美聯工商舖
MIDLAND IC&I

Midland IC&I Limited
美聯工商舖有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 459)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board") of Midland IC&I Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
Revenues	*4(a)*	**628,780**	637,247
Other (loss)/income	*5*	**(5,162)**	11,290
Staff costs		**(295,647)**	(319,303)
Rebate incentives		**(149,681)**	(131,278)
Advertising and promotion expenses		**(15,227)**	(14,774)
Operating lease charges in respect of office and shop premises		**(36,803)**	(33,681)
Net impairment losses on financial assets		**(18,583)**	(10,647)
Depreciation expenses		**(3,195)**	(3,259)
Other operating costs		**(38,386)**	(27,326)
Operating profit	*6*	**66,096**	108,269
Finance income	*7*	**3,853**	2,290
Finance costs	*7*	**(9,553)**	(5,697)
Profit before taxation		**60,396**	104,862
Taxation	*8*	**(12,207)**	(14,944)
Profit and total comprehensive income for the year		**48,189**	89,918

**For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)
For the year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Profit and total comprehensive income attributable to:			
Equity holders		**48,148**	89,918
Non-controlling interests		**41**	-
		48,189	89,918
		HK cents	HK cents
Earnings per share	*9*		
Basic		**2.667**	5.258
Diluted		**2.497**	4.655

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
ASSETS			
Non-current assets			
Property and equipment		**6,159**	3,632
Investment properties	*11*	**855,300**	487,600
Financial assets at amortised cost		**4,680**	-
Deposits		**-**	29,751
Deferred tax assets		**2,452**	3,370
		868,591	524,353
Current assets			
Trade and other receivables	*12*	**192,389**	264,333
Tax recoverable		**6,926**	1,600
Cash and cash equivalents		**593,214**	750,312
		792,529	1,016,245
Total assets		**1,661,120**	1,540,598
EQUITY AND LIABILITIES			
Equity holders			
Share capital		**180,528**	180,528
Share premium		**745,086**	745,086
Reserves		**187,291**	139,143
		1,112,905	1,064,757
Non-controlling interests		**7,761**	-
Total equity		**1,120,666**	1,064,757

CONSOLIDATED BALANCE SHEET (Continued)
As at 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**1,551**	739
Bank loan	*13*	**131,000**	-
Convertible note	*14*	**180,411**	172,622
		312,962	173,361
Current liabilities			
Trade and other payables	*15*	**211,274**	284,717
Bank loan	*13*	**5,329**	6,286
Tax payable		**10,889**	11,477
		227,492	302,480
Total liabilities		**540,454**	475,841
Total equity and liabilities		**1,661,120**	1,540,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Significant event and transactions completed during the year
During the year, the Group has completed the acquisition of investment properties of HK$372,479,000 (including transaction costs).

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have 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.

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

The following new HKFRSs are mandatory for the financial year beginning 1 January 2018 and the impacts of the adoption of the following 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 loss for financial assets, and impacted by 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 interpretation and amendments to standards 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

2. Basis of preparation (Continued)

(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

Note:
HKFRS 16, "Leases"

It will result in almost all leases being recognised on the balance sheet by lessees, 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.

The Group expects to adopt the standard using the modified retrospective approach where the cumulative effects of initially applying HKFRS 16 is recognised as an adjustment to the opening balance of retained profits and comparative figures are not restated.

As at 31 December 2018, the Group has non-cancellable operating lease commitment of HK$36.7 million. Upon adoption of HKFRS 16, operating lease commitments will be recognised in the consolidated balance sheets as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost. The right-of-use assets are measured at cost less accumulated depreciation and impairment losses, and will be amortised on a straight-line basis during the lease term.

Lease expenses in the consolidated statement of comprehensive income are replaced by depreciation and interest expenses. Adoption of the new standard will have effects to the financial performance of the Group, while, when comparing to the HKAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result in lower expenses in the later part of the lease terms.

The accounting for lessors will not significantly change and hence the Group does not expect any significant impact on the consolidated financial statements. However, some additional disclosures will be required from next year.

The Group will continue to assess the full impact of the adoption of HKFRS 16 and further update of the impact will be provided in the interim report for the six months ending 30 June 2019.

