**Midland IC&I Limited**
美聯工商舖有限公司*
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 459)**

# INTERIM RESULTS
# FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the "Board") of Midland IC&I Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 (the "Interim Period") together with the comparative figures as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

*For the six months ended 30 June 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2018** <br> ***HK$'000*** | 2017 <br> *HK$'000* |
| Revenues | *4* | **410,999** | 313,443 |
| Other income | *5* | **3,574** | 2,795 |
| Staff costs | | **(189,495)** | (161,615) |
| Rebate incentives | | **(111,008)** | (56,088) |
| Advertising and promotion expenses | | **(7,478)** | (7,199) |
| Operating lease charges in respect of office and shop premises | | **(17,143)** | (16,754) |
| Impairment of receivables | | **(9,976)** | (3,784) |
| Depreciation expenses | | **(1,645)** | (1,554) |
| Other operating costs | | **(15,571)** | (13,262) |
| Operating profit | | **62,257** | 55,982 |
| Finance income | | **1,832** | 844 |
| Finance costs | *6* | **(3,711)** | (2,616) |
| Profit before taxation | | **60,378** | 54,210 |
| Taxation | *7* | **(10,490)** | (9,503) |
| Profit and total comprehensive income for the period attributable to equity holders | | **49,888** | 44,707 |

** For identification purpose only*

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) (CONTINUED)

*For the six months ended 30 June 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Note* | ***HK cents*** | *HK cents* |
| Earnings per share | *8* | | |
| Basic | | **2.76** | 2.77 |
| Diluted | | **2.36** | 2.54 |

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

*As at 30 June 2018*

| | Note | **As at 30 June 2018 HK$'000** | As at 31 December 2017 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | | **4,052** | 3,632 |
| Investment properties | | **862,602** | 487,600 |
| Deposits | | **-** | 29,751 |
| Deferred taxation assets | | **2,526** | 3,370 |
| | | **869,180** | 524,353 |
| **Current assets** | | | |
| Trade and other receivables | *10* | **364,994** | 264,333 |
| Tax recoverable | | **1,522** | 1,600 |
| Cash and bank balances | | **557,086** | 750,312 |
| | | **923,602** | 1,016,245 |
| **Total assets** | | **1,792,782** | 1,540,598 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity holders** | | | |
| Share capital | *14* | **180,528** | 180,528 |
| Share premium | | **745,086** | 745,086 |
| Reserves | | **189,031** | 139,143 |
| **Total equity** | | **1,114,645** | 1,064,757 |
| **Non-current liabilities** | | | |
| Deferred taxation liabilities | | **836** | 739 |
| Bank loan | *13* | **131,000** | - |
| Convertible note | *12* | **175,541** | 172,622 |
| | | **307,377** | 173,361 |
| **Current liabilities** | | | |
| Trade and other payables | *11* | **344,006** | 284,717 |
| Bank loan | *13* | **5,806** | 6,286 |
| Taxation payable | | **20,948** | 11,477 |
| | | **370,760** | 302,480 |
| **Total liabilities** | | **678,137** | 475,841 |
| **Total equity and liabilities** | | **1,792,782** | 1,540,598 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1 General information

The Company is a limited liability company incorporated in the Cayman Islands and listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its head office and principal place of business in Hong Kong is Rooms 2505-8, 25th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

The principal activities of the Group are the provision of property agency services in respect of commercial and industrial properties and shops, and properties investment in Hong Kong.

***Significant events and transactions completed during the Interim Period***

During the Interim Period, the Group has completed the acquisition of investment properties of HK$372,479,000 (including transaction costs).

This unaudited condensed consolidated interim financial information has been approved by the Board on 28 August 2018.

### 2 Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared under the historical cost convention as modified by the revaluation of investment properties and liability component of convertible note which are carried at fair values, and also prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies used in preparing this unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), and HKASs and Interpretations ("Ints") (collectively "new HKFRSs").

