互聯互通 盡掌機遇

Capturing opportunities through integration

美聯工商舖
MIDLAND IC&I

Midland IC&I Limited

Incorporated in the Cayman Islands with limited liability

(Stock code 股份代號:459)

Annual Report 2018 年報

Contents

Corporate Information

BOARD OF DIRECTORS

Non-Executive Directors
Mr. KAN Chung Nin, Tony *(Chairman)*
Mr. TSANG Link Carl, Brian
(with Mr. CHU Kuo Fai, Gordon as his alternate)

Executive Directors
Ms. TANG Mei Lai, Metty
Ms. WONG Ching Yi, Angela
Mr. WONG Hon Shing, Daniel *(Chief Executive Officer)*

Independent Non-Executive Directors
Mr. YING Wing Cheung, William
Mr. SHA Pau, Eric
Mr. HO Kwan Tat, Ted

AUDIT COMMITTEE
Mr. HO Kwan Tat, Ted *(Committee Chairman)*
Mr. YING Wing Cheung, William
Mr. SHA Pau, Eric

REMUNERATION COMMITTEE
Mr. HO Kwan Tat, Ted *(Committee Chairman)*
Mr. KAN Chung Nin, Tony
Mr. WONG Hon Shing, Daniel
Mr. YING Wing Cheung, William
Mr. SHA Pau, Eric

NOMINATION COMMITTEE
Mr. KAN Chung Nin, Tony *(Committee Chairman)*
Mr. WONG Hon Shing, Daniel
Mr. YING Wing Cheung, William
Mr. SHA Pau, Eric
Mr. HO Kwan Tat, Ted

COMPANY SECRETARY
Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES
Ms. WONG Ching Yi, Angela
Mr. WONG Hon Shing, Daniel

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Rooms 2505-8, 25th Floor
World-Wide House
19 Des Voeux Road Central
Hong Kong

AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Shanghai Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG LEGAL ADVISER
Iu, Lai & Li Solicitors & Notaries
Rooms 2201, 2201A & 2202
22nd Floor, Tower I
Admiralty Centre
No. 18 Harcourt Road, Admiralty
Hong Kong

CAYMAN ISLANDS LEGAL ADVISER
Conyers Dill & Pearman
29th Floor
One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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183 Queen's Road East
Hong Kong

WEBSITE
www.midlandici.com.hk

STOCK CODE
459

CUTTING-EDGE REPORT ON VACANT SHOPS IN CORE DISTRICTS

The company released a cutting-edge report named "Distribution of Vacant Shops and Merchants in Core District Survey", featuring a detailed vacant shops research and in-depth merchant analysis of 4 core districts in HK. The extensive data enables investors to better evaluate their investment decisions.

ORGANIZING GREATER BAY AREA INVESTMENT SEMINAR

The company has kept abreast of the latest market trend. Last year, the company hosted a seminar named "Investment Opportunities under the New Infrastructure" providing an in-depth analysis of the investment strategies in Mainland China and Hong Kong with new infrastructure to help clients to seize investment and trade opportunities under the Greater Bay Area initiative.

WINNING "EXCELLENT BRAND OF NON-RESIDENTIAL PROPERTY AGENCY" FOR 12 CONSECUTIVE YEARS

The Company has been awarded as "Excellent Brand of Non-residential Property Agency" for 12 consecutive years, as a recognition of the consistently outstanding and attentive property agency service provided by our professional and experienced sales team.

* For other major events and awards for the Year in relation to corporate social responsibility, please refer to Corporate Social Responsibility Report

BUSINESS REVIEW

Midland IC&I Limited (the "Company") and its subsidiaries (collectively, 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.

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.

WONG Hon Shing, Daniel
Chief Executive Officer

Hong Kong, 27 March 2019

NON-EXECUTIVE DIRECTORS

Mr. KAN Chung Nin, Tony, aged 68, *LL.B., P.C.L.L., BBS, SBS, JP*, has been the Chairman of the board of directors (the "Board"), a Non-Executive Director, the Chairman and a member of the Nomination Committee, and a member of the Remuneration Committee of the Company since October 2016.

Mr. KAN is the Founder and Senior Consultant of Tony Kan & Co., Solicitors & Notaries, practising as a Solicitor of the Supreme Court of Hong Kong since 1982. He is also a Solicitor of the Supreme Court of England and Wales, a Barrister and Solicitor of the Supreme Court of the Australian Capital Territory, as well as Advocate and Solicitor of the Supreme Court of the Republic of Singapore. He is also a China Appointed Attesting Officer and a Notary Public. Mr. KAN is currently a Committee Member of the National Committee of the Chinese People's Political Consultative Conference and was a Committee Member of the Guangdong Committee of the Chinese People's Political Consultative Conference for three consecutive terms. Mr. KAN had been an Elected Member of the Sha Tin District Council from 1985 to the end of 2011. He had also been an Elected Member of the Regional Council and he was elected as Vice Chairman of the Council in July 1997 until its dissolution at the end of 1999.

Since 1988, Mr. KAN has served as a Councillor of Heung Yee Kuk in the New Territories and is currently an Ex Officio Member and Executive Committee Member of Heung Yee Kuk. Mr. KAN is serving and has served on various advisory committees for the government, including Town Planning Board Member as well as the Building Committee Member of the Housing Authority. He is currently a Member of the Election Committee of the Chief Executive of Hong Kong Special Administrative Region. Mr. KAN has been appointed as an Independent Non-Executive Director of Man Wah Holdings Limited since May 2013, a company listed in Hong Kong. Mr. KAN has been appointed as an Independent Non-Executive Director of Nameson Holdings Limited since 29 January 2016, which has been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 April 2016. He has been appointed as a Vice Chairman of the Board of Directors of DBG Technology Co., Ltd. (Stock Code: 300735) which has been listed on Shenzhen Stock Exchange ChiNext on 29 December 2017. Mr. KAN has been appointed as an Independent Non-Executive Director of Hopewell Highway Infrastructure Limited since 11 April 2018, a company listed in Hong Kong. He was the Non-Executive Director of Midland Holdings Limited ("Midland Holdings") and subsequently became the Independent Non-Executive Director of Midland Holdings during the period from October 1994 to September 2004. Mr. KAN has also served as a Non-Executive Director of Midland Holdings during the period from March 2014 to October 2016. Midland Holdings is a company listed on the main board of the Stock Exchange and the controlling shareholder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of the Company.

Mr. TSANG Link Carl, Brian, aged 55, has been the Non-Executive Director of the Company since March 2005.

Mr. TSANG is a practising solicitor in Hong Kong and a partner of Iu, Lai & Li Solicitors & Notaries, the legal adviser of the Company and Midland Holdings. He graduated from King's College London with an LLB Degree. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territory.

Mr. TSANG was the Independent Non-Executive Director of CITIC Resources Holdings Limited from August 2000 to April 2011, Walker Group Holdings Limited (now known as Vestate Group Holdings Limited) from May 2007 to February 2011 and Pacific Century Premium Developments Limited from October 2002 to June 2009, all listed on the main board of the Stock Exchange.

Mr. TSANG was also an adjudicator of the Registration of Persons Tribunal from June 2005 to June 2009, a member of the Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants from February 2006 to February 2010 and a member of the Appeal Panel (Housing) from July 2006 to April 2010.

EXECUTIVE DIRECTORS

Ms. TANG Mei Lai, Metty, aged 63, has been the Executive Director of the Company since June 2017. She was appointed as Executive Director and Managing Director of the Company in September 2008 and October 2008, respectively. She was re-designated to Non-Executive Director in December 2014 and continued her service in that position since then until her re-designation to Executive Director in June 2017. She was appointed as the Chairman of the Company from September 2008 to October 2016.

Ms. TANG was an Executive Director and the Deputy Chairman of Midland Holdings from December 2005 to June 2017 and from December 2005 to March 2011 respectively.

Ms. TANG is a director of Luck Gain Holdings Limited ("Luck Gain") and Wealth Builder Holdings Limited ("Wealth Builder") which are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). She is the mother of Ms. WONG Ching Yi, Angela, Executive Director of the Company and the Deputy Chairman, Managing Director and Executive Director of Midland Holdings.

Ms. WONG Ching Yi, Angela, aged 38, has been the Executive Director of the Company since December 2011. She was the Executive Director of the Company from June 2007 to March 2008.

Ms. WONG is responsible for formulating, overseeing and implementing the overall corporate strategies and policies as well as the corporate development and governance of the Midland Group and the Group (collectively, the "Groups"). She is also responsible for the overall management and sales operations of the Groups, and oversees other functions ranging from finance, professional services, investor relations, information technology to corporate communications.

Ms. WONG has solid experience in real estate industry and has been a key contributor to the growth and development of the Groups. She has demonstrated strong leadership and has been instrumental in leading the Groups to promote their strategies and meet challenges in the increasingly competitive environment. She introduced a series of strategic initiatives, which has improved the operating efficiency as well as strengthened the market position of the Groups.

Ms. WONG has been the Executive Director of Midland Holdings since March 2008 and has been the Deputy Chairman of Midland Holdings since March 2011, and had been the Deputy Managing Director of Midland Holdings since August 2011 before her re-designation as Managing Director of Midland Holdings in December 2014.

Ms. WONG is a director of various members of Midland Group and a director of mReferral Corporation Limited, a joint venture of Midland Group with a leading developer. She is also a director and the vice president of Midland Charitable Foundation Limited.

Ms. WONG is a fellow member of the Hong Kong Institute of Certified Public Accountants. She graduated from The University of Hong Kong with a bachelor's degree in business administration (accounting and finance) and also holds a master's degree in business administration from Hong Kong University of Science and Technology.

Prior to joining the Groups, she worked for PricewaterhouseCoopers, an international accounting firm, for several years. She is the vice chairman of Youth Professionals Committee, Standing Committee member of The Association of Hong Kong Professionals, Committee member of The Y.Elites Association, Honorary Vice President of the advisory board of Business Association BEA HKUSU and a member of the Sponsorship and Development Fund Committee of The Open University of Hong Kong. She was a member of the Practice and Examination Committee and the Professional Development Committee of the Estate Agents Authority.

Ms. WONG is a director of Midland Holdings, Valuewit Assets Limited ("Valuewit"), Luck Gain and Wealth Builder which are substantial shareholders of the Company within the meaning of Part XV of the SFO. She is the daughter of Ms. TANG Mei Lai, Metty, the Executive Director of the Company.

Mr. WONG Hon Shing, Daniel, aged 55, has been appointed as the Executive Director and Chief Executive Officer of the Company since December 2011. He is also a member of the Remuneration Committee and the Nomination Committee and the Chairman of the Risk Committee of the Company.

Mr. WONG is a certified financial planner of The Institute of Financial Planners of Hong Kong. He graduated from The Open University of Hong Kong with a bachelor's degree in business administration and also holds a master degree of science in international real estate from The Hong Kong Polytechnic University. He is a professional member of The Royal Institution of Chartered Surveyors.

Mr. WONG was the Sales Director of the Commercial Department of the Group and from May 2009 to December 2011, he acted as the Chief Operating Officer of the Group. He joined Midland Group in 1994 and joined the Group in 2006. He has over 29 years of experience in non-residential property agency business in Hong Kong. Mr. WONG is a director of various members of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YING Wing Cheung, William, aged 68, has been the Independent Non-Executive Director of the Company since May 2005. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. YING has over 44 years of experience in electronic products manufacturing business and is well versed in marketing and corporate strategic planning. He is currently the managing director of Way Mild Company Limited and a director of Yangzhou Jiangwei Electronics Technology Co. Ltd.

Mr. YING was a member of the Eighth, Ninth and Tenth Guangdong Provincial Committee of Chinese People's Political Consultative Conference from 1998 to 2013. He also serves in various social organisations. He is currently the president of Sze Yap Clansmen Association (Yuen Long, New Territories, Hong Kong) Limited and a member of Jiangsu Province Chinese Overseas Friendship Association. Mr. YING was a member of the Eighth and Ninth Jiangmen Committee of Chinese People's Political Consultative Conference from 1993 to 2003.

Mr. SHA Pau, Eric, aged 61, has been the Independent Non-Executive Director of the Company since March 2006. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. SHA is the founder and is currently the managing director of Konda Industries Limited, a special leather goods manufacturing and exporting firm. He has over 33 years of solid experience in international marketing field and specialises in corporate strategy formulation, overall management and marketing. Mr. SHA holds a bachelor's degree in arts from the University of Windsor, Ontario, Canada.

Mr. HO Kwan Tat, Ted, aged 54, has been the Independent Non-Executive Director of the Company since December 2007. He is also the Chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. HO is a practising Certified Public Accountant in Hong Kong and is a partner of World Link CPA Limited. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has extensive experience in audit and taxation.

Mr. HO is the Independent Non-Executive Director of Midland Holdings since June 2017. Midland Holdings is a company listed on the main board of the Stock Exchange and the controlling shareholder (as defined under the Listing Rules) of the Company. He was the Independent Non-Executive Director of three companies listed on the main board of the Stock Exchange, namely, Suncorp Technologies Limited from March 2008 to May 2012, CIAM Group Limited (now known as FDG Kinetic Limited) from September 2004 to July 2008 and The Sun's Group Limited (now known as Silk Road Logistics Holdings Limited) from May 2007 to April 2008.

ALTERNATE DIRECTOR

Mr. CHU Kuo Fai, Gordon, aged 53, has been the alternate director to Mr. TSANG Link Carl, Brian since February 2012. Mr. CHU is currently a practising solicitor in Hong Kong and is a partner of Iu, Lai & Li Solicitors & Notaries, the legal adviser of the Company and Midland Holdings. Mr. CHU graduated from King's College London with an LLB Degree. He is also admitted to practise law in England and Wales, Australian Capital Territory, New York, Queensland and New South Wales.

The Board recognises that sound and effective corporate governance practices and procedures, with an emphasis on integrity, transparency, accountability and independence, are essential to enhance the shareholders' value and safeguard the shareholders' interest. The Company is committed to maintaining a good corporate governance standard and endeavors to ensure that its businesses are conducted in accordance with all applicable rules and regulations.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "Code") as stated in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

(i) Board Responsibilities and Delegation

The Board is responsible for the management of the Company, which includes, inter alia, formulating business strategies, directing and supervising the Company's affairs, approving interim and annual reports, announcements of interim and annual results, considering dividend policy, and approving the grant of share options or any change in the capital structure or notifiable transactions of the Company.

The daily management, administration and operation of the Group are delegated to the management of the Company. The Board gives clear directions to the management as to its powers and circumstances in which the management shall report to the Board.

All the directors of the Company (collectively the "Directors", each a "Director") have full and timely access to all relevant information and have access to the advice and services of the Company Secretary of the Company, with a view to ensuring that all proper Board procedures, applicable rules and regulations are followed. All the Directors including the Independent Non-Executive Directors may seek independent professional advice in appropriate circumstances at the Company's expense in carrying out their functions, upon making request to the Board.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed regularly.

(ii) Board Composition

The Board currently comprises eight Directors with three Executive Directors, two Non-Executive Directors (with an alternate for one Non-Executive Director) and three Independent Non-Executive Directors. The composition of the Board is set out as follows:

Non-Executive Directors
Mr. KAN Chung Nin, Tony *(Chairman)*
Mr. TSANG Link Carl, Brian *(with Mr. CHU Kuo Fai, Gordon as his alternate)*

Executive Directors
Ms. TANG Mei Lai, Metty
Ms. WONG Ching Yi, Angela
Mr. WONG Hon Shing, Daniel *(Chief Executive Officer)*

Independent Non-Executive Directors
Mr. YING Wing Cheung, William
Mr. SHA Pau, Eric
Mr. HO Kwan Tat, Ted

BOARD OF DIRECTORS (Continued)

(ii) Board Composition (Continued)

Save and except Ms. TANG Mei Lai, Metty is the mother of Ms. WONG Ching Yi, Angela, none of the members of the Board are related to one another. The biographical details of the Directors are set out in the section of "Profile of Directors" on pages 6 to 9 of this Annual Report.

