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Midland IC&I Limited

美聯工商舖有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 459)

CONTINUING CONNECTED TRANSACTIONS

CROSS REFERRAL SERVICES FRAMEWORK AGREEMENT

References are made to the announcement of Midland dated 19 October 2020 in relation to the Midland Distribution, the announcement issued by the Company and Wealth Builder dated 17 November 2020 following the Midland Distribution and the announcement issued by the Company and Wealth Builder dated 28 December 2020 in relation to the results of the Offer. Following the Midland Distribution and the Offer, Mr. Wong (the Chairman and an executive Director), who is directly and indirectly interested in approximately 36.97% of all issued Midland Shares, became (directly and through his indirect wholly-owned companies, Wealth Builder and Sunluck) interested in 930,463,428 Shares (representing approximately 51.54% of all issued Shares in the Company) and Midland being an associate of Mr. Wong is a connected person of the Company by virtue of such relationship. Similarly, by virtue of the Company being an associate of Mr. Wong, the Company has become a connected person of Midland under the Listing Rules.

To take into account the change in connected relationship between the Company and Midland, on 8 February 2021, the Company entered into the Cross Referral Services Framework Agreement (2021) with Midland, pursuant to which members of the Group and the Midland Group may continue the Cross Referral Transactions with each other for a period of three years from 16 November 2020 to 15 November 2023 in compliance with the Listing Rules.

* For identification purpose only

As the highest applicable percentage ratio (other than the profits ratio) calculated based on the highest of the Proposed Annual Caps exceeds 5%, the Cross Referral Transactions as contemplated under the Cross Referral Services Framework Agreement (2021) will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Wong, Wealth Builder, Sunluck and any of their respective associates will abstain from voting in relation to the resolution approving the Cross Referral Transactions as contemplated under the Cross Referral Services Framework Agreement (2021) and the Proposed Annual Caps at the EGM.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps. Shinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

The circular containing (a) further information on the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps; (b) the letter from the Independent Board Committee; (c) the letter of advice from the independent financial adviser; and (d) a notice convening the EGM, is expected to be despatched to the Shareholders on or before 23 February 2021.

BACKGROUND

References are made to the announcement and the circular of the Company dated 25 October 2018 and 14 November 2018 respectively in relation to, among other things, the continuing connected transactions under the Cross Referral Services Framework Agreement (2018) entered into between the Company and Midland, for the provision of Cross Referral Transactions between the Group and the Midland Group for estate agency business in the Relevant Territory for a period of three years from 1 January 2019 to 31 December 2021.

References are also made to the announcement of Midland dated 19 October 2020 in relation to the Midland Distribution, the announcement issued by the Company and Wealth Builder dated 17 November 2020 following the Midland Distribution and the announcement issued by the Company and Wealth Builder dated 28 December 2020 in relation to the results of the Offer. Following the Midland Distribution and the Offer, Mr. Wong (the Chairman and an executive Director), who is directly and indirectly interested in approximately 36.97% of all issued Midland Shares, became (directly and through his indirect wholly-owned companies, Wealth Builder and Sunluck) interested in 930,463,428 Shares (representing approximately 51.54% of all issued Shares in the Company) and Midland being an associate of Mr. Wong is a connected person of the Company by virtue of such relationship. Similarly, by virtue of the Company being an associate of Mr. Wong, the Company has become a connected person of Midland under the Listing Rules.

To take into account the change in connected relationship between the Company and Midland, on 8 February 2021, the Company entered into the Cross Referral Services Framework Agreement (2021) with Midland, pursuant to which members of the Group and the Midland Group may continue the Cross Referral Transactions with each other for a period of three years from 16 November 2020 to 15 November 2023 in compliance with the Listing Rules.

CROSS REFERRAL SERVICES FRAMEWORK AGREEMENT (2021)

Date

8 February 2021

Parties

(a) the Company; and

(b) Midland

Term

The Cross Referral Services Framework Agreement (2021) will, subject to compliance with all relevant Listing Rules requirements by each of the Company and Midland, be valid for a term of three years from 16 November 2020 to 15 November 2023 and follows the substantive provisions of the Cross Referral Services Framework Agreement (2018).