There are no other standards that are not yet effective and would be expected to have a material impact on the consolidated financial statements of the Group.

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 consolidated 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. As permitted by the transitional provision of HKFRS 9, the Group elected not to restate comparative figures.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including financial assets at amortised cost, 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.

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 HKFRS 9, 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.

The Group is required to revise its impairment methodology for other financial assets at amortised cost. The Group has assessed on a forward looking basis for the expected credit losses associated with the other financial assets at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment provision is determined based on the 12-month expected credit losses which is not material to the Group.

3. Changes in accounting policies upon adoption of new HKFRSs (Continued)

(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. The Group has elected to use the practical expedient allowed by HKFRS 15 and 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 estimated 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.

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, 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.

3. Changes in accounting policies upon adoption of new HKFRSs (Continued)

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

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following table summarises the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if this superseded standard had continued to apply to 2018 instead of HKFRS 15. The table below shows only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKAS 18 (B) HK$'000	Difference: estimated impact of adoption of HKFRS 15 in 2018 (A)-(B) HK$'000
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenues	628,780	636,003	(7,223)
Net impairment losses on financial assets	(18,583)	(25,806)	7,223

4. Revenues and segment information

(a) Revenues

	2018 HK$'000	2017 HK$'000
Revenues from contracts with customers within the scope of HKFRS 15		
Agency fee	**614,252**	634,686
Revenues from other sources		
Rental income	**14,528**	2,561
Total revenues	**628,780**	637,247

(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 determine the operating segments based on these reports.

4. Revenues and segment information (Continued)

(b) Segment information (Continued)

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

Year ended 31 December 2018

	Property agency				
	Commercial properties HK$'000	Industrial properties HK$'000	Shops HK$'000	Properties investment HK$'000	Total HK$'000
Segment revenues	245,386	185,358	205,669	14,528	650,941
Inter-segment revenues	(6,040)	(12,626)	(3,495)	-	(22,161)
Revenues from external customers	239,346	172,732	202,174	14,528	628,780
Timing of revenue recognition					
- At a point in time	239,346	172,732	202,174	-	614,252
Rental income	-	-	-	14,528	14,528
	239,346	172,732	202,174	14,528	628,780
Segment results	37,368	21,600	34,461	5,170	98,599
Fair value loss on investment properties	-	-	-	(4,779)	(4,779)
Net impairment losses on financial assets	(4,657)	(2,692)	(11,234)	-	(18,583)
Depreciation expenses	(207)	(919)	(1,974)	(7)	(3,107)
Additions to non-current assets	222	514	4,840	372,543	378,119

4. Revenues and segment information (Continued)

(b) Segment information (Continued)

Year ended 31 December 2017

	Property agency				
	Commercial properties HK$'000	Industrial properties HK$'000	Shops HK$'000	Properties investment HK$'000	Total HK$'000
Segment revenues	303,908	177,358	171,985	2,561	655,812
Inter-segment revenues	(7,627)	(7,722)	(3,216)	-	(18,565)
Revenues from external customers	296,281	169,636	168,769	2,561	637,247
Timing of revenue recognition					
- At a point in time	296,281	169,636	168,769	-	634,686
Rental income	-	-	-	2,561	2,561
	296,281	169,636	168,769	2,561	637,247
Segment results	72,273	31,487	20,840	9,289	133,889
Fair value gain on investment properties	-	-	-	8,200	8,200
Net impairment losses on financial assets	(1,778)	(2,581)	(6,288)	-	(10,647)
Depreciation expenses	(252)	(992)	(1,941)	-	(3,185)
Additions to non-current assets	230	922	835	415,000	416,987

The Executive Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. Service fee income from a related company, fair value (loss)/ 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 consolidated statement of comprehensive income. The reporting revenue from external customers is the same as the total revenue per consolidated statement of comprehensive income.

