Embrace the vast opportunities for innovative endeavours

創新迎接商機
擁抱千里機遇

美聯集團
MIDLAND HOLDINGS
Midland Holdings Limited
Incorporated in Bermuda with limited liability
(Stock Code 股份代號：1200)

Annual Report 2018 年報

成就置富人生

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WONG Kin Yip, Freddie *(Chairman)*
Ms. WONG Ching Yi, Angela
(Deputy Chairman and Managing Director)
Mr. WONG Tsz Wa, Pierre
(Managing Director)
Mr. CHEUNG Kam Shing

Non-Executive Director

Mr. WONG Wing Cheung Dennis

Independent Non-Executive Directors

Mr. HO Kwan Tat, Ted
Mr. SUN Tak Chiu
Mr. WONG San

AUDIT COMMITTEE

Mr. HO Kwan Tat, Ted
(Committee Chairman)
Mr. SUN Tak Chiu
Mr. WONG San

REMUNERATION COMMITTEE

Mr. SUN Tak Chiu
(Committee Chairman)
Mr. WONG Kin Yip, Freddie
Ms. WONG Ching Yi, Angela
Mr. HO Kwan Tat, Ted
Mr. WONG San

NOMINATION COMMITTEE

Mr. HO Kwan Tat, Ted
(Committee Chairman)
Mr. WONG Kin Yip, Freddie
Ms. WONG Ching Yi, Angela
Mr. SUN Tak Chiu
Mr. WONG San

COMPANY SECRETARY

Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES

Ms. WONG Ching Yi, Angela
Mr. SZE Ka Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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
Chong Hing Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank 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

BERMUDA LEGAL ADVISER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

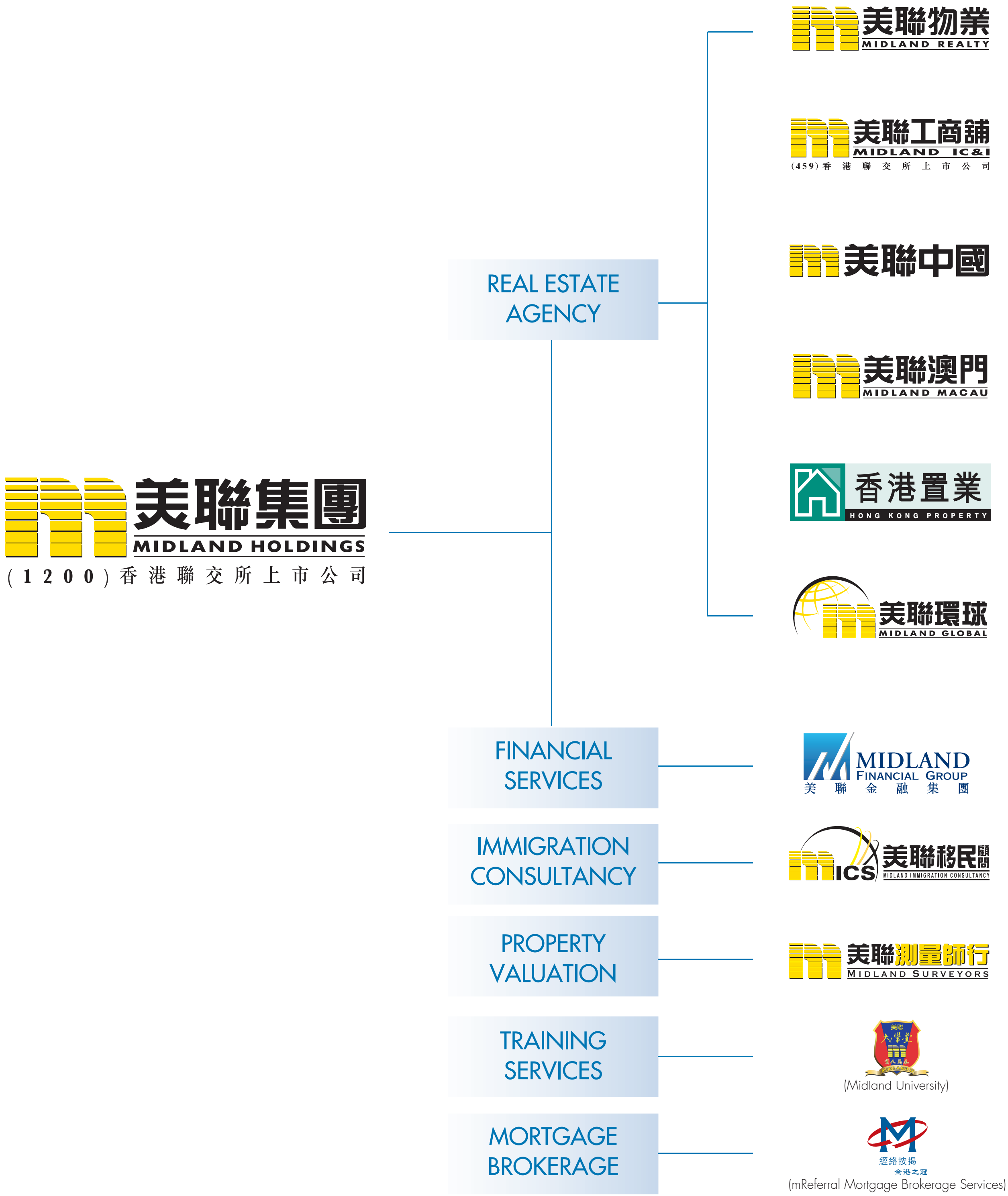
WEBSITE

www.midland.com.hk

STOCK CODE

1200

Strategic Business Units



Strategic Business Units	Business Description
Midland Realty	Provision of residential property agency services in Hong Kong
Midland IC&I	An associate of the Company, providing non-residential property agency services in respect of industrial, commercial and shop properties and property investment in Hong Kong
Midland China	Provision of property agency services, project planning, commercial property management and marketing and sales planning in the PRC
Midland Macau	Provision of property agency services, surveying, project planning, leasing and property management services in Macau
Hong Kong Property	Provision of residential property agency services in Hong Kong
Midland Global	Provision of overseas property projects' marketing and referral services in the PRC, Hong Kong and Macau
Midland Financial Group	A joint venture of the Company, providing independent financial planning consultancy services, insurance brokerage and wealth management services
Midland Immigration Consultancy	Provision of immigration consultancy services in Hong Kong and Macau
Midland Surveyors	Provision of professional surveying consultancy services including valuation advisory, development study, sales, marketing, tender and auction for projects
Midland University	Group's training center with the vision to strengthen the professionalism of employees, to lead the market as well as to cultivate elite for the industry
mReferral Mortgage Brokerage Services	A joint venture with a major developer, offering mortgage referral services as well as provision of related information

Major Events and Awards for the Year

The Annual Dinner
"Approaching Half a Century, The Golden Voyage of Midland"

Held at the Hong Kong Convention and Exhibition Centre, Midland Holdings Annual Party brought out the theme of "Approaching Half a Century, The Golden Voyage of Midland", demonstrating Midland's grand history of nearly 50 years and its dedication to continued innovation and development leveraging on its solid foundation and its commitment to a glorious journey together with employees for a brighter future.

Representatives of property developers were invited to the Cocktail Party and joined our management to celebrate with a toast on stage, showing determination to work together for future business opportunities. In addition to the remarkable performances and lucky draw, we also invited the popular girl-group "Super Girls" to be our guest performer, and they put on a brilliant show. Frontline elites also displayed their talents on stage. Talented singers from Midland Realty, together with those from Midland IC&I, all participated in the "Sing! Midland" singing contest. Their brilliant performance propelled the atmosphere of the night to the highest and boosted our employees' morale.

A series of "Thanksgiving" promotion campaigns to reward our customers

The Group has continued launching promotional activities to address customers' need and reward their support. With the concept of "Smart Living", we provide a variety of souvenirs and offers as well as a wealth of information on the property market, in order to enhance the brand's advocacy. Besides giving meticulously designed table calendar and red-pockets featuring "Mr. S" to our valued customers, we have gifted robotic vacuum cleaner to customers who were unsuccessful to apply for the Home Owner Scheme and offered a second chance of "boarding". "Midland Rental Insurance" were also provided to landlord to ease the hassle of property leasing.

Major Events and Awards for the Year

Winning three of the "Investor Relations Awards"

The Group is committed to promoting corporate governance, establishing a good governance mechanism and maintaining close liaison with shareholders. Hence, it won three of the Investor Relations Awards (small-caps category) organised by the Hong Kong Investor Relations Association, namely, "Best IR Company", "Best Investor Meeting" and "Best Annual Report". The Group is the only award-winning estate agency group and has become a benchmark for excellence in the industry.

Honourable accolades from Hong Kong Call Centre Association (HKCCA)

The Group is committed to listening to and understanding our customers' needs and expectations. With a forward-looking vision, the group has established an "Integrated Customer Centre" in 2016 followed by a brand-new live chat service in 2017. Just being launched for merely a year, these services have earned the coveted industry accolades of Silver Award in "Best Contact Centre in Omni-channel Deployment" and Bronze Award in "Inbound Contact Centre of the Year" by HKCCA, as a testament to Midland's competitiveness against industry heavyweights and a recognition of its outstanding customers service.

