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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the "Board") of Midland IC&I Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2016 (the "Interim Period") together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Note	HK\$'000	HK\$'000
Revenues	3	231,041	288,391
Other (loss)/income	4	(691)	3,677
Staff costs		(110,731)	(145,695)
Rebate incentives		(76,311)	(52,347)
Advertising and promotion expenses		(7,225)	(10,259)
Operating lease charges in respect of office and shop premises		(20,672)	(17,159)
Impairment of receivables		(8,492)	(31,264)
Depreciation expenses		(2,083)	(2,386)
Other operating costs		(14,445)	(18,775)
Operating (loss)/profit		(9,609)	14,183
Finance income		1,080	1,229
Finance costs		(77)	(84)
(Loss)/profit before taxation		(8,606)	15,328
Taxation	5	(565)	(2,681)
(Loss)/profit and total comprehensive (loss)/income for the period attributable to equity holders		(9,171)	12,647

* For identification purpose only

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED) (continued)**

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	<i>Note</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	6		
Basic		(0.07)	0.09
Diluted		(0.07)	0.09

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2016

		As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property and equipment		5,200	7,169
Investment properties		59,500	60,200
Deferred taxation assets		2,807	1,934
		<u>67,507</u>	<u>69,303</u>
Current assets			
Trade and other receivables	8	210,854	146,200
Tax recoverable		2,846	1,876
Cash and bank balances		626,790	675,291
		<u>840,490</u>	<u>823,367</u>
Total assets		<u>907,997</u>	<u>892,670</u>
EQUITY AND LIABILITIES			
Equity holders			
Share capital		137,050	137,050
Share premium		549,433	549,433
Reserves		15,358	24,318
Total equity		<u>701,841</u>	<u>710,801</u>
Non-current liabilities			
Deferred taxation liabilities		633	540
Current liabilities			
Trade and other payables	9	195,490	173,141
Bank loan		7,718	8,188
Taxation payable		2,315	-
		<u>205,523</u>	<u>181,329</u>
Total liabilities		<u>206,156</u>	<u>181,869</u>
Total equity and liabilities		<u>907,997</u>	<u>892,670</u>

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The Company is a limited liability company incorporated in the Cayman Islands and listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its head office and principal place of business in Hong Kong is Room 1801A, 18th Floor, Office Tower One, Grand Plaza, 625 & 639 Nathan Road, Mongkok, Kowloon, Hong Kong.

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

The ultimate holding company is Midland Holdings Limited, a company incorporated in Bermuda and listed in Hong Kong.

This unaudited condensed consolidated interim financial information has been approved by the Board on 25 August 2016.

2 Basis of preparation and significant accounting policies

The condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared under the historical cost convention as modified by the revaluation of investment properties, which are carried at fair values, and also prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2015 except that the Group has adopted the following revised standards and amendments to standards issued by the HKICPA which are relevant to its operations and mandatory for the financial year ending 31 December 2016.

(a) Standards and amendments effective in 2016

HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation
Annual Improvements Project	Annual Improvements 2012-2014 Cycle
HKFRS 14	Regulatory Deferral Accounts

2 Basis of preparation and significant accounting policies (continued)

(a) Standards and amendments effective in 2016 (continued)

The adoption of the above new standards and amendments to existing standards did not have significant effect on the financial information or result in any significant changes in the Group's significant accounting policies, except for certain changes in presentation and disclosures.

(b) Standards which are not yet effective

The following new standards have been issued but are not effective for 2016 and have not been early adopted by the Group:

		Effective for accounting periods <u>beginning on or after</u>
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

3 Revenues and segment information

(a) Revenues

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Agency fee	229,889	286,654
Other revenues		
Rental income from a fellow subsidiary	1,132	1,064
Rental income from third parties	20	673
Total revenues	231,041	288,391

(b) Segment information

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

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

	Six months ended 30 June 2016			
	Property agency			
	Commercial properties	Industrial properties	Shops	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total revenues	100,451	59,428	78,080	237,959
Inter-segment revenues	(3,169)	(3,038)	(1,863)	(8,070)
Revenues from external customers	97,282	56,390	76,217	229,889
Segment results	10,840	(196)	(5,932)	4,712
Impairment of receivables	4,095	2,386	2,011	8,492
Depreciation expenses	460	573	974	2,007
Additions to non-current assets	8	8	79	95

