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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)**

**PROPOSED NEW ANNUAL CAPS FOR  
THE TRANSACTIONS UNDER  
THE CROSS REFERRAL SERVICES AGREEMENT (2015)**

The Company is proposing to revise up the amounts in the existing Annual Caps to the New Annual Caps for the financial years ending 31 December 2016, 2017 and 2018 respectively. The New Annual Caps proposed will facilitate the Transactions involving Cross Referral Services with Midland Group.

As required by the Listing Rules, the proposed New Annual Caps will be put to vote by the Independent Shareholders at the EGM. A circular containing, among other things, further information on the New Annual Caps, a letter from the Independent Board Committee, the recommendation of Octal Capital Limited, as the independent financial adviser, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or before 8 November 2016.

**1. INTRODUCTION**

- 1.1 The Group carries out the Transactions under the Cross Referral Services Agreement (2015) in its ordinary and usual course of business. For Listing Rules purposes, they are non-exempt continuing connected transactions for the Company. The Company has complied with the relevant Listing Rules in that regard. In December 2015, it issued the Cross Referral Circular (2015) to provide the Shareholders with the relevant background to, and the reasons for, undertaking the Transactions as well as the terms of the Cross Referral Services Agreement (2015) and the existing Annual Caps.
- 1.2 The Company is proposing the New Annual Caps for the financial years ending 31 December 2016, 2017 and 2018. No change will be made to the terms of the Cross Referral Services Agreement (2015). The following disclosures concerning the terms of that agreement correspond to the equivalent disclosures made in the Cross Referral Circular (2015), to which the Shareholders are recommended to refer.

\* For identification purposes only

## **2. THE TRANSACTIONS IN THE CROSS REFERRAL CIRCULAR (2015)**

### **2.1 Term**

As disclosed in the Cross Referral Circular (2015), the Cross Referral Services Agreement (2015) is a 3-year term agreement, commencing from 1 January 2016 to 31 December 2018 (both days inclusive).

### **2.2 Transactions**

The Transactions are essentially referrals of business opportunities in property transactions between the counterparties in the Group and the Midland Group, to secure customers' engagements for estate agency services. 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; similarly, the Group also has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of Midland Group any business opportunity relating to or falling within 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 Midland Group to refer to the other any minimum number and/or target amount of the Transactions. Where concluded between the relevant parties, the terms and conditions of the Transactions shall be reduced into individual written agreements.

### **2.3 Referral fee**

In consideration of the referral services provided, the party making the referral is entitled to a referral fee by way of sharing the relevant commission income actually received from the customer of estate agency services. The Cross Referral Services Agreement (2015) has provided for the reference ratios in which the commission income received in property transactions will be initially allocated between the respective parties to arrive at the referral fees. Different reference allocation ratios are prescribed for the property transactions of different nature depending on whether the transactions are secondary market transactions or primary market transactions. In a secondary market transaction, the reference allocation ratio of "50:50" will be used, whereas in a primary market transaction, the reference allocation ratios ranging from "70:30" to "90:10" will apply, with a higher proportion being allocated to the party making the referral of the property purchaser it has successfully found and a lower proportion to the counterparty accepting the referral.

With the guidance of the applicable reference ratios, the final allocation of commission income in each Transaction will be negotiated and concluded between the parties on arm's length and case-by-case basis. The factors considered include: (i) the characteristics, nature and value of 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; (ii) the nature and workload of the respective agents; and (iii) the scope and nature of the requisite estate agency and consultancy services contemplated under the engagements with individual customers.

In any event, under the Cross Referral Services Agreement (2015), 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 on an arm's length basis or terms no less favourable to the relevant members of the Group than terms available to or from (as appropriate) independent third parties. To that end, the Group will continue to apply its policy and procedures as follows:

- (a) The commission income allocations proposed by individual estate agents are submitted to the branch managers for review and approval.
- (b) Upon receiving the submitted allocations from the branch managers, the finance department of the Group will then double check the information integrity and ensure that proper approvals have been obtained.
- (c) In determining whether an allocation of commission income in a particular Transaction satisfies the above criteria, the most common approach used by the Group is by reference to comparable transactions with independent third parties. The branch managers would compare the allocation together with the related terms of the Transaction with other comparable transactions that the Group made with independent third parties in so far as they are available, particularly those made under the then prevailing circumstances. The branch managers may also seek guidance and assistance from more senior managerial staff with more experience and deeper knowledge in market practice and information. 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 the properties involved.

- (d) Where no comparable transactions are available for proper consideration, the Group would assess the followings where relevant:

*The nature and workload* – generally, in a primary market transaction, a party referring a purchaser would ordinarily receive more commission income than the party acting for the developer because the former would typically assume relatively heavier workload. For an estate agent seeking purchasers for properties in a development, he 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 primary market, the price and key commercial terms of the properties in the entire development are typically preset by the developer. Accordingly, the amount of time and efforts expected of the party acting for the developer in the sale process are limited;

*The engagement scope and nature* – a party acting for the vendor may bargain for higher commission income if he acts as a sole and exclusive agent for the vendor;

*The characteristics, nature and value of the property* – a party acting for vendor of unique and high value property is likely to be able to bargain for higher commission income; and

*Other factors* – for example, in some cases, the developer may set a sales target which, if met, enables the estate agent for the developer can 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 proportionate commission income to the estate agent referring the purchaser so that the said sales target can be achieved.