Developers' recognition on brilliant performance in newly launched properties

Capturing market opportunities, the Group's residential division has recorded brilliant sales performance on newly launched properties. With strong collaborations of major developers, Midland Realty was appointed as exclusive sales agent for AVA 228, No.62 Begonia Road, One Eighty, L'AQUATIQUE and LARVOTTO. Top sales performance was also achieved from various new projects.

Winning "The Best Customer Experience Brand" Award

The outreach of the Group into the digital field with new online applications has excelled in boosting customer experience. The winning of "The Best Customer Experience Brand" of e-Zone's "E-brand Awards 2018" has testified the Group's outstanding achievement in enhancing service standard with innovations in the new technology era.

Awarded "The Best Partner of Developers" for the 7th time

The Group has been awarded "The Best Partner of Developers 2018" by CAPITAL WEEKLY for the 7th time, and is the only agency among the industry to receive this award, as a recognition of its successful partnership and collaboration with developers.

Major Events and Awards for the Year

Awarded "PROchoice Property Agency" for the 6th consecutive year

With outstanding performance on progressive marketing strategies and well-received promotion efforts, the Group has earned the honour of "PROchoice Property Agency" by CAPITAL WEEKLY for the 6th consecutive year as a recognition of its brand vision.

Winning "Asia Pacific Outstanding Employer Award" & "Employer of Choice Award" for 3 & 5 consecutive years conferred by JobMarket respectively

By putting priority on talent development, the Group has once again earned the accolades of "Asia Pacific Outstanding Employer Award" and "Employer of Choice Award" for the 5th consecutive year conferred by JobMarket, as a testament of commitment of "Talent Seeking, Nurturing and Pooling".

Honoured with "Partner Employer Award" – Commended Corporation

The Group was awarded the "Partner Employer Award" – Commended Corporation by The Hong Kong General Chamber of Small and Medium Business in recognition of the Group's contribution in education and philanthropy by actively recruiting students and graduates from local universities and colleges to enrich their work experiences.

Awarded the "Hong Kong Outstanding Enterprises (Main Board Companies)" for 6 consecutive years

The Group has been awarded the "Hong Kong Outstanding Enterprises (Main Board Companies)" by the Economic Digest for 6 consecutive years and crowned "Extraordinary Enterprise Awards". As the only Hong Kong property agency to receive these two accolades, the honour has testified the Group's position as an industry leader in Hong Kong.

Honoured with "Manpower Developer 1st" title for 9 consecutive years

The Group has been excelling in talent training and development with the establishment of "Midland University" to nurture talents and promote professionalism for the industry. In recognition of its achievement, the Group was honoured with "Manpower Developer 1st" title for 9 consecutive years under the "ERB Manpower Developer Award Scheme".

Chairman's Statement

Business Review

Midland Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") announces that for the year ended 31 December 2018, it recorded a revenue of approximately HK$5,010 million, representing a drop of 5.4% compared with that for the year of 2017. The consolidated net profit attributable to equity holders dropped by 69.9% from approximately HK$193 million to approximately HK$58 million.

During the reporting period, the Group's results were adversely affected by unfavorable factors. On one hand, transaction volume in the Hong Kong residential market dropped as a result of the outburst of China-US trade war and sluggish global economy; on the other hand, the keen competition in the local market drove up rental and other costs. These two factors led to a challenging operating environment for the Group.

Overall Operating Environment Turned Unfavorable

The overall economy was robust in the first half of 2018. Interest rate remained at a low level, resulting in a positive sentiment in the property market. As the developers slowed down the pace of launching new projects during the first half of the year, the secondary market outperformed. However, as the global economic and political landscape became uncertain, particularly with the concerns arising from the China-US trade war and interest rate hikes, coupled with the slowdown of China's economy, market sentiment was dampened in the second half of the year. According to the Census and Statistics Department, Hong Kong's GDP growth in the fourth quarter of 2018 was 1.3%, a fall of more than half as compared with that of 2.8% in the third quarter, indicating a downtrend in the economy. Consequently, the transaction activity in the Hong Kong residential market was dragged down in the second half of 2018, with transaction value and volume falling by 26.1% and 31.1%, respectively, when compared with that in the first half of 2018.

Dismal Performance of the Property Market in the Second Half of 2018

Property prices in the first half of 2018 were on an upward trend. Average price per sq. ft. for residential properties rose by 8.7% from HK$12,425 at the beginning of the year to HK$13,501* by mid-year. To cool the overheating property prices, the Hong Kong government introduced a tax on vacant properties for new projects in the second half of the year. Although some developers sped up new project launches, the total sales of the year declined by 16.2% to 15,633 units as compared with that of 2017, a new low since 2013. Furthermore, the performance of the secondary market in the second half of 2018 was far from satisfactory, not only did the residential property price drop 8.7% from July to December 2018, but the transaction volume also plunged by 41.3% as compared with that in the first half of the year.

Outlook

Global Uncertainties Bring Cautious Outlook to the Property Market

The downward pressure on the global economy is expected to continue in 2019. During China's two sessions, the central government set the target of GDP growth at between 6% to 6.5% this year, a new low in nearly 30 years. At the same time, the European Central Bank revealed that the economic development in the Eurozone has been lower than expected, and a new round of stimulus measures would be necessary to drive economic growth. In view of these challenges, the Group expects that the performance of the Hong Kong property market would still be affected by unfavorable factors in the short term. While China and the US might be able to reach certain agreements on tariffs, trade disputes between the two countries may remain in a stalemate. The repercussions of Brexit and the emergence of trade protectionism in recent years have added uncertainties to the international trade and macroeconomic outlook.

* *Source of information: Midland Property Price Chart*

Furthermore, the impact of the trade war drove down China's GDP growth rate to 6.6% in 2018, the lowest in 28 years. Hong Kong has been going through a period of economic slowdown, and the local GDP growth fell from 3.8% in 2017 to 3.0% in 2018. The economic downturn in China and Hong Kong coupled with the drop in the long-term supply of private residential properties as a result of the Hong Kong government's plan to raise the ratio between public and private housing from 60:40 to 70:30, will pose challenges to the Group's operation. In addition, Hong Kong's home prices are the most expensive in the world, buying property for investment or self-used is not an easy task.

New Impetus from the Greater Bay Area Development

Despite the China-US trade conflict bringing uncertainties to countries across the globe, it has highlighted the advantage of Hong Kong as a free economy. Besides, the completions of various large-scale infrastructure projects such as the high speed rail and the Hong Kong-Zhuhai-Macao Bridge have pushed the number of mainland visitors to a record high. According to the Hong Kong Tourism Board, the number of visitors in 2018 to Hong Kong was 65.15 million, representing an 11.4% year-on-year increase. Among which, 51.04 million visitors were from mainland China, marking a 14.8% rise year-on-year. Although the spending power of mainland visitors has weakened, it is believed that the rise in the number of their arrivals will bring positive impact on the retail market and economic environment in Hong Kong.

The announcement of the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* has introduced a new phase to the core development of the Greater Bay Area. The Chinese government is committed to transforming the Greater Bay Area into a globally leading center for innovation, and promoting the interconnection of the infrastructures between cities in the region. It is also making efforts in enhancing Hong Kong's position as an international financial, shipping, and trading center, as well as an offshore Renminbi business hub, which will bring long-term benefits to Hong Kong. As the concern for interest rate hikes eases off, local users' property demands will gradually resume. In addition, due to the increasing political and economic risks in overseas markets, demand from mainland residents for Hong Kong properties is expected to rise. The Group might be cautious about the prospects of the Hong Kong property market in 2019, but remains hopeful in the long term.

Appreciation

I would like to express my sincere gratitude to our board members and staff for their dedication to the Group, and to take this opportunity to thank every shareholder and customer for their enduring support to the Group. We will continue to make our best efforts to offer quality services, so as to lead the Group towards a better future.

WONG Kin Yip, Freddie
Chairman

Hong Kong, 28 March 2019

Strategic Review and Planning

Maintain Competitive Advantage through Cost-efficiency Improvements

Amidst the market downturn and the increasingly tough local business environment, the Group has been actively pursuing overall cost-efficiency improvements in order to maintain its competitiveness. Apart from enhancing the advertising efficiency through digital marketing, the Group has also constantly reviewed the sales performance of frontline staff, as well as rebate incentives. Furthermore, the Group has achieved satisfactory results in strengthening its branch network, which will facilitate optimization of resources allocation and improve operation efficiency in the long run.

The primary home market lost momentum during the reporting period, which undoubtedly posed an adverse impact on the Group's results. Nevertheless, the strong sales of "Grand Central" in Kwun Tong might become a catalyst for developers to review their pricing strategies and may induce a rebound in the sales volume of new homes in 2019. The dynamics between the primary and secondary markets are expected to shift as a consequence and the Group will continue to closely monitor the market conditions and take corresponding measures.

As expected, the high-end property market outperformed during the reporting period. The Group will continue to strengthen and develop its high-end properties division.

Enhance Customer Service and Experience

As market conditions undergo rapid changes, the Group will progress with time and keep deploying more resources in innovations and technologies. In the second half of 2018, the Group launched the internal mobile application "M One", which is an important milestone of the Group's efforts in promoting interactive mobile working platform. Meanwhile, the Group continues to develop and enhance its customer-centric and holistic sales platform and has made good progress. For instance, the online live chat service has broadened its coverage to reach China, as well as to facilitate transactions of non-residential properties.