4. Revenues and segment information (Continued)

(b) Segment information (Continued)

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

	2018	2017
	HK$'000	HK$'000
Segment results for reportable segments	**98,599**	133,889
Service fee income from a related company	**-**	692
Fair value (loss)/ gain on convertible note	**(389)**	2,395
Corporate expenses	**(32,114)**	(28,707)
Finance income	**3,853**	2,290
Finance costs	**(9,553)**	(5,697)
Profit before taxation per consolidated statement of comprehensive income	**60,396**	104,862

Segment assets and liabilities exclude financial assets at amortised cost, corporate assets and liabilities and deferred taxation, all of which are managed on a central basis. Set out below is an analysis of assets and liabilities by reportable segment:

As at 31 December 2018

	Property agency				
	Commercial properties HK$'000	**Industrial properties HK$'000**	**Shops HK$'000**	**Properties investment HK$'000**	**Total HK$'000**
Segment assets	**71,782**	**64,894**	**61,479**	**857,234**	**1,055,389**
Segment liabilities	**64,593**	**84,955**	**44,956**	**152,610**	**347,114**

As at 31 December 2017

	Property agency				
	Commercial properties HK$'000	Industrial properties HK$'000	Shops HK$'000	Properties investment HK$'000	Total 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 follows:

	2018 HK$'000	2017 HK$'000
Segment assets	**1,055,389**	782,603
Corporate assets	**598,599**	754,625
Financial assets at amortised cost	**4,680**	-
Deferred tax assets	**2,452**	3,370
Total assets per consolidated balance sheet	**1,661,120**	1,540,598

Reportable segment liabilities are reconciled to total liabilities as follows:

	2018 HK$'000	2017 HK$'000
Segment liabilities	**347,114**	292,836
Corporate liabilities	**191,789**	182,266
Deferred tax liabilities	**1,551**	739
Total liabilities per consolidated balance sheet	**540,454**	475,841

5. Other (loss)/ income

	2018 **HK$'000**	2017 HK$'000
Fair value (loss)/ gain on investment properties	**(4,779)**	8,200
Fair value (loss)/ gain on convertible note	**(389)**	2,395
Service fee income from a related company	**-**	692
Others	**6**	3
	(5,162)	11,290

6. Operating profit

Operating profit is arrived at after charging:

	2018 **HK$'000**	2017 HK$'000
Direct operating expenses arising from investment properties that generated rental income	**3,416**	27
Auditor's remuneration		
- Audit services	**1,373**	906
- Interim review	**343**	343
- Non-audit services	**683**	1,097

7. Finance income and costs

	2018 **HK$'000**	2017 HK$'000
Finance income		
Bank interest income	**3,801**	2,290
Interest income from financial assets	**52**	-
	3,853	2,290
Finance costs		
Interest on bank loans	**(2,153)**	(147)
Interest on convertible note	**(7,400)**	(5,550)
	(9,553)	(5,697)
Finance costs, net	**(5,700)**	(3,407)

8. Taxation

	2018	2017
	HK$'000	HK$'000
Current		
Hong Kong profits tax	**10,477**	15,908
Deferred tax	**1,730**	(964)
	12,207	14,944

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.

9. Earnings per share

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

	2018	2017
	HK$'000	HK$'000
Profit attributable to equity holders	**48,148**	89,918
Effect on conversion of convertible note	**7,789**	5,550
Profit for calculation of diluted earnings per share	**55,937**	95,468
Weighted average number of shares for calculation of basic earnings per share (thousands)	**1,805,283**	1,709,988
Effect on conversion of convertible note (thousands)	**434,783**	339,488
Effect on conversion of share options (thousands)	**-**	1,189
Weighted average number of shares for the calculation of diluted earnings per share (thousands)	**2,240,066**	2,050,665
Basic earnings per share (HK cents)	**2.667**	5.258
Diluted earnings per share (HK cents)	**2.497**	4.655

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 year.

9. Earnings per share (Continued)

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 year ended 31 December 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.

Diluted earnings per share for the year ended 31 December 2018 did not assume the exercise of share options since the exercise of share options would have an anti-dilutive effect.

10. Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: nil).

11. Investment properties

	2018	2017
	HK$'000	HK$'000
Opening net book amount	**487,600**	64,400
Acquisition of investment property under development	**-**	396,282
Additions	**372,479**	18,718
Change in fair value recognised in the consolidated statement of comprehensive income	**(4,779)**	8,200
Closing net book amount	**855,300**	487,600

Investment properties of HK$288,100,000 (2017: HK$72,600,000) are pledged as security for the Group's bank loans.