***Estimates***

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The following new significant judgement is made by the management in preparing this condensed consolidated interim financial information. Other significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

## 2 Basis of preparation (continued)

*Variable consideration*

Variable consideration comprises the variable amount of the consideration in exchange for transferring the promised goods or services to a customer that is contingent on the occurrence or non-occurrence of a future event. Under HKFRS 15, the Group is required to estimate the amount of consideration to which it will be entitled from the provision of property agency services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable taking into consideration of the risk of fallen through and price concession based on customary industry practice at the time of initial recognition, that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

### (a) New standards, interpretation and amendments effective in 2018

The following new HKFRSs are mandatory for the first time for the financial year beginning 1 January 2018 and the impacts of the adoption of the new HKFRSs are disclosed in note 3.

| | |
|---|---|
| - HKFRS 9 | Financial Instruments |
| - HKFRS 15 | Revenue from Contracts with Customers and the related amendments |

The Group has been impacted by HKFRS 9 in relation to the expected credit losses for financial assets and HKFRS 15 in relation to the identification and existence of variable consideration. Details of the changes in accounting policies are discussed in note 3(a) for HKFRS 9 and note 3(b) for HKFRS 15.

The following new HKFRSs are mandatory for the first time for the financial year beginning 1 January 2018, but have no material effect on the Group's reported results and financial position for the current and prior accounting periods:

| | |
|---|---|
| - HKAS 40 (Amendment) | Transfers of Investment Property |
| - HKFRS 2 (Amendment) | Classification and Measurement of Share-based Payment Transactions |
| - HK(IFRIC) - Int 22 | Foreign Currency Transactions and Advanced Consideration |
| - Annual Improvements to HKFRSs | 2014-2016 Cycle published in March 2017 by HKICPA |

### (b) New standards, interpretation and amendments which are not yet effective

The following new standards, interpretation and amendments to standards have been issued but are not effective for 2018 and have not been early adopted by the Group:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKFRS 9 (amendments) | Prepayment Features with Negative Compensation | 1 January 2019 |
| HKFRS 16 | Leases (note) | 1 January 2019 |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments (new interpretation) | 1 January 2019 |

## 2 Basis of preparation (continued)

### (b) New standards, interpretation and amendments which are not yet effective (continued)

Note:

***HKFRS 16, "Leases"***

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

*Impact*
Based on management's initial assessment, the initial adoption of HKFRS 16 in the future will result in an increase in the right-of-use assets and the lease liabilities, which is expected to result in an increase in both assets and liabilities in the consolidated balance sheet.

*Date of adoption by the Group*
It is mandatory for financial years commencing on or after 1 January 2019. At this stage the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The expected impacts of the adoption of the other new standards, interpretation and amendments to standards are still being assessed by the management, and management is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

## 3 Changes in accounting policies upon adoption of new HKFRSs

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements.

(a) HKFRS 9, "Financial Instruments"

HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The adoption of HKFRS 9 related to the classification and measurement of financial assets and financial liabilities and general hedge accounting have no material effect on the Group's reported results and financial position for the current and prior accounting periods.

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

## 3 Changes in accounting policies upon adoption of new HKFRSs (continued)

(a) HKFRS 9, “Financial Instruments” (continued)

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Prior to the adoption of HKFRS15, the Group estimated impairment of the unprovided trade receivable on a collective basis by considering the aging profile of trade receivables and historical experience.

As at 1 January 2018, the directors reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The Group has assessed the expected credit loss model applied to the trade and other receivables as at 1 January 2018 and there is no significant impact on the opening balances of net assets and retained profits at 1 January 2018.

(b) HKFRS 15, “Revenue from Contracts with Customers”

The Group has adopted HKFRS 15 “Revenue from Contracts with Customers” from 1 January 2018 which resulted in changes in accounting policies.

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction Contracts, which specified the accounting for construction contracts.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. As allowed by HKFRS15, the Group has applied the new requirements only for contracts that were not completed before 1 January 2018.

*Agency fee income from property agency business in Hong Kong*

The Group’s entitlement to agency fee income includes an element of consideration that is variable or contingent on the outcome of future events. Actual agency fee income to be received is dependent upon, among others, the completion of transaction between buyers and sellers, price concession based on customary industry practice and payment plans chosen by the buyers.

Prior to the adoption of HKFRS 15, the Group recognised revenue when it was probable that future economic benefits would flow to the Group and the amount could be measured reliably. At each period end, management estimates impairment of the related trade receivables on both an individual and a collective basis by considering the market conditions, customers’ profile, the Group’s knowledge about the customers, aging profiles of the receivables, historical experience and other relevant factors. Provision for the uncollectible agency fee income was recognised as “impairment of receivables” in previous accounting periods.