The Group's credit business commenced operation during the second half of 2018. It will support the Group in building a complete business ecosystem and holistic sales platform that encompasses property searches, agency, and financial services.

Actively Formulate a Greater Bay Area Strategy

The promulgation of the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* and the completions of large scale infrastructure projects such as the Hong Kong High Speed Rail and the Hong Kong-Zhuhai-Macao Bridge will facilitate the mutually beneficial cooperation between China, Hong Kong, and Macau. To align with the new economic development of the Greater Bay Area, the Group has set up a strategic unit to capture the market opportunities. The strategic unit will actively formulate business development plans in response to the market needs and to seize the opportunities in the Greater Bay Area.

Through active pursuit of the cost-efficiency measures and effective business development strategies, the Group will keep striving for improvement, with a view to deepening the market in Hong Kong and the Greater Bay Area. Despite the challenging market landscape in 2019, the Group will monitor the risk exposures, devise new business initiatives, and capture existing business opportunities.

WONG Ching Yi, Angela
Deputy Chairman and Managing Director

Hong Kong, 28 March 2019

Profile of Directors

Board of Directors: Front row: WONG Kin Yip, Freddie
Back row from left to right: HO Kwan Tat, Ted, WONG Wing Cheung Dennis, WONG San, WONG Ching Yi, Angela, WONG Tsz Wa, Pierre, SUN Tak Chiu, CHEUNG Kam Shing

Executive Directors

Mr. WONG Kin Yip, Freddie

aged 69, is the Founder, Chairman and Executive Director of the Company. He is also a member of the Remuneration Committee and Nomination Committee of the Company.

Mr. WONG established Midland Realty in 1973 and has been the Chairman of the Company since 1993. He is responsible for the leadership of the board of directors (the "Board"), formulating and overseeing the overall corporate directions and corporate strategies of the Group, and driving the Board and the individual directors to perform to the best of their ability.

Mr. WONG has over 45 years of experience in the real estate agency business in Hong Kong, China and overseas. He is a pioneer in the mortgage brokerage business and introduced mortgage referral services to Hong Kong. Mr. WONG is the Honorary Adviser of The Association of Hong Kong Professionals, and the chairman and permanent director of Midland Charitable Foundation Limited. In addition, Mr. WONG was a member of The Shenzhen Committee of the Chinese People's Political Consultative Conference, a member of the Estate Agents Authority in Hong Kong, a part-time member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region, and also a vice president of The Association of Hong Kong Professionals.

Mr. WONG is a director of Sunluck Services Limited and Southern Field Trading Limited which are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). He is the father of Ms. WONG Ching Yi, Angela, the Deputy Chairman, Managing Director and Executive Director of the Company.

Profile of Directors

Ms. WONG Ching Yi, Angela

aged 38, has been the Executive Director of the Company since March 2008 and has been the Deputy Chairman of the Company since March 2011, and had been the Deputy Managing Director of the Company since August 2011 before her re-designation as Managing Director of the Company in December 2014. She is a member of the Remuneration Committee and Nomination Committee of the Company and the Chairman's Office.

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 Group and Midland IC&I 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 plays a leading role in the Chairman's Office.

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 is also a director of various members of the Group and a director of mReferral Corporation Limited, a joint venture company of the Group with a leading developer. She is a director and the vice president of Midland Charitable Foundation Limited. Ms. WONG has also been the Executive Director of Midland IC&I since December 2011 and was the Executive Director of Midland IC&I from June 2007 to March 2008.

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 the daughter of Mr. WONG Kin Yip, Freddie, the Chairman and Executive Director of the Company.

Mr. WONG Tsz Wa, Pierre

aged 55, has been the Managing Director and Executive Director of the Company since November 2012. He is the Chairman of the Risk Committee of the Company. He joined the Group in 1993 and has been a member of the Chairman's Office since December 2011. He is also a director of various member of the Group. Mr. Pierre WONG holds a master's degree in business administration and he is a professional member of The Royal Institution of Chartered Surveyors. He has over 30 years of experience in real estate agency business in Hong Kong.

Mr. Pierre WONG is responsible for the day-to-day management of the Group, the coordination of overall business operations as well as the effective implementation of the strategies, directions and policies of the Group.

Mr. Pierre WONG is the consultant of Midland IC&I since 2018.

** Midland IC&I Limited ("Midland IC&I"), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company's listed associate and its subsidiaries

Mr. CHEUNG Kam Shing

aged 55, has been the Executive Director of the Company since March 2011. He was the Consultant of the Group from November 2008 to March 2011. Mr. CHEUNG is responsible for the strategic development and daily operation of the Group's China division "Midland China" and Macau division "Midland Macau". He has over 33 years of solid experience in the real estate agency business. Mr. CHEUNG has served the Group for 27 years and was the Executive Director of the Company from June 1998 to November 2005. He is a director of various members of the Group.

Non-Executive Director

Mr. WONG Wing Cheung Dennis

aged 58, has been the Non-Executive Director of the Company since November 2017.

Mr. WONG is a Chartered Structural Engineer and a Chartered Building Surveyor, and holds a Bachelor Degree of Science in Civil Engineering. He is currently the director of Pruden Holdings Limited which has subsidiaries carrying on, among others, building surveying services, property valuation services, property management services and real estate agency services. Mr. WONG has extensive experience in consultancy services with the Government of the Hong Kong Special Administrative Region and various reputable organizations in the private sector in areas of building design and engineering, project management and property development planning.

Mr. WONG is an Authorised Person, a fellow member of The Hong Kong Institute of Surveyors, and a professional member of the Royal Institution of Chartered Surveyors, Institution of Structural Engineers and the Hong Kong Institution of Engineers. He is also the Chairman of Professional Building Surveying Consultants Association of Hong Kong, a member of the Building Sub-Committee of the Land and Development Advisory Committee of the Development Bureau and an alternate member of the Structural Engineers Registration Committee of the Buildings Department. He was the panel member of Solicitors Disciplinary Tribunal Panel.

Independent Non-Executive Directors

Mr. HO Kwan Tat, Ted

aged 54, has been appointed as an Independent Non-Executive Director, the chairman of the Audit Committee and the Nomination Committee, and the member of the Remuneration Committee of the Company since June 2017.

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 has been the Independent Non-Executive Director of Midland IC&I since December 2007. 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.

Mr. SUN Tak Chiu

aged 55, has been the Independent Non-Executive Director of the Company since September 2004. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company.

Mr. SUN has over 32 years of experience in the fields of accounting, securities industries and corporate finance. Mr. SUN holds a bachelor's degree in law and a master's degree in business administration. He is a fellow member of the Hong Kong Institute of Certified Public Accountants as well as the Association of Chartered Certified Accountants, an associate member of the Chartered Institute of Management Accountants, and a member of the Hong Kong Securities and Investment Institute.

Mr. WONG San

aged 62, has been the Independent Non-Executive Director of the Company and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company since September 2013. He is a professional building surveyor and holds a Master Degree of Science in International Real Estate. He is the founder of and is currently the Managing Director of Samson Wong & Associates Property Consultancy Limited. Mr. WONG has over 35 years' experience in property consultancy management, including real estate development, building survey and design, project planning & management and facility management, conversant with the Mainland and overseas real estate industry and also international joint venture development projects. He had worked for Standard Chartered Bank as their Property Administration Manager and for an international real estate consultancy firm as their CEO. Mr. WONG is an Authorised Person and is a fellow member of the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Facility Management. In 1998, he was elected as the President of the Hong Kong Institute of Surveyors and was awarded the Distinguished Building Surveyor in 2000.

Corporate Governance Report

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 Rules Governing the Listing of Securities on the Stock Exchange (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 Board makes broad policy decisions and has delegated the responsibility for detailed considerations to the Executive Committee 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 four Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. The composition of the Board is set out as follows:

Executive Directors

Mr. WONG Kin Yip, Freddie *(Chairman)*
Ms. WONG Ching Yi, Angela *(Deputy Chairman and Managing Director)*
Mr. WONG Tsz Wa, Pierre *(Managing Director)*
Mr. CHEUNG Kam Shing

Non-Executive Director

Mr. WONG Wing Cheung Dennis

Independent Non-Executive Directors

Mr. HO Kwan Tat, Ted
Mr. SUN Tak Chiu
Mr. WONG San

Board of Directors (Continued)

(ii) Board Composition (Continued)

Save and except Mr. WONG Kin Yip, Freddie is the father 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 11 to 14 of this Annual Report.

(iii) Chairman and Chief Executive Officer

The roles of Chairman and Managing Director of the Company are separated.

Mr. WONG Kin Yip, Freddie is the Chairman of the Company and is also the founder of the Group. He is responsible for the leadership of the Board, formulating and overseeing the overall corporate directions and corporate strategies of the Group, and driving the Board and the individual directors to perform to the best of their ability.

Ms. WONG Ching Yi, Angela and Mr. WONG Tsz Wa, Pierre are the Managing Directors of the Company. The Managing Directors of the Company carry out the function of chief executive officer of the Company and their role and responsibilities are set out on page 12 of this Annual Report. The Managing Directors report directly to the Board. The senior executives of the respective strategic business units of the Group are responsible for performing and overseeing the business operation of their business units.

(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 21 of this Annual Report.