Taking into account the knowledge, expertise and experience of the Directors, the Board considers that the Directors have balanced skills, experience and diversity of perspectives appropriate to the business and development of the Group.

(iii) Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer of the Company are separated.

Mr. KAN Chung Nin, Tony is the Chairman of the Company. The Chairman of the Company leads the Board and is responsible for ensuring that the Board functions effectively and acts in the best interests of the Company.

Mr. WONG Hon Shing, Daniel is the Chief Executive Officer of the Company. The Chief Executive Officer of the Company is responsible for formulating the corporate and business strategies and development, and the implementation of strategies and policies to achieve the overall objectives of the Group.

(iv) Board Meetings and Directors' Attendance

During the year ended 31 December 2018, the Board held five meetings to discuss and approve, inter alia, the interim and annual results and other significant issues of the Group. At least 14 days' notice of regular Board meetings is given to the Directors who are given the opportunity to include other matters in the agenda of meetings. Individual attendance records of each of the Directors at the respective Board, Board committees and general meetings are set out on page 16 of this Annual Report.

(v) Non-Executive Directors

Mr. KAN Chung Nin, Tony and Mr. TSANG Link Carl, Brian (with Mr. CHU Kuo Fai, Gordon as his alternate), all being the Non-Executive Directors, have been appointed for a specific term of one and a half years and one year respectively. Mr. HO Kwan Tat, Ted and Mr. SHA Pau, Eric, both the Independent Non-Executive Directors, have been appointed for a specific term of one and a half years whereas Mr. YING Wing Cheung, William, the Independent Non-Executive Director, has been appointed for a specific term of two years. They are all subject to retirement by rotation and shall be eligible for re-election at the Company's annual general meeting at least once every three years in accordance with the articles of association of the Company.

Throughout the year ended 31 December 2018 and up to the date of this Annual Report, the Board has at all times met the requirements under Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise and the requirements under Rule 3.10A of the Listing Rules relating to the appointment of the independent non-executive directors representing at least one-third of the board. The Board has received from each Independent Non-Executive Director an annual written confirmation of his independence in accordance with Rule 3.13 of the Listing Rules and considered that all the Independent Non-Executive Directors are independent.

(vi) Nomination, Appointment and Re-election of Directors

All new appointment of Directors and nomination of Directors proposed for re-election at the annual general meeting are first considered by the Nomination Committee in accordance with the nomination policy. The Nomination Committee will assess the candidate or incumbent on criteria such as experience, skills, knowledge and time commitment to carry out the duties and responsibilities of Director. The recommendations of the Nomination Committee will then be put to the Board for decision. Details of the role and function as well as a summary of the work performed by the Nomination Committee are set out under the heading of "Nomination Committee" below.

BOARD OF DIRECTORS (Continued)

(vi) Nomination, Appointment and Re-election of Directors (Continued)

In accordance with the Company's articles of association, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation but are eligible for re-election by shareholders at the annual general meeting provided that every Director is subject to retirement at least once every three years. If an Independent Non-Executive Director serves more than nine years, his further appointment should be subject to a separate resolution to be approved by the shareholders of the Company. All Directors appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

(vii) Directors' Training

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package comprising a summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and a publication entitled "A Guide on Directors' Duties" issued by the Companies Registry to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretarial Department of the Company reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors and may provide them with written materials, where appropriate, as well as organises seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

During the year, the Directors have read the training materials and attended training webcasts covering topics on guidance for boards and directors and consultation conclusions on review of the Corporate Governance Code and related Listing Rules. A summary of the record of training received by the Directors during the year is as follows:

	Training on guidance for boards and directors, consultation conclusions on review of the Corporate Governance Code and related Listing Rules, and/or other relevant topics
Non-Executive Directors	
Mr. KAN Chung Nin, Tony	✔
Mr. TSANG Link Carl, Brian	✔
Mr. CHU Kuo Fai, Gordon	✔
(alternate director to Mr. TSANG Link Carl, Brian)	
Executive Directors	
Ms. TANG Mei Lai, Metty	✔
Ms. WONG Ching Yi, Angela	✔
Mr. WONG Hon Shing, Daniel	✔
Independent Non-Executive Directors	
Mr. YING Wing Cheung, William	✔
Mr. SHA Pau, Eric	✔
Mr. HO Kwan Tat, Ted	✔

BOARD COMMITTEES

The Board has established Board committees, including the Executive Committee, Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee, for overseeing the respective aspects of the Group's affairs.

The Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice at the Company's expense in appropriate circumstances.

(i) Executive Committee

The Executive Committee mainly operates as a general management committee with delegated authority from the Board. It has the authority delegated by the Board to approve matters relating to the daily operations and management and business affairs of the Group. The Board reserves the power to make broad policy decisions and approve important corporate actions. The Executive Committee comprises three members including Ms. TANG Mei Lai, Metty, Ms. WONG Ching Yi, Angela and Mr. WONG Hon Shing, Daniel, all being the Executive Directors.

(ii) Audit Committee

As at the date of this Annual Report, the Audit Committee is chaired by Mr. HO Kwan Tat, Ted, with two other members, namely Mr. YING Wing Cheung, William and Mr. SHA Pau, Eric, all being the Independent Non-Executive Directors. Mr. HO Kwan Tat, Ted is a practising certified public accountant with extensive experience and expertise in auditing and taxation.

The Audit Committee is mainly responsible for, inter alia, reviewing the Group's financial statements including the interim and annual results and reports, the effectiveness of the Group's financial controls and internal control system and reviewing the Group's financial and accounting policies and practices. The Audit Committee makes recommendation to the Board on the selection and remuneration of the external auditor, and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The written terms of reference of the Audit Committee setting out its roles and responsibilities are available on the websites of the Company and the Stock Exchange.

During the year, two Audit Committee meetings were held to review the interim and annual reports with relevant announcements and financial statements, consider the reports from PricewaterhouseCoopers on the interim review of the financial information and the annual audit of the financial statements, review the audit strategy, work scope, quality, fees and terms of engagement for audit and non-audit services from the external auditor and assess its independence, recommend the re-appointment of PricewaterhouseCoopers as the auditor based on its review and assessment, review the internal audit report and the report on risk management and monitor the implementation of the recommended actions as well as the effectiveness of the internal control and risk management systems, approve the internal audit plan, and review the continuing connected transactions and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions. External auditor of the Company were invited to attend and discuss at the Audit Committee meetings. There was no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditor of the Company.

For the year ended 31 December 2018, the Company had in place arrangement for stakeholders of the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters and the whistleblowing policy.

BOARD COMMITTEES (Continued)

(iii) Remuneration Committee

As at the date of this Annual Report, the Remuneration Committee is chaired by Mr. HO Kwan Tat, Ted, being the Independent Non-Executive Director, with four other members, namely Mr. KAN Chung Nin, Tony, Mr. WONG Hon Shing, Daniel, Mr. YING Wing Cheung, William and Mr. SHA Pau, Eric. Majority of the Remuneration Committee members are Independent Non-Executive Directors.

The Remuneration Committee is mainly responsible for, inter alia, reviewing and determining the remuneration packages of individual Executive Directors and senior management of the Company and recommending the remuneration of the Non-Executive Directors (including Independent Non-Executive Directors) to the Board for approval. The written terms of reference of the Remuneration Committee setting out its roles and responsibilities are available on the websites of the Company and the Stock Exchange.

The work of the Remuneration Committee during the year included reviewing and recommending the remuneration packages of the Directors to the Board for approval and reviewing the Group's overall remuneration. No Director or any of his/her associate was involved in deciding his/her own remuneration. During the year, one Remuneration Committee meeting was held.

The remuneration of the members of the senior management, being the Executive Directors, by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of person(s)
HK$0 – HK$1,000,000	2
HK$1,000,001 – HK$2,000,000	–
HK$2,000,001 – HK$3,000,000	–
HK$3,000,001 – HK$4,000,000	–
HK$4,000,001 – HK$5,000,000	1

Details of Directors' emoluments and five highest paid individuals during the year are set out in note 10 to the consolidated financial statements on pages 84 to 86 of this Annual Report.

(iv) Nomination Committee

As at the date of this Annual Report, the Nomination Committee is chaired by Mr. KAN Chung Nin, Tony, being the Non-Executive Director, with four other members, namely Mr. WONG Hon Shing, Daniel, Mr. YING Wing Cheung, William, Mr. SHA Pau, Eric and Mr. HO Kwan Tat, Ted. Majority of the Nomination Committee members are Independent Non-Executive Directors.

The Nomination Committee is mainly responsible for, inter alia, formulating and reviewing the nomination policy, making recommendations to the Board on the nomination, appointment and re-appointment of Directors and Board succession, and assessing the independence of the Independent Non-Executive Directors. In order to achieve a balanced and appropriately qualified Board, the Nomination Committee is also responsible for reviewing the structure, size and composition, including the skills, knowledge, diversity and experience, of the Board, and advising the Board as to any changes that may be required. The Nomination Committee has the authority given by the Board to seek external professional advice in the selection and recommendation for directorship, if necessary, to fulfil the requirements for professional knowledge and industry experience of any proposed candidates. The written terms of reference of the Nomination Committee setting out its roles and responsibilities are available on the websites of the Company and the Stock Exchange.

BOARD COMMITTEES (Continued)

(iv) Nomination Committee (Continued)

The work of the Nomination Committee during the year included reviewing the structure, size and composition of the Board, assessing the independence of the Independent Non-Executive Directors, making recommendation to the Board on the re-election of the retiring Directors, reviewing the board diversity policy and making recommendation to the Board for approval on the renewal of terms of appointment of Directors. During the year, one Nomination Committee meeting was held.

The Company has adopted a nomination policy which sets out the nomination procedures and process and selection criteria when the Nomination Committee considers candidates to be appointed or re-elected as Directors.

The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. As such, the Company adopted a board diversity policy in August 2013. A diverse Board will include differences in the talents, skills, knowledge, regional, industry and professional experience, cultural and educational background, race, age, gender and other qualities of the members of the Board. Selection of candidates is based on a range of diversity perspectives. The ultimate decision is based on merit and contribution which would be brought by the candidates to the Board if he/she were selected as a Director. The Nomination Committee is of the view that the current composition of the Board has achieved the objectives set in the above board diversity policy.

(v) Risk Committee

The Risk Committee was established on 1 January 2016 with written terms of reference available on the website of the Company. The Risk Committee is chaired by Mr. WONG Hon Shing, Daniel, being the Chief Executive Officer and Executive Director of the Company, with three other members, being the Chief Legal Counsel, the Chief Financial Officer and the head of the Internal Audit Department.

The Risk Committee held two meetings in 2018. During the year, the Risk Committee received report on the results of the review of the risk management system and framework, discussed the measures to manage those identified risks which may have significant impact to the Group, and review the effectiveness of the risk management system and framework.

The principal role and responsibilities of the Risk Committee include reviewing the Group's risk management system and framework, advising the Board on the current risk exposures of the Group and future risk strategy and considering emerging risks relating to the Group's business and strategies.

ATTENDANCE RECORDS AT THE BOARD, BOARD COMMITTEES AND GENERAL MEETINGS

The attendance records of the individual Directors at the Board, Audit Committee, Remuneration Committee, Nomination Committee, Risk Committee and general meetings for the year ended 31 December 2018 are set out below:

	Number of Meetings Attended/Held							
Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Annual General Meeting	Extraordinary General Meeting Held on 13 February 2018	Extraordinary General Meeting Held on 3 December 2018
Non-Executive Directors								
Mr. KAN Chung Nin, Tony	5/5	N/A	1/1	1/1	N/A	1/1	1/1	1/1
Mr. TSANG Link Carl, Brian	2/2	N/A	N/A	N/A	N/A	0/1	0/1	0/1
Mr. CHU Kuo Fai, Gordon *(alternate director to Mr. TSANG Link Carl, Brian)*	3/3	N/A	N/A	N/A	N/A	0/1	0/1	0/1
Executive Directors								
Ms. TANG Mei Lai, Metty	5/5	N/A	N/A	N/A	N/A	1/1	0/1	1/1
Ms. WONG Ching Yi, Angela	5/5	N/A	N/A	N/A	N/A	1/1	1/1	1/1
Mr. WONG Hon Shing, Daniel	5/5	N/A	1/1	1/1	2/2	1/1	1/1	1/1
Independent Non-Executive Directors								
Mr. YING Wing Cheung, William	5/5	2/2	1/1	1/1	N/A	1/1	1/1	1/1
Mr. SHA Pau, Eric	5/5	2/2	1/1	1/1	N/A	1/1	1/1	1/1
Mr. HO Kwan Tat, Ted	4/5	2/2	1/1	1/1	N/A	1/1	1/1	1/1

Note: Other members of the Risk Committee are not Directors.

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.

DIRECTORS' INTERESTS

Details of Directors' interests in the shares, underlying shares and debentures of the Company and its associated corporation are set out in the Report of the Directors on pages 33 to 34 of this Annual Report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibility for preparation of consolidated financial statements which give a true and fair view of the Group's state of affairs as at 31 December 2018 and of the Group's results and cash flows for the year ended 31 December 2018. In preparing the consolidated financial statements for the year ended 31 December 2018, the Directors selected suitable accounting policies and applied them consistently, and made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The reporting responsibilities of the independent auditor of the Company on the 2018 consolidated financial statements of the Group are set out in the "Independent Auditor's Report" on pages 45 to 49 of this Annual Report.

CORPORATE GOVERNANCE FUNCTION

In order to achieve enhanced corporate governance of the Company, the Board has undertaken and delegated to the Executive Committee to constantly review the Company's policies and practices on corporate governance, the training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the code of conduct and compliance manual applicable to employees and the Directors, and the Company's compliance with the Code and disclosure in this Corporate Governance Report. During the year, the Executive Committee performed the duties relating to corporate governance matters as aforementioned.

AUDITOR'S REMUNERATION

The remuneration payable or paid to the Group's independent external auditor, PricewaterhouseCoopers, in respect of audit and non-audit services provided to the Group for the year ended 31 December 2018 amounted to approximately HK$1,373,000 (2017: HK$906,000) and HK$1,026,000 (2017: HK$1,440,000) respectively. The non-audit services mainly include interim results review, taxation and professional services in relation to the acquisition of certain property interests of LMK Development Estate.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibilities for maintaining effective risk management and internal control systems of the Group and determining the nature and extent of the risks it is willing to take in achieving the Group's objectives, and such systems are designed to manage rather than eliminate those risks, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Risk Committee assists the Board in deciding the Group's risk level and risk appetite, considering the Group's risk management strategies and giving guidelines where appropriate, and ensuring the soundness and effectiveness of the Group's risk management system. The risk management process involves identification, analysis, evaluation, mitigation, reporting and monitoring of risks.

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

The Group's internal control system comprises, among others, a well-defined governance structure with clearly defined lines of responsibility and authority and relevant financial, operational and compliance controls, and risk management procedures are in place. The Executive Directors review monthly management reports and hold periodical meetings with senior operational and finance management to discuss business performance and market outlooks.

The Internal Audit Department of the Company reports directly to the Audit Committee and is independent of the Company's daily operation. It is responsible for conducting regular audit on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively.

The risks which may have significant impact to the Group were identified from internal and external environments and were managed properly. An annual review of the internal control and risk management systems of the Group for the year ended 31 December 2018 was conducted, and report on the results of the review and opinion were submitted to the Audit Committee and the Risk Committee. The Audit Committee and the Risk Committee reviewed the reports and followed up on the implementation of the action plan, and reported to the Board.

Based on the reports from the Audit Committee and the Risk Committee, the Board is satisfied with the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2018 as well as the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting function.

INSIDE INFORMATION

The Company has established the Inside Information Team to identify, assess and escalate potentially inside information for the attention of the Board and monitor the Group's disclosure obligations in respect of inside information. Policy and Procedures on Disclosure of Inside Information are adopted which set out the guidelines and controls to ensure the inside information can be disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations.

