group's estate agency business in respect of residential properties in the Relevant Territory.

Each referral is made on a case-by-case basis. There is no legally binding commitment on any member of the Group or Midland Group to refer to the other any minimum number and/or target amount of the transactions under the Cross Referral Services Agreement (2018). Where concluded between the relevant parties, the terms and conditions of the transactions under the Cross Referral Services Agreement (2018) shall be reduced into individual written agreements.

2.3 Referral fee

In consideration of the referral services provided, the party making the referral is entitled to a referral fee by way of sharing the relevant commission income actually received from the customer of estate agency services.

The Cross Referral Services Agreement (2018) has provided for the reference ratios in which the commission income received in property transactions will be initially allocated between the respective parties to arrive at the referral fees. Different reference allocation ratios are prescribed for the property transactions of different nature depending on whether the transactions are secondary market transactions or primary market transactions. In a secondary market transaction, the reference allocation ratio of “50:50” will be used, whereas in a primary market transaction, the reference allocation ratios ranging from “70:30” to “90:10” will apply, with a higher proportion being allocated to the party making the referral of the property purchaser it has successfully found and a lower proportion to the counterparty accepting the referral.

With the guidance of the applicable reference ratios, the final allocation of commission income with respect to each transaction under the Cross Referral Services Agreement (2018) will be negotiated and concluded between the parties on arm’s length and case-by-case basis after taking into account factors including: (i) the characteristics, nature and value of properties involved such as the geographical locations, types, usages, areas or other objective features of the properties as well as the subjective requirements of the specific customers; (ii) the nature and workload of the respective agents; and (iii) the scope and nature of the requisite estate agency and consultancy services under the engagements with individual customers.

Under the Cross Referral Services Agreement (2018), the allocation of commission income shall be on normal commercial terms or better, that is, terms which a party could obtain if the transaction were on an arm’s length basis or terms no less favourable to the relevant members of the Group than terms available to or from (as appropriate) independent third parties. The Group will continue to apply the following policy and procedures:

- (a) The commission income allocations proposed by individual estate agents are submitted to the branch managers for review and approval.
- (b) Upon receiving the submitted allocations from the branch managers, the finance department of the Group will then double check the information integrity and ensure that proper approvals have been obtained.
- (c) In determining whether an allocation of commission income in a particular transaction under the Cross Referral Services Agreement (2018) satisfies the above criteria, the most common approach used by the Group is by reference to comparable transactions with independent third parties. The branch managers would compare the allocation together with the related terms of the transaction

under the Cross Referral Services Agreement (2018) with other comparable transactions that the Group made with independent third parties in so far as they are available, particularly those made under the then prevailing circumstances. The branch managers may also seek guidance and assistance from more senior managerial staff with more experience and deeper knowledge in market practice and information. In selecting the comparable transactions, particular weight would be given to those closely similar to the case in question in terms of, among other things, the nature of engagements by the customers, the workload of the respective agents relative to each other as well as the characteristics, nature and value of the properties involved.

- (d) Where no comparable transactions are available for proper consideration, the Group would assess the followings where relevant:

The nature and workload – generally, in a primary market transaction, a party referring a purchaser would ordinarily receive more commission income than the party acting for the developer because the former would typically assume relatively heavier workload. For an estate agent seeking purchasers for properties in a development, he is required not only to have solid knowledge of the characteristics of the properties offered for sale but also to proactively put efforts and time in the marketing process and adapting to the needs of the purchasers. By contrast, in primary market, the price and key commercial terms of the properties in the entire development are typically preset by the developer. Accordingly, the amount of time and efforts expected of the party acting for the developer in the sale process are limited;

The engagement scope and nature – a party acting for the vendor may bargain for higher commission income if he acts as a sole and exclusive agent for the vendor;

The characteristics, nature and value of the property – a party acting for vendor of unique and high value property is likely to be able to bargain for higher commission income; and

Other factors – for example, in some cases, the developer may set a sales target which, if met, enables the estate agent for the developer can get a higher commission rate for all the transactions. In such case, when it is close to the said sales target, the estate agent for the developer may be willing to give a higher proportionate commission income to the estate agent referring the purchaser so that the said sales target can be achieved.