## 3 Changes in accounting policies upon adoption of new HKFRSs (continued)

(b) HKFRS 15, "Revenue from Contracts with Customers" (continued)

Under HKFRS 15, the Group is required to estimate the amount of consideration to which it will be entitled from the provision of property agency services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable taking into consideration of the risk of fallen through and price concession based on customary industry practice at the time of initial recognition, that significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Accordingly, the higher revenue recognition threshold for variable consideration under HKFRS 15 has resulted in a decrease in revenue, the impact of which on profit is mitigated by a decrease in impairment provision for the related trade receivables.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

## 4 Revenues and segment information

### (a) Revenues

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Agency fee | **407,218** | 312,180 |
| Rental income | **3,781** | 1,263 |
| Total revenues | **410,999** | 313,443 |

## 4 Revenues and segment information (continued)

## (b) Segment information

The chief operating decision-makers have been identified as the executive directors of the Company (the "Executive Directors"). The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. The Executive Directors determined the operating segments based on these reports.

The Executive Directors assess the performance based on the nature of the Group's business principally located in Hong Kong, which comprises property agency businesses for commercial and industrial properties and shops and properties investment.

| | **Six months ended 30 June 2018** | | | | |
|---|---|---|---|---|---|
| | **Property agency** | | | | |
| | **Commercial properties** *HK$'000* | **Industrial properties** *HK$'000* | **Shops** *HK$'000* | **Properties investment** *HK$'000* | **Total** *HK$'000* |
| **Total revenues** | **152,773** | **127,753** | **140,570** | **3,781** | **424,877** |
| **Inter-segment revenues** | **(3,987)** | **(7,834)** | **(2,057)** | **-** | **(13,878)** |
| **Revenues from external customers** | **148,786** | **119,919** | **138,513** | **3,781** | **410,999** |
| **Segment results** | **25,059** | **16,856** | **30,777** | **4,382** | **77,074** |
| **Fair value gain on investment properties** | **-** | **-** | **-** | **2,523** | **2,523** |
| **(Impairment) /write back of receivables** | **(1,566)** | **1,977** | **(10,387)** | **-** | **(9,976)** |
| **Depreciation expenses** | **(104)** | **(537)** | **(958)** | **-** | **(1,599)** |
| **Additions to property and equipment** | **73** | **425** | **1,521** | **-** | **2,019** |
| **Additions to investment properties** | **-** | **-** | **-** | **372,479** | **372,479** |

| | Six months ended 30 June 2017 | | | | |
|---|---|---|---|---|---|
| | Property agency | | | | |
| | Commercial properties *HK$'000* | Industrial properties *HK$'000* | Shops *HK$'000* | Properties investment *HK$'000* | Total *HK$'000* |
| Total revenues | 150,628 | 86,595 | 83,957 | 1,263 | 322,443 |
| Inter-segment revenues | (3,925) | (3,894) | (1,181) | - | (9,000) |
| Revenues from external customers | 146,703 | 82,701 | 82,776 | 1,263 | 313,443 |
| Segment results | 42,719 | 15,469 | 7,740 | 3,277 | 69,205 |
| Fair value gain on investment properties | - | - | - | 2,100 | 2,100 |
| Write back/(impairment) of receivables | 618 | (2,906) | (1,496) | - | (3,784) |
| Depreciation expenses | (137) | (454) | (926) | - | (1,517) |
| Additions to non-current assets | 16 | 22 | 88 | - | 126 |
| Additions to investment properties | - | - | - | 415,000 | 415,000 |

## 4 Revenues and segment information (continued)

### (b) Segment information (continued)

The Executive Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. Service fee from a related party, fair value gain on convertible note, corporate expenses, finance income, finance costs and taxation are not included in the segment results.

Revenues between segments arose from transactions which are carried out on terms with reference to market practice. Revenues from external customers reported to the Executive Directors are measured in a manner consistent with that in the condensed consolidated statement of comprehensive income. The reporting revenue from external customers is the same as the total revenue per condensed consolidated statement of comprehensive income.