COMPANY SECRETARY

The Company engages an external service provider to provide company secretarial services and has appointed Ms. MUI Ngar May, Joel ("Ms. MUI") as its Company Secretary. Ms. MUI is not an employee of the Group and Mr. SZE Ka Ming, the Chief Financial Officer of the Company, is the person whom Ms. MUI can contact for the purpose of code provision F.1.1 of the Code. Ms. MUI undertook over 15 hours of professional training during the year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company is committed to ensuring that the Group shall comply with disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors of the Company have opportunities to receive and obtain information issued by the Company. Information has been provided to the shareholders regularly which includes annual and interim reports, circulars and announcements in accordance with the applicable laws and regulations.

Pursuant to the Listing Rules, voting by poll has become mandatory on all resolutions (except resolutions relate purely to procedural or administrative matters) put forward at general meetings and the poll results will be posted on the websites of the Stock Exchange and the Company. Notice to shareholders will be sent in the case of annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings in accordance with the Code.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

The Company provides an opportunity for its shareholders to seek clarification and to obtain a better understanding of the Group's performance in general meetings of the Company. The Company acknowledges that general meetings are good communication channels with its shareholders. The Company welcomes the attendance of its shareholders at general meetings to express their views. At the general meeting, each substantial issue will be considered by a separate resolution, including the re-election of individual retiring Directors, and the poll procedures will be clearly explained. The Chairman of the Board and the Board committees, and other Board members attend the annual general meeting to interact with, and answer questions from, the shareholders. The external auditor is also required to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the independent auditor's report, the accounting policies and auditor's independence.

To foster effective communications with shareholders and investors, the Company maintains a website at www.midlandici.com.hk where the Company's announcements, circulars, notices, financial reports, business development, corporate governance practices, latest memorandum and articles of association of the Company and other information are posted.

The 2018 annual general meeting of the Company was held on 6 June 2018. At the meeting, separate resolution was proposed by the chairman of the meeting in respect of each separate issue, including the re-election of individual retiring Directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The Chairman of the Board and other Board members as well as the representative of PricewaterhouseCoopers attended the 2018 annual general meeting and had effective communication with shareholders of the Company.

An extraordinary general meeting of the Company was held on 13 February 2018. At the meeting, a separate resolution proposed by the chairman of the meeting to approve, confirm and ratify the Target Companies Acquisition Agreements and the Properties Acquisition Agreements and all transactions contemplated thereunder as detailed in the notice of the meeting dated 23 January 2018. Another extraordinary general meeting of the Company was held on 3 December 2018. At the meeting, a separate resolution proposed by the chairman of the meeting in respect of each separate issue, to approve the Cross Referral Services Agreement (2018), the transactions thereunder, the new annual caps under the Cross Referral Services Agreement (2018) for the financial years ending 31 December 2019, 2020 and 2021 and to revise up the maximum annual amounts of referral fees expected to be paid/payable by the Group to Midland Group under the Cross Referral Services Agreement (2015) from HK$110 million to HK$130 million for the year ended 31 December 2018, and to authorise any director of the Company to execute the Cross Referral Services Agreement (2018) and any other agreements, documents and to do all acts and things in connection therewith and to approve the said revised annual cap, and to authorise any director of the Company to do all acts and things in connection therewith as detailed in the notice of the meeting dated 14 November 2018. The Chairman of the Board and all Independent Non-Executive Directors attended the above extraordinary general meetings and had effective communication with shareholders of the Company.

During the year, there were no changes to the memorandum and articles of association of the Company.

SHAREHOLDERS' RIGHTS

(i) Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

The Board shall, at all times, on the requisition in writing to the Board or the Company Secretary of the Company by one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)"), forthwith proceed to convene an EGM in accordance with the articles of association of the Company.

If within twenty-one days of such deposit, the Board fails to proceed to convene such EGM, the requisitionist(s) himself/herself/themselves may do so in accordance with the articles of association of the Company, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(ii) Procedures for Putting Forward Proposals at EGM

Eligible Shareholders who wish to require an EGM to be called by the Board for the purpose of making proposals at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal office of the Company in Hong Kong at Rooms 2505-8, 25th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong for the attention of "Manager, Company Secretarial Department".

The Requisition must state clearly the name(s) of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda of the EGM including the details of the business(es) proposed to be transacted at the EGM, and signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder(s) will be verified with the Company's Hong Kong branch share registrar. If the Requisition is found to be proper and in order, the Board will convene an EGM within two months and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not convene an EGM and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder at the EGM.

The procedures for a shareholder of the Company to propose a person for election as a Director is posted on the website of the Company.

(iii) Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited. Shareholders and the investment community may during office hours make a request for the Company's information to the extent that such information is publicly available. Shareholders may also send their enquiries and concerns to the Board by addressing them to the Investor Relations Department by post at Rooms 2505-8, 25th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong or by email to investor@midlandici.com.hk.

Awarded caring company title for 12 consecutive years

The Company has devoted itself to charitable causes and has been awarded the Caring Company Logo by The Hong Kong Council of Social Service in recognition of its unremitting efforts in promoting corporate caring for the 12th year in a row.

Honoured with Happy Workplace Award for 3 consecutive years

The company has been recognised by the Hong Kong Productivity Council with Happy Workplace Award for 3 consecutive years for maintaining a pleasant working environment together with our employees.

Calendar charity sale

The company has been very supportive towards social welfare activities. Last year, the company organised a calendar charity sale event with The Salvation Army Shek Wu School, and donated all the net income to the school for special education purpose to help the underprivileged students get better education.

Honoured with Partner Employer Award for 6 consecutive years

The Company was honoured with the Partner Employer Award by The Hong Kong General Chamber of Small and Medium Businesses and the Vocational Training Council for the 6th consecutive year, in recognition of its dedicated commitment to offering employment and internship opportunities to youngsters of local universities and vocational institutions so as to nurture talents and help them to develop their career paths.

Leprosy hospital volunteer visit

The volunteer team has been formed for years with an aim to help the underprivileged of the society as initiatives to giving back to the community. The volunteer team has headed to Guangzhou to share love and care with seniors at Taihe Zhenzhou Dermatology Hospital.

Awarded family-friendly employers for 3 consecutive years

With a mission to help employees achieve "work-family" balance, the Company has implemented Family-friendly Employment Practices policy, offering various employee benefits and activities including family-care leave, parent-child classes and supporting breastfeeding, to show care and love to the employees and their families in order to enhance their sense of belonging to the Company.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules and covers the reporting period from 1 January 2018 to 31 December 2018.

ENVIRONMENT

Emissions

Greenhouse gas emissions are an important factor to cause climate change. In order to avoid the acceleration of global warming, the Group has developed environmental policies to reduce the greenhouse gas emissions in our daily operations, including:

Business Trip Reduction Policy

Employees are encouraged to use long-distance telephone calls, video conference and other online communication tools to reduce and substitute business trips, which help to prevent the aggravation of air pollution.

Support Local Supplier Sourcing Policy

Preferences will be given to those local suppliers who are able to meet our standards. In the procurement process, items to be purchased will be consolidated to minimize shipment frequency, which help to lower vehicle emissions.

Indoor Air Quality Policy

Controlling the source of gas emissions is the most direct and effective way to improve indoor air quality. The Group places the photocopiers at a distance from the working area of our employees and arrange regular cleaning for air-conditioners and air filters as well as providing air purifiers to enhance energy efficiency.

The Group has implemented the quantification methodologies for carbon emission. The greenhouse gas emission from three offices of the Group was audited in accordance with the standard of ISO14064-1:2006. With the confirmation of the independent verification body, the direct and energy indirect greenhouse gas emission of three offices of the Group during the reporting period was 184.48 tonnes of CO_2e, with most of the emission from consumption of electricity. We will continuously monitor the greenhouse gas emission and implement the environmental measures.

Resources	Emission (2018)	Emission (2017)
Greenhouse gas		
Direct emission	0 tonnes of CO_2e	0 tonnes of CO_2e
Energy indirect emission	184.48 tonnes of CO_2e	191.69 tonnes of CO_2e

Waste Policy

The Group has engaged a designated paper recycling company that specialises in paper recycling and works with suppliers to recycle toner cartridges. We will continue to implement recycling policies and encourage employees to use the facilities for waste sorting. During the reporting period, no hazardous waste and emissions were produced by the Group. The refuse generated from the daily operation was handled by qualified contractor.

ENVIRONMENT (Continued)

Use of Resources

Multiple energy conservation measures are implemented to preserve resources, including:

Electricity Saving Measure

- Use energy-efficient products, such as LED lights, sensor switch devices and T5/T8 light tubes
- Maximize the use of natural light and use proper zoning measure so that idle lighting and air-conditioning systems can be turned off
- Painting the walls and ceilings with lighter colour to enhance reflectivity and lighting efficiency
- Automatic turn off of unused electrical appliances at the preset time
- Install timers to properly control the operating time of external lightings and electrical equipment in the branches

Reduction of Paper Consumption

- Maximize the use of electronic means to keep record
- Remind employees of double-sided printing

Water Conservation Measure

- Remind employees to conserve water by posting signs in the pantry

Sustainable Procurement

- Preference will be given to office equipment with relatively high energy efficiency
- Purchase papers certified

Maximization of Resources

- Recycle branch/office stationery
- Recycle devices and equipment to reduce waste

No packaging materials were used in the general operations of the Group. During the reporting period, the electricity and water consumption of the premises of the Group in Hong Kong are as follows:

Resources	Consumption (2018)	Consumption (2017)
Electricity	1,731,676 kWh	1,695,128 kWh
Water	1,684 m^3	235 m^3

The Group believes the implementation of the above measures will raise our employees' awareness of saving energy and water.

Environment and Natural Resources

The Group is committed to support green activities. The Group signed the "Charter on External Lighting" in 2016 promising to switch off the outdoor lighting at preset time to reduce light pollution.

SOCIETY

Employment

In addition to complying with employment related ordinances such as Employment Ordinance, Minimum Wage Ordinance, Personal Data (Privacy) Ordinance, the ordinances relating to disability, sex, family status and race discrimination as well as the ordinance relating to occupational safety and health, the Group has also developed employment policies to ensure equal treatment to our employees.

Regarding the policy on recruitment and promotion, the Group upholds the principle of equality and strives to provide an equal and harmonious working environment. Decision on recruitment and promotion is made by reference to the experience, performance, and other relevant factors and will not take into account the family status, gender, age or race.

Apart from providing employees with mandatory provident fund scheme and labour insurance in accordance with the laws, the Group also has relief policy for employees and their families in case of severe illness and death of employees.

The Group provides employees with competitive remuneration packages by reference to the market trend, individual performance, experience and competence. In addition, the Group awards discretionary bonus or profit-related incentives to eligible employees based on the performance of the employees. In order to reward the employees' hard work and contribution, enhance their sense of belonging and establish harmonious working environment, the Group organises different activities for staff and also provides various welfares, including:

- Medical plan;
- Trip allowance;
- Mobile phone allowance;
- Examination leave;
- Birthday leave;
- Compassionate leave;
- Marriage leave;
- Volunteer leave;
- Family care leave;
- Extra maternity leave;

SOCIETY (Continued)

Employment (Continued)

- Employee discount on sale, purchase or leasing of properties;
- Training sponsorship;
- Benefits for senior employees; and
- Motivational Campaign – sponsorship employee activities.

Health and Safety

The Group attaches great importance to occupational safety and health of employee and is committed to provide comfortable and safe working environment and raise the employee's awareness on occupational safety and health, including:

- Conduct risk assessment for the workplace on a regular basis and take appropriate measures to minimize the risk; and
- Implement dress code for outdoor work when the Very Hot Weather Warning is in force to reduce the risk of sunstroke.

As a responsible employer, the Group has provided all our employees with personal accident insurance, insurance for overseas business travel and employee compensation insurance.

Development and Training

The Group regards employees as invaluable assets. The Group provides specific trainings for employees of different ranks, and offers career development planning for potential employees, including the "Elite Army" for frontline staff and back office staff of officer grade, "PTU Plan" for back office staff of assistant grade, and "Train the Trainers Plan" to facilitate the passing of skills from experienced frontline staff. The Group also provides subsidies to support employees' participation in external trainings, professional qualification applications and examinations with the aim to equip the employees to deal with the changing business environment.

Labour Standards

The principle of the Group's labour standards is to comply with the local labour laws. According to the human resources statistics of the Group, in order to uphold children's rights of safety and health, no employee aged 15 or under was employed during the reporting period. The Group founded "Motivational Campaign" which regularly provides benefits to employees and organizes activities such as football, basketball, marathon, various interesting classes and workshops. It offers the employees with opportunities to socialize, have better understandings and communications between departments, foster the spirit of teamwork and create a pleasant working atmosphere.

Supply Chain Management

In selecting general materials or service providers, the Group will screen through the tendering process and give priority to suppliers who are able to supply environmental friendly products. The Group will monitor the performance of suppliers, such as cleaning companies and office equipment companies, through different channels every year, and regularly assess whether the supplier's environmental and social risk policy performance meets our standards.

SOCIETY (Continued)

Product Responsibility

The Group's key customers are property purchasers, vendors, landlords and tenants. The Group considers customers as a major stakeholder, and requires all the frontline staff to provide customers with accurate market information in a professional manner. The Group continues to develop and enhance the customer - centric and holistic sales platform, and aims to improve user experience through customer review and diversified social and digital platforms. Mystery shoppers also conduct inspections in order to improve customer service standard.

The Group also established a customer relationship team. Customers can send their comment via hotline, email, mail or visiting. The customer relationship team will work and follow up with the relevant parties in arriving at reasonable solutions. The results and follow-up process will be documented by the customer relationship team.

Anti-corruption

To ensure operation efficiency and employees' development in a fair and honest working environment, the Group has formulated policies, established procedures for declaration and reporting of conflict of interest and provided channel for employees to report internal misconduct. The Group has also appointed a specific department to handle and investigate the relevant matters.

Community Investment

The Group participates in community activities that help establish positive image of the industry and the Group. The cooperating entities include non-profit organizations, universities, colleges and secondary schools. The Group would evaluate the activity objectives, number of beneficiaries, participation frequencies and hours, and number of employees participated after each activity to determine the community event plan of the coming year.

During the reporting period, the Group has participated in various community activities, details of which are set out in the section headed "Corporate Social Responsibility Report" of this Annual Report.

AWARDS AND ACHIEVEMENTS

During the reporting period, the Group received many awards and achievements, details of which are set out in the section headed "Major Events and Awards for the Year" of this Annual Report.

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

Details of the analysis of the Group's performance for the year ended 31 December 2018 by operating segments are set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 50 of this Annual Report.

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

DIVIDEND POLICY

The Company has adopted a dividend policy which to deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others, the operating results, cash flow, financial condition and capital requirements of the Group and the interests of the shareholders of the Company.

BUSINESS REVIEW

A fair review of the business of the Group and particulars of important events affecting the Group that have occurred since the end of the financial year 2018 as well as discussion on the future business development of the Group are provided in the Letter from Chief Executive Officer on pages 4 to 5 and the Management Discussion and Analysis on pages 43 to 44 of this Annual Report. Description of the principal risks and uncertainties facing by the Group can be found in the Letter from Chief Executive Officer on pages 4 to 5 and note 5 to the consolidated financial statements on pages 72 to 76 of this Annual Report. An analysis using financial key performance indicators can be found in the Management Discussion and Analysis on pages 43 to 44 of this Annual Report. A discussion of the Group's environmental policies and performance is provided in the Environmental, Social and Governance Report on pages 23 to 27 of this Annual Report. The above sections form part of this report.

In addition, discussions on the relationships with its key stakeholders and compliance with the relevant laws and regulations which have a significant impact on the Group are provided in the paragraphs below.

BUSINESS REVIEW (Continued)

Relationships with key stakeholders

The Group maintains good relationship with its key stakeholders, which include employees, customers and shareholders.

Employees

The Group considers its employees as important and valuable assets, and is committed to providing a pleasant working environment and promoting work-life balance. In this regard, the Group has implemented various policies, ranging from casual wear day, birthday and family-care holiday, to organising various leisure activities for its employees from time to time.