Conditions precedent

Cross Referral Transactions entered into during the term of the Cross Referral Services Framework Agreement (2021) will be subject to the following conditions precedent:

- (a) Cross Referral Transactions which individually or in aggregate exceed the Exemption Thresholds for Midland will be subject to and conditional upon the Cross Referral Transactions contemplated under the Cross Referral Services Framework Agreement (2021) and the relevant annual caps for Midland thereof being approved by the independent shareholders of Midland in accordance with the Listing Rules (the “**Midland Independent Shareholders’ Approval**”); and
- (b) Cross Referral Transactions which individually or in aggregate exceed the Exemption Thresholds for the Company will be subject to and conditional upon the Independent Shareholders’ approval, save for transactions entered into prior to the expiry of the Cross Referral Services Framework Agreement (2018) on 31 December 2021.

Effect on transactions

For the avoidance of doubt:

- (a) Cross Referral Transactions entered into during the term of the Cross Referral Services Framework Agreement (2021) exceeding the Exemption Thresholds for Midland will only take effect when the Midland Independent Shareholders’ Approval is obtained; and
- (b) without prejudice to the above, for the Company, Cross Referral Transactions entered into prior to the expiry of the Cross Referral Services Framework Agreement (2018) will continue to take effect subject to the Cross Referral Services Framework Agreement (2018), which will be superseded by the Cross Referral Services Framework Agreement (2021) once the Independent Shareholders’ approval is obtained, and other Cross Referral Transactions exceeding the Exemption Thresholds will only take effect when the Independent Shareholders’ approval is obtained.

Details of the transactions under the Cross Referral Services Framework Agreement (2021)

The transactions under the Cross Referral Services Framework Agreement (2021) are of the same nature as those covered by the Cross Referral Services Framework Agreement (2018). They are essentially referrals of business opportunities in property transactions between members of the Group and the Midland Group, to secure engagements by the customers for estate agency services. Pursuant to the Cross Referral Services Framework Agreement (2021):

- (a) the Midland Group has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of the Group any business opportunity relating to or falling within the Group's estate agency business in respect of industrial and commercial properties and shops in the Relevant Territory; and
- (b) similarly, the Group also has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of the Midland Group any business opportunity relating to or falling within the Midland Group's estate agency business in respect of residential properties in the Relevant Territory.

Each referral is made on a case-by-case basis. There is no legally binding commitment on any member of the Group or the Midland Group to refer to the other any minimum number and/or target amount of transactions under the Cross Referral Services Framework Agreement (2021). The terms and conditions of each referral transaction will be evidenced by individual written agreements subject to the terms of the Cross Referral Services Framework Agreement (2021) and will be on normal commercial terms.

Referral fee and pricing policy

In consideration of the Cross Referral Transactions provided, the party making the referral (hereinafter the “**referor**”) is entitled to a referral fee from the party accepting such referral (hereinafter the “**referee**”) by way of sharing the relevant commission income actually received.

The allocation of the commission income received with respect to each individual property transaction will be determined on a case-by-case basis and on arm's length basis following the terms of the Cross Referral Services Framework Agreement (2021) and pricing policy below:

- (a) the allocation of commission income shall be on normal commercial terms or better, that is, terms which a party could obtain if the transaction were negotiated on an arm's length basis or on terms as considered by each of the Group and the Midland Group to be no less favourable to it than terms available to or from (as appropriate) its respective independent third parties, and neither the Group nor the Midland Group is required to consider the favourableness of such terms with respect to one another;
- (b) the starting point in determining the initial allocation of commission income received in each individual property transaction will be the following reference ratios (by the type of property transaction involved):

Property transaction involved	Reference ratio (%)	
	<i>Referor</i>	<i>Referee</i>
Primary property transaction	Between 70% to 90% (Note)	Between 30% to 10%
Secondary property transaction	50%	50%

Note: For a primary property transaction, a higher proportion of commission income received will usually be allocated to the referor of a property purchaser and a lower proportion to the referee (i.e. estate agent of the developer), as the former would typically assume relatively heavier workload. An estate agent seeking purchasers for properties in a development is required not only to have solid knowledge of the characteristics of the properties offered for sale but also to proactively put efforts and time in the marketing process and adapting to the needs of the purchasers. By contrast, in the case of the estate agent of the developer, the price and key commercial terms of the properties in the entire development are typically pre-set by the developer. Accordingly, the amount of time and efforts expected of the estate agent acting for the developer in the sale process are limited.