3 Revenues and segment information (continued)

(b) Segment information (continued)

	Six months ended 30 June 2015			Total HK\$'000
	Property agency			
	Commercial properties HK\$'000	Industrial properties HK\$'000	Shops HK\$'000	
Total revenues	125,320	62,405	111,367	299,092
Inter-segment revenues	(7,087)	(1,804)	(3,547)	(12,438)
Revenues from external customers	<u>118,233</u>	<u>60,601</u>	<u>107,820</u>	<u>286,654</u>
Segment results	<u>26,444</u>	<u>4,820</u>	<u>(7,442)</u>	<u>23,822</u>
Impairment/(reversal of impairment) of receivables	2,371	(716)	29,609	31,264
Depreciation expenses	855	610	813	2,278
Additions to non-current assets	<u>386</u>	<u>289</u>	<u>2,266</u>	<u>2,941</u>

The Executive Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. Service fee from a fellow subsidiary, corporate expenses, fair value (loss)/gain on investment properties, 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.

Reportable revenues from external customers are reconciled to total revenues as follows:

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Revenues from external customers for reportable segments	229,889	286,654
Rental income from a fellow subsidiary	1,132	1,064
Rental income from third parties	20	673
Total revenues per consolidated statement of comprehensive income	<u>231,041</u>	<u>288,391</u>

3 Revenues and segment information (continued)

(b) Segment information (continued)

A reconciliation of segment results to (loss)/profit before taxation is provided as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Segment results for reportable segments	4,712	23,822
Service fee from a fellow subsidiary	-	653
Corporate expenses	(13,621)	(13,142)
Fair value (loss)/gain on investment properties	(700)	2,850
Finance income	1,080	1,229
Finance costs	(77)	(84)
	<u> </u>	<u> </u>
(Loss)/profit before taxation per consolidated statement of comprehensive income	<u>(8,606)</u>	<u>15,328</u>

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

	As at 30 June 2016			
	Property agency			Total
	Commercial properties	Industrial properties	Shops	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	78,464	55,199	83,424	217,087
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Segment liabilities	62,746	52,607	67,416	182,769
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	As at 31 December 2015			
	Property agency			Total
	Commercial properties	Industrial properties	Shops	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	53,688	32,029	68,001	153,718
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Segment liabilities	69,348	30,225	57,107	156,680
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3 Revenues and segment information (continued)

(b) Segment information (continued)

Reportable segment assets are reconciled to total assets as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Segment assets	217,087	153,718
Corporate assets	688,103	737,018
Deferred taxation assets	2,807	1,934
Total assets per consolidated balance sheet	907,997	892,670

Reportable segment liabilities are reconciled to total liabilities as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Segment liabilities	182,769	156,680
Corporate liabilities	22,754	24,649
Deferred taxation liabilities	633	540
Total liabilities per consolidated balance sheet	206,156	181,869

4 Other (loss)/income

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Service fee from a fellow subsidiary	-	653
Fair value (loss)/gain on investment properties	(700)	2,850
Others	9	174
	(691)	3,677

5 Taxation

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current		
Hong Kong profits tax	1,345	2,652
Deferred	(780)	29
	<u>565</u>	<u>2,681</u>

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 16.5%) on the estimated assessable profit for the Interim Period.

6 (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share for the period is based on the following:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders	(9,171)	12,647
Number of shares for calculation of basic (loss)/earnings per share (thousands)	13,705,000	13,700,000
Effect on conversion of share options (thousands)	-	10,618
Number of shares for calculation of diluted (loss)/earnings per share (thousands)	13,705,000	13,710,618
Basic (loss)/earnings per share (HK cents)	(0.07)	0.09
Diluted (loss)/earnings per share (HK cents)	(0.07)	0.09

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

In calculating the diluted (loss)/earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential shares from share options. 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 is determined. 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 (loss)/earnings per share for the period ended 30 June 2016 did not assume the exercise of share options since the exercise of share options would have an anti-dilutive effect.