The Group believes that communication is important in building up good relationship between management and employees. The management issues regular newsletters which are circulated to the employees through intranet. The Group also encourages employees to provide suggestions to the Group through various platforms.

Customers

The Group's main customers are purchasers, vendors, landlords and tenants of properties. The Group considers customers as a major stakeholder and is committed to providing comprehensive and high quality customer services.

Shareholders

The Group is committed to enhancing the shareholders' value and safeguarding the shareholders' interest through sound and effective corporate governance practices and procedures. Further discussion of the corporate governance practices and procedures is set out in the Corporate Governance Report on pages 10 to 20 of this Annual Report.

Compliance with the relevant laws and regulations

As one of the principal activities of the Group is provision of estate agency services, the Group takes particular care to comply with the requirements of the Estate Agents Ordinance. The Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance and the guidelines issued by the Office of the Privacy Commissioner for Personal Data. To ensure the compliance with the applicable laws and regulations, the Group conducts regular training sessions for its staff, sets out guidelines and issues internal circulars to its staff from time to time.

In relation to human resources, the Group is committed to complying with employment related ordinances, such as the Employment Ordinance, the Minimum Wage Ordinance, the Personal Data (Privacy) Ordinance, the ordinances relating to disability, sex, family status and race discrimination as well as the ordinance relating to occupational safety and health.

On the corporate level, the Company is committed to complying with the requirements under the Listing Rules and the SFO such as disclosure of information and corporate governance. The Company has complied with the code provisions set out in the Code throughout the year ended 31 December 2018. 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.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 23 and note 33 to the consolidated financial statements respectively.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$337,000 (2017: HK$353,000).

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 17 to the consolidated financial statements. Details of the properties held for investment purposes are set out on page 111 of this Annual Report.

SHARE CAPITAL

Details of the movement of the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there are no restrictions against such rights under the applicable laws of the Cayman Islands.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the reserves of the Company available for distribution to shareholders comprised the share premium, contributed surplus and retained earnings which in aggregate amounted to HK$1,257,394,000 (2017: HK$1,264,389,000). Under the Companies Law of the Cayman Islands, the share premium of the Company may be applied for paying distributions or dividends to shareholders subject to the provisions of the Company's articles of association and provided that immediately following the payment of distributions or dividends, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 112 of this Annual Report.

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.

BOARD OF DIRECTORS

The Directors who held office during the year ended 31 December 2018 and up to the date of this report are as follows:

Non-Executive Directors
Mr. KAN Chung Nin, Tony *(Chairman)*
Mr. TSANG Link Carl, Brian *(with Mr. CHU Kuo Fai, Gordon as his alternate)*

Executive Directors
Ms. TANG Mei Lai, Metty
Ms. WONG Ching Yi, Angela
Mr. WONG Hon Shing, Daniel *(Chief Executive Officer)*

Independent Non-Executive Directors
Mr. YING Wing Cheung, William
Mr. SHA Pau, Eric
Mr. HO Kwan Tat, Ted

Mr. WONG Hon Shing, Daniel, Mr. YING Wing Cheung, William and Mr. HO Kwan Tat, Ted shall retire by rotation at the forthcoming annual general meeting of the Company (the "AGM") in accordance with Article 87 of the articles of association of the Company and, being eligible, shall offer themselves for re-election.

The Company received from all Independent Non-Executive Directors annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all Independent Non-Executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this Annual Report, no transactions, arrangements and contracts that are significant in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its parent company was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his or her duty, or supposed duty, in his or her office provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to him or her. The Company has arranged directors and officers liability insurance for the directors of the Group.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company and the Acquisition Agreement (as hereinafter defined), no equity-linked agreements that will or may result in the Company issuing shares nor requiring the Company to enter into an agreement that will or may result in the Company issuing shares was entered into by the Company during the year or subsisted at the end of the year.

Details of the share option scheme of the Company are set out in the section headed "SHARE OPTION SCHEME" in this report.

Pursuant to the acquisition agreement entered into on 10 January 2017 among Beyond Summit Investments Limited, a wholly-owned subsidiary of the Company, the purchaser and Mr. WONG Kin Yip, Freddie, being the chairman and executive director of Midland Holdings as well as the spouse of Ms. TANG Mei Lai, Metty and the father of Ms. WONG Ching Yi, Angela, the seller (the "Acquisition Agreement"), zero coupon convertible note due 2021 in principal amount of HK$200 million at initial conversion price of HK$0.046 (before the effect of share consolidation) per share were issued. The maximum number of shares to be issued upon conversion is 434,782,608 shares (after the effect of share consolidation) and none of them was issued up to 31 December 2018. Details of the convertible note are set out in the Company's announcements dated 10 January 2017 and 22 March 2017 and the Company's circular dated 17 February 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest/ Capacity	Number of ordinary shares	Number of underlying shares	Total	Approximate percentage of the issued voting shares of the Company
Ms. TANG Mei Lai, Metty	Family interest/ Interest of spouse	527,697,680 *(Note 1)*	434,782,608 *(Note 2)*	962,480,288	53.31%
Mr. WONG Hon Shing, Daniel	Personal interest/ Beneficial owner	2,000,000	1,500,000 *(Note 3)*	3,500,000	0.19%
Mr. YING Wing Cheung, William	Personal interest/ Beneficial owner	300,000	–	300,000	0.02%

Notes:

1. Part of these shares was held directly, and the rest of these shares was held indirectly by Mr. WONG Kin Yip, Freddie, the spouse of Ms. TANG Mei Lai, Metty, as ultimate beneficial owner.

2. Such interests in underlying shares (being unlisted physically settled derivatives) represent 434,782,608 ordinary shares to be issued to Wealth Builder, a company indirectly wholly owned by Mr. WONG Kin Yip, Freddie, upon exercise of the conversion right attached to the convertible note due 2021 in principal amount of HK$200 million at conversion price of HK$0.46 per share issued by the Company pursuant to the Acquisition Agreement.

3. These underlying shares were held by Mr. WONG Hon Shing, Daniel by virtue of the interests in the share options of the Company granted to him. Details of his share options granted by the Company are set out in the section headed "SHARE OPTION SCHEME" in this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(ii) Long positions in the shares and underlying shares of the associated corporation of the Company

		Number of ordinary shares				
Name of associated corporation	Name of Director	Personal interest/ Beneficial owner	Corporate interest/ Interest of controlled corporation	Family interest/ Interest of spouse	Total	Approximate percentage of the issued voting shares of associated corporation
Powerful Surge Group Limited ("PSGL")	Ms. WONG Ching Yi, Angela	5	–	–	5	5%

Save as disclosed above, as at 31 December 2018, neither the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the substantial shareholders and other persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Number of ordinary shares/ underlying shares	Holding capacity/ Nature of interest	Approximate percentage of the issued voting shares of the Company
Midland Holdings	610,976,997 *(Note 1)*	Interest of controlled corporation/ Corporate interest	33.84%
Valuewit	610,976,997 *(Note 1)*	Beneficial owner/Beneficial interest	33.84%
Luck Gain	869,565,216 *(Note 2)*	Interest of controlled corporation/ Corporate interest	48.17%
Wealth Builder	869,565,216 *(Note 2)*	Beneficial owner/Beneficial interest	48.17%
Mr. WONG Kin Yip, Freddie *(Note 5)*	12,245,000 *(Note 3)*	Beneficial owner/Beneficial interest	0.68%
	950,235,288 *(Note 4)*	Interest of controlled corporation/ Corporate interest	52.63%

Notes:

1. Midland Holdings was deemed to be interested in the 610,976,997 ordinary shares held by its indirectly wholly-owned subsidiary, Valuewit, under the SFO.

2. Luck Gain, which is directly wholly-owned by Mr. WONG Kin Yip, Freddie, was deemed to be interested in the 434,782,608 ordinary shares and 434,782,608 underlying shares held by its directly wholly-owned subsidiary, Wealth Builder under the SFO. Such interests in underlying shares (being unlisted physically settled derivatives) represent 434,782,608 ordinary shares to be issued to Wealth Builder upon exercise of the conversion right attached to the convertible note due 2021 in principal amount of HK$200 million at conversion price of HK$0.46 per share issued by the Company pursuant to the Acquisition Agreement.

3. Such long position includes interests in ordinary shares only.

4. Mr. WONG Kin Yip, Freddie was deemed to be interested in the (i) 80,670,072 ordinary shares held by Sunluck Services Limited which is indirectly wholly-owned by Mr. WONG Kin Yip, Freddie through his directly wholly-owned company, namely Southern Field Trading Limited; and (ii) 434,782,608 ordinary shares and 434,782,608 underlying shares held by Wealth Builder as mentioned in note 2 above, under the SFO. As at the date of the publication of this report, Mr. WONG Kin Yip, Freddie is also deemed to be interested in the 610,976,997 ordinary shares in the Company indirectly held by Midland Holdings under the SFO.

5. The 527,697,680 ordinary shares and 434,782,608 underlying shares held by Mr. WONG Kin Yip, Freddie relate to the same block of shares and underlying shares of the Company as disclosed under Ms. TANG Mei Lai, Metty in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES".

Save as disclosed above, as at 31 December 2018, no other substantial shareholders or persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

At the Company's extraordinary general meeting held on 19 September 2008, the Share Option Scheme was adopted by the Company and approved by its shareholders. The Share Option Scheme had expired on 18 September 2018.

The major terms of the Share Option Scheme are summarised as follows:

(a) Purposes of the Share Option Scheme

The principal purposes of the Share Option Scheme are to enable the Group and any entity in which any member of the Group holds an equity interest ("Invested Entity") to recruit and retain high calibre eligible persons and attract human resources that are valuable to the Group or Invested Entities, to recognise the contributions of the eligible persons to the growth of the Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to motivate and to give incentives to these eligible persons to continue to contribute to the long term success and prosperity of the Group or Invested Entities.

(b) Participants of the Share Option Scheme

The Board may invite any eligible person as the Board may in its absolute discretion select, having regard to each person's qualifications, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Group or Invested Entity, to take up the options under the Share Option Scheme.

"eligible person" means any employee (whether full time or part time), senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of the Company, any of its affiliates or any Invested Entity, or any of their respective associates or chief executives or substantial shareholder who, as determined by the Board, has contributed or will contribute to the growth and development of the Group or any Invested Entity.

(c) Total number of shares available for issue

The total number of shares available for issue for all outstanding options as at the date of this Annual Report is 11,500,000 (after the effect of share consolidation), representing approximately 0.64% of the issued shares of the Company. Since the Share Option Scheme had expired on 18 September 2018, no more option had been granted from that date.

(d) Maximum entitlement of each eligible person

The maximum number of shares issued and to be issued upon exercise of the options granted to each eligible person under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue.

Any further grant of share options in excess of the above-mentioned limit shall be subject to separate approval by the shareholders of the Company and, for so long as the Company remains a subsidiary of Midland Holdings, the shareholders of Midland Holdings at their respective general meeting with such eligible person and his or her associates abstaining from voting, other requirements prescribed under the Listing Rules and/or other applicable statutory regulations or rules which must be complied with.

SHARE OPTION SCHEME (Continued)

(e) Maximum entitlement of each eligible person who is a connected person

The maximum number of shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme(s) of the Company to each eligible person who is an independent non-executive director or a substantial shareholder of the Company or, for so long as the Company remains a subsidiary of Midland Holdings, of Midland Holdings, or any of their respective associates, in any 12-month period shall not exceed 0.1% of the total number of shares of the Company in issue and an aggregate value which based on the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of each grant shall not exceed HK$5,000,000.

Any further grant of share options in excess of the above-mentioned limit shall be separately approved by the shareholders of the Company and, for so long as the Company remains a subsidiary of Midland Holdings, by the shareholders of Midland Holdings with all connected persons of the Company and, for so long as the Company remains a subsidiary of Midland Holdings, of Midland Holdings abstaining from voting at their respective general meetings, except that any connected person may vote against the relevant resolution at the general meeting(s) provided that his or her intention to do so has been stated in the circular(s) to be sent to the relevant shareholders, and subject to other requirements prescribed under the Listing Rules and/or other applicable statutory regulations or rules which must be complied with.

(f) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period within which the option shall be exercised, to be notified by the Board to each eligible person who accepts an offer in accordance with the terms of the Share Option Scheme, provided that it shall commence on a date not more than ten years from the date of grant.

(g) Acceptance of offer

An offer for the grant of an option made by the Company must be accepted within ten business days from the day on which such offer is made. The amount payable to the Company on acceptance of the offer for the grant of an option is HK$1.

(h) Basis of determining the exercise price

The exercise price of an option to subscribe for shares granted under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an eligible person but shall not be less than the highest of:

(i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

(iii) the nominal value of a share of the Company.

(i) Remaining life of the Share Option Scheme

The Share Option Scheme became effective on 19 September 2008 and had remained in force for a period of ten years from the date of adoption and had expired on 18 September 2018.

The terms of the Share Option Scheme for those outstanding share options already granted under the Share Option Scheme remain in force.

SHARE OPTION SCHEME (Continued)

Movements in the outstanding share options of the Company granted under the Share Option Scheme during the year were as follows:

Name	Date of grant	Exercise price per share HK$	Number of share options: Balance outstanding as at 1 January 2018	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	Balance outstanding as at 31 December 2018	Exercisable period
Director of the Company								
Mr. WONG Hon Shing, Daniel	10 December 2014	0.44	500,000	–	–	–	500,000	15 December 2014 to 14 December 2019
	10 December 2014	0.44	500,000	–	–	–	500,000	15 December 2015 to 14 December 2019
	10 December 2014	0.44	500,000	–	–	–	500,000	15 December 2016 to 14 December 2019
Other participants								
Directors of Midland Holdings								
Mr. WONG Tsz Wa, Pierre	10 December 2014	0.44	3,000,000	–	–	–	3,000,000	15 December 2014 to 14 December 2019
	10 December 2014	0.44	3,000,000	–	–	–	3,000,000	15 December 2015 to 14 December 2019
	10 December 2014	0.44	3,000,000	–	–	–	3,000,000	15 December 2016 to 14 December 2019
Mr. CHEUNG Kam Shing	10 December 2014	0.44	500,000	–	–	–	500,000	15 December 2015 to 14 December 2019
	10 December 2014	0.44	500,000	–	–	–	500,000	15 December 2016 to 14 December 2019
Ms. IP Kit Yee, Kitty* *(Former Non-Executive Director)*	10 December 2014	0.44	333,000	–	333,000	–	–	15 December 2014 to 14 December 2019
	10 December 2014	0.44	333,000	–	333,000	–	–	15 December 2015 to 14 December 2019
	10 December 2014	0.44	334,000	–	334,000	–	–	15 December 2016 to 14 December 2019
Total			12,500,000	–	1,000,000	–	11,500,000	

* All the share options granted to Ms. IP Kit Yee, Kitty were lapsed on 28 February 2018.

SHARE OPTION SCHEME (Continued)

Information on the accounting policy for share options granted under the Share Option Scheme is provided in note 4(r)(iii) to the consolidated financial statements.

Save as disclosed above, no share options of the Company were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for less than 30% of the total revenues of the Group during the year ended 31 December 2018.

The Group had no major suppliers due to the nature of the principal activities of the Group.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. The significant related party transactions entered into by the Group during the year set out in note 32 to the consolidated financial statements included transactions that constitute connected/continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied with.

CONNECTED TRANSACTIONS

The following transaction between a connected person (as defined in the Listing Rules) of the Company and the Group were entered into and during the year for which relevant announcement had been made by the Company in accordance with the Listing Rules.

In March 2018, the Company completed the acquisition of five floors and three car parking spaces of LMK Development Estate (the "Properties"). As Ms. WONG Ching Yi, Angela, Executive Driector of the Company, would be responsible for the operation and management of the Properties, in order to provide an incentive and to align her interests with that of PSGL, she had been provided with the opportunity to participate in the investment in PSGL (details of which were disclosed in the announcement of the Company dated 21 September 2018). Accordingly, the Group had entered into the following agreements:

1. a sale and purchase agreement ("SPA") dated 21 September 2018 was entered into between Ruby Hill Ventures Limited ("RHVL"), a wholly-owned subsidiary of the Company and Ms. WONG Ching Yi, Angela in relation to the acquisition of (i) 5 ordinary shares of US$1 each in PSGL, a wholly-owned subsidiary of RHVL and also an indirect wholly-owned subsidiary of the Company, (representing 5% of the equity interest in PSGL) legally and beneficially owned by RHVL and (ii) the right to 5% of the debt owed by PSGL and/or its subsidiaries to RHVL, by Ms. WONG Ching Yi, Angela in accordance with the terms and conditions of the SPA, for the consideration of HK$3,851,799 (subject to cash adjustment).