(v) Non-Executive Director

Mr. WONG Wing Cheung Dennis, being the Non-Executive Director, has been appointed for a specific term of one year. The Independent Non-Executive Directors, namely Mr. HO Kwan Tat, Ted, Mr. SUN Tak Chiu and Mr. WONG San, have been appointed for a specific term of one and a half years, one year, and one year respectively. They are 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 bye-laws 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 bye-laws, 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 by rotation at least once every three years. If an Independent Non-Executive Director serves more than 9 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:

Directors	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
Executive Directors	
Mr. WONG Kin Yip, Freddie	✓
Ms. WONG Ching Yi, Angela	✓
Mr. WONG Tsz Wa, Pierre	✓
Mr. CHEUNG Kam Shing	✓
Non-Executive Director	
Mr. WONG Wing Cheung Dennis	✓
Independent Non-Executive Directors	
Mr. HO Kwan Tat, Ted	✓
Mr. SUN Tak Chiu	✓
Mr. WONG San	✓

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 was established on 21 September 1999 and consists of all the Executive Directors as members. The Executive Committee has the authority delegated by the Board to approve matters relating to the daily operations and management and business affairs of the Group, and also the approval of certain corporate actions of the Company.

(ii) Audit Committee

The Audit Committee was established on 4 August 1998 and is chaired by Mr. HO Kwan Tat, Ted, being the Independent Non-Executive Director, with two other members, namely Mr. SUN Tak Chiu and Mr. WONG San, as at the date of this Annual Report. All Audit Committee members are Independent Non-Executive Directors. In compliance with Rule 3.10(2) of the Listing Rules, two of the members of the Audit Committee possess the appropriate professional qualifications or accounting or related financial management expertise. The written terms of reference of the Audit Committee are accessible on the websites of the Company and the Stock Exchange.

During the year, the Audit Committee held two meetings 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 to the Board 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 was invited to attend and discuss at the meetings. There was no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditor of the Company.

The principal role and responsibilities of the Audit Committee include:

- reviewing the Group's interim and annual financial statements and the interim and annual reports before submission to the Board for approval;
- reviewing the financial reporting obligations and considering any matters raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor;
- reviewing and monitoring the independence and objectivity of the external auditor, and the effectiveness of the audit process in accordance with applicable standards;
- approving the remuneration and terms of engagement of the external auditor and making recommendation to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing the internal audit programme and ensuring the internal audit function is adequately resourced and effective, and considering any major findings on risk management and internal control matters; and

Board Committees (Continued)

(ii) Audit Committee (Continued)

- reviewing the financial controls and internal control systems of the Group and ensuring the management has discharged its duty to have effective risk management and internal control systems, in particular, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions.

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.

(iii) Remuneration Committee

The Remuneration Committee was established on 10 March 2005 with written terms of reference accessible on the websites of the Company and the Stock Exchange. The Remuneration Committee is chaired by Mr. SUN Tak Chiu, being the Independent Non-Executive Director, with four other members, namely Mr. WONG Kin Yip, Freddie, Ms. WONG Ching Yi, Angela, Mr. HO Kwan Tat, Ted and Mr. WONG San, as at the date of this Annual Report. Majority of the Remuneration Committee members are Independent Non-Executive Directors.

The Remuneration Committee held one meeting in 2018. During the year, the Remuneration Committee reviewed and recommended the remuneration packages of the Directors to the Board for approval and reviewed the Group's overall remuneration. The principal role and responsibilities of the Remuneration Committee include 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. No Director or any of his/her associate was involved in deciding his/her own remuneration.

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 individuals
HK$2,000,001 – HK$2,500,000	1
HK$9,000,001 – HK$9,500,000	1
HK$10,000,001 – HK$10,500,000	1
HK$11,000,001 – HK$11,500,000	1

Details of Directors' emoluments and five highest paid individuals during the year are set out in note 11 to the consolidated financial statements on pages 105 to 108 of this Annual Report.

Board Committees (Continued)

(iv) Nomination Committee

The Nomination Committee was established on 10 March 2005 with written terms of reference accessible on the websites of the Company and the Stock Exchange. The Nomination Committee is chaired by Mr. HO Kwan Tat, Ted, being the Independent Non-Executive Director, with four other members, namely Mr. WONG Kin Yip, Freddie, Ms. WONG Ching Yi, Angela, Mr. SUN Tak Chiu and Mr. WONG San as at the date of this Annual Report. Majority of the Nomination Committee members are Independent Non-Executive Directors.

The Nomination Committee held one meeting in 2018. During the year, the Nomination Committee assessed the independence of the Independent Non-Executive Directors, reviewed the structure, size and composition of the Board, made recommendation to the Board on the re-election of the retiring Directors, reviewed the board diversity policy and made recommendation to the Board for approval on renewal of terms of appointment of Directors.

The principal role and responsibilities of the Nomination Committee include formulating and reviewing the nomination policy, assessing the independence of the Independent Non-Executive Directors and making recommendations to the shareholders on Directors' standing for re-election. 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 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 accessible on the website of the Company. The Risk Committee is chaired by Mr. WONG Tsz Wa, Pierre, being Managing Director 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 risk which may have significant impact to the Group, and reviewed 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 as follows:

	Number of Meetings Attended/Held					
Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Annual General Meeting
Executive Directors						
Mr. WONG Kin Yip, Freddie *(Chairman)*	5/5	N/A	1/1	1/1	N/A	1/1
Ms. WONG Ching Yi, Angela *(Deputy Chairman and Managing Director)*	5/5	N/A	1/1	1/1	N/A	1/1
Mr. WONG Tsz Wa, Pierre *(Managing Director)*	5/5	N/A	N/A	N/A	2/2	1/1
Mr. CHEUNG Kam Shing	5/5	N/A	N/A	N/A	N/A	1/1
Non-Executive Director						
Mr. WONG Wing Cheung Dennis	5/5	N/A	N/A	N/A	N/A	1/1
Independent Non-Executive Directors						
Mr. HO Kwan Tat, Ted	5/5	2/2	1/1	1/1	N/A	1/1
Mr. SUN Tak Chiu	5/5	2/2	1/1	1/1	N/A	1/1
Mr. WONG San	5/5	2/2	1/1	1/1	N/A	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 on pages 47 to 48 in the Report of the Directors 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 Company's independent auditor on the 2018 consolidated financial statements of the Group are set out in the "Independent Auditor's Report" on pages 57 to 61 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

For the year ended 31 December 2018, 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 is set out as follows:

	Fees payable or paid	
	2018	2017
	HK$'000	HK$'000
Services rendered for the Group		
Audit Services	2,720	2,478
Interim Results Review	573	573
Other non-Audit Services (Tax and other professional Services)	650	660
Total Fees	3,943	3,711

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.

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 programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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 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.

The Company provides an opportunity for its shareholders to seek clarification and to obtain a better understanding of the Group's performance in the 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.midland.com.hk where the Company's announcements, circulars, notices, financial reports, business development, corporate governance practices, latest memorandum of association and bye-laws of the Company and other information are posted.

The 2018 AGM of the Company was held on 1 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 AGM and had effective communication with shareholders of the Company.

During the year, there were no changes to the memorandum of association and bye-laws of the Company.

Shareholders' Rights

(i) Procedures for Shareholders to Convene a Special General Meeting

The Board shall, on the requisition in writing by the shareholder(s) to the Board or the Company Secretary of the Company 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, forthwith proceed to convene a special general meeting in accordance with the bye-laws of the Company.

If within twenty-one days of such deposit the Board fails to proceed to convene the special general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting but any meeting so convened shall not be held after the expiration of three months from the said date.

(ii) Procedures for Putting Forward Proposals at General Meeting

Shareholders can submit a written requisition to move a resolution at general meeting. The number of shareholders shall represent not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the general meeting to which the requisition relates, or shall not be less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the general meeting. It must also be signed by all the requisitionists and be deposited at the registered office of the Company in Bermuda and Rooms 2505-8, 25th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong for the attention of "Manager, Company Secretarial Department" not less than six weeks before the general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

The requisitionists must deposit a sum reasonably sufficient to meet the Company's expenses in giving the notice of the resolution and circulating the statement submitted by them under applicable laws and rules.

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company and the above-mentioned address in Hong Kong, an annual general meeting is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

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 Abacus Limited. Shareholders and investors 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 Investors 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@midland.com.hk.

Corporate Social Responsibility Report

Viewpoints on market showed authority in the industry

As an authority in the industry, the Group fully utilises its strengths and closely monitors the pulse of the property market. Through press conferences, in-depth interviews, feature stories, instant responses and analytical articles, the group has showcased its credibility by sharing unique insight, outlining trend of the property market, and offering professional and helpful information to the market.

Rewarding members for their support on the 5th Anniversary of Midland Club

This year marks the 5th anniversary of Midland Club. To reward members for their support, apart from upgrading membership benefits, we have also held a series of activities, including “Summer Family Day”, “Cup Noodles Workshop” and “Pizza Express Family Pizza Party”, for building a happy life for our members and families.

Quality seminars on property education

The Group continued to promote the concept of “Understand First Then Invest” and organized property seminars and group tours focusing on housing demands in the market. Combining tours, on-site inspection and property education, the activities aimed to provide customers with the latest information on real estate and to fulfil our responsibility on educating people on property investment and home ownership.

Exceptional results at the 50th "Distinguished Salesperson Award"

Thanks to the Group's efforts in attracting and nurturing industry talents, 30 outstanding frontline staff won the 50th "Distinguished Salesperson Award" organised by the Hong Kong Management Association. With the most of awardees from Hong Kong and Macau in the industry, the Group's achievement in staff training and development has been widely recognized across industries.