12. 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:

	2018	2017
	HK$'000	HK$'000
Not yet due	**135,398**	228,708
Less than 30 days	**13,146**	3,056
31 to 60 days	**5,700**	3,397
61 to 90 days	**8,989**	3,582
More than 90 days	**5,830**	6,156
	169,063	244,899

13. Bank loans

The Group's bank loans are repayable as follows:

	2018	2017
	HK$'000	HK$'000
Secured bank loan with repayment on demand clause		
Within 1 year	**988**	961
After 1 year but within 2 years	**1,016**	988
After 2 years but within 5 years	**3,231**	3,137
Over 5 years	**94**	1,200
	5,329	6,286
Secured bank loan repayable over 5 years	**131,000**	-
	136,329	6,286

The bank loan with outstanding balance of HK$5,329,000 (2017: HK$6,286,000) contain 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.

14. Convertible note

On 22 March 2017, the Company issued zero coupon and unsecured convertible note due on 22 March 2021 (the "Maturity Date"), in the aggregate principal amount of HK$200 million as part of the consideration for 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.

15. 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 HK$21,020,000 (2017: HK$46,495,000) which are due for payment within 30 days after year end, and all the remaining commissions and rebate payables are not yet due.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group announces that the revenues of the Group for the year ended 31 December 2018 decreased by 1.3% as compared with that of the year of 2017 to HK$628.8 million. Profit attributable to equity holders amounted to HK$48.1 million, representing a drop of 46.5% as compared with that of 2017.

During the reporting period, uncertainties such as the China-US trade conflict and Brexit dampened the market sentiment, while keen local competition drove up the Group's operating costs. The various unfavorable business conditions put pressure on the Group's performance for the year.

Transaction volume of non-residential properties plummeted

During the first half of 2018, the Hong Kong economy was buoyant and interest rate remained low. Driven by investors' strong demand for refurbished and sub-divided industrial units, the industrial property market performed particularly well. Nevertheless, as the China-US trade tension escalated, the mainland economy slowed down and fear of interest rate hikes intensified, the local market sentiment turned abruptly in the second half of the year. According to the Hong Kong Census and Statistics Department, the GDP growth during the fourth quarter of 2018 stood at 1.3%, falling more than half from that of 2.8% in the third quarter. Surrounded by unfavorable environment, investment appetite was hit severely and investors stayed on the sidelines. In particular, transaction volumes of industrial properties and shops in the second half of the year saw a major reversal, with the number of industrial unit registrations plummeting by 38%, being the worst-performing segment among the non-residential properties, and the number of shop registrations dropped by 27% as compared with that of the first half of the year.

Brokered remarkable deals

During the reporting period, the Group continued to deliver strong results in the high-end segment. In 2018, the Group brokered several remarkable deals, such as a whole floor of the office tower of the Far East Finance Centre and a batch of units at Des Voeux Commercial Centre, all closed by the sales elites of the Group. At the same time, the Group strengthened its market position in the shop segment.

As the buy-and-sell market slowed down in the second half of 2018, the Group strived to develop the rental sector and successfully brokered a mega rental deal with monthly rental at approximately HK$2.1 million in August 2018.

OUTLOOK

Looking ahead with caution

Despite the possibility of China and the US reaching certain agreements on tariffs, it is expected that the bilateral trade dispute may continue to linger and cast shadow on the global economic outlook. Moreover, China's economy will continue to slow down, following the GDP growth rate of 6.6% for 2018, a new low in 28 years, the target economic growth rate for 2019 was cut to between 6 and 6.5%. The above factors, coupled with Brexit and various geopolitical uncertainties, will put pressure on the expansion plans of Hong Kong enterprises and weaken local consumption. Therefore the Group is cautious about the prospects of the non-residential property market in Hong Kong.

Policy-supported property market

As several major infrastructure projects have been completed in a row, the number of mainland tourists reached a record high. This will likely bring support to the Hong Kong retail and tourist industry in the short term, and consequently back the value and rental of shops.