2. a shareholders' agreement dated 3 October 2018 entered into among RHVL, Ms. WONG Ching Yi, Angela and Mr. WONG Tsz Wa, Pierre to govern the conduct of affairs of the PSGL and its subsidiaries from time to time. The principal terms of the said shareholders' agreement are set out in the announcement of the Company dated 21 September 2018.

CONTINUING CONNECTED TRANSACTIONS

The following transactions between certain connected persons (as defined in the Listing Rules) of the Company and the Group were entered into and during the year ongoing for which relevant announcements had been made by the Company in accordance with the Listing Rules.

1. A services agreement (the "Services Agreement") was made on 7 February 2017 between the Company and Midland Holdings, the controlling shareholder (as defined under the Listing Rules) of the Company, whereby Midland Group may refer prospective purchasers of property in Hong Kong to the Group to apply for certain cashier's order payments in favour of property developers or any entity designated by such property developers. The service fees (exclusive of disbursements) payable or procured to be paid by Midland Holdings to the relevant member of the Group in connection with each cashier's order which is provided or renewed by the relevant member of the Group pursuant to the Services Agreement shall be charged at the rate of 0.125% of the face value of the cashier's order for every 15-day period, any period less than 15 days would be rounded up to a whole 15-day period and charged at 0.125%. Midland Holdings and the Company acknowledged and agreed that the aggregate value of cashier's orders issued but not returned to the relevant member of the Group at any one time in connection with the services provided pursuant to the Services Agreement shall not exceed HK$400,000,000. The said transactions would provide flexibility to the Group to utilise its surplus cash at its discretion for an enhanced return. The term of the Services Agreement is three years commencing from 1 January 2017 to 31 December 2019.

   Under the Services Agreement, the maximum annual amount of the fees paid/payable by the relevant members of Midland Group to the Group under the Services Agreement for the financial year ended 31 December 2017 and 2018 and the financial years ending 31 December 2019 had been fixed at HK$12 million, HK$12 million and HK$12 million respectively. No service fees paid/payable by the relevant members of Midland Group to the Group under the Services Agreement in 2018 (details relating to the Services Agreement and the annual caps were set out in the announcement of the Company dated 7 February 2017).

2. A tenancy agreement was made on 27 April 2016 between Midland Alliance Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Shun Yik International Limited, a company directly wholly owned by an associate of Ms. TANG Mei Lai, Metty, an Executive Director of the Company (as at the date of the agreement, Ms. TANG Mei Lai, Metty was the Chairman and a Non-Executive Director of the Company) and Ms. WONG Ching Yi, Angela, an Executive Director of the Company, as landlord whereby the landlord agreed to let the premises located at Nos. 11-17, 7th Floor, Tower B, New Mandarin Plaza, No. 14 Science Museum Road, Kowloon as office for the real estate agency business of the Group for a term of two years commencing from 1 May 2016 to 30 April 2018 at a monthly rental of HK$195,000 for the period from 1 May 2016 to 30 April 2017 and HK$207,000 for the period from 1 May 2017 to 30 April 2018 without rent-free period and option to renew (details of which were disclosed in the announcement of the Company dated 27 April 2016).

3. A cross referral services agreement (the "Cross Referral Services Agreement (2015)") was made on 16 December 2015 between the Company and Midland Holdings in relation to cross referral services provided between the relevant members of Midland Group and of the Group, whereby Midland Group may refer estate agency business in respect of industrial and commercial properties and shops in Hong Kong, Macau and the People's Republic of China (the "PRC") to the relevant members of the Group from time to time, and the Group may refer estate agency business in respect of residential properties in Hong Kong, Macau and the PRC to the relevant members of Midland Group from time to time (the "Transactions"). The Transactions had been conducted on a case-by-case basis and on normal commercial terms. The Transactions contemplated thereunder and the relevant annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting held on 13 January 2016.

   Under the Cross Referral Services Agreement (2015), the annual caps for the referral fees paid/payable by the Group to Midland Group for the years ended 31 December 2016, 2017 and 2018 had been fixed at HK$85 million, HK$90 million and HK$95 million respectively, while the annual caps for the referral fees paid/payable by Midland Group to the Group for the years ended 31 December 2016, 2017 and 2018 had been fixed at HK$40 million, HK$45 million and HK$50 million respectively (details relating to the Cross Referral Services Agreement (2015) and the annual caps were set out in the announcement and circular of the Company dated 16 December 2015 and 24 December 2015 respectively).

CONTINUING CONNECTED TRANSACTIONS (Continued)

3. (Continued)

   On 27 October 2016, the Company proposed to revise up the maximum annual amounts of referral fees expected to be paid/payable by the Group to Midland Group under the Cross Referral Services Agreement (2015) to HK$110 million for each of the years ended 31 December 2016, 2017 and 2018 ("New Annual Caps"). The proposed New Annual Caps were approved by the independent shareholders of the Company at the extraordinary general meeting held on 21 November 2016 (details relating to the New Annual Caps were set out in the announcement and circular of the Company dated 27 October 2016 and 4 November 2016 respectively).

   On 25 October 2018, the Company proposed to revise up the maximum annual amounts of referral fees expected to be paid/payable by the Group to Midland Group under the Cross Referral Services Agreement (2015) from HK$110 million to HK$130 million for the year ended 31 December 2018 ("Revised Annual Cap"). The proposed Revised Annual Cap was approved by the independent shareholders of the Company at the extraordinary general meeting held on 3 December 2018 (details relating to the Revised Annual Cap was set out in the announcement and circular of the Company dated 25 October 2018 and 14 November 2018 respectively).

   The aggregate annual values of the referral fees paid/payable by the Group to Midland Group under the Cross Referral Services Agreement (2015) in 2018 were approximately HK$99 million and of the referral fees paid/payable by Midland Group to the Group under the Cross Referral Services Agreement (2015) in 2018 were approximately HK$27.8 million, which had not exceeded the maximum aggregate annual values for that year.

Pursuant to Rule 14A.55 of the Listing Rules, the aforesaid continuing connected transactions (the "Continuing Connected Transactions") have been reviewed by the Independent Non-Executive Directors who have confirmed that the Continuing Connected Transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified report containing its findings and conclusions in respect of the Continuing Connected Transactions disclosed on pages 39 to 41 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's report has been provided by the Company to the Stock Exchange.

CHANGE IN DIRECTOR'S INFORMATION

Change in the information of Director since the disclosure made in the interim report of the Company for the six months ended 30 June 2018, that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. KAN Chung Nin, Tony has been appointed as an Independent Non-Executive Director of Hopewell Highway Infrastructure Limited since 11 April 2018, a company listed in Hong Kong.

RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 9 to the consolidated financial statements.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2018 are set out in note 34 to the consolidated financial statements.

BANK LOAN

An analysis of bank loan of the Group as at 31 December 2018 is set out in note 25 to the consolidated financial statements. Apart from the aforesaid, the Group had no other borrowings as at 31 December 2018.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the Executive Directors are reviewed by the Remuneration Committee and determined by the Board, having regard to the Group's operating results, individual performance and prevailing market condition. The emoluments of the Non-Executive Directors and Independent Non-Executive Directors are reviewed by the Remuneration Committee and determined by the Board. No Director or any of his or her associates was involved in deciding his or her own remuneration. The Company has a share option scheme as an incentive to the Directors and eligible employees, details of the scheme are set out in the section headed "SHARE OPTION SCHEME".

DIRECTORS' INTEREST IN COMPETING BUSINESS

The interests of the Directors in businesses which compete or are likely to compete, directly or indirectly, with the businesses of the Group during the year were as follows:

Ms. TANG Mei Lai, Metty had deemed interests in Midland Group, and Ms. WONG Ching Yi, Angela held directorships in Midland Group. Midland Group engaged in the businesses of real estate agency, surveying and money lending as the Group.

As the board of the Company is independent of the board of directors of Midland Holdings and none of the above Directors can control the board of the Company, the Group is therefore capable of carrying on its businesses independently of, and at arm's length from the business of Midland Group.

Save as disclosed above, none of the Directors had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, there is sufficient public float of at least 25% of the total number of issued shares of the Company as required under the Listing Rules.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, auditor of the Company, who shall retire and, being eligible, will offer themselves for re–appointment at the AGM.

On behalf of the Board
Midland IC&I Limited

WONG Hon Shing, Daniel
Chief Executive Officer and Executive Director

Hong Kong, 27 March 2019

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 HK$'000	2017 HK$'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.

FINANCIAL REVIEW (Continued)

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.

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF MIDLAND IC&I LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Midland IC&I Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 110, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition for property agency fees
- Impairment of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition for property agency fees	
Refer to notes 4(t) and 6(a) to the consolidated financial statements for the disclosures of the related accounting policies, judgements and estimates. For the year ended 31 December 2018, property agency fees amounted to approximately HK$614.3 million, representing 97.7% of the revenues reported by the Group. The 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. Management estimated the amount of property agency fee income to the extent that it is highly probable, taking into consideration of the historical recoverable rates and the risk of fallen through and price concession of individual transactions, 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. We focused on this area because management has made significant and subjective judgements and estimation on the amounts of property agency fees to be recognised.	We understood, evaluated and tested the design and operating effectiveness of the key management controls, including the relevant information technology systems, over revenue recognition for property agency fees. We determined that we could rely on these controls for the purpose of our audit. We tested the underlying data, on a sample basis, for the calculation of the historical recoverable rates. We tested, on a sample basis, the variable consideration recognised based on the terms set out in the contracts, the completion status of the transaction and other relevant factors. We also made reference to the general market conditions and management's knowledge about individual contracted parties in evaluating the estimation of variable consideration. We consider the judgements and estimation made by management are supportable by the evidence obtained and procedures performed.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment of trade receivables

Refer to notes 4(i) and 6(b) to the consolidated financial statements for the disclosures of the related accounting policies, judgements and estimates.

As at 31 December 2018, the Group had gross trade receivables of approximately HK$198.9 million of which a provision for impairment of approximately HK$29.8 million was recognised.

The Group applied the HKFRS 9 simplified approach to measure lifetime expected credit losses ("ECLs") allowance for all trade receivables. Management estimated impairment of trade receivables that are individually significant by considering the aging profiles of trade receivables, their knowledge about the customers and the market conditions. Management grouped for remaining trade receivables with similar credit risk characteristics and aging profile, and estimated ECLs rates based on historical credit loss rates for different groups and adjusted to reflect the current and forward-looking information on macroeconomic factors that are considered relevant to determine the ability of customers to settle the receivables in the future. Management also assessed the sufficiency of the ECLs estimation by considering the subsequent settlement status.

We focused on this area because the estimation of ECLs involved a significant level of judgement by management to determine the use of internal and external data from various sources to establish the historical credit loss experience and to adjust this experience for expected future changes, recognising that these factors are all subject to a certain level of uncertainty.

Our procedures on management's assessment of the impairment of trade receivables included:

- Understood, evaluated and validated the key controls performed by management over the impairment assessment process, in particular those over the identification of impaired receivables and the calculation of provisions according to the lifetime ECLs model.
- Evaluated management's assessment of the historical credit loss rates by sample checking inputs in respect of the assumptions made, such as historical payment records, correspondence on any disputes or claims with the customers and subsequent settlement records.
- Understood the status of each of the material trade receivables past due as at year end, information about contracted parties and subsequent settlements, if any, through discussion with management.
- Checked the computation of the amount of provision and evaluated the expected future changes in credit risks in management's assessment by sample checking the inputs to the assumptions to external data sources.
- Performed testing, on a sample basis, of the accuracy of the trade receivables aging report.

Based on the results of the procedures performed, we found management's judgement and assumptions applied in respect of the impairment of trade receivables to be supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Lap Yam.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenues	7(a)	628,780	637,247
Other (loss)/income	8	(5,162)	11,290
Staff costs	9	(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	11	66,096	108,269
Finance income	12	3,853	2,290
Finance costs	12	(9,553)	(5,697)
Profit before taxation		60,396	104,862
Taxation	13	(12,207)	(14,944)
Profit and total comprehensive income for the year		48,189	89,918
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	15		
Basic		2.667	5.258
Diluted		2.497	4.655

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property and equipment	16	6,159	3,632
Investment properties	17	855,300	487,600
Financial assets at amortised cost	18	4,680	–
Deposits	20	–	29,751
Deferred tax assets	19	2,452	3,370
		868,591	524,353
Current assets			
Trade and other receivables	20	192,389	264,333
Tax recoverable		6,926	1,600
Cash and cash equivalents	21	593,214	750,312
		792,529	1,016,245
Total assets		1,661,120	1,540,598
EQUITY AND LIABILITIES			
Equity holders			
Share capital	22	180,528	180,528
Share premium	22	745,086	745,086
Reserves	23	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
As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	19	1,551	739
Bank loan	25	131,000	–
Convertible note	26	180,411	172,622
		312,962	173,361
Current liabilities			
Trade and other payables	24	211,274	284,717
Bank loan	25	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

The consolidated financial statements on pages 50 to 110 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

WONG Ching Yi, Angela
Director

WONG Hon Shing, Daniel
Director

	Attributable to equity holders of the Company					
	Share capital HK$'000	Share premium HK$'000	Reserves HK$'000 (note 23)	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	180,528	745,086	139,143	1,064,757	–	1,064,757
Total comprehensive income						
Profit for the year	–	–	48,148	48,148	41	48,189
Transaction with owners						
Transactions with non-controlling interests	–	–	–	–	7,720	7,720
At 31 December 2018	180,528	745,086	187,291	1,112,905	7,761	1,120,666
At 1 January 2017	137,050	549,433	42,823	729,306	–	729,306
Total comprehensive income						
Profit for the year	–	–	89,918	89,918	–	89,918
Transaction with owners						
Issuance of new shares	43,478	195,653	–	239,131	–	239,131
Equity component of convertible note issued	–	–	6,402	6,402	–	6,402
At 31 December 2017	180,528	745,086	139,143	1,064,757	–	1,064,757

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Net cash generated from operations	28(a)	72,787	84,108
Hong Kong profits tax paid		(16,362)	(7,277)
Interest paid		(2,153)	(147)
Net cash from operating activities		54,272	76,684
Cash flows from investing activities			
Net cash (outflow)/inflow from the acquisition of subsidiaries	27	(75,682)	26,387
Acquisition of property and equipment		(5,722)	(2,098)
Expenditure on investment property under development		–	(9,655)
Acquisition of investment properties		(266,902)	–
Acquisition of financial assets at amortised cost		(4,680)	–
Interest received		3,853	2,290
Net cash(used in)/from investing activities		(349,133)	16,924
Cash flows from financing activities			
Proceeds from borrowings		131,000	–
Repayment of bank loan		(957)	(957)
Transactions with non-controlling interests	28(d)	7,720	–
Net cash from/(used in) financing activities		137,763	(957)
Net (decrease)/increase in cash and cash equivalents		(157,098)	92,651
Cash and cash equivalents at 1 January		750,312	657,661
Cash and cash equivalents at 31 December	21	593,214	750,312

1 GENERAL INFORMATION

Midland IC&I Limited (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 Company and its subsidiaries (together, 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 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).

The consolidated financial statements have been approved by the board of directors (the "Board") on 27 March 2019.

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") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. 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.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 6 below.

(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 provisions 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries made up to 31 December.