- (c) such reference ratios may be adjusted based on the negotiation between the parties on arm's length basis and on a case-by-case basis, after taking into account all relevant factors specific to the transaction including:
- (1) the characteristics, nature and value of any properties involved, such as the geographical locations, types, usages, areas or other objective features of the properties, as well as the subjective requirements of the specific customers (e.g. a party acting for the vendor of an unique and high value property is likely to be able to bargain for higher commission income);
 - (2) the expected workload of the respective agents;
 - (3) the scope and exclusive nature of the requisite estate agency and consultancy services involved under the engagements with the individual customers (e.g. a party acting for the vendor may bargain for higher commission income if he acts as a sole and exclusive agent for the vendor); and
 - (4) other factors (e.g. in some cases, the developer may set a sales target which, if met, will enable the estate agent for the developer to get a higher commission rate for all the transactions – in such case, when it is close to the said sales target, the estate agent for the developer may be willing to give a higher proportion of the commission income to the estate agent referring the purchaser so that the said sales target can be achieved);

(d) the commission income allocations proposed by individual estate agents will be submitted to the respective branch managers of such agents, who will review and, if appropriate, approve the same with reference to the above criteria based on the following:

(1) where there are comparable referral transactions with independent-third-party estate agents:

The branch managers would compare the commission income allocations and the terms of the transactions under the Cross Referral Services Framework Agreement (2021) with other comparable transactions which the Group made with independent-third-party estate agents in so far as they are available, particularly those made under the then prevailing circumstances. In selecting the comparable transactions, particular weight would be given to those closely similar to the case in question in terms of, among other things, the nature of engagements by the customers, the workload of the respective agents relative to each other as well as the characteristics, nature and value of any properties involved.

(2) where there are no comparable referral transactions with independent-third-party estate agents:

The factors mentioned under paragraphs (c)(1) to (4) above will be carefully considered, bearing in mind that the allocation of commission income shall be on normal commercial terms or better as set out in paragraph (a) above.

As income of estate agents in Hong Kong is in a large part derived from commission income, each of the referor and the referee estate agents would be self-motivated to secure an allocation ratio to the best of such agent's respective interests possible at the time when negotiating the allocation of the commission income for the agency such agent represents such that any referral transaction concluded following such negotiations will be on an arm's length basis.

(e) the commission income allocation ratio for each transaction, when finalised after considering the above factors, will be recorded when the parties enter into the individual written agreement for the property transaction; and

(f) the commission income allocations for the transactions made under the Cross Referral Services Framework Agreement (2021) will be checked and reviewed by the respective management of the Group and the Midland Group from time to time. Annually, the said transactions conducted during the financial year will also be reviewed by the Group and the Midland Group respectively in compliance with the relevant requirements in the Listing Rules.

Settlement

For actual commission income received in each month, payments of referral fees will generally be made by the end of the calendar month following the month in which the commission income is actually received from or attributable to the relevant transaction.

The referral fees payable by the Group to the Midland Group under the Cross Referral Services Framework Agreement (2021) will be settled through the working capital of the Group.

HISTORICAL AMOUNTS

The amounts of the existing annual caps of the referral fees from or to the Midland Group for the financial years ended 31 December 2018, 2019 and 2020 are as follows:

Existing annual caps:	Year ended 31 Dec 2018 (HK\$ million)	Year ended 31 Dec 2019 (HK\$ million)	Year ended 31 Dec 2020 (HK\$ million)
Referral fees to the Midland Group	130.0	145.0	145.0
Referral fees from the Midland Group	50.0	50.0	50.0

Set out below are the historical amounts of the referral fees from or to the Midland Group for the financial years ended 31 December 2018, 2019 and 2020:

Historical amounts:	Year ended 31 Dec 2018 (HK\$ million)	Year ended 31 Dec 2019 (HK\$ million)	Year ended 31 Dec 2020 (Note) (HK\$ million)
Referral fees to the Midland Group	99.0	63.9	35.3
Referral fees from the Midland Group	27.8	21.7	21.3

It is noted that such historical transaction amounts for the years 2019 and 2020 may be affected by specific market conditions, such as the effect of geopolitical tensions and global pandemic on the economy, and may not be reliable indicators of active transaction levels.