7 Interim dividend

The Board does not declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

8 Trade and other receivables

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

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Not yet due	174,698	114,038
Less than 30 days	5,107	4,379
31 to 60 days	3,154	1,451
61 to 90 days	796	3,936
91 to 180 days	2,352	928
Over 180 days	2,169	767
	<u>188,276</u>	<u>125,499</u>

9 Trade and other payables

Trade payables include mainly the commissions or rebate payable to property consultants, co-operative estate agents and property buyers, which are due for payment only upon the receipt of corresponding agency fees from customers. These balances include commissions and rebate payable of HK\$11,923,000 (as at 31 December 2015: HK\$27,547,000) which are due for payment within 30 days after period end, and all the remaining commissions and rebate payable are not yet due.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2016, the Group recorded consolidated net loss of approximately HK\$9,171,000, while revenue for the period fell by 19.9% to approximately HK\$231,041,000. During the corresponding period in 2015, the Group recorded consolidated net profit of approximately HK\$12,647,000. In the first half of the year, the Group's results were adversely affected by, among other factors, the significant drop in the non-residential property market sales activities in Hong Kong as compared with that in the corresponding period in the previous year.

A sharp contrast

Sales activity shrank significantly in the first six months. According to the figures from Land Registry, the value and volume of non-residential property sales registrations in Hong Kong recorded a year-on-year decline of 52% and 41% respectively in the first half of the year. Indeed the property market sentiment was buoyant in the second quarter of previous year when the exuberance of the stock market spilled over to the property sector. Then the property market turned sour when it was hit by a series of problems such as sharp correction in stock indices and the depreciation of Renminbi. And the property market consolidation which began in second half of last year persisted in the beginning of 2016 as crash in oil prices stoked another round of market fears.

The property market confidence was so poor that even the demand for low-budget items such as stratified shopping units or carparks weakened. Poor local economic performance did not help either. Hong Kong retail sales fell 16 months in a row, dampening the investment appetite for retail properties. In the first few months of this year, the non-residential sector was virtually frozen and sales of stratified units were rare. When the market entered the second quarter, sales activities increased. The shift in the sentiment was due to the stabilisation of macro-economic conditions which was supported by oil prices bottoming and mainland economy growing moderately.

Operating costs

High operating costs was also a challenge. Unlike the agency group specializing in residential sector, the Group's operations mainly occupy office space instead of retail shops. And office rents, outperforming overall market, have been in a steady uptrend in recent years and the Group's rental expenses increased as a result. However, the Group still strived hard in cost containing. For instance, advertising and promotion expenses fell 29.6%. Also the level of impairment of receivables dropped 72.8%. The reduction was due to a high comparative base as there was a transaction with consideration at above HK\$1 billion fell through during the first half of last year.

OUTLOOK

The mild recovery which started in the second quarter is expected to continue in the near term. The worries of the hard-landing of mainland economy and sharp depreciation of Renminbi have waned. Despite short-term fluctuations, mainland economy is expected to show growth as the central government's policies will continue to provide stabilisations. The local economy still lacks growth momentum, but there are some positive signs. For example, the number of tourist arrivals to Hong Kong snapped the 13-month losing streak and registered a growth of 2.6% in July 2016. More encouragingly, the number of mainland tourists grew as well. It is too premature to conclude that the downtrend has reversed, but the worst may have been over.

Office sector is still expected to outperform. Buyers from mainland China continue to show strong interest in acquiring whole office block. Last month, One HarbourGate, an office tower in Hung Hom was bought for HK\$4.5 billion by a mainland buyer. Fueled by the positive sentiment, investment demand for prime office space will remain strong for quite some time. This sector will be further heated up if the Shenzhen-Hong Kong Stock Connect is launched within this year. Besides, the sales activities of the retail properties are expected to show mild growth. Bargain hunting is likely to take place as prices for some selected retail properties have corrected substantially and interest rates have remained unchanged so far this year. And transaction volume of retail properties is likely to rebound slightly in the second half.