A reconciliation of segment results to profit before taxation is provided as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Segment results for reportable segments | **77,074** | 69,205 |
| Service fee from a related party | **-** | 692 |
| Fair value gain on convertible note | **713** | - |
| Corporate expenses | **(15,530)** | (13,915) |
| Finance income | **1,832** | 844 |
| Finance costs | **(3,711)** | (2,616) |
| Profit before taxation per consolidated statement of comprehensive income | **60,378** | 54,210 |

Segment assets and liabilities exclude corporate assets and liabilities and deferred taxation, all of which are managed on a central basis. The following is total segment assets and liabilities by reportable segment:

| | **As at 30 June 2018** | | | | |
|---|---|---|---|---|---|
| | **Property agency** | | | | |
| | **Commercial properties** | **Industrial properties** | **Shops** | **Properties investment** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Segment assets** | **129,427** | **118,656** | **117,052** | **863,344** | **1,228,479** |
| **Segment liabilities** | **121,659** | **122,662** | **87,566** | **25,556** | **357,443** |

| | As at 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Property agency | | | | |
| | Commercial properties | Industrial properties | Shops | Property investment | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 105,377 | 86,221 | 72,571 | 518,434 | 782,603 |
| Segment liabilities | 107,890 | 102,144 | 58,788 | 24,014 | 292,836 |

## 4 Revenues and segment information (continued)

### (b) Segment information (continued)

Reportable segment assets are reconciled to total assets as follow

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Segment assets | **1,228,479** | 782,603 |
| Corporate assets | **561,777** | 754,625 |
| Deferred taxation assets | **2,526** | 3,370 |
| Total assets per consolidated balance sheet | **1,792,782** | 1,540,598 |

Reportable segment liabilities are reconciled to total liabilities as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Segment liabilities | **357,443** | 292,836 |
| Corporate liabilities | **319,858** | 182,266 |
| Deferred taxation liabilities | **836** | 739 |
| Total liabilities per consolidated balance sheet | **678,137** | 475,841 |

## 5 Other income

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Service fee from a related party | **-** | 692 |
| Fair value gains on investment properties | **2,523** | 2,100 |
| Fair value gain on convertible note | **713** | - |
| Others | **338** | 3 |
| | **3,574** | 2,795 |

## 6 Finance costs

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Finance costs | | |
| Interest on bank loan | **79** | 75 |
| Interest on convertible note | **3,632** | 2,541 |
| | **3,711** | 2,616 |

## 7 Taxation

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Current | | |
| Hong Kong profits tax | **9,549** | 8,750 |
| Deferred | **941** | 753 |
| | **10,490** | 9,503 |

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profit for the period.

## 8 Earnings per share

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders | **49,888** | 44,707 |
| Effect on conversion of convertible note | **2,919** | 2,541 |
| Profit for calculation of diluted earnings per share | **52,807** | 47,248 |
| Weighted average number of shares for calculation of basic earnings per share (thousands) | **1,805,283** | 1,613,113 |
| Effect on conversion of convertible note (thousands) | **434,783** | 242,613 |
| Effect on conversion of share options (thousands) | **-** | 1,505 |
| Weighted average number of shares for calculation of diluted earnings per share (thousands) | **2,240,066** | 1,857,231 |
| Basic earnings per share (HK cents) | **2.76** | 2.77 |
| Diluted earnings per share (HK cents) | **2.36** | 2.54 |

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

In calculating the diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential shares from share options and the convertible note. The convertible note is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the related expenses. For the six months ended 30 June 2017, adjustment has been made to determine the number of shares that could have been acquired at fair value (according to the average market price of the shares of the Company) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

## 8 Earnings per share (continued)

Diluted earnings per share for the six months ended 30 June 2018 did not assume the exercise of share option since the exercise of share options would have an anti-dilutive effect.

## 9 Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## 10 Trade and other receivables

Trade receivables mainly represent agency fee receivables from customers whereby no general credit terms are granted. The customers are obliged to settle the amounts due upon the completion of or pursuant to the terms and conditions of the relevant agreements. The aging analysis of the trade receivables is as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not yet due | **316,949** | 228,708 |
| Less than 30 days | **7,798** | 3,056 |
| 31 to 60 days | **9,186** | 3,397 |
| 61 to 90 days | **9,122** | 3,582 |
| 91 to 180 days | **480** | 5,364 |
| Over 180 days | **395** | 792 |
| | **343,930** | 244,899 |

## 11 Trade and other payables

Trade payables include mainly the commissions and rebate payables to property consultants, co-operative estate agents and property buyers, which are due for payment only upon the receipt of corresponding agency fees from customers. These balances include commissions and rebate payables of HK$22,975,000 (as at 31 December 2017: HK$46,495,000) which are due for payment within 30 days after period end, and all the remaining commissions and rebate payables are not yet due.