- (e) The allocation ratio for a particular property transaction, when finalized after considering the above factors, will be fixed when the parties enter into the written agreement for the property transaction.
- (f) The commission income allocations for the Transactions made will be reviewed by the management from time to time. Annually, the Transactions for the year will also be reviewed by the independent non-executive Directors, and reported on by the auditors of the Company in compliance with the relevant requirements in Chapter 14A of the Listing Rules.

As the overriding pricing policy currently provided in the Cross Referral Services Agreement (2015), the allocation of commission income shall be on normal commercial terms or better. This will not be changed in any respect.

As income of estate agents in Hong Kong is in a large part derived from commission income, the estate agents would be self-motivated by this incentive to use their best efforts to secure an allocation ratio to the best of his/her own interests when negotiating the allocation of the commission income. If the proposed allocation ratio in transactions with Midland Group deviates from that commonly found in the market, the disadvantaged estate agent (including those employed by the Group) may eventually refer the business to independent third party estate agent(s) that is/are available in the market (other than Midland Group) to earn as much as possible commission income for himself/herself. The Company's present policy and procedures are designed along this central theme, that is, to make the negotiations in transactions to adjust to prevailing competitive market forces. The Company believes the above policy and procedures are apt to achieve in a practical manner its objective, that is, to ensure the allocation terms are terms which a party could obtain if the transaction were on an arm's length basis or terms no less favourable to the Group than those available to or from (as appropriate) independent third parties.

## **2.4 Settlement**

Referral fee is paid out of the actual commission income received. For actual commission income received in each month, payments will generally be made by the end of the next following calendar month. The payment terms are the same as those in other referral transactions of the Group to or from (as appropriate) independent third parties.

## **3. NEW ANNUAL CAPS**

- 3.1 The amounts of the existing Annual Caps for the Transactions during the financial years ending 31 December 2016, 2017 and 2018 were set out in the Cross Referral Circular (2015). The principal rationale on which they are based are explained in the Cross Referral Circular (2015).

The Board is proposing New Annual Caps, which are set out below together with the existing Annual Caps extracted from the Cross Referral Circular (2015) for comparisons:

Annual Caps:	Year ending 31 Dec 2016		Year ending 31 Dec 2017		Year ending 31 Dec 2018	
	Existing (HK\$ million)	New (HK\$ million)	Existing (HK\$ million)	New (HK\$ million)	Existing (HK\$ million)	New (HK\$ million)
Maximum annual amounts of referral fees expected to be paid/payable to Midland Group in respect of industrial and commercial properties and shops	85.0	110.0	90.0	110.0	95.0	110.0
Maximum annual amounts of referral fees expected to be received from Midland Group, in respect of residential properties	40.0	40.0	45.0	45.0	50.0	50.0

3.2 In the proposed New Annual Caps, only the maximum annual amounts of referral fees expected to be paid/payable to Midland Group in respect of industrial and commercial properties and shops will be raised higher than the corresponding amounts of the existing Annual Cap. The maximum annual amounts of referral fees expected to be received from Midland Group in respect of residential properties will remain unchanged.

3.3 In proposing to revise up the relevant maximum annual amounts of the referral fees for industrial and commercial properties and shops in the New Annual Caps, the Group has taken into account the latest circumstances and factors, including the following material ones:

(a) *The Group's recent participations in industrial and commercial properties and shops market*

During the period from 1 January 2016 to 31 August 2016, the aggregate referral fees paid/payable to the Midland Group in respect of industrial and commercial properties and shops has already reached approximately HK\$66.6 million. It means, in percentage terms, that approximately 78% of the relevant amount in the existing Annual Cap for 2016 has already been utilized. In addition, of the HK\$66.6 million referral fees recorded, approximately 70% was attributable to transactions concentrated in two property developments known as "W668 West Kowloon" ("W668") at Cheung Sha Wan, Kowloon, Hong Kong and "OK Mall" situated at No.1 On Kwan Street, Shatin, Kowloon, Hong Kong.

The management of the Group, in reviewing the latest figures and general market trends has noted, in particular, the potential supply of office space from the revitalization of old industrial buildings. The Group considers that the relevant amounts in the New Annual Caps should be revised up to create greater capacity for resilience to the management of the Group to act fast and efficiently, by working closely with Midland Group, to capture new business opportunities in the market.

- (b) *Annualized amounts for the referral fees paid/payable to the Midland Group in respect of industrial and commercial properties and shops for 2016, 2017 and 2018*

Based on the historical referral fees for the period from 1 January 2016 to 31 August 2016 mentioned above, the annualized amount of referral fees for the whole financial year 2016 has been rising considerably above the relevant amounts in the existing Annual Cap for the year. Based on such revised annualized amounts for 2016 and the factors referred to above, the estimated amounts of the Annual Caps for the financial years 2017 and 2018 are expected to be higher than the amounts in the existing Annual Caps for these years. By adjusting upwards the relevant amounts in the New Annual Caps with reference to up-to-date data, the Group's management believes it will better re-align the Group's business development in these years with the expected level of cooperation with the Midland Group.