Note: The historical transaction amounts for the year ended 31 December 2020 are preliminary and subject to audit.

PROPOSED ANNUAL CAPS

The Proposed Annual Caps for the Group for the respective periods below are as follows:

Proposed Annual Caps	16 Nov 2020 to 31 Dec 2020 (HK\$ million)	1 Jan 2021 to 31 Dec 2021 (HK\$ million)	1 Jan 2022 to 31 Dec 2022 (HK\$ million)	1 Jan 2023 to 15 Nov 2023 (HK\$ million)
Referral fees to the Midland Group	15.0	110.0	110.0	95.0
Referral fees from the Midland Group	10.0	50.0	50.0	40.0

Basis of determining the Proposed Annual Caps

The Proposed Annual Caps for the Group in relation to the transactions contemplated under the Cross Referral Services Framework Agreement (2021) were determined by the Group with reference to factors including:

(a) as a starting point, the historical transaction amounts between the Group and the Midland Group adjusted for the relevant periods as follows:

(1) Proposed Annual Caps for referral fees payable/paid to the Midland Group:

(i) the historical transaction amounts of 2018 which had seen an active level of industrial and commercial property and shops referrals; (ii) the expected level of referral fees payable/paid to the Midland Group in respect of industrial and commercial properties and shops for the relevant periods; and (iii) the Group's potential business growth based on the scale, operations of the businesses and capability of the Group and capacity to take on referrals.

(2) Proposed Annual Caps for referral fees receivable/received from the Midland Group:

(i) the historical transaction amounts of 2018; (ii) expected level of referral fees receivable/received from the Midland Group in respect of residential properties for the relevant periods; (iii) the possible increase in market transactions in Hong Kong residential market following the COVID-19 pandemic; and (iv) the Group's potential business growth based on the scale, operations of the businesses and capability of the Group and opportunity to make referrals.

- (b) property market and economic factors which are expected to carry direct or indirect impact on property transactions, including:
- (1) the volatility of the property market in Hong Kong contributing to swings in transaction volume and value; and
 - (2) the possible outlook of the local economic environmental conditions, including the relaxation of mortgage ceiling on non-residential properties by the Hong Kong Monetary Authority in August 2020 and the abolition of the double ad valorem stamp duty on non-residential properties with effect from 26 November 2020 which may drive transaction levels.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CROSS REFERRAL SERVICES FRAMEWORK AGREEMENT (2021)

Referral transactions are an integral part of estate agency business, which constitute the principal activities of both the Group and the Midland Group. The Board believes that the Cross Referral Services Framework Agreement (2021) will provide a working framework in compliance with the Listing Rules to encourage cooperation between both groups of companies and secure more business opportunities for them which will be mutually beneficial to their respective business growth.

The Directors (other than the independent non-executive Directors whose views will be included in the circular to be despatched to the Shareholders after taking into account the views of the independent financial adviser) consider that (a) the terms of the Cross Referral Services Framework Agreement (2021) and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and (b) the terms of the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

To ensure that the transactions contemplated under the Cross Referral Services Framework Agreement (2021) will be conducted in accordance with its terms and the pricing policy and within the Proposed Annual Caps, the Group has in place the following internal control procedures to monitor the transactions contemplated under the Cross Referral Services Framework Agreement (2021):

- (a) the aggregate amount of referral fees payable/paid to and receivable/received from the Midland Group will be updated on a monthly basis for appraising the latest unutilised amounts available under the Proposed Annual Caps for the relevant period;
- (b) the terms and commission income allocations for the transactions under the Cross Referral Services Framework Agreement (2021) will be reviewed by the Group from time to time to ensure they are on normal commercial terms or better (i.e. terms obtainable on an arm's length basis or terms no less favourable to the Group than those available to or from independent third parties); and

- (c) annually, the transactions made under the Cross Referral Services Framework Agreement (2021) conducted during the financial year will also be reviewed by the independent non-executive Directors and reported by the auditors of the Company in compliance with the relevant requirements in Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