Constant website enhancement to embrace new opportunities through digital innovations

The Midland website undergoes constant enhancement to keep pace with market development. We are among the first to launch a designated webpage for the "Greater Bay Area", providing detailed property market data and residential amenity information in Mainland China and Hong Kong. We have also meticulously crafted a new Home Owner Scheme webpage to provide eligibility check, sales and purchase instructions and Home Ownership Scheme properties listings. The revamped "Professional Agent Blog" has also been launched to cultivate business via comprehensive agency info provided in a professional manner.

Optimizing the mobile operation platforms

The launch and enhancement of the two major mobile apps, "M One" and "Listing Easy" (放盤易), respectively, provide powerful functions for managing real estate listings and customer contact information, helping frontline sales personnel to break free from time and geographical restrictions and do business at anytime and anywhere.

Launching "Midland, We Care" for employees

Adhering to the corporate principle of Love & Care, the Group caters for every need of its employees by launching "Midland, We Care" series. The debut of the series was a tea party on Women's Day, where employees shared their views on sustained development of individual and career as modern career women. Healthy foods were also distributed to show love and care for all employees in the back office.

Winning the first "Environmental, Social and Corporate Governance Award 2018"

The Group has held nothing back in protecting the environment, and was thus awarded the "Environmental, Social and Corporate Governance Award 2018", a title given by the Economic Digest for the first time in Hong Kong. It is an acknowledgement of the Group's great contribution to the protection and sustainable development of the society and environment.

Recognition of environmental protection and energy conservation

The Group is committed to environmental protection and energy conservation, and received the Wastewi$e Certificate – Excellence Level in "Hong Kong Green Organization Certification" held by the Environmental Campaign Committee, "Joint Energy Saving Award" in CLP Smart Energy Award 2018 and the Platinum Award in "Charter on External Lighting" by the Environment Bureau, underlining the Group's contribution to the sustainable development of the planet.

Awarded the "ISO 14064-1: 2006" Greenhouse Gases Inventory Certificate

The Group was awarded the "ISO 14064-1: 2006" Greenhouse Gases Inventory Certificate by the International Organization for Standardization as a recognition of its efforts on promoting carbon reduction by introducing initiatives to reduce greenhouse gases emission in the workplace.

"Recapturing the classics while moving forward" CPU annual dinner

Themed "Recapturing the classics while moving forward", both management and back office staff donned themselves as characters of classic movies during the annual dinner of Central Professional Units (CPU), demonstrating high morale and unity in "making dreams come true" by becoming "superheroes" of the Group.

"Elite Club" morale boosting activities

Comprising elites in the industry, "Elite Club" has organised activities to boost morale, including visiting different cities in the Greater Bay Area by high-speed rail to examine large-scale domestic new sale projects; also, they proactively contributed to the society by raising funds for "Hong Kong Rehabilitation Power" to help the disabled so as to adhere to the corporate principle of "Love & Care".

Granted "Happy Company" once again

As a people-oriented enterprise, the Group has built a pleasant workplace via joint efforts of our employees. We were recognised by Promoting Happiness Index Foundation and the Hong Kong Productivity Council as "Happy Company" in appreciation of the Group's initiatives in creating a joyful working atmosphere.

Honoured with the accolade of "Family – Friendly Employers"

As a "people-oriented" enterprise, the Group has been actively promoting work-life balance, and was once again awarded the accolade of "Family-Friendly Employers" by the Home Affairs Bureau and the Family Council in recognition of its effort on promoting caring culture for the family.

Supporting "Project WeCan" for 5 consecutive years

It has been 5 years since the Group started to support "Project WeCan". The Group has been offering continuous all-round support to the partner school, HKSKH Bishop Hall Secondary School, which included offering funding support to the school for the establishment of the Diversified Learning Gallery and supporting students to take part in the "Young Innovators Bazaar" and "Career Exploration Day". Career seminar was also organised to prepare students for their future endeavours.

A team of a-hundred-strong participated in the Walk for Millions organised by the Community Chest

The Group has taken the initiative to give back to the society by showing its support to "The Community Chest 50th Anniversary Walk for Millions", an annual charity walk event organised by the Community Chest of Hong Kong, as being a sponsor as well as a participant. A team of a-hundred-strong participated in this fundraising event by taking a journey along the Central-Wan Chai Bypass on foot as an act to show care and warmth to those in need in our community.

Honoured as "Caring Company" for 15 consecutive years

Devoting itself to charitable causes, the Group has been awarded the Caring Company Logo by The Hong Kong Council of Social Service for 15 consecutive years in recognition of its unremitting effort in fulfilling its social responsibilities and promoting corporate caring.

Participated in the "Life Buddies" Mentoring Scheme

Upholding the principle of "nurturing talents with a people-oriented approach" in its cultivation of future pillars of our society, the Group was invited to participate in the "Life Buddies" Mentoring Scheme organised by the Commission on Poverty, where we offered a two-day workplace attachment opportunity for students to step out of the campus and work as our employees, with an aim of enabling them to broaden their visions and plan for their futures.

Supporting SPHC's "Hike for Hospice" for 14 consecutive years

For the 14th year in a row, the Group has supported "Hike for Hospice" held by the Society for the Promotion of Hospice Care. Combining charity with sports, members of the participating team strived for their very best in the short route event, in order to give back to society and help recipients of hospice services.

Unremitted support for Chinachem Eco-Walk

The Group fulfilled its corporate social responsibility with its unremitted support for "Chinachem Eco-Walk", a charity walk event organised by Chinachem. While the Group made donations to become a "silver sponsor", its staff members formed teams to take part in the event to promote carbon reduction awareness and contribute to environmental protection.

Corporate Social Responsibility Report

Named "Caring Enterprise" by The Lok Sin Tong Benevolent Society, Kowloon for 4 consecutive years

The Group has been strongly supporting the charity work organised by The Lok Sin Tong Benevolent Society Kowloon. The Group's volunteer team participated in the "LST Charity Candy Campaign" and the "Mid-Autumn Festival Volunteer Service", showing love and care to the elderly in need, and was once again presented a "Caring Enterprise" certificate as appreciation.

Participating in the "SHKP Vertical Run for Charity" for 7 consecutive years

For 7 consecutive years, the Group has sponsored the "SHKP Vertical Run for Charity – Race to Hong Kong ICC" organised by Sun Hung Kai Properties, where we met the challenge of taking 2,000 steps to the sky100 Hong Kong Observation Deck on the 100th floor, to show our support to services targeting local children and young people.

Sponsoring "Lifeline Express Charity Run/Walk" for 8 consecutive years

The Group has sponsored the "Charity Run/Walk" organised by Lifeline Express for 8 consecutive years. The charity event received enthusiastic responses from staff, and raised funds for the Lifeline Express, a hospital train aiming to restore the vision of cataract patients in remote areas in mainland China.

Active participation in various activities held by St. James' Settlement

The Group has been a loyal supporter of St. James' Settlement's charity events by offering full support to the "Grant-in-aid Brightens Children's Lives" Project for 6 consecutive years. Led by the Group's volunteer team, a group of primary school students participated in the "Workshop on organic food and traditional arts and crafts", where they learnt about organic food and traditional cultures in the community, preparing themselves to become future pillars of society.

Environmental, Social and Governance Report

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and covered 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 arranges 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 the Group's headquarter 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 the Group's headquarter during the reporting period was 129.84 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	23.67 tonnes of CO_2e	31.16 tonnes of CO_2e
Energy indirect emission	106.17 tonnes of CO_2e	105.45 tonnes of CO_2e

Waste policy

The Group has engaged a designated paper recycling company that specializes 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 and washrooms

Sustainable Procurement

- ➢ Preference will be given to office equipment with relatively high energy efficiency
- ➢ Purchase certified papers under the Programme for Endorsement of Forest Certification (PEFC)

Recycling 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	10,415,401 kWh	9,495,612 kWh
Water	4,740 m^3	6,723 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 the preset time to reduce light pollution. During the reporting period, 134 branches of the Group received the "Platinum Award".

In addition, the Group participated in the CLP GREEN^{PLUS} Award 2018 and received the "Joint Energy Saving Award".

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

Society (Continued)

Health and Safety

The Group attaches great importance to occupational safety and health of employees and is committed to provide a comfortable and safe working environment and raise the employees' 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 collective personal accident insurance, insurance for overseas business travel and employee compensation insurance.

Development and Training

The Group regards employees as invaluable assets. The Group founded Midland University to provide 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 organises 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.

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, such as the online live chat service, and aims to improve user experience through customer review and diversified social and digital platforms. The Group has obtained the international quality management system ISO 9001: 2015 certification. Mystery shoppers also conduct irregular 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.

Society (Continued)

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, and appointed a specific department to handle and investigate the relevant matters.

Community Investment

The Group participates in community activities that help to 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 activities, details of which are set out in the section headed "Corporate Social Responsibility Report" of this Annual Report.

Midland Charitable Foundation was founded in 2004. 0.1% of the commission of Midland Realty from each second-hand sales transaction every month will be donated to this foundation. As of 31 December 2018, the Group's volunteer service totaled 501 hours.

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.

Report of the Directors

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, joint ventures and associates are set out in note 37 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2018 by operating segments is set out in note 8 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 income statement on page 62 of this Annual Report.