- (e) The allocation ratio for a particular property transaction, when finalized after considering the above factors, will be fixed when the parties enter into the written agreement for the property transaction.

- (f) The commission income allocations for the transactions made under the Cross Referral Services Agreement (2018) will be reviewed by the management from time to time. Annually, the transactions under the Cross Referral Services Agreement (2018) for the year will also be reviewed by the independent non-executive Directors, and reported by the auditors of the Company in compliance with the relevant requirements in Chapter 14A of the Listing Rules.

As the overriding pricing policy currently provided in the Cross Referral Services Agreement (2018), the allocation of commission income shall be on normal commercial terms or better. This will not be changed in any respect.

As income of estate agents in Hong Kong is in a large part derived from commission income, the estate agents would be self-motivated by this incentive to use their best effort to secure an allocation ratio to the best of his own interests when negotiating the allocation of the commission income. If the proposed allocation ratio in transactions with Midland Group deviates from that commonly found in the market, the disadvantaged estate agent (including those employed by the Group) may eventually refer the business to independent third party estate agent(s) that is/are available in the market (other than Midland Group) to earn as much as possible of the commission income for himself. The Company's present policy and procedures are designed along this central theme, that is, to make the negotiations in transactions to adjust to prevailing market forces. The Company believes the above policy and procedures are apt to achieve in a practical manner its objective, that is, to ensure the allocation terms are those which a party could obtain if the transaction were on an arm's length basis or terms no less favourable to the Group than those available to or from (as appropriate) independent third parties.

2.4 Settlement

Referral fee is paid out of the actual commission income received. For actual commission income received in each month, payments will generally be made by the end of the next following calendar month. The payment terms are the same as those in other referral transactions of the Group to or from (as appropriate) independent third parties.

3. REVISED ANNUAL CAP AND NEW ANNUAL CAPS

3.1 The amounts of the existing annual caps for the financial years ended 31 December 2016, 2017 and 2018 are as follows:

Existing annual caps:	Year ended 31 Dec 2016 (HK\$ million)	Year ended 31 Dec 2017 (HK\$ million)	Year ending 31 Dec 2018 (HK\$ million)
Referral fees to Midland Group ⁽¹⁾	110.0	110.0	110.0
Referral fees from Midland Group ⁽²⁾	40.0	45.0	50.0

Set out below are the historical amounts of the referral fees from or to Midland Group for the financial years ended 31 December 2015, 2016 and 2017 and for the eight months ended 31 August 2018:

Amounts:	Year ended 31 Dec 2015 (HK\$ million)	Year ended 31 Dec 2016 (HK\$ million)	Year ended 31 Dec 2017 (HK\$ million)	8 months ended 31 Aug 2018 (HK\$ million)
Referral fees to Midland Group ⁽¹⁾	74.6	102.0	97.7	90.4
Referral fees from Midland Group ⁽²⁾	26.4	26.2	34.6	12.7

The Board is proposing the Revised Annual Cap for the financial year ending 31 December 2018 and the New Annual Caps for the financial years ending 31 December 2019, 2020 and 2021 as follows:

Annual caps:	<i>Revised Annual Cap</i>	<i>New Annual Caps</i>		
	Year ending 31 Dec 2018 (HK\$ million)	Year ending 31 Dec 2019 (HK\$ million)	Year ending 31 Dec 2020 (HK\$ million)	Year ending 31 Dec 2021 (HK\$ million)
Referral fees to Midland Group ⁽¹⁾	130.0 ⁽³⁾	145.0	145.0	145.0
Referral fees from Midland Group ⁽²⁾	50.0	50.0	50.0	50.0

Notes:

- (1) It refers to referral fees paid/payable to Midland Group in respect of industrial and commercial properties and shops.
- (2) It refers to referral fees received/receivable from Midland Group in respect of residential properties.
- (3) The Revised Annual Cap is on the referral fees to Midland Group for the financial year ending 31 December 2018.