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Subsidiaries (Continued)

(i) Consolidation (Continued)

Inter-company transactions, balances and unrealised gain on transactions between group companies are eliminated. Unrealised loss is also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

(ii) Separate financial statements

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of comprehensive income are translated at average exchange rates; and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

(d) Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the period of lease
Furniture and fixtures	4 years
Office equipment	4 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Gain and loss on disposals are determined by comparing proceeds with carrying amount and are recognised within other operating costs, in the consolidated statement of comprehensive income.

(e) Investment properties

Property that is held for long-term rental yield or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value, representing estimated open market value determined at each reporting date by qualified valuers. The market value of each property is calculated on the discounted net rental income allowing for reversionary potential. Changes in fair values are recognised in the consolidated statement of comprehensive income as part of other income or other operating costs.

Subsequent expenditure is charged to the carrying amount of the property only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed as investment property is carried at fair value. Where fair value is not reliably determinable, such investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment, the gain is recognised in the consolidated statement of comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of investments in subsidiaries and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(g) Investments and other financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investments and other financial assets (Continued)

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investments and other financial assets (Continued)

(iv) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classified its financial assets as loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than twelve months after the balance sheet date. These were classified as non-current assets. Loans and receivables were classified as "trade and other receivables" and "cash and cash equivalents" in the consolidated balance sheet.

Recognition and measurement

Regular purchases and sales of financial assets were recognised on the trade-date, the date on which the Group committed to purchase or sell the asset. Investments were initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss were initially recognised at fair value, and transaction costs were expensed in the consolidated statement of comprehensive income. Financial assets were derecognised when the rights to receive cash flows from the investments had expired or had been transferred and the Group had transferred substantially all the risks and rewards of ownership. Loans and receivables were subsequently carried at amortised cost using the effective interest method.

The fair values of quoted investments were based on current bid prices. If the market for a financial asset was not active (and for unlisted securities), the Group established fair value by using valuation techniques. These included the use of recent arm's length transactions, reference to other instruments that were substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of financial assets

(i) Policy applicable from 1 January 2018

The Group assesses the loss allowance for ECLs on trade receivables, other receivables, cash and cash equivalents and financial assets at amortised cost. Financial assets measured at fair value through other comprehensive income (non-recycling) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses.

ECLs are measured on lifetime basis that these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

The Group assesses on a forward looking basis the ECL associated with other receivables and financial assets at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(ii) Accounting policies applied until 31 December 2017

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment could include indications that the debtors or a group of debtors were experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation, and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Trade and other receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity.

(m) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Convertible note

For share-based payment transactions in which the Group has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the Group has granted a compound financial instrument, which includes a debt component (i.e. the counterparty's right to demand payment in cash) and an equity component (i.e. the counterparty's right to demand settlement in equity instruments rather than in cash). For transactions with parties other than employees, in which the fair value of the goods or services received is measured directly, the Group measures the equity component of the compound financial instrument as the difference between the fair value of the goods or services received and the fair value of the debt component, at the date when the goods or services are received.

The Group accounts separately for the goods or services received or acquired in respect of each component of the compound financial instrument. For the debt component, the Group recognises the goods or services acquired, and a liability to pay for those goods or services, as the counterparty supplies goods or renders service, in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component, the Group recognises the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, in accordance with the requirements applying to equity-settled share-based payment transactions. For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(p) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Taxation

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(r) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement scheme obligations

Contributions to defined contribution retirement schemes which are available to all employees, calculated at rates specified in the rules of the schemes, are charged to the consolidated statement of comprehensive income when the contributions are payable to the fund.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(iii) Share-based payment

– *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss account, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

– *Share-based payment transactions among Group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Provisions (Continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Revenue recognition

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the activities of the Group.

(i) Agency fee from property agency business

Agency fee from property agency business is recognised when the services are rendered which is generally the time when the transacting parties first come into an agreement.

Revenue is the estimated total consideration, including an estimate of variable consideration using portfolio approach, received in exchange for the provision of property agency services rendered.

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, price concession based on customary industry practice and payment plans chosen by the buyers, 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.

(ii) Income from operating leases

Operating lease rental income is recognised on a straight-line basis.

(iii) Finance income

Interest income is recognised on a time proportion basis using the effective interest method.

(u) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(v) Dividend distribution

Dividend distribution is recognised as a liability in the consolidated financial statements in the financial period in which the dividends are approved by the shareholders or directors, as appropriate.

(w) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to credit risk, cash flow and fair value interest rate risk, liquidity risk and foreign exchange risk. The overall risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(i) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, trade receivables and contractual cash flows of debt instruments carried at amortised cost. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

Risk management

To manage this risk, management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each individual loan receivable and trade receivable by taking into account of the market conditions, customers' profiles and contractual terms to ensure that adequate impairment is made for the irrecoverable amounts.

Impairment of financial assets

The Group's trade receivables are subject to the expected credit loss model. While cash and cash equivalents and financial assets at amortised cost are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group's trade receivables have been grouped into categories for shared credit risk characteristics:

– primary properties market transactions

– secondary properties market and rental transactions

For trade receivables from primary properties market transactions, the counterparties are primarily large corporations and have strong financial position and management considers the credit risk is close to zero.

For trade receivables from secondary properties market and rental transactions, the counterparties are primarily individuals. When there is objective evidence that individual trade receivable is impaired, the loss allowances for these trade receivables is assessed and measured at an amount equal to lifetime expected credit losses.

For the remaining trade receivables from secondary properties market and rental transactions which no objective evidence is available without undue cost to measure the lifetime expected credit loss, the Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for these trade receivables collectively.

To measure the expected credit losses, these trade receivables have been grouped based on the days past due.

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

Trade receivables (Continued)

The expected loss rates are based on the latest completed historical payment profile of sales over a period of 12 month and the corresponding historical credit losses experienced within that period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables, if any.

On these basis, the loss allowances for trade receivables as at 31 December 2018 were determined as follows:

	Expected loss rate	Gross carrying amount	Loss allowance		
			Individually assessed	Collectively assessed	Total
	%	HK$'000	HK$'000	HK$'000	HK$'000
Current (not yet due)	2.5%-7.9%	138,202	(18)	(2,786)	(2,804)
Less than 30 days past due	0.3%-0.7%	16,878	–	(3,732)	(3,732)
31-60 days past due	0.7%-2.4%	6,425	(645)	(80)	(725)
61-90 days past due	1.3%-5.8%	9,457	(20)	(448)	(468)
More than 90 days past due	14.8-100%	27,931	(18,554)	(3,547)	(22,101)
		198,893	(19,237)	(10,593)	(29,830)

Note: 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 loss allowance provided for trade receivables not yet due includes the credit risk arising from bad debts and fallen through transactions. The loss allowance provided for overdue trade receivables includes only the credit risk arising from bad debts.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of $30,541,000 was determined to be impaired.

As at 31 December 2017, the aging analysis of trade receivables that were not considered to be impaired was as follows:

	HK$'000
Current (not yet due)	228,708
Less than 30 days past due	3,056
31 to 60 days past due	3,397
61 to 90 days past due	3,582
More than 90 days past due	6,156
	244,899

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

Comparative information under HKAS 39 (Continued)

Movements in the provision for impairment of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	30,541	38,754
Provision for impairment	18,583	10,647
Write-off of uncollectible debts	(19,294)	(18,860)
At 31 December	29,830	30,541

Trade receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(i)(ii) – accounting policies applied until 31 December 2017). At 31 December 2017, trade receivables of HK$30,541,000 was determined to be impaired.

Other financial assets at amortised cost

For other financial assets at amortised cost, including deposits, other receivables and corporate bonds, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

Impairment losses on other financial assets at amortised cost are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(ii) Cash flow and fair value interest rate risk

The Group has no significant interest bearing assets and liabilities other than bank deposits, bank borrowings and a convertible note at variable rates.

At the balance sheet date, if interest rates had been 25 basis point higher/lower with all other variables held constant, the Group's profit before taxation and equity would have been approximately HK$2,076,000 (2017: HK$2,615,000) higher/lower for the year ended 31 December 2018.

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

The Group maintains its own treasury function (the "Group Finance") to monitor the current and expected liquidity requirements and aims to maintain flexibility by keeping sufficient cash and cash equivalents generated from operations. Cash flow forecast is performed in the operating entities of the Group and aggregated by the Group Finance. The Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient head-room on its undrawn facilities (note 25) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Surplus cash held by the operating entities over and above the balance required for working capital management are transferred to the Group Finance. The Group Finance invests surplus cash in interest bearing time deposits and corporate bonds. As at 31 December 2018, the Group has fixed deposits of HK$519,571,000 and corporate bonds of HK$4,680,000.

The following tables show the remaining contractual maturity at the end of the reporting period of the Group's financial liabilities based on undiscounted cash flows and the earliest date the Group can be required to pay. Specifically, for the bank loan which contains a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loan with immediate effect. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	On demand HK$'000	Less than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount HK$'000
At 31 December 2018						
Trade and other payables	–	211,274	–	–	211,274	211,274
Bank loans	5,726	3,930	15,720	136,868	162,244	136,329
Convertible note	–	–	200,000	–	200,000	180,411
	5,726	215,204	215,720	136,868	573,518	528,014

	On demand HK$'000	Less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount HK$'000
At 31 December 2017					
Trade and other payables	–	284,717	–	284,717	284,717
Bank loan	6,835	–	–	6,835	6,286
Convertible note	–	–	200,000	200,000	172,622
	6,835	284,717	200,000	491,552	463,625

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) Foreign exchange risk

As at 31 December 2018, all the Group's assets and liabilities are denominated in HK dollars except the financial assets at amortised cost are denominated in US dollars. As HK dollars is pegged with US dollars, the foreign currency risk exposure in respect of US dollars is considered minimal.

(b) Capital risk management

The Group's objectives when managing capital are to finance its operations and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders.

The capital structure of the Group consists of equity attributable to the equity holders, bank loans and convertible note. In order to maintain or adjust the capital structure, the Group will consider macroeconomic conditions, prevailing borrowing rate in the market and adequacy of cash flows generating from operations and may raise funding through bank borrowing as necessary.

The Group monitors capital on the basis of the total debt to equity ratio. This ratio is calculated as total borrowing divided by total equity.

The total debt to equity ratios at 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Bank loans	136,329	6,286
Convertible note	180,411	172,622
Total debt	316,740	178,908
Total equity	1,120,666	1,064,757
Total debt to equity ratio	28.3%	16.8%

The Group has fully complied with the loan covenants throughout the reporting period.

(c) Fair value estimation

The carrying amounts of the financial assets of the Group, including cash and cash equivalents, financial assets at amortised cost and trade and other receivables and financial liabilities including trade and other payables approximate their fair values due to their short-term maturities.

The fair value estimation of investment properties and the liability component of convertible note are disclosed in notes 17 and 26, respectively, to the consolidated financial statements.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements in applying the Group's accounting policies, and estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

Management reviews sales transactions to determine whether it is probable that future economic benefits arising from the sales transactions would flow to the Group taking into account the variable consideration in the transaction price.

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, 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.

Prior to the adoption of HKFRS 15, revenues from those transactions whose economic benefits are not probable to flow to the Group would not be recognised in the consolidated statement of comprehensive income until the relevant transactions are completed or until the uncertainty of completion is removed.

(b) Impairment of financial assets

Management reviews regularly the recoverable amount of each individually significant trade receivable and loan receivable to ensure that adequate impairment is made for the irrecoverable amounts. The measurement of impairment losses under HKFRS 9 requires judgement, in particular, management assesses the recoverable amount of each individual trade receivable and loan receivables whether there is objective evidence that the receivable is impaired. This evidence may include observable data indicating that there has been an adverse change in the payment status of the debtors and the local economic conditions that correlate with the potential risk of impairment on the transactions. For the remaining trade receivables, generally not arising from primary properties market transactions and having no objective evidence of impairment, the impairment is assessed based on the latest completed historical payment profile of sales over a period of 12 month and the corresponding historical credit losses experienced within that period.

Prior to the adoption of HKFRS 9, management assesses the recoverable amount of each individual trade receivable and loan receivable whether there is objective evidence that the receivable is impaired.

Management reassesses the provision for impairment at each balance sheet date.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Fair value of investment properties

The fair value of investment properties is determined by using valuation techniques. Details of the judgement and assumptions used in the valuation have been disclosed in note 17 to the consolidated financial statements.

(d) Income taxes

Deferred tax assets relating to certain temporary differences and tax losses are recognised to the extent that management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and liabilities in the periods in which such estimate is changed.

7 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

7 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 determine the operating segments based on these reports.

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

7 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.

7 REVENUES AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

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

	2018 HK$'000	2017 HK$'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

7 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

8 OTHER (LOSS)/INCOME

	2018 HK$'000	2017 HK$'000
Fair value (loss)/gain on investment properties (note 17)	(4,779)	8,200
Fair value (loss)/gain on convertible note (note 26)	(389)	2,395
Service fee income from a related company	–	692
Others	6	3
	(5,162)	11,290

9 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2018 HK$'000	2017 HK$'000
Salaries and allowances	115,662	102,451
Commissions	172,285	209,800
Pension costs for defined contribution plans	7,700	7,052
	295,647	319,303

The Group participates in a mandatory provident fund ("MPF") scheme which is available to eligible employees of the Group, including Executive Directors. Contributions to the MPF scheme by the Group and the employees are calculated at rates specified in the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

The cost of the MPF scheme charged to the consolidated statement of comprehensive income represents contributions paid and payable by the Group to the fund.

10 BENEFIT AND INTEREST OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Benefit and interest of directors

The remuneration of each director for the year ended 31 December 2018 is set out below:

Name of director	Fees HK$'000	Salaries and allowances HK$'000	Performance incentive* HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Executive Directors					
Ms. TANG Mei Lai, Metty	280	92	–	16	388
Ms. WONG Ching Yi, Angela	30	–	964	2	996
Mr. WONG Hon Shing, Daniel (Chief Executive Officer)	–	1,440	3,247	18	4,705
	310	1,532	4,211	36	6,089
Non-executive Directors					
Mr. KAN Chung Nin, Tony (Chairman)	320	–	–	–	320
Mr. TSANG Link Carl, Brian	120	–	–	–	120
Mr. CHU Kuo Fai, Gordon (alternate director to Mr. TSANG Link Carl, Brian)	–	–	–	–	–
	440	–	–	–	440
Independent Non-executive Directors					
Mr. YING Wing Cheung, William	120	–	–	–	120
Mr. SHA Pau, Eric	120	–	–	–	120
Mr. HO Kwan Tat, Ted	120	–	–	–	120
	360	–	–	–	360
	1,110	1,532	4,211	36	6,889

10 BENEFIT AND INTEREST OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Benefit and interest of directors (Continued)

The remuneration of each director for the year ended 31 December 2017 is set out below:

Name of director	Fees HK$'000	Salaries and allowances HK$'000	Performance incentive* HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Executive Directors					
Ms. TANG Mei Lai, Metty (note)	202	–	–	8	210
Ms. WONG Ching Yi, Angela	30	–	–	2	32
Mr. WONG Hon Shing, Daniel (Chief Executive Officer)	–	1,335	4,330	18	5,683
	232	1,335	4,330	28	5,925
Non-executive Directors					
Mr. KAN Chung Nin, Tony (Chairman)	320	–	–	–	320
Mr. TSANG Link Carl, Brian	120	–	–	–	120
Mr. CHU Kuo Fai, Gordon (alternate director to Mr. TSANG Link Carl, Brian)	–	–	–	–	–
	440	–	–	–	440
Independent Non-executive Directors					
Mr. YING Wing Cheung, William	120	–	–	–	120
Mr. SHA Pau, Eric	120	–	–	–	120
Mr. HO Kwan Tat, Ted	120	–	–	–	120
	360	–	–	–	360
	1,032	1,335	4,330	28	6,725

* Performance incentive is determined based on performance of profit targets.

Note: Ms. TANG was re-designated from Non-executive Director to Executive Director effective from 26 June 2017. The emoluments from 1 January 2017 to the date of re-designation were HK$58,000.

In 2017, the director's fee in the sum of HK$58,000 received by Ms. TANG Mei Lai, Metty was paid back to Midland Holdings Limited (2018: nil).