Furthermore, to address the current dire demand for elderly and child care services, the Hong Kong government has proposed in the 2019 Budget to earmark HK$20 billion to purchase 60 properties for providing over 130 welfare facilities, including day child care centers, neighborhood elderly centers, and on-site pre-school rehabilitation services. This move is expected to boost the demand for shops. It is believed that as long as interest rate continues to stay low, the related investment demands will continue to grow.

Seize new development opportunities

To respond to the fast-changing market and seize market opportunities, the Group is committed to the continuous collaboration with Midland Holdings Limited and its subsidiaries (the "Midland Group"). Apart from developing the online live chat for non-residential properties transactions through the holistic sales platform of Midland Group, the Group has also participated in the task force of the Midland Group to proactively explore the new economic development impetus in the Greater Bay Area, and formulate long-term business development plans, in order to fully capture market opportunities.

For the purpose of broadening the sources of revenue, the Group established a new credit business in the second half of 2018 to provide mortgage loan services. Meanwhile, the Group will strive to increase the rental income from its property investments, so as to generate a stable source of income and cash flow. The Group will continue with its diversification strategy to explore new investment and business opportunities, and create value for shareholder.

FINANCIAL REVIEW

As at 31 December 2018, the Group had cash and cash equivalents of HK$593,214,000 (2017: HK$750,312,000) and bonds investment of HK$4,680,000 (2017: nil), whilst bank loans amounted to HK$136,329,000 (2017: HK$6,286,000) and unsecured zero coupon convertible note of HK$180,411,000 (2017: HK$172,622,000).

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

	2018	2017
	HK$'000	HK$'000
Secured bank loan with repayment on demand clause *(note)*		
Within 1 year	**988**	961
After 1 year but within 2 years	**1,016**	988
After 2 years but within 5 years	**3,231**	3,137
Over 5 years	**94**	1,200
	5,329	6,286
Secured bank loan repayable over 5 years	**131,000**	-
	136,329	6,286
Convertible note		
After 2 years but within 5 years	**180,411**	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 certain investment properties held by the Group of HK$288,100,000 (2017: HK$72,600,000). As at 31 December 2018, the Group had unutilised borrowing facilities amounting to HK$15,000,000 (2017: HK$15,000,000) from a bank. The Group's cash and bank balances are deposited in Hong Kong dollars and Group's bank loans and convertible note are in Hong Kong dollars. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 31 December 2018, the gearing ratio of the Group was 28.3% (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 year. 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 3.5 (2017: 3.4). The return on equity of the Group, which is the ratio of profit for the year over total equity was 4.3% (2017: 8.4%).

Consistent with the overall treasury objectives and policy, the Group undertakes treasury management activities with respect to its available cash so as to generate investment return to enhance the Group's financial position. The criteria for selection of investments will include (i) the risk profile involved and not speculative in nature; (ii) the liquidity of an investment; (iii) the after tax equivalent yield of an investment; and (iv) structurally products are prohibited. In line with its liquidity objectives, the Group invests mostly in liquid instruments, products or equities with good credit quality. Investment in fixed income products are structured in different maturity profile to cater for ongoing business development. As at 31 December 2018, the Group has short term bank deposits of HK$519,571,000 and corporate bonds of HK$4,680,000.

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 mainly 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 year, 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 year, 33 & 35 Java Road posted an improvement in occupancy rate.

Since the slight appreciation of the valuation of the properties during the reporting period was unable to cover the expenses incurred for the acquisitions of the properties, so the Group has recorded a fair value loss on the investment properties during the year.

Contingent Liabilities

As at 31 December 2018, the Company executed corporate guarantees amounting to HK$160,780,000 (2017: HK$29,780,000) as the securities for general banking facilities and bank loans granted to certain subsidiaries. As at 31 December 2018, banking facilities of HK$136,329,000 were utilised by subsidiaries (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 31 December 2018, the Group employed 770 full-time employees (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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018.

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 year ended 31 December 2018.

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 year ended 31 December 2018.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2018. The figures in this announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF 2018 ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.midlandici.com.hk). The 2018 Annual 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 our sincere gratitude to our shareholders and customers for their supports and to our management and staff for their dedication and contribution during the reporting period.

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

Hong Kong, 27 March 2019

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.