Mr. Wong (the Chairman and an executive Director), who is directly and indirectly interested in approximately 36.97% of all issued Midland Shares, is (directly and through his indirect wholly-owned companies, Wealth Builder and Sunluck) interested in 930,463,428 Shares (representing approximately 51.54% of all issued Shares in the Company). By virtue of Midland being an associate of Mr. Wong, Midland is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Cross Referral Services Framework Agreement (2021) will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio), calculated based on the highest of the Proposed Annual Caps exceeds 5%, the Cross Referral Transactions as contemplated under the Cross Referral Services Framework Agreement (2021) will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Wong, Wealth Builder, Sunluck and any of their respective associates will abstain from voting in relation to the resolution approving the Cross Referral Transactions as contemplated under the Cross Referral Services Framework Agreement (2021) and the Proposed Annual Caps at the EGM.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps. Shinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

The circular containing (a) further information on the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps; (b) the letter from the Independent Board Committee; (c) the letter of advice from the independent financial adviser; and (d) a notice convening the EGM, is expected to be despatched to the Shareholders on or before 23 February 2021.

GENERAL INFORMATION

The Company is an investment holding company. The Group is principally engaged in the provision of property agency services in respect of commercial and industrial properties and shops, properties investment, credit business and securities investment in Hong Kong.

Midland is an investment holding company, the shares of which are listed on the Main Board of the Stock Exchange. The Midland Group is principally engaged in the provision of property agency services in respect of residential properties in the Relevant Territory, property leasing, immigration consultancy services and money lending services.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Midland IC&I Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 459)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Cross Referral Services Framework Agreement (2018)”	the cross referral services framework agreement dated 25 October 2018 entered into between the Company and Midland for a period of three years from 1 January 2019 to 31 December 2021
“Cross Referral Services Framework Agreement (2021)”	the cross referral services framework agreement dated 8 February 2021 entered into between the Company and Midland for a period of three years from 16 November 2020 to 15 November 2023
“Cross Referral Transactions”	the cross referral services transactions between the Group and the Midland Group in relation to estate agency businesses
“Directors”	the directors of the Company

“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps
“Exemption Thresholds”	the thresholds for exemption from the circular and shareholders’ approval requirements under Rule 14A.76(2) of the Listing Rules, respectively in relation to the receipt or payment of referral fees
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising two independent non-executive Directors, namely, Mr. YING Wing Cheung, William and Mr. SHA Pau, Eric
“Independent Shareholders”	Shareholders other than Mr. Wong, Wealth Builder, Sunluck and any of their respective associates and any other Shareholders who have a material interest and are required to abstain from voting at the EGM in accordance with the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Midland”	Midland Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1200)

“Midland Distribution”	the distribution of an interim dividend by Midland in the form of a distribution in specie of 610,976,997 Shares (representing approximately 33.84% of the issued share capital of the Company) held by the Midland Group to the qualifying shareholders of Midland in proportion to their respective shareholdings in Midland
“Midland Group”	Midland and its subsidiaries
“Midland Share(s)”	the ordinary share(s) of nominal value of HK\$0.1 each in the share capital of Midland
“Mr. Wong”	Mr. WONG Kin Yip, Freddie, the Chairman and an executive Director of the Company
“Offer”	the unconditional mandatory cash offer made by Get Nice Securities Limited on behalf of Wealth Builder for all the issued Shares
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“Proposed Annual Caps”	the proposed maximum annual referral fees receivable/received from or payable/paid to the Midland Group by the Group under the Cross Referral Services Framework Agreement (2021)
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Relevant Territory”	Hong Kong, Macau and the PRC or any part of the foregoing
“Share(s)”	the ordinary share(s) of nominal value of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shinco Capital”	Shinco Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Cross Referral Services Framework Agreement (2021), the transactions contemplated thereunder and the Proposed Annual Caps

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Sunluck”	Sunluck Services Limited, a company incorporated in the British Virgin Islands with limited liability which is indirectly and beneficially wholly-owned by Mr. Wong
“Wealth Builder”	Wealth Builder Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is indirectly and beneficially wholly-owned by Mr. Wong
“%”	per cent.

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

Hong Kong, 8 February 2021

As at the date of this announcement, the Board comprises six Directors, of which three are Executive Directors, namely Mr. WONG Kin Yip, Freddie, Ms. WONG Ching Yi, Angela and Mr. WONG Hon Shing, Daniel; and three are Independent Non-Executive Directors, namely Mr. YING Wing Cheung, William, Mr. SHA Pau, Eric and Mr. HO Kwan Tat, Ted.