The loosening of the monetary policies launched by Bank of England may have benefited the Hong Kong property market. But we have to stay vigilant on its development. After all, a series of macro-economic issues such as Euro-crisis, oil price crisis, the tightening measures by the government etc. posed serious threats to the property market in recent years. Market sentiment will take an abrupt turn if some unexpected events take place.

Business initiatives

The overall business environment is very challenging due to the property-related policies and lackluster local and global economic performance. The Group is relatively positive on the office sector and will continue to strengthen its presence in this segment. In the first half of the year, the Group brokered some big-ticket sales transactions valued at above HK\$100 million. And the most remarkable one was an en-bloc transaction of an office building valued at around HK\$350 million. Moreover, the Group has carried some relocation exercises so as to contain rental expenses. The Group will consider diversification initiatives and new business opportunities.

In light of the challenging operating environment ahead, the Group will proactively explore new business initiatives with particular focus on opportunities related to or that may produce synergy with the existing principal activities of the Group; and pursue diversified investment strategies with objectives to create value for the Group and enhance shareholders' return. We shall actively work to manage and deploy financial resources towards those suitable business opportunities in support of the growth objectives of the Group over time.

FINANCIAL REVIEW

Liquidity, financial resources and funding

As at 30 June 2016, the Group had cash and bank balances of HK\$626,790,000 (as at 31 December 2015: HK\$675,291,000), whilst bank loan amounted to HK\$7,718,000 (as at 31 December 2015: HK\$8,188,000). The Group's bank loan was secured by investment properties held by the Group of HK\$59,500,000 (as at 31 December 2015: HK\$60,200,000) and with maturity profile set out as follows:

Repayable	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Within 1 year	955	946
After 1 year but within 2 years	973	964
After 2 years but within 5 years	3,032	3,004
After 5 years	2,758	3,274
	7,718	8,188

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.

As at 30 June 2016, the Group had unutilised borrowing facilities amounting to HK\$15,000,000 (as at 31 December 2015: HK\$15,000,000) from a bank. The Group's cash and bank balances are denominated in Hong Kong dollars and the Group's bank loan is in Hong Kong dollars. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 30 June 2016, the gearing ratio of the Group was 1.1% (as at 31 December 2015: 1.2%). The gearing ratio is calculated on the basis of the Group's total bank loan over total equity of the Group. 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 4.1 (as at 31 December 2015: 4.5). The return on equity of the Group, which is the ratio of (loss)/profit for the period over total equity of the Group, was -1.3% (six months ended 30 June 2015: 1.8%).

The directors of the Company ("Directors") are of the view that there are sufficient financial resources to satisfy the Group's capital commitments and on-going working capital requirements.

Capital structure and foreign exchange exposure

During the Interim Period, there was no material change in the Group's capital structure. The Group generally finances its operations and investing activities with equity holders' funds.

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

Contingent liabilities

As at 30 June 2016, the Company executed corporate guarantee amounting to HK\$29,780,000 (as at 31 December 2015: HK\$29,780,000) as the securities for general banking facilities and bank loan granted to certain wholly-owned subsidiaries. As at 30 June 2016, HK\$7,718,000 of the banking facilities were utilised by a subsidiary (as at 31 December 2015: HK\$8,188,000).

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

Employee information

As at 30 June 2016, the Group employed 646 full-time employees (as at 31 December 2015: 738).

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, incentives tied in with profits and share options may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as education subsidies, medical and retirement benefits. In respect of staff development, both in-house and external training and development programmes are conducted on a regular basis.

INTERIM DIVIDEND

The Board does not declare an interim dividend for the Interim Period (2015: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Interim Period.

CORPORATE GOVERNANCE

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

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company (the "Audit Committee") comprises three Independent Non-Executive Directors with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The Audit Committee has reviewed and discussed with the management the unaudited condensed consolidated interim financial information of the Group for the Interim Period. PricewaterhouseCoopers as the Company's auditor has reviewed the unaudited interim financial information of the Group for the Interim Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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 throughout the Interim Period.

PUBLICATION OF INTERIM RESULTS AND 2016 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.midlandici.com.hk). The 2016 Interim Report will be despatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to our shareholders and customers for their continuous support, and to the management and all staff members for their hard work and dedication throughout the period.

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

Hong Kong, 25 August 2016

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