The Board declared an interim dividend of HK$0.032 per ordinary share for the six months ended 30 June 2018 (2017: nil), which was paid on 21 September 2018.

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: HK$0.05 per ordinary share).

Dividend Policy

The Company has adopted a dividend policy which to provide relatively steady dividend payout ratio, linked to the Group's earnings performance and cash flow position as well as the business environment.

In view of its growth potentials, it is also the intention of the Group to maintain a position of financial stability and solid cash holdings to take advantage of any expansion or investment opportunities that may arise from time to time.

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 Chairman's Statement on pages 8 to 9, the Strategic Review and Planning on page 10 and the Management Discussion and Analysis on page 56 of this Annual Report. Description of the principal risks and uncertainties facing by the Group can be found in the Chairman's Statement on pages 8 to 9 and note 5 to the consolidated financial statements on pages 89 to 96 of this Annual Report. An analysis using financial key performance indicators can be found in the Management Discussion and Analysis on page 56 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 33 to 37 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 15 to 25 of this Annual Report.

Compliance with the relevant laws and regulations

As the principal activities of the Group are provision of estate agency services, the Group takes particular care to comply with the requirements of the Estate Agents Ordinance and the Residential Properties (First-hand Sales) 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 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 the 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 27 and note 36 to the consolidated financial statements respectively.

Charitable Donations

During the year, the Group made charitable donations totalling HK$881,000 (2017: HK$877,000).

Property and Equipment

Details of the movements in property and equipment of the Group during the year are set out in note 17 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 18 to the consolidated financial statements. Details of the properties held for investment purposes are set out on page 112 of this Annual Report.

Share Capital

Details of the share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

Pre-Emptive Rights

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

Distributable Reserves

As at 31 December 2018, the reserves of the Company available for distribution amounted to HK$570,626,000 (2017: HK$547,595,000).

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 136 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.

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:

Executive Directors

Mr. WONG Kin Yip, Freddie *(Chairman)*
Ms. WONG Ching Yi, Angela *(Deputy Chairman and Managing Director)*
Mr. WONG Tsz Wa, Pierre *(Managing Director)*
Mr. CHEUNG Kam Shing

Non-Executive Director

Mr. Wong Wing Cheung Dennis

Independent Non-Executive Directors

Mr. HO Kwan Tat, Ted
Mr. SUN Tak Chiu
Mr. WONG San

In accordance with bye-law 87 of the Company's bye-laws, Mr. WONG Kin Yip, Freddie, Mr. SUN Tak Chiu and Mr. WONG San shall retire by rotation at the forthcoming annual general meeting 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 the 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 or any of its subsidiaries 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 bye-laws 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 wilful negligence, wilful default, 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 schemes of the Company, 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 schemes of the Company are set out in the section headed "Share Option Schemes" in this report.

Share Option Schemes

2002 Share Option Scheme

Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting held on 30 April 2002, the Company adopted the 2002 share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme had expired on 29 April 2012. A summary of the 2002 Share Option Scheme is as follows:

(a) Purpose

The principal purposes of the 2002 Share Option Scheme are to enable the Group to recruit and retain high calibre eligible persons and attract human resources that are valuable to the Group or any entity in which the Group holds any equity interest ("Invested Entity"), to recognise the significant contributions of the eligible persons to the growth of the Group or any Invested Entity by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and to give incentives to these eligible persons to continue to contribute to the long term success and prosperity of the Group or any Invested Entity.

(b) Eligible persons

(i) any employee (whether full time or part time and including executive director) of any member(s) of the Group or any Invested Entity;

(ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; and

(iii) any supplier, customer, consultant, adviser or agent to and of any member 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 14,568,320 shares, representing approximately 2.03% of the issued shares of the Company. Since the 2002 Share Option Scheme had expired on 29 April 2012, 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 2002 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 the separate approval by the shareholders of the Company at 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 Schemes (Continued)

2002 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 2002 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 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 the 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 with all connected persons of the Company abstaining from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his or her intention to do so has been stated in the circular to be sent to the shareholders of the Company, 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 2002 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 2002 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 twenty-eight 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 2002 Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an eligible person and shall be no 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 date of offer;

(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 date of offer; and

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

(i) Remaining life of the 2002 Share Option Scheme

The 2002 Share Option Scheme became effective on 30 April 2002 and had remained in force for a period of ten years from that date and had expired on 29 April 2012.

The terms of the 2002 Share Option Scheme for those outstanding share options already granted under the 2002 Share Option Scheme remain in force.

Share Option Schemes (Continued)

2016 Share Option Scheme

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 23 June 2016, the Company adopted the 2016 share option scheme (the "2016 Share Option Scheme"). A summary of the 2016 Share Option Scheme is as follows:

(a) Purpose

The principal purposes of the 2016 Share Option Scheme are to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to, the selected participants, to attract and retain the best quality personnel for the development of the business of the Company and each of its direct or indirect subsidiary, associated company, jointly controlled entity or joint venture (collectively, the "Eligible Group"), to recognise the contributions of the selected participants to the growth of the Eligible Group by rewarding them with opportunities to obtain ownership interest in the Company, and/or to promote the long term success of the Eligible Group by aligning the interests of the selected participants to the shareholders of the Company.

(b) Participants

The participants of the 2016 Share Option Scheme are any director (including any executive director of the Company), executive, officer or employee (whether full-time or part-time) of each member of the Eligible Group (but excluding each member of the committee appointed by the Board from time to time for the purpose of administration of the 2016 Share Option Scheme), as absolutely determined by the Board in accordance with the terms of the 2016 Share Option Scheme.

(c) Total number of shares available for issue

The total number of shares available for issue under the 2016 Share Option Scheme is 35,902,300 shares, representing approximately 5% of the issued shares of the Company as at the date of this Annual Report.

(d) Maximum entitlement of each participant

The maximum number of shares issued and to be issued upon exercise of all options granted to each participant under the 2016 Share Option Scheme and any other share option schemes of the Company (including those exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue.

Any further grant of share options in excess of the above-mentioned limit shall be subject to the separate approval by the shareholders of the Company in general meeting with such participant and his or her close associates, or his or her associates if the participant is a connected person (all within the meaning as ascribed under the Listing Rules) of the Company, abstaining from voting, and all other requirements prescribed under the Listing Rules.

Share Option Schemes (Continued)

2016 Share Option Scheme (Continued)

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

The maximum number of shares issued and to be issued upon exercise of all options granted under the 2016 Share Option Scheme and any other share option scheme(s) of the Company to each participant who is an Independent Non-Executive Director or a substantial shareholder of the Company, 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 the aggregate value based on the closing price of the shares of the Company at 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 approved by the shareholders of the Company with all core connected persons (within the meaning as ascribed under the Listing Rules) of the Company abstaining from voting in favour at such general meeting.

(f) Time of exercise of option

An option may be exercised in accordance with the terms of the 2016 Share Option Scheme at any time during a period within which the option may be exercised, to be notified by the Board to each participant who accepts an offer in accordance with the terms of the 2016 Share Option Scheme, provided that it shall commence on a date not later 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 2016 Share Option Scheme shall be a price solely determined by the Board at its absolute discretion and 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 date of grant of the option which must be a business day;

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

(iii) the nominal value of a share of the Company on the date of grant of the option.

(i) Remaining life of the 2016 Share Option Scheme

The 2016 Share Option Scheme became effective on 23 June 2016 and will remain in force for a period of ten years from that date.

Share Option Schemes (Continued)

Movements in Share Options of the Company

Movements in the outstanding share options of the Company granted under the 2002 Share Option Scheme during the year were as follows:

			Number of share options					
Name	Date of grant	Exercise price per share HK$	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
Current Directors								
Mr. WONG Kin Yip, Freddie	21 July 2011	4.29	3,604,580	–	–	–	3,604,580	1 August 2011 to 31 July 2019
	21 July 2011	4.29	3,604,580	–	–	–	3,604,580	1 January 2012 to 31 December 2019
Ms. WONG Ching Yi, Angela	27 October 2011	3.81	3,604,580	–	–	–	3,604,580	1 January 2012 to 31 December 2019
	27 October 2011	3.81	3,604,580	–	–	–	3,604,580	1 October 2013 to 30 September 2021
Mr. SUN Tak Chiu	21 July 2011	4.29	150,000	–	–	–	150,000	1 August 2011 to 31 July 2019
Total			14,568,320	–	–	–	14,568,320	

Information on the accounting policy for share options granted under the share option schemes of the Company 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 2002 Share Option Scheme and the 2016 Share Option Scheme during the year.

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

	Number of ordinary shares		Number of underlying shares		
Name of Director	Personal interest/ Beneficial owner	Corporate interest/ Interest of controlled corporation	Personal interest/ Beneficial owner *(Note 1)*	Total	Approximate percentage of the issued voting shares of the Company
Mr. WONG Kin Yip, Freddie	24,490,000	169,894,144 *(Note 2)*	7,209,160	201,593,304	28.08%
Ms. WONG Ching Yi, Angela	–	–	7,209,160	7,209,160	1.00%
Mr. SUN Tak Chiu	–	–	150,000	150,000	0.02%

Notes:

1. These underlying shares were held by the Director(s) by virtue of the interests in the share options of the Company granted to him/her.