No director waived or agreed to waive any emoluments during the year (2017: nil). No incentive payment for joining the Group was paid or payable to any director during the year (2017: nil).

10 BENEFIT AND INTEREST OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Benefit and interest of directors (Continued)

(i) Directors' retirement benefits and termination benefits

None of the directors received any retirement benefits or termination benefits during the year (2017: nil).

(ii) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, the Group did not pay consideration to any third parties for making available directors' services (2017: nil).

(iii) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

As at 31 December 2018, there were no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors (2017: nil).

(iv) Directors' material interests in transactions, arrangements or contracts

Saved as disclosed in note 32(a), no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year include two (2017: one) directors whose emoluments are reflected in the analysis shown in note 10(a). The emoluments payable to the remaining three (2017: four) individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	1,279	2,094
Performance incentive/discretionary bonuses	1,039	167
Retirement benefit costs	36	72
	2,354	2,333

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$0 – HK$1,000,000	3	4

11 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

12 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 (note 26)	(7,400)	(5,550)
	(9,553)	(5,697)
Finance costs, net	(5,700)	(3,407)

13 TAXATION

	2018 HK$'000	2017 HK$'000
Current		
Hong Kong profits tax	10,477	15,908
Deferred tax (note 19)	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.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	60,396	104,862
Calculated at a taxation rate of 16.5% (2017: 16.5%)	9,965	17,302
Income not subject to taxation	(636)	(1,728)
Expenses not deductible for taxation purposes	2,603	1,345
Utilisation of unrecognised tax losses	(435)	(979)
Tax losses not recognised	759	664
Recognition of previously unrecognised temporary difference	(22)	(1,333)
Others	(27)	(327)
Taxation charge	12,207	14,944

14 DIVIDEND

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

15 EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'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.

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.

16 PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Total HK$'000
At 1 January 2018				
Cost	10,717	2,606	20,898	34,221
Accumulated depreciation	(8,849)	(2,362)	(19,378)	(30,589)
Net book amount	1,868	244	1,520	3,632
Year ended 31 December 2018				
Opening net book amount	1,868	244	1,520	3,632
Additions	3,280	580	1,862	5,722
Depreciation expenses	(2,009)	(132)	(1,054)	(3,195)
Closing net book amount	3,139	692	2,328	6,159
At 31 December 2018				
Cost	12,669	3,186	22,410	38,265
Accumulated depreciation	(9,530)	(2,494)	(20,082)	(32,106)
Net book amount	3,139	692	2,328	6,159
At 1 January 2017				
Cost	9,612	2,502	20,387	32,501
Accumulated depreciation	(7,258)	(2,219)	(18,231)	(27,708)
Net book amount	2,354	283	2,156	4,793
Year ended 31 December 2017				
Opening net book amount	2,354	283	2,156	4,793
Additions	1,483	104	511	2,098
Depreciation expenses	(1,969)	(143)	(1,147)	(3,259)
Closing net book amount	1,868	244	1,520	3,632
At 31 December 2017				
Cost	10,717	2,606	20,898	34,221
Accumulated depreciation	(8,849)	(2,362)	(19,378)	(30,589)
Net book amount	1,868	244	1,520	3,632

17 INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Opening net book amount	487,600	64,400
Acquisition of investment property under development (note 27(b))	–	396,282
Additions	372,479	18,718
Change in fair value recognised in the consolidated statement of comprehensive income (note 8)	(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 (note 25).

Change in fair value of investment properties is included in "other (loss)/income" in the consolidated statement of comprehensive income (note 8).

Valuation

As at 31 December 2018, valuations were undertaken by Jones Lang LaSalle Limited, an independent qualified professional valuer. The valuer has appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. Fair values of investment properties are generally derived using the income capitalisation method and direct comparison method, wherever appropriate. Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to valuers' view of recent lettings, within the subject properties and other comparable properties. Direct comparison method is based on sales prices of comparable properties in close proximity which are adjusted for differences in key attributes such as size, floor level, layout, view, frontage and accessibility etc.

As at 31 December 2018 and 2017, all investment properties are included in level 3 in the fair value hierarchy.

The Group's policy is to recognise transfers between fair value measurements as of the date of the event or change in circumstances that caused the transfer. There were no changes to the valuation techniques and transfers among the fair value hierarchy during the year.

17 INVESTMENT PROPERTIES (Continued)

Valuation (Continued)

Information about fair value measurements using significant unobservable inputs:–

Office, industrial units and serviced apartments:

Valuation method	Range of significant unobservable inputs Prevailing market rent per month	Unit price	Capitalisation rate
Income capitalisation	HK$31.3 to HK$41.1 per square foot (saleable) (2017: HK$27.5 to HK$114.0 per square foot (saleable))	N/A	2018: 2.75% to 3.8% (2017: 2.8% to 3.5%)
Direct comparison	N/A	HK$4,450 to HK$50,000 per square foot (2017:HK$21,900 to HK$49,400 per square foot)	N/A

Shops:

Valuation method	Range of significant unobservable inputs Prevailing market rent per month	Capitalisation rate
Income capitalisation	HK$80.0 per square foot (saleable) (2017: N/A)	2018: 3.13% (2017: N/A)

Prevailing market rents are estimated based on qualified valuer's view of recent lettings, within the subject properties and other comparable properties. The higher the rents, the higher the fair value.

Capitalisation rates are estimated by qualified valuer based on the risk profile of the properties being valued. The lower the rates, the higher the fair value.

18 FINANCIAL ASSETS AT AMORTISED COST

	2018 **HK$'000**	2017 HK$'000
At cost	4,680	–

As at 31 December 2018, the fair value of the corporate bonds are HK$4,681,000. The fair value of the corporate bonds was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

All the financial assets at amortised cost are corporate bonds which are denominated in US dollars. As HK dollars is pegged with US dollars, the foreign currency risk exposure in respect of US dollars is considered minimal. There is also no exposure to price risk as the investments will be held to maturity.

19 DEFERRED TAX

	2018 HK$'000	2017 HK$'000
Deferred tax assets	2,452	3,370
Deferred tax liabilities	(1,551)	(739)
	901	2,631

The net movements on the deferred tax (assets)/liabilities are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	2,631	1,649
Acquisition of subsidiaries (note 27(b))	–	18
Recognised in the consolidated statement of comprehensive income (note 13)	(1,730)	964
At 31 December	901	2,631

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets

	Tax losses		Decelerated tax depreciation		Provision		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
At 1 January	1,105	663	309	244	2,674	1,505	4,088	2,412
Acquisition of a subsidiary	–	18	–	–	–	–	–	18
Recognised in the consolidated statement of comprehensive income	(5)	424	28	65	(796)	1,169	(773)	1,658
At 31 December	1,100	1,105	337	309	1,878	2,674	3,315	4,088

19 DEFERRED TAX (Continued)

Deferred tax liabilities

	Accelerated tax depreciation	
	2018 HK$'000	2017 HK$'000
At 1 January	(1,457)	(763)
Recognised in the consolidated statement of comprehensive income	(957)	(694)
At 31 December	(2,414)	(1,457)

Deferred tax assets are recognised for tax losses carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of HK$5,981,000 (2017: HK$5,657,000) in respect of losses amounting to HK$36,248,000 (2017: HK$34,286,000) as at 31 December 2018. These tax losses can be carried forward against future taxable income indefinitely.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax assets		
– Recoverable after more than twelve months	2,452	3,370
Deferred tax liabilities		
– Payable or settle after more than twelve months	(1,551)	(739)

20 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	198,893	275,440
Less: loss allowance	(29,830)	(30,541)
Trade receivables, net	169,063	244,899
Other receivables, prepayments and deposits	23,326	49,185
	192,389	294,084
Categorised as:		
Current portion	192,389	264,333
Non-current portion	–	29,751
	192,389	294,084

20 TRADE AND OTHER RECEIVABLES (Continued)

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

Trade receivables of HK$33,665,000 (2017: HK$16,191,000) are past due but not impaired.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 5(a).

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

The Group's trade and other receivables are denominated in Hong Kong dollars.

21 CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash at banks and on hand	73,643	228,158
Short term bank deposits	519,571	522,154
	593,214	750,312

22 SHARE CAPITAL AND PREMIUM

(a) Share capital and premium

	Notes	Number of issued shares	Nominal value HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2017 of HK$0.01 each		13,705,000,000	137,050	549,433	686,483
Issuance of new shares	(i)	4,347,826,086	43,478	195,653	239,131
Share consolidation	(ii)	(16,247,543,478)	–	–	–
At 31 December 2017, 1 January 2018 and 31 December 2018 of HK$0.1 each		1,805,282,608	180,528	745,086	925,614

Notes:

(i) The Company issued 4,347,826,086 shares (before the effect of share consolidation) on 22 March 2017 as part of the consideration for the acquisition of a subsidiary (note 27(b)). The ordinary shares issued have the same rights as the other shares in issue. Based on the closing share price of the Company on 22 March 2017 of HK$0.055 per share (before the effect of share consolidation), the fair value of the shares issued amounted to HK$239,131,000 (note 27(b)). The issuance of shares resulted in an increment in nominal value of HK$43,478,000 (HK$0.01 per share before the effect of share consolidation) and increase in share premium of HK$195,653,000.

(ii) At 1 January 2017, the total authorised number of ordinary shares was 50 billion shares with a nominal value of HK$0.01 per share. With the approval of the shareholders at an extraordinary general meeting held on 27 June 2017, every 10 issued and unissued ordinary shares of HK$0.01 each were consolidated into 1 share of HK$0.10 each in the share capital of the Company (the "Share Consolidation"). Following the Share Consolidation which has become effective on 28 June 2017, the total authorised number of ordinary shares is 5 billion shares with a nominal value of HK$0.1 per share. All issued shares are fully paid.

(b) Share options

At the Company's extraordinary general meeting held on 19 September 2008, a share option scheme (the "Share Option Scheme") was adopted by the Company and approved by its shareholders. Under the Share Option Scheme, the Board may grant options to any employee, senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of the Company, any of its affiliates or any entity in which any member of the Group holds an equity interest (the "Invested Entity"), or any of their respective associates or chief executives or substantial shareholder who, as determined by the Board, has contributed or will contribute to the growth and development of the Group or any Invested Entity, to subscribe for shares of the Company, subject to a maximum of 10% of the nominal value of issued share capital of the Company at the date of adoption. The exercise price of an option to subscribe for shares granted under the Share Option Scheme shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company. The Share Option Scheme became effective on 19 September 2008 and had remained in force for a period of ten years from the date of adoption and had expired on 18 September 2018.

22 SHARE CAPITAL AND PREMIUM (Continued)

(b) Share options (Continued)

(i) Terms of unexpired and unexercised share option at balance sheet date

Share options outstanding at the end of the year have the following exercisable period and exercise prices:

Exercisable period	Exercise price per option HK$	Number of options 2018	Number of options 2017
15 December 2014 to 14 December 2019	0.44	3,500,000	3,833,000
15 December 2015 to 14 December 2019	0.44	4,000,000	4,333,000
15 December 2016 to 14 December 2019	0.44	4,000,000	4,334,000
		11,500,000	12,500,000

The vesting period of these options ends when they become exercisable.

(ii) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2018		2017	
	Weighted average exercise price per option HK$	Number of options	Weighted average exercise price per option HK$	Number of options
At beginning of the year	0.44	12,500,000	0.44	12,500,000
Lapsed	0.44	(1,000,000)	–	–
At the end of the year	0.44	11,500,000	0.44	12,500,000

All outstanding options were exercisable as at 31 December 2018 and 2017.

The options outstanding as at 31 December 2018 had a weighted average remaining contractual life of 0.95 years (2017: 1.95 years).

No expense was recognised by the Group for the years ended 31 December 2018 and 2017 in relation to share options granted under the Share Option Scheme.

23 RESERVES

	Merger reserve HK$'000 (note (a))	Capital reserve HK$'000 (note (b))	Employee benefits reserve HK$'000	Convertible note equity reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	(559,073)	14,918	2,405	6,402	674,491	139,143
Profit for the year	–	–	–	–	48,148	48,148
Employee share options scheme – lapse of share options	–	–	(192)	–	192	–
At 31 December 2018	(559,073)	14,918	2,213	6,402	722,831	187,291
At 1 January 2017	(559,073)	14,918	2,405	–	584,573	42,823
Profit for the year	–	–	–	–	89,918	89,918
Equity component of convertible note issued (note 27(b))	–	–	–	6,402	–	6,402
At 31 December 2017	(559,073)	14,918	2,405	6,402	674,491	139,143

Notes:

(a) Merger reserve represents the difference between the net asset value of subsidiaries acquired and the consideration paid to Midland Holdings Limited totaling HK$640,000,000 pursuant to the group reorganisation on 6 June 2007.

(b) Capital reserve represents the difference between the nominal value of the ordinary share issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation on 28 February 2001.

24 TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Commissions and rebate payables	161,350	243,634
Other payables and accruals	49,924	41,083
	211,274	284,717

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.

25 BANK LOANS

The Group's bank loans are repayable as follows:

	2018 HK$'000	2017 HK$'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) 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 Group's bank loans are denominated in Hong Kong dollars.

The bank loans are secured by investment properties of HK$288,100,000 (2017: HK$72,600,000) held by the Group (note 17) and corporate guarantee given by the Company.

The effective interest rate of the bank loans is 2.42% to 2.84% (2017: 2.84%). The carrying amount and fair value of the bank loans are as follows:

	Carrying amount		Fair value	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Bank loan	136,329	6,286	136,329	6,286

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 2.42% to 2.84% (2017: 2.84%).

The Group has the following undrawn borrowing facilities:

	2018 HK$'000	2017 HK$'000
Floating rates		
Expiring within one year	15,000	15,000

26 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.

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

	2018 **HK$'000**	2017 HK$'000
At the beginning of the year	172,622	–
Fair value of liability component on initial recognition as at 22 March 2017 (note 27(b))	–	169,467
Interest expenses (note 12)	7,400	5,550
Fair value loss/(gain) (note 8)	389	(2,395)
At the end of the year	180,411	172,622

The management had used the discounted cash flow method to determine the underlying equity fair value of the convertible note and adopted binomial model to determine the fair value of convertible note as of the date of issuance and at the reporting date. Key assumptions at reporting date are set as below:

	31 December 2018	31 December 2017
Discount rate	4.74%	4.67%
Risk-free interest rate	1.75%	1.68%

Discount rate applied in determining the fair value of the convertible note was estimated by considering risk discount rate comprising a risk free rate, and credit and liquidity spreads as of each appraisal date. The management estimated the risk-free interest rate based on the sovereign curve of government bonds of Hong Kong with a term commensurate with the period from respective appraisal dates to expected maturity date. The credit and liquidity spreads were estimated by referring to option adjusted spreads of comparable note of the comparable companies within the similar industry and certain academic study, respectively.

27 ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Champion Shine International Limited and Dragon Magic Investments Limited

On 16 March 2018, the Group completed the acquisition of the entire issued shares (and including the assignment of sale debt) of Champion Shine International Limited and Dragon Magic Investments Limited for HK$75,682,000 (including the cash adjustment), the principal assets of which are 6th and 8th floors of LMK Development Estate.

The fair values of the assets acquired and the liabilities assumed at the completion date are analysed as follows:

	HK$'000
Investment properties	75,826
Other receivables and prepayments	32
Taxation recoverable	29
Other payables and accruals	(205)
Total identifiable net assets acquired	75,682
Satisfied by cash	75,682

(b) Acquisition of Most Wealth (Hong Kong) Limited

On 10 January 2017, the Group entered into an acquisition agreement (the "Acquisition Agreement") with Mr. WONG Kin Yip, Freddie ("Mr. WONG"), the director of Midland Holdings Limited. Mr. WONG is also the spouse of Ms. TANG Mei Lai, Metty, a director of the Company, and father of Ms. WONG Ching Yi, Angela, a director of the Company. Pursuant to the Acquisition Agreement, the Group acquired the entire issued shares of Most Wealth (Hong Kong) Limited ("Most Wealth"). The consideration for the acquisition was settled by a combination of (i) allotment and issue of 4,347,826,086 shares (before the effect of Share Consolidation) of the Company; and (ii) the issue of convertible note in the principal amount of HK$200,000,000. The consideration was subject to cash adjustment, which was paid in cash and was determined with reference to the other assets and liabilities of Most Wealth as at the completion date. The acquisition was completed on 22 March 2017 (the "Acquisition Date").