## 12 Convertible note

On 22 March 2017, the Company issued zero coupon and unsecured convertible note due 22 March 2021 ("Maturity Date"), in the aggregate principal amount of HK$200 million as part of the consideration of the acquisition of a subsidiary. The holder of the convertible note shall have the right to convert on or before the Maturity Date the whole or any part of the principal amount of the convertible note into fully paid ordinary shares of the Company with a par value of HK$0.10 (after the effect of share consolidation) each at an initial conversion price of HK$0.46 (after the effect of share consolidation) per ordinary share of the Company. Unless previously converted, purchased or cancelled, this note will be redeemed at their principal amount on the Maturity Date.

## 12 Convertible note (continued)

The movement of the liability component of convertible note recognised in the condensed consolidated balance sheet is set out below:

| | **2018** |
|---|---|
| | ***HK$'000*** |
| At 1 January | **172,622** |
| Interest expenses | **3,632** |
| Fair value gain | **(713)** |
| At 30 June | **175,541** |

The carrying amount of the liability component which approximates its fair value is calculated using cash flows discounted at market interest rate of 4.90% per annum as at 30 June 2018.

## 13 Bank loan

The Group's bank loans are repayable as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured bank loan with repayment on demand clause | | |
| Within 1 year | **954** | 961 |
| After 1 year but within 2 years | **990** | 988 |
| After 2 years but within 5 years | **3,198** | 3,137 |
| Over 5 years | **664** | 1,200 |
| | **5,806** | 6,286 |
| Secured bank loan repayable over 5 years | **131,000** | - |
| | **136,806** | 6,286 |

The bank loan with outstanding balance of HK$5,806,000 (as at 31 December 2017: HK$6,286,000) contains a repayment on demand clause and is classified as current liabilities. The above amounts due are based on the scheduled repayment dates set out in the loan agreement and ignore the effect of any repayment on demand clause.

The bank loans are secured by investment properties of HK$287,700,000 (as at 31 December 2017: HK$72,600,000) held by the Group and corporate guarantee given by the Company.

The Group's bank loans are denominated in Hong Kong dollars.

## 14 Share capital

| | **Number of issued shares (HK$0.1 each)** | **Nominal value** |
|---|---|---|
| | | ***HK$'000*** |
| As at 31 December 2017 and 30 June 2018 | **1,805,282,608** | **180,528** |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is pleased to announce that revenue of approximately HK$410,999,000 was recorded for the Interim Period, representing an increase of 31%, which outgrew the overall property sales registration volume of non-residential properties in Hong Kong. The consolidated net profit attributable to equity holders amounted to HK$49,888,000, up 12% as compared to HK$44,707,000 for the corresponding period in 2017.

### Continuous positive market sentiment

During the Interim Period, the Hong Kong economy remained stable with high employment rate and relatively low interest rates. Consequently, the non-residential market flourished and property prices kept rising. According to the figures from the Land Registry, the number of non-residential property sale registrations in the first half of 2018 amounted to 12,979, up 20.7% as compared with the corresponding period last year and reached a six-year high. The registrations value reached approximately HK$82.1 billion, posting a year-on-year growth of 7.2%. Among various sectors, the performance of the industrial property market was particularly notable, mainly due to the relatively low capital outlay for the purchase of such properties. In addition, the demand from the investors on various refurbished sub-divided industrial projects was strong. The volume and value of the industrial property sales registrations year-on-year surged 55.2% and 80.7% respectively.

Despite the drop in the transaction volume and value in the office market as compared with the corresponding period last year, we believe that the actual market conditions were better than the figures suggested as some transactions did not take place by way of direct acquisition of properties. The demand for offices by Chinese enterprises remained strong. For the shop sector, the retail market was steady during the first half of 2018 and the number of property sale registrations in that sector just dropped slightly year-on-year by 0.9%.

### Efforts to generate income

During the first half of 2018, the market of big-ticket properties was red hot, and the Group delivered remarkable results. The concerted efforts of our sales elites resulted in the brokerage of a number of transactions valued at above hundred million dollar and outstanding sales performance.

Following the acquisition of the multi-storey property and several parking spaces of an industrial building in Kwai Chung, New Territories in March 2018, the Group further acquired the seventh and eighth floors of the Kaiseng Commercial Centre on Hankow Road, Tsim Sha Tsui and shop no.6 on ground floor at Cambridge Court on Waterloo Road, Kowloon in June respectively, with an aim to generate additional and stable rental income to the Group through acquisition and leasing of properties.