2. These shares were held by Sunluck Services Limited which is indirectly wholly owned by Mr. WONG Kin Yip, Freddie through his wholly-owned company, namely Southern Field Trading Limited. Following the voluntary conditional cash partial offer by Get Nice Securities Limited on behalf of Sunluck Services Limited, Sunluck Services Limited acquired 57,443,680 shares of the Company, and is interested in an aggregate of 227,337,824 shares of the Company. For further details of the partial offer, please refer to the composite document dated 18 January 2019 and the announcement dated 8 March 2019 jointly issued by Sunluck Services Limited and the Company. Mr. WONG Kin Yip, Freddie is therefore interested or deemed to be interested in 251,827,824 shares and 7,209,160 underlying shares of the Company, amounting to a total of 259,036,984 shares of the Company and representing approximately 36.08% of the issued voting shares of the Company.

3. Details of the share options granted by the Company to the above Directors are set out in the section headed "Share Option Schemes" 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 associated corporation of the Company

Name of associated corporation	Name of Director	Number of ordinary shares: Personal interest/ Beneficial owner	Number of ordinary shares: Corporate interest/ Interest of controlled corporation	Number of ordinary shares: Family interest/ Interest of spouse	Number of underlying shares: Personal interest/ Beneficial owner *(Note 4)*	Number of underlying shares: Corporate interest/ Interest of controlled corporation	Total	Approximate percentage of the issued voting shares of associated corporation
Midland IC&I	Mr. WONG Kin Yip, Freddie	12,245,000	515,452,680 *(Note 5)*	–	–	434,782,608 *(Note 6)*	962,480,288	53.31%
Midland IC&I	Mr. WONG Tsz Wa, Pierre	200,000	–	132,000 *(Note 7)*	9,000,000	–	9,332,000	0.52%
Midland IC&I	Mr. CHEUNG Kam Shing	–	–	–	1,000,000	–	1,000,000	0.06%
Powerful Surge Group Limited	Ms. WONG Ching Yi, Angela	5	–	–	–	–	5	5%
Powerful Surge Group Limited	Mr. WONG Tsz Wa, Pierre	5	–	–	–	–	5	5%

Notes:

4. These underlying shares were held by the Director(s) by virtue of the interests in the share options of Midland IC&I granted to them as follows:

Name	Date of grant	Exercise price per share HK$	Number of share options: As at 1 January 2018	Number of share options: As at 31 December 2018	Exercisable period
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

5. 80,670,072 shares were held by Sunluck Services Limited which is indirectly wholly owned by Mr. WONG Kin Yip, Freddie through his wholly-owned company, namely Southern Field Trading Limited and 434,782,608 shares were held by Wealth Builder Holdings Limited ("Wealth Builder"), which is indirectly wholly owned by Mr. WONG Kin Yip, Freddie through his wholly-owned company, namely Luck Gain Holdings Limited. 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 shares in Midland IC&I indirectly held by the Company.

6. Such interests in underlying shares (being unlisted physically settled derivatives) represent 434,782,608 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 Midland IC&I pursuant to an acquisition agreement dated 10 January 2017.

7. These shares represent the shares of Midland IC&I held by the spouse of Mr. WONG Tsz Wa, Pierre as beneficial owner.

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:

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
Ms. TANG Mei Lai, Metty *(Note 2)*	201,593,304 (L) *(Note 1)*	Interest of spouse/Family interest	28.08%
Southern Field Trading Limited *(Note 3)*	169,894,144 (L)	Interest of controlled corporation/ Corporate interest	23.66%
Sunluck Services Limited *(Note 3)*	169,894,144 (L)	Beneficial owner/Beneficial interest	23.66%
Sun Life Financial, Inc. *(Note 4)*	86,248,100 (L)	Interest of controlled corporation/ Corporate interest	12.01%
Sun Life of Canada (U.S.) Financial Services Holdings, Inc. *(Note 4)*	86,248,100 (L)	Interest of controlled corporation/ Corporate interest	12.01%
Massachusetts Financial Services Company *(Note 4)*	80,266,100 (L) 5,982,000 (L)	Investment manager/Other interest Interest of controlled corporation/ Corporate interest	11.18% 0.83%
Mr. LAU Wang Chi Barry *(Note 5)*	75,666,000 (L)	Interest of controlled corporation/ Corporate interest	10.54%
Surplus Gain Global Limited *(Note 5)*	75,666,000 (L)	Beneficial owner/Beneficial interest	10.54%
Edgbaston Investment Partners LLP *(Note 6)*	59,864,000 (L)	Investment manager/Other interest	8.34%
Edgbaston Asian Equity Trust *(Note 6)*	43,460,000 (L)	Beneficial owner/Beneficial interest	6.05%
Hosking Partners LLP *(Note 6)*	50,206,193 (L)	Investment manager/Other interest	6.99%

Remark: (L) – Long Position

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares (Continued)

Notes:

1. Such interests comprise (i) 194,384,144 ordinary shares held directly and indirectly by Mr. WONG Kin Yip, Freddie, the spouse of Ms. TANG Mei Lai, Metty; and (ii) 7,209,160 underlying shares held by Mr. WONG Kin Yip, Freddie by virtue of the interests in the share options of the Company granted to him.

2. The 194,384,144 ordinary shares and 7,209,160 underlying shares deemed to be interested by Ms. TANG Mei Lai, Metty relate to the same block of shares and underlying shares of the Company as disclosed under Mr. WONG Kin Yip, Freddie in the section headed "Director's and Chief Executive's interests and Short Positions in Shares, Underlying Shares and Debentures". Details of the share option granted by the Company to her spouse, Mr. WONG Kin Yip, Freddie, are set out in the sub-section headed "2002 Share Option Scheme" under the section headed "Share Option Schemes" in this Annual Report. Following the voluntary conditional cash partial offer by Get Nice Securities Limited on behalf of Sunluck Services Limited, Mr. WONG Kin Yip, Freddie is interested or deemed to be interested in 251,827,824 ordinary shares and 7,209,160 underlying shares of the Company. Ms. TANG Mei Lai, Metty is also deemed to be interested in the same block of shares and underlying shares of the Company. For further details of the partial offer, please refer to the composite document dated 18 January 2019 and the announcement dated 8 March 2019 jointly issued by Sunluck Services Limited and the Company.

3. The two references to 169,894,144 ordinary shares relate to the same block of shares of the Company as disclosed under Mr. WONG Kin Yip, Freddie in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report. Following the voluntary conditional cash partial offer by Get Nice Securities Limited on behalf of Sunluck Services Limited, Sunluck Services Limited acquired 57,443,680 ordinary shares of the Company, and is interested in an aggregate of 227,337,824 ordinary shares of the Company. Southern Field Trading Limited is deemed to be interested in such shares of the Company held by Sunluck Services Limited. For further details of the partial offer, please refer to the composite document dated 18 January 2019 and the announcement dated 8 March 2019 jointly issued by Sunluck Services Limited and the Company.

4. Details of the interest in long position of the 86,248,100 ordinary shares in which Sun Life Financial, Inc. ("SLF") was deemed to be interested were as follows:

   Massachusetts Financial Services Company ("MFS") held (through itself and its 100% controlled corporations) an aggregate of 86,248,100 ordinary shares. MFS was a 94.68% owned subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc. ("SLCFS") which was a 99.91% owned subsidiary of Sun Life Financial (U.S.) Investments LLC ("SLF(US)I"). SLF(US)I was an indirect wholly-owned subsidiary of SLF.

   MFS was a subsidiary of SLCFS and SLF. Accordingly, MFS's interest in 86,248,100 ordinary shares was duplicated with the interest of SLCFS and SLF.

5. The 75,666,000 ordinary shares were held by Surplus Gain Global Limited which is directly wholly owned by Mr. LAU Wang Chi Barry.

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

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.

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 significant related party transactions entered into by the Group during the year set out in note 35 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.

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.

(A) Continuing Connected Transactions (Disclosed by the Company's announcement dated 23 October 2017)

1. A tenancy agreement was made on 23 October 2017 between Union Honor Limited ("Union Honor"), an indirect wholly-owned subsidiary of the Company, as tenant and Gold Sphere Limited ("Gold Sphere"), a company directly wholly owned by Mr. WONG Kin Yip, Freddie, the Chairman, Executive Director and substantial shareholder of the Company, as landlord whereby the landlord agreed to let the premises located at Flat E on the Ground Floor of Sun Luen Building, Nos. 29, 29A, 29B, 31, 31A and 31B Bonham Road, Hong Kong as a branch for the real estate agency business of the Group for a term of two years commencing from 1 November 2017 to 31 October 2019 at a monthly rental of HK$51,000 without rent-free period and with the tenant having an option to renew the tenancy for a further term of two years at the prevailing market rent.

2. A licence agreement was made on 23 October 2017 between Great Century (H.K.) Limited, an indirect wholly-owned subsidiary of the Company, as licensee and Moral Winner Investment Limited ("Moral Winner"), a company indirectly wholly owned by Mr. WONG Kin Yip, Freddie, as licensor whereby a licence was granted to install and display signage at the designated space of the external wall facing Argyle Street of the building known as "No. 33 Argyle" at Nos. 611–617 Shanghai Street and No. 33 Argyle Street, Kowloon for marketing and promotion of the real estate agency business of the Group for a term of two years commencing from 1 November 2017 to 31 October 2019 at a monthly licence fee of HK$109,000.