3.2 The Revised Annual Cap

The Group has been monitoring the historical transacted amounts of the transactions under the Cross Referral Services Agreement (2015) for the financial years ended/ending 31 December 2016, 2017 and 2018. As shown above, the annual caps on the referral fees from or to Midland Group for the financial years ended 31 December 2016 and 2017 have not been exceeded.

However, it is expected that the annual cap on the referral fees to Midland Group for the financial year ending 31 December 2018 of HK\$110.0 million will be exceeded.

The referral fees to Midland Group in respect of industrial and commercial properties and shops for the eight months ended 31 August 2018 accounted for approximately 92.5% of that for the year ended 31 December 2017. The unexpected growth of the referral fees to Midland Group during the eight months ended 31 August 2018 was primarily attributable to the transactions related to industrial and commercial properties being spinning off into several smaller property units. They are renovated based on new floor plans to enhance the efficiency in the use of spaces. They are generally smaller in size and less expensive than ordinary units, and thus provide a lower entry level for buyers.

The determination of the appropriate amount of the Revised Annual Cap on the referral fees to Midland Group for the full year of 2018 is primarily made by reference to the amount of the referral fees to Midland Group recorded for the eight months ended 31 August 2018. The determination process has taken into account, among other factors, the annualised referral fees to Midland Group in respect of industrial and commercial properties and shops for the year ending 31 December 2018 at approximately HK\$130.0 million, calculated based on the amounts of such referral fees recorded for the eight months ended 31 August 2018. The monthly referral fees paid/payable to Midland Group in July and August of 2018 of approximately HK\$10 million per month are also relied upon, which offer the most recent indication of the likely transaction level from September to December 2018. After consideration of the above factors, the management of the Group considers that HK\$130.0 million to be an appropriate annual cap for the referral fees to Midland Group for 2018 on a full year basis. The management of the Group therefore proposes the Revised Annual Cap to increase the referral fees to Midland Group from HK\$110.0 million to HK\$130.0 million.

The existing annual cap on the referral fees from Midland Group for the year ending 31 December 2018 will remain unchanged at HK\$50 million.

3.3 The New Annual Caps

The New Annual Caps for the financial years 2019, 2020 and 2021 are determined primarily by reference to the historical transactions between the Group and Midland Group as shown above.

The Group adopts 10% as the growth rate to represent the Group's anticipation of the referral fees to Midland Group after 2018. Taking the Revised Annual Cap for 2018 and applying the 10% growth rate, it would yield approximately HK\$145 million. This amount is adopted by the Group for the New Annual Caps on the referral fees to Midland Group for all three financial years 2019, 2020 and 2021. As for the New Annual Caps on the referral fees from Midland Group for all three financial years 2019, 2020 and 2021, the Group adopts the same limit at HK\$50 million as the corresponding annual cap for the current year 2018, anticipating that those referral fees from Midland Group for those three years to fall in the same level as the current one.

In arriving at the above amounts of the New Annual Caps on those referral fees from or to Midland Group for 2019, 2020 and 2021, the Group has considered a variety of other different economic factors, including the following material ones:

- (a) *Property market and economic factors* – These factors are expected to carry direct or indirect impact on investment transactions in Hong Kong properties. They include the volatility of the property market in Hong Kong as evident from the publicly available information such as statistics from the Land Registry of the Government of Hong Kong; commentaries on the outlook of the global and local economic environmental conditions and market sentiments including possible increase of US interest rates in the near future and the possible increase of interests in borrowing costs of the mortgages in Hong Kong, property investors becoming more cautious when investing in property in Hong Kong; the effect of the Hong Kong Government's policy on the revitalisation and conversion of industrial buildings into offices, retails and hotels to facilitate redevelopment or en-bloc conversion of old industrial buildings; possible future increase of supply of properties; and other macroeconomic factors such as the expected stability of banks' assets quality, general demands for office properties from mainlanders and market sentiments, the conditions of retail and tourism in Hong Kong and the potential escalation in trade tensions between US and China in the future.
- (b) *Co-operation between the Group and Midland Group* – The Group estimates that the referral fees to Midland Group for the three years ending 31 December 2021 will maintain at a similar level.

3.4 The Group has in place the following procedures to ensure the New Annual Caps and the Revised Annual Cap are not exceeded:

- (a) The aggregate amount of referral fees to be paid or payable from or to Midland Group are updated on a monthly basis for appraising the latest unutilized amounts available under the annual caps for the relevant year.

- (b) For sales projects for new property developments, the Group will carry out an evaluation before it proceeds to participate in such project so as to estimate the potential amount of transactions specifically from the projects and hence the referral fees generated from such transactions.
- (c) Weekly meetings for the management of sales department of the Group are arranged, providing frequent and regular occasions to obtain updates on the significant referral transactions concluded recently and potential significant referral transactions expected soon, and for the finance department to assess the impact on the annual caps for the relevant year.

3.5 The Directors (other than the independent non-executive Directors whose views and opinion will be provided in the Circular) consider that the Cross Referral Services Agreement (2018) including the transactions thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group. They also consider that the terms of the Cross Referral Services Agreement (2018), the New Annual Caps, and the Revised Annual Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.6 The undertaking of the Cross Referral Services is an integral part of the principal activities of both of the Group and Midland Group. The Board believes that the Cross Referral Services Agreement (2018) encourages cooperation between both groups of companies to secure more business opportunities essential to their business growth.

4. LISTING RULES IMPLICATIONS

4.1 Midland is a substantial shareholder of the Company. As at the date of this announcement, Midland, through its indirect wholly-owned subsidiary, Valuewit Assets Limited (“**Valuewit**”), is holding 610,976,997 issued Shares representing approximately 33.84% of all issued Shares. Therefore, the members of Midland Group are regarded as connected persons of the Company within the meaning of Chapter 14A of the Listing Rules. As in the case of the transactions under the Cross Referral Services Agreement (2015), the transactions under the Cross Referral Services Agreement (2018) between the Group and Midland Group constitute continuing connected transactions for the Company under the Listing Rules.

4.2 The highest applicable percentage ratio (other than the profits ratio), calculated using the highest of the New Annual Caps for each of the financial years ending 31 December 2019, 2020 and 2021 and the Revised Annual Cap as the numerator, exceeds 5%, and the requirements prescribed in Rule 14A.76(2) of the Listing Rules to qualify for exemption from the circular and the independent shareholders’ approval requirements are not met. The Company is therefore required to comply with the announcement and the independent shareholders’ approval requirements in Chapter 14A of the Listing Rules. As required by the Listing Rules, the ordinary resolutions to approve the Cross Referral Services Agreement (2018), the New Annual Caps and the Revised Annual Cap will be put to vote by the Independent Shareholders at the EGM.

- 4.3** The Circular containing, among other things, further information on the Cross Referral Services Agreement (2018), the New Annual Caps, the Revised Annual Cap, the letter from the Independent Board Committee and the recommendation of the independent financial adviser, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or before 15 November 2018.
- 4.4** As Midland is regarded to have a material interest in the Cross Referral Services Agreement (2015) and the Cross Referral Services Agreement (2018), Midland and its subsidiaries (including Valuewit) will abstain from voting on all resolutions at the EGM in accordance with Chapter 14A of the Listing Rules. As at the date of this announcement, Mr. WONG Kin Yip, Freddie was holding directly or indirectly (through his wholly-owned companies) (a) a total of 194,384,144 ordinary shares in Midland, representing approximately 27.07% of its issued share capital on the one hand; and (b) a total of 527,697,680 Shares, representing approximately 29.23% of the issued share capital of the Company on the other hand. As his interests held in the shares of Midland may constitute material interests for the purposes of the Listing Rules, Mr. WONG Kin Yip, Freddie and his relevant companies holding any Shares will also abstain from voting on the ordinary resolutions at the EGM.