### Improve shop efficiency

In the first half of 2018, the Group further restructured its branch network to improve its overall operation efficiency and profitability.

### Focus on talent

Talent is the key to corporate development. During the Interim Period, the Group reviewed its internal talent pool in order to build a team of energetic and professional staff, and improve staff quality.

## OUTLOOK

### Uncertainties in Global economies

The ongoing China-US trade frictions have casted a shadow over the global trade market. The international economic landscape is full of uncertainties such as rising interest rates, stock market volatility, political instability after the Brexit vote, and the freefall of the Turkish lira. In addition, renminbi weakens and China's economic development faces certain underlying concerns. Nevertheless, the Chinese central government may adopt more stimulus measures to boost domestic demand, enhance the resilience to cope with various internal and external blows, and reduce the impact of potential risks on China's economy.

Following the opening of the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) in the second half of the year, the economic and trade cooperation between China and Hong Kong will enter into a phase of proactive mutual growth. At the same time, the Chinese central government may introduce more favorable policies in the overall planning of the Greater Bay Area in the second half of the year to further propel the economic development in the region. The Group will strive to capture the underlying opportunities, and to foster a closer collaboration with the mainland operations of the Midland Holdings Limited and its subsidiaries in order to increase its market share.

### Positive prospects in the non-residential market

The Group remains cautiously optimistic about the non-residential market in Hong Kong. For the office sector, with the increasingly close economic and trade exchanges between China and Hong Kong, the fervor of Chinese enterprises opening offices in Hong Kong has not receded, and is expected to continue for a period of time. Henglilong Investments Limited's acquisition of Cityplaza Three and Cityplaza Four indicates that office properties in non-core districts will become the new pursuit. Furthermore, co-working space service providers have expanded their businesses through renting of office premises, which gradually becomes an impetus for rise in office rents.

For the industrial sector, the market demand remains robust. With the launches of a number of sub-divided projects, it is expected that the market sentiment will remain steady. Benefited from the significant growth of visitors to Hong Kong, especially from the mainland, the recovery in the retail industry may drive up the transactions in the shop sector.

### Unified to reach new heights

Looking ahead, the Group will work together to fully utilise existing resources while actively seizing the opportunities in the non-residential market in Hong Kong. The Group will adjust its business strategy and management model according to market conditions to strengthen its leading position in the industry and further expand its market share. Additionally, the Group will continue to pursue business opportunities and seek business diversification to enhance shareholders value.

## FINANCIAL REVIEW

### Liquidity, financial resources and funding

As at 30 June 2018, the Group had cash and bank balances of HK$557,086,000 (as at 31 December 2017: HK$750,312,000), whilst bank loans, amounted to HK$136,806,000 (as at 31 December 2017: HK$6,286,000) and unsecured zero coupon convertible note of HK$175,541,000 (as at 31 December 2017: HK$172,622,000).

The maturity profile of the Group's borrowings is set out as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured bank loan with repayment on demand clause *(note)* | | |
| - repayable within 1 year | **954** | 961 |
| - repayable after 1 year but within 2 years | **990** | 988 |
| - repayable after 2 years but within 5 years | **3,198** | 3,137 |
| - repayable over 5 years | **664** | 1,200 |
| | **5,806** | 6,286 |
| Secured bank loan repayable over 5 years | **131,000** | - |
| | **136,806** | 6,286 |
| Convertible note | | |
| - repayable after 2 years but within 5 years | **175,541** | 172,622 |

*Note: The amounts due are based on the scheduled repayment dates set out in the loan agreement and ignore the effect of any repayment on demand clause.*

The Group's bank loans were secured by investment properties held by the Group of HK$287,700,000 (as at 31 December 2017: HK$72,600,000). As at 30 June 2018, the Group had unutilised borrowing facilities amounting to HK$15,000,000 (as at 31 December 2017: HK$15,000,000) from a bank. The Group's cash and bank balances are deposited in Hong Kong Dollars and the Group's bank loans are in Hong Kong Dollars. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 30 June 2018, the gearing ratio of the Group was 28.0% (as at 31 December 2017: 16.8%). The gearing ratio is calculated on the basis of the Group's total bank loans and convertible note over total equity of the Group. The increase in gearing ratio was a result of new bank loan raised during the Interim Period. Despite the increase in gearing ratio, the Group is still in a healthy position.