3. A tenancy agreement was made on 30 March 2017 between Hong Kong Property Leasing (XXII) Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Shining Era Limited ("Shining Era"), a company directly wholly owned by Mr. WONG Kin Yip, Freddie, as landlord whereby the landlord agreed to let the premises located at Unit No. 5 on the 7th Floor of Tower II of South Seas Centre, No. 75 Mody Road, Kowloon as office of the Group for a term of two years commencing from 1 April 2017 to 31 March 2019 at a monthly rental of HK$52,000 without rent-free period and option to renew.

4. A licence agreement was made on 30 March 2017 between Hong Kong Property Leasing (XXII) Limited, an indirect wholly-owned subsidiary of the Company, as licensee and Shining Era, a company directly wholly owned by Mr. WONG Kin Yip, Freddie, as licensor whereby a licence was granted to use Car Parking Spaces Nos. P18 and P19 on the Basement Floor of South Seas Centre, No. 75 Mody Road, Kowloon as car parks for staff of the Group for a term of two years commencing from 1 April 2017 to 31 March 2019 at a monthly licence fee of HK$6,000.

5. A tenancy agreement was made on 4 January 2017 between Midland Leasing (XXIV) Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Gold Sphere, a company directly wholly owned by Mr. WONG Kin Yip, Freddie, as landlord whereby the landlord agreed to let the premises located at Flat D on the Ground Floor of Sun Luen Building, Nos. 29, 29A, 29B, 31, 31A and 31B Bonham Road, Hong Kong as a branch for the real estate agency business of the Group for a term of two years commencing from 10 January 2017 to 9 January 2019 at a monthly rental of HK$54,000 without rent-free period and option to renew.

6. A tenancy agreement was made on 12 October 2016 between Midland Corporate Services Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Moral Winner, a company indirectly wholly owned by Mr. WONG Kin Yip, Freddie, as landlord whereby the landlord agreed to let the premises located at Units 603-604 on 6th Floor of the building known as "No. 33 Argyle" at Nos. 611-617 Shanghai Street and No. 33 Argyle Street, Kowloon as office of the Group for a term of two years commencing from 15 October 2016 to 14 October 2018 at a monthly rental of HK$28,300 without rent-free period and option to renew.

Continuing Connected Transactions (Continued)

(A) Continuing Connected Transactions (Disclosed by the Company's announcement dated 23 October 2017) (Continued)

7. A tenancy agreement was made on 12 July 2016 between World Up Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Moral Winner, a company indirectly wholly owned by Mr. WONG Kin Yip, Freddie, as landlord whereby the landlord agreed to let the premises located at Portion of 15th Floor of the building known as "No. 33 Argyle" at Nos. 611-617 Shanghai Street and No. 33 Argyle Street, Kowloon as office of the Group for a term of two years commencing from 12 July 2016 to 11 July 2018 at a monthly rental of HK$17,500 without rent-free period and option to renew.

8. A tenancy agreement was made on 7 July 2016 between Hong Kong Property Leasing (XXII) Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Shining Era, a company directly wholly owned by Mr. WONG Kin Yip, Freddie, as landlord whereby the landlord agreed to let the premises located at Unit No. 4 on the 7th Floor of Tower II of South Seas Centre, No. 75 Mody Road, Kowloon as office of the Group for a term of two years commencing from 8 July 2016 to 7 July 2018 at a monthly rental of HK$48,400 without rent-free period and option to renew.

(B) Continuing Connected Transactions (Disclosed by the Company's announcement dated 27 April 2016)

9. A tenancy agreement was made on 27 April 2016 between Midland Alliance Limited, an indirect wholly-owned subsidiary of Midland IC&I (Midland IC&I Group had ceased to be the subsidiaries of the Company on 23 December 2016), as tenant and Shun Yik International Limited, a company directly wholly owned by Mr. WONG Kin Yip, Freddie, 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 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.

10. A tenancy agreement was made on 27 April 2016 between Union Honor, an indirect wholly-owned subsidiary of the Company, as tenant and Vision Dynasty Limited, a company directly wholly owned by Mr. WONG Kin Yip, Freddie, as landlord whereby the landlord agreed to let the premises located at Shop E on the Lower Ground Floor and Utility Room at Rear of Splendid Place, No. 39 Tai Koo Shing Road, Hong Kong as a branch for the real estate agency business of the Group for a term of two years commencing from 16 April 2016 to 15 April 2018 at a monthly rental of HK$78,000 without rent-free period and option to renew.

Continuing Connected Transactions (Continued)

(B) Continuing Connected Transactions (Disclosed by the Company's announcement dated 27 April 2016) (Continued)

11. A tenancy agreement was made on 17 March 2016 between 美聯物業代理（深圳）有限公司 (Midland Realty Agency (Shenzhen) Co. Ltd.*), an indirect wholly-owned subsidiary of the Company, as tenant and Ms. WONG Ching Yi, Angela, Deputy Chairman, Managing Director and Executive Director of the Company and daughter of Mr. WONG Kin Yip, Freddie and Ms. TANG Mei Lai, Metty, as landlord whereby the landlord agreed to let the premises located at Part 2 of Shop 107B, Floors 1#, 2#, City of Poly, Chuang Ye Road North, Nanyou Road East, Nanshan District, Shenzhen, the People's Republic of China (中華人民共和國深圳市南山區南油大道東、創業路北保利城花園1#、2#樓商舖107B之二) as a branch for the real estate agency business of the Group for a term of three years commencing from 18 March 2016 to 17 March 2019 at a rental of RMB24,000 (equivalent to HK$28,800) per month from 7 April 2016 to 6 March 2017; RMB24,774.19 (equivalent to approximately HK$29,729) from 7 March 2017 to 6 April 2017; RMB25,200 (equivalent to HK$30,240) per month from 7 April 2017 to 6 March 2018; RMB26,012.91 (equivalent to approximately HK$31,215) from 7 March 2018 to 6 April 2018; RMB26,460 (equivalent to HK$31,752) per month from 7 April 2018 to 6 March 2019; RMB9,389.03 (equivalent to approximately HK$11,267) from 7 March 2019 to 17 March 2019 with rent-free period from 18 March 2016 to 6 April 2016 and with the tenant having an option to renew the tenancy by making the request one month before the date of expiration of the term. The tenant has the priority to lease the premises under the same terms.

The Independent Non-Executive Directors have reviewed the continuing connected transactions mentioned above pursuant to Rule 14A.55 of the Listing Rules and confirmed that, the aforesaid 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 above continuing connected transactions of the Group 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 51 to 53 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.

* For identification purpose only

Changes in Directors' Information

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

Mr. WONG Wing Cheung Dennis has been appointed as a member of the Building Sub-Committee of the Land and Development Advisory Committee of the Development Bureau effective from 1 July 2018.

Retirement Scheme

Details of the Group's retirement scheme are set out in note 10 to the consolidated financial statements.

Principal Subsidiaries, Joint Ventures and Associates

Details of the Company's principal subsidiaries, joint ventures and associates as at 31 December 2018 are set out in note 37 to the consolidated financial statements.

Borrowings

Particulars of borrowings of the Group as at 31 December 2018 are set out in note 29 to the consolidated financial statements.

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 Director 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.

Directors' Interest in Competing Business

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

Mr. WONG Kin Yip, Freddie had interests in Midland IC&I and Ms. WONG Ching Yi, Angela held directorship in Midland IC&I Group. Midland IC&I Group engaged in the businesses of real estate agency, surveying and money lending as the Group.

Mr. WONG Wing Cheung Dennis had interests and/or held directorship in Pruden Holdings Limited and certain of its group companies, which engaged in the businesses of property valuation, property management and real estate agency as the Group.

As the board of the Company is independent of the board of directors of the above companies 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 businesses of the above companies.

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 forthcoming annual general meeting of the Company.

On behalf of the Board
Midland Holdings Limited

WONG Kin Yip, Freddie
Chairman

Hong Kong, 28 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and financial resources

The Group mainly finances its business operations with its internal resources and loan facilities from banks.

As at 31 December 2018, the Group had cash and bank balances of HK$942,290,000 (2017: HK$1,158,645,000).

As at 31 December 2018, the interest-bearing bank borrowings of the Group amounted to HK$255,500,000 (2017: HK$359,900,000) and with maturity profile set out as follows:

	2018 HK$'000	2017 HK$'000
Repayable within 1 year	255,500	359,900

As at 31 December 2018, the gearing ratio, which is calculated on the basis of total borrowings over total equity of the Group, was 17.5% (2017: 26.4%). The liquidity ratio, which represents a ratio of current assets over current liabilities, to reflect the adequacy of the financial resources, was 1.2 (2017: 1.2). The return on equity, which is the ratio of profit for the year over total equity of the Group, was 3.99% (2017: 14.21%).

As at 31 December 2018, the Group has unutilised borrowing facilities amounting to approximately HK$2,436,318,000 (2017: HK$1,975,100,000) from various banks. The borrowing facilities were granted to the Group on a floating rate basis. The directors of the Company (the "Directors") will continue to adopt an appropriate financial policy so as to sustain an optimal level of borrowings to meet the Group's funding requirements.

As at 31 December 2018, certain land and buildings and investment properties held by the Group of HK$59,572,000 (2017: HK$60,679,000) and HK$74,796,000 (2017: HK$57,350,000) were pledged to secure banking facilities granted to the Group. Borrowing facilities granted to the