5. GENERAL INFORMATION

- 5.1** The Company is an investment holding company. The principal activities of the Group are the provision of property agency services in respect of commercial and industrial properties and shops, and property investment in Hong Kong.
- 5.2** The principal business activities of Midland Group are provision of property agency services in Hong Kong, Macau and the PRC.

6. DEFINITIONS

The following expressions in this announcement have the meanings set out below unless the context requires otherwise:

“annual caps”	the maximum annual amounts of any and all of the referral fees from or to Midland Group arising from the transactions under the Cross Referral Services Agreement (2015) or the Cross Referral Services Agreement (2018) or both of such agreements, as the case may be
“Board”	the board of Directors
“Circular”	the circular of the Company containing further information on the Cross Referral Services Agreement (2018), the New Annual Caps, the Revised Annual Cap, the letter from the Independent Board Committee and the recommendation of the independent financial adviser

“Company”	Midland IC&I Limited (Stock Code: 459), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Cross Referral Services”	the cross referral services between the Group and Midland Group as more particularly described in this announcement
“Cross Referral Services Agreement (2015)”	the cross referral services agreement dated 16 December 2015 entered into between the Company and Midland and the transactions thereunder
“Cross Referral Services Agreement (2018)”	the cross referral services agreement dated 25 October 2018 entered into between the Company and Midland and the transactions thereunder
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for approving the Cross Referral Services Agreement (2018), the New Annual Caps and the Revised Annual Cap
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising two independent non-executive Directors, namely, Messrs. YING Wing Cheung, William and Messrs. SHA Pau, Eric
“Independent Shareholders”	Shareholders other than those which are required to abstain from voting at the EGM in accordance with the Listing Rules and the applicable law
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Midland”	Midland Holdings Limited (Stock Code: 1200), a company incorporated in Bermuda with limited liability and substantial shareholder of the Company, the shares of which are listed on the main board of the Stock Exchange
“Midland Group”	Midland and its subsidiaries

“New Annual Caps”	the annual caps on any and all of the referral fees from or to Midland Group under the Cross Referral Services Agreement (2018) for the financial years ending 31 December 2019, 2020 and 2021, the amounts of which are set out in this announcement
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Relevant Territory”	Hong Kong, Macau and the PRC or any part of the foregoing, where Midland Group or the Group, as the case may be, carries on its business during the term of the Cross Referral Services Agreement (2018)
“Revised Annual Cap”	the annual cap on any and all of the referral fees to Midland Group under the Cross Referral Services Agreement (2015) for the year ending 31 December 2018, the amount of which is set out in this announcement
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US” or “U.S.”	the United States of America

By Order of the Board
Midland IC&I Limited
MUI Ngar May, Joel
Company Secretary

Hong Kong, 25 October 2018

As at the date of this announcement, the Board comprises eight Directors, of which three are Executive Directors, namely Ms. TANG Mei Lai, Metty, Ms. WONG Ching Yi, Angela and Mr. WONG Hon Shing, Daniel; two are Non-Executive Directors, namely Mr. KAN Chung Nin, Tony, and Mr. TSANG Link Carl, Brian (with Mr. CHU Kuo Fai, Gordon as his alternate); and three are Independent Non-Executive Directors, namely Mr. YING Wing Cheung, William, Mr. SHA Pau, Eric and Mr. HO Kwan Tat, Ted.