The principal asset of Most Wealth is the entire interest in a property located at Nos. 33 and 35 Java Road, Hong Kong. Given there was no business activity carried out by Most Wealth, the acquisition was accounted for as an asset acquisition.

27 ACQUISITION OF SUBSIDIARIES (Continued)

(b) Acquisition of Most Wealth (Hong Kong) Limited (Continued)

The fair values of the assets acquired and the liabilities assumed at the Acquisition Date are analysed as follows:

	HK$'000
Investment property under development (note 17)	396,282
Deferred tax assets (note 19)	18
Other receivables and prepayments	262
Cash and cash equivalents	25,864
Other payables and accruals	(7,285)
Taxation payable	(664)
Total identifiable net assets acquired	414,477

Notes:

(i) None of the contractual cash flows of the above amount was estimated to be uncollectible.

(ii) No revenue was contributed by the acquired business and net loss of HK$114,000 was incurred for the period from 23 March to 31 December 2017.

If the acquisition had occurred on 1 January 2017, there would not be any significant financial impact to consolidated pro-forma revenue and profit of the Group for the year ended 31 December 2017.

The fair value of consideration and net cash inflow from the acquisition are as follow:

	HK$'000
Fair value of share consideration (note 22)	239,131
Fair value of convertible note	
– Liability component (note 26)	169,467
– Equity component (note 23)	6,402
Less: cash adjustment received from Mr. WONG	(523)
Fair value of consideration paid	414,477
Cash adjustment received form Mr. WONG	523
Add: cash and cash equivalents acquired	25,864
Net cash inflow	26,387

Notes:

(i) Acquisition-related costs of HK$4,960,000 that were not directly attributable to the issue of shares are included in other operating costs in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

28 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash generated from operations

	2018 HK$'000	2017 HK$'000
Operating profit	66,096	108,269
Net impairment losses on financial assets	18,583	10,647
Depreciation expenses	3,195	3,259
Fair value loss/(gain) on investment properties	4,779	(8,200)
Fair value loss/(gain) on convertible note	389	(2,395)
Operating profit before working capital changes	93,042	111,580
Change in trade and other receivables	53,393	(39,372)
Change in trade and other payables	(73,648)	11,900
Net cash generated from operations	72,787	84,108

(b) Non-cash investing activities

On 22 March 2017, the Company issued 4,347,826,086 shares (before the effect of Share Consolidation) and the convertible note in the principal amount of HK$200,000,000 as the consideration of the acquisition of a subsidiary in 2017 (note 27(b)).

(c) Debt reconciliation

This section sets out the movements in debt for the year.

	Bank loan due within one year HK$'000	Bank loan due after one year HK$'000	Convertible note HK$'000	Total HK$'000
Net debt as at 1 January 2017	951	6,292	–	7,243
Cash flows	(957)	–	–	(957)
Acquisition	–	–	169,467	169,467
Other non-cash movement	967	(967)	3,155	3,155
Net debt as at 31 December 2017	961	5,325	172,622	178,908
Cash flows	(957)	131,000	–	130,043
Other non-cash movements	984	(984)	7,789	7,789
Net debt as at 31 December 2018	988	135,341	180,411	316,740

28 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(d) Transactions with non-controlling interests

On 3 October 2018, the Group completed the disposal of 5% of its interests in Powerful Surge Group Limited ("Powerful Surge') to Ms. WONG Ching Yi, Angela, a director of the Company and 5% of its interests in Powerful Surge to Mr. WONG Tsz Wa, Pierre, a director of Midland Holdings Limited at a total consideration of HK$7,720,000 (including cash adjustment). Powerful Surge and its subsidiaries (together, the "Powerful Surge Group'), is principally engaged in investment holdings and its principal assets are five floors and three parking spaces of LMK Development Estate, an industrial building in Kwai Chung.

The total consideration was the same as the carrying value of Power Surge Group at the completion date. The reduction of the Group's interest did not result in the loss of control over Powerful Surge. The effect on the equity attributable to the owners of the Company is summarised as follows:

	HK$'000
Consideration received from non-controlling interest	7,720
Carrying amount of the equity interest	(7,720)
	–

There were no transaction with non-controlling interest in 2017.

29 CONTINGENT LIABILITIES

As at 31 December 2018, the Company executed corporate guarantee 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 consolidated 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 resources is probable.

30 FUTURE LEASE RENTAL RECEIVABLE

The Group had future minimum lease rental receivable under non-cancellable operating leases as follows:

	2018 HK$'000	2017 HK$'000
Within one year	13,144	564
Between one year and five years	4,512	9
	17,656	573

31 COMMITMENTS

(a) Capital commitments

The Group did not have any significant capital commitments as at 31 December 2018 and 2017.

(b) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and shop premises as follows:

	2018 HK$'000	2017 HK$'000
Within one year	21,140	28,612
After one year but within five years	15,520	9,803
	36,660	38,415

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties during the year and balances with related parties at the balance sheet date:

(a) Transactions with related parties

	Note	**2018 HK$'000**	2017 HK$'000
Agency fee income from related companies	(i)	27,838	34,591
Rental income in respect of office premises from related companies	(ii)	2,478	2,510
Service fee income from a related company	(iii)	–	692
Rebate incentives to related companies	(iv)	(99,035)	(97,676)
Operating lease rental expense to other related parties	(v)	(3,752)	(3,430)

Notes:

(i) Agency fee income from related companies represents agency fee for property agency transactions referred to related companies on terms mutually agreed by both parties.

(ii) The Group entered into a lease agreement with a related company on terms mutually agreed by both parties.

(iii) There is no service fee income from a related company in 2018. During the year ended 31 December 2017, service fee income from a related company represents service fee for assistance provided by the Group in procuring the issuance of cashier's orders to prospective purchasers of primary residential properties referred by a related company at service fee charged on terms mutually agreed by both parties.

(iv) Rebate incentives to related companies represent rebate incentives for property agency transactions referred by related companies on terms mutually agreed by both parties.

(v) The Group entered into certain operating lease agreements with certain companies, of which the beneficial owner, Mr. WONG, is a father of Ms. WONG Ching Yi, Angela, a director of the Company and the spouse of Ms. TANG Mei Lai, Metty, a director of the Company, on terms mutually agreed by both parties. Mr. WONG is also a director of Midland Holdings Limited.

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

In addition to the above, the Group shared administrative and corporate services on a cost basis with an aggregate amount of HK$8,189,000 with a related company (2017: HK$10,475,000).

On 3 October 2018, the Group completed the disposal of 5% of its interests in Powerful Surge to Ms. WONG Ching Yi, Angela, a director of the Company and 5% of its interests in Powerful Surge to Mr. WONG Tsz Wa, Pierre, a director of Midland Holdings Limited at a total consideration of HK$7,720,000 (including cash adjustment). Powerful Surge Group is principally engaged in investment holdings and its principal assets are five floors and three parking spaces of LMK Development Estate, an industrial building in Kwai Chung (note 28(d)).

(b) The balances with related companies included in trade receivables and trade payables are as follows:

	2018 HK$'000	2017 HK$'000
Amounts due from related companies	24,174	24,756
Amounts due to related companies	(52,866)	(74,311)

The related companies referred in notes (a) and (b) represented the subsidiaries of a substantial shareholder who has significant influence over the Group.

(c) Key management compensation

	2018 HK$'000	2017 HK$'000
Fees, salaries, allowances and incentives	6,053	5,839
Retirement benefit costs	36	28
	6,089	5,867

The amount represents emolument paid or payable to the Executive Directors of the Company for the year.

33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		640,000	640,000
Deposits		–	29,751
Deferred tax assets		20	135
		640,020	669,886
Current assets			
Amounts due from subsidiaries		990,309	957,326
Other receivables, prepayments and deposits		372	732
Bank balances		262	216
		990,943	958,274
Total assets		1,630,963	1,628,160
EQUITY AND LIABILITIES			
Equity holders			
Share capital		180,528	180,528
Share premium		745,086	745,086
Reserves	(a)	520,923	528,110
Total equity		1,446,537	1,453,724
LIABILITIES			
Non-current liabilities			
Convertible note	26	180,411	172,622
Current liabilities			
Other payables and accruals		4,015	1,814
Total liabilities		184,426	174,436
Total equity and liabilities		1,630,963	1,628,160

The balance sheet of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf.

WONG Ching Yi, Angela	**WONG Hon Shing, Daniel**
Director	*Director*

33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note (a) Reserve movement of the Company

	Contributed surplus HK$'000	Employee benefits reserve HK$'000	Convertible note equity reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	2,509	2,405	6,402	516,794	528,110
Loss for the year	–	–	–	(7,187)	(7,187)
Employee share options scheme – lapse of share options	–	(192)	–	192	–
At 31 December 2018	2,509	2,213	6,402	509,799	520,923
At 1 January 2017	2,509	2,405	–	519,369	524,283
Loss for the year	–	–	–	(2,575)	(2,575)
Equity component of convertible note issued (note 26)	–	–	6,402	–	6,402
At 31 December 2017	2,509	2,405	6,402	516,794	528,110

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to group reorganisation on 28 February 2001.

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Company name	Place of incorporation/ establishment	Issued/registered and paid up capital	Principal activities and place of operation	Interest held (%) 2018	Interest held (%) 2017
Bright Eastern Limited	Hong Kong	1 share	Property investment in Hong Kong	100	N/A
Century Hover Limited	British Virgin Islands	1 share of US$1	Property investment in Hong Kong	90	N/A
Champion Shine International Limited	Hong Kong	100 shares	Property investment in Hong Kong	90	N/A
Dragon Magic Investments Limited	Hong Kong	2 shares	Property investment in Hong Kong	90	N/A
Glorious Success Global Limited	British Virgin Islands	1 share of US$1	Property investment in Hong Kong	90	N/A

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Company name	Place of incorporation/ establishment	Issued/registered and paid up capital	Principal activities and place of operation	Interest held (%)	
				2018	2017
Grand Win (H.K.) Limited	Hong Kong	1 share	Property investment in Hong Kong	100	N/A
Gainwell Group Limited (note)	British Virgin Islands	1 share of US$1	Investment holding in Hong Kong	100	100
Ketanfall Group Limited (note)	British Virgin Islands	14 shares of US$1 each	Investment holding in Hong Kong	100	100
Legend Credit Limited (Previously known as "Easy Lending Limited")	Hong Kong	1 share	Money lending business in Hong Kong	100	100
Leader Concord Limited	Hong Kong	2 shares	Provision of management services to the group companies in Hong Kong	100	100
Midland Realty (Comm. & Ind.) Limited	Hong Kong	500,000 shares	Property agency in Hong Kong	100	100
Midland Realty (Comm. & Ind. II) Limited	Hong Kong	1 share	Property agency in Hong Kong	100	100
Midland Realty (Comm. & Ind. III) Limited	Hong Kong	1 share	Property agency in Hong Kong	100	100
Midland Realty (Comm.) Limited	Hong Kong	500,000 shares	Property agency in Hong Kong	100	100
Midland Realty (Shops) Limited	Hong Kong	500,000 shares	Property agency in Hong Kong	100	100
Midland Realty (Shops II) Limited	Hong Kong	1 share	Property agency in Hong Kong	100	100
Midland IC&I Surveyors Limited	Hong Kong	1 share	Provision of surveying services in Hong Kong	100	100

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Company name	Place of incorporation/ establishment	Issued/registered and paid up capital	Principal activities and place of operation	Interest held (%)	
				2018	2017
Midland IC&I Treasury Services Limited	Hong Kong	1 share	Provision of treasury services to the group companies in Hong Kong	100	100
Most Wealth (Hong Kong) Limited	Hong Kong	3 shares	Property Investment in Hong Kong	100	100
Princeton Residence (HK) Limited	Hong Kong	1 share	Serviced apartment operation in Hong Kong	100	N/A
Powerful Surge Group Limited	British Virgin Islands	100 share of US$1	Investment holding in Hong Kong	90	N/A
Ruby Hill Ventures Limited (note)	British Virgin Islands	1 share of US$1	Investment holding in Hong Kong	100	N/A
Teamway Group Limited	British Virgin Islands	1 share of US$1	Property investment in Hong Kong	100	100
Shine Treasure Holdings Limited	British Virgin Islands	1 share of US$1	Property investment in Hong Kong	90	N/A
Sino Hover Limited	British Virgin Islands	1 share of US$1	Property investment in Hong Kong	90	N/A
Supreme Gold Development Limited	Hong Kong	1 share	Property investment in Hong Kong	100	N/A

Note: The subsidiaries are directly held by the Company.

Location	Lot number	Existing use	Lease term	Group's interest
21/F, Ford Glory Plaza, Nos 37-39 Wing Hong Street, Cheung Sha Wan, Kowloon	NKIL2828	Commercial	Medium	100%
Car Park P19 2/F, Ford Glory Plaza, Nos 37-39 Wing Hong Street, Cheung Sha Wan, Kowloon	NKIL2828	Commercial	Medium	100%
Nos 33 and 35 Java Road, Hong Kong	IL6828 and IL6829	Commercial	Long	100%
5/F, LMK Development Estate, Nos 10-16 Kwai Ting Road, Kwai Chung, New Territories	KCTL139	Commercial	Medium	90%
6/F, LMK Development Estate, Nos 10-16 Kwai Ting Road, Kwai Chung, New Territories	KCTL139	Commercial	Medium	90%
7/F, LMK Development Estate, Nos 10-16 Kwai Ting Road, Kwai Chung, New Territories	KCTL139	Commercial	Medium	90%
8/F, LMK Development Estate, Nos 10-16 Kwai Ting Road, Kwai Chung, New Territories	KCTL139	Commercial	Medium	90%
12/F, LMK Development Estate, Nos 10-16 Kwai Ting Road, Kwai Chung, New Territories	KCTL139	Commercial	Medium	90%
Car Parking Space Nos. 12,13 and 14, G/F, LMK Development Estate, Nos 10-16 Kwai Ting Road, Kwai Chung, New Territories	KCTL139	Commercial	Medium	90%
Shop 6, G/F, Cambridge Court, Nos 84-84M Waterloo Road, Kowloon	KIL7981	Commercial	Medium	100%
7/F, Kaiseng Commercial Centre, Nos 4-6 Hankow Road, Kowloon	NKIL7703 and NKIL8184	Commercial	Medium	100%
8/F, Kaiseng Commercial Centre, Nos 4-6 Hankow Road, Kowloon	NKIL7703 and NKIL8184	Commercial	Medium	100%

	Year ended 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
For the year					
Revenues	628,780	637,247	520,268	470,143	547,678
Profit before taxation	60,396	104,862	23,346	6,072	45,476
Profit attributable to equity holders of the Company	48,148	89,918	18,100	2,371	39,661
Cashflows					
Net cash inflow/(outflow) from operating activities	54,272	76,684	(17,102)	39,613	67,120
At year end					
Total assets	1,661,120	1,540,598	996,043	892,670	951,809
Total liabilities	540,454	475,841	266,737	181,869	244,815
Non-controlling interests	7,761	–	–	–	–
Total equity	1,120,666	1,064,757	729,306	710,801	706,994
Cash and cash equivalents	593,214	750,312	657,661	675,291	640,214
Per share data	HK cents	HK cents	HK cents (Restated)	HK cents (Restated)	HK cents (Restated)
Basic earnings per share (Note)	2.667	5.258	1.321	0.173	2.895
Diluted earnings per share (Note)	2.497	4.655	1.321	0.173	2.895

Note: The weighted average number of shares and the basic and diluted earnings per share data for the year ended 31 December 2014 to 2016 are adjusted retrospectively to take into account the effect of the Share Consolidation during the year ended 31 December 2017 as if it had taken place before the beginning of the prior periods.

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