- 3.4 The New Annual Caps proposed does not require or otherwise involve any alteration or amendment to the terms of the Cross Referral Services Agreement (2015).
- 3.5 To ensure the existing Annual Caps are not exceeded, the Group has set up the following procedures:
- (a) The aggregate amount of referral fees to be paid or payable to the Midland Group are updated on a monthly basis for the purpose of appraising the latest unutilized amounts available under the existing Annual Caps.
  - (b) For sales projects for new property developments, the Group will carry out an evaluation before it proceeds to participate in such project so as to estimate the potential amount of transactions specifically from the projects and hence the referral fees generated from such transactions.
  - (c) Weekly meetings for the management of sales department of the Group are arranged, providing frequent and regular occasions to obtain updates on the significant referral transactions concluded recently and potential significant referral transactions expected soon, and for the finance department to assess the impact on the existing Annual Caps.



- 3.6 The Directors (other than the independent non-executive Directors whose views and opinion will be provided in the Circular) consider that the New Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

#### **4. LISTING RULES IMPLICATIONS**

- 4.1 As at the date of this announcement, Midland, through its indirect wholly-owned subsidiary, is interested in approximately 70.78% of the issued share capital of the Company. Midland is therefore the controlling shareholder of the Company. The Transactions contemplated under the Cross Referral Services Agreement (2015) constitute continuing connected transactions for the Company under the Listing Rules.
- 4.2 The highest applicable percentage ratio (other than the profits ratio) calculated using the New Annual Caps for each of the financial years ending 31 December 2016, 2017 and 2018 as the numerator exceeds 5%; and the thresholds prescribed in Rule 14A.76(2) of the Listing Rules to qualify for exemption from independent shareholders' approval requirements are not met. As required by the Listing Rules, the proposed New Annual Caps will be put to vote by the Independent Shareholders at the EGM.
- 4.3 Ms. TANG Mei Lai, Metty and Ms. WONG Ching Yi, Angela are a non-executive director and an executive director of the Company respectively. Both of them are also executive directors of Midland. They had abstained from voting on the resolutions of the Board in respect of the New Annual Caps.

#### **5. GENERAL INFORMATION**

- 5.1 The Company is an investment holding company and the principal business activities of its subsidiaries are provision of property agency services in respect of industrial and commercial properties and shops in Hong Kong. The principal business activities of Midland Group are provision of property agency services in respect of residential properties in Hong Kong, Macau and the PRC.
- 5.2 A circular containing, among other things, further information on the New Annual Caps, a letter from the Independent Board Committee, the recommendation of Octal Capital Limited, as the independent financial advisor, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or before 8 November 2016.



## 6. DEFINITIONS

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

“Annual Caps”	in relation to each of the financial years ending 31 December 2016, 2017 and 2018, the maximum annual amounts of referral fees expected to be received or paid by the Group in connection with the Transactions under the Cross Referral Services Agreement (2015)
“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Midland IC&I Limited (Stock Code: 459), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Cross Referral Circular (2015)”	the circular of the Company dated 24 December 2015 issued in respect of the Cross Referral Services Agreement (2015) and the Annual Caps
“Cross Referral Services”	the cross referral services provided between the Group and Midland Group as more particularly described in the paragraph headed “Transactions” in this announcement
“Cross Referral Services Agreement (2015)”	the cross referral services agreement dated 16 December 2015 entered into between the Company and Midland in relation to the Transactions involving the Cross Referral Services
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for approving the New Annual Caps
“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 three independent non-executive Directors, namely, Messrs. YING Wing Cheung, William, SHA Pau, Eric and HO Kwan Tat, Ted
“Independent Shareholders”	Shareholders other than Midland and its associates

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macao Special Administrative Region of the PRC
“Midland”	Midland Holdings Limited (Stock Code: 1200), a company incorporated in Bermuda with limited liability and holding company of the Company, the shares of which are listed on the main board of the Stock Exchange
“Midland Group”	Midland and its subsidiaries (but excluding the Group for the purpose of this announcement)
“New Annual Caps”	the revised amounts of Annual Caps for the financial years ending 31 December 2016, 2017 and 2018
“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, where Midland Group or the Group, as the case may be, carries on its business during the term of the Cross Referral Services Agreement (2015)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction(s)”	the provision or acceptance, as the case may be, of the Cross Referral Services by the Group pursuant to the Cross Referral Services Agreement (2015)

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

Hong Kong, 27 October 2016

*As at the date of this announcement, the Board comprises eight Directors, of which two are Executive Directors, namely Ms. WONG Ching Yi, Angela and Mr. WONG Hon Shing, Daniel; three are Non-Executive Directors, namely Mr. KAN Chung Nin, Tony, 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.*