The liquidity ratio of the Group, which represents a ratio of current assets over current liabilities, to reflect the adequacy of the financial resources, was 2.5 (as at 31 December 2017: 3.4). The return on equity of the Group, which is the ratio of profit for the period over total equity of the Group was 4.5% (six months ended 30 June 2017: 4.4%).

The directors of the Company (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.

The Group's income and monetary assets and liabilities are denominated in Hong Kong dollars. The Directors consider that the foreign exchange exposure of the Group is minimal.

**Material acquisitions and other acquisitions**

On 28 November 2017, the Group entered into target companies acquisition agreements and properties acquisition agreements (the "LMK Acquisitions"). Pursuant to the target companies acquisition agreements, the purchasers have conditionally agreed to acquire and the sellers have conditionally agreed to sell the entire issued shares (and including the assignment of sale debt) of the target companies. The principal assets of the target companies are the property interests in 6th and 8th floors of LMK Development Estate. Pursuant to the properties acquisition agreements, the purchasers have conditionally agreed to acquire and the sellers have conditionally agreed to sell 5th, 7th and 12th floors and three car parking spaces of LMK Development Estate. The aggregate consideration for the LMK Acquisitions is agreed at HK$196 million (subject to cash adjustment) and was settled by cash of the Group. The LMK Acquisitions were completed on 16 March 2018. During this period, these properties have been pledged to a bank to secure a bank loan of HK$131 million.

On 3 April 2018, the Group entered into a property acquisition agreement to acquire a shop No. 6 on ground floor at Cambridge Court at a cash consideration of HK$26.68 million. The acquisition was completed on 28 June 2018.

On 12 April 2018, the Group entered into properties acquisition agreements to acquire 7th and 8th floors of Kaiseng Commercial Centre at an aggregate cash consideration of HK$125 million. The acquisition was completed on 12 June 2018. Details of the acquisition were set out in the Company's announcements dated 12 April 2018 and 12 June 2018.

The aforementioned properties are leased out for rental income. Acquisitions of these properties together with 33 & 35 Java Road which has been positioned as a serviced apartment project allow the Group to further broaden the income source, avoid the reliance on its volatile agency fee income and allow the Group to enjoy the possible capital appreciation of the properties. During the Interim Period, 33 & 35 Java Road, posted an improvement in occupancy rate.

**Contingent liabilities**

As at 30 June 2018, the Company executed corporate guarantees amounting to HK$160,780,000 (as at 31 December 2017: HK$29,780,000) as the securities for general banking facilities and bank loans granted to certain wholly-owned subsidiaries. As at 30 June 2018, HK$136,806,000 of the banking facilities were utilised by the subsidiaries (as at 31 December 2017: HK$6,286,000).

The Group has been involved in certain claims/litigations in respect of property agency services, including a number of cases in which third party customers alleged that certain Group's employees, when advising the customers, had made misrepresentations about the properties that the customers intended to acquire. After seeking legal advice, the management is of the opinion that either an adequate provision has been made in the financial statements to cover any potential liabilities or that no provision is required as based on the current facts and evidence there is no indication that an outflow of economic benefits is probable.

**Employee information**

As at 30 June 2018, the Group employed 745 full-time employees (as at 31 December 2017: 720).

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, incentives tied in with profits and share options 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. In respect of staff development, both in-house and external training and development programmes are conducted on a regular basis.

## INTERIM DIVIDEND

The Board does not declare an interim dividend for the Interim Period (2017: Nil).

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code as stated in Appendix 14 to the Listing Rules throughout the Interim Period.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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

## 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 OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed and discussed with the management the unaudited condensed consolidated interim financial information of the Group for the Interim Period. PricewaterhouseCoopers as the Company's auditor has reviewed the unaudited interim financial information of the Group for the Interim Period 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 HKICPA.

## PUBLICATION OF 2018 INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.midlandici.com.hk). The 2018 Interim Report will be despatched to the shareholders of the Company and will be published on the websites of the Stock Exchange and the Company in due course.

## APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to our shareholders and customers for their continued support and to the management and all staff for their hard work and contributions during the period.

By Order of the Board
**Midland IC&I Limited**
**WONG Hon Shing, Daniel**
*Chief Executive Officer and Executive Director*

Hong Kong, 28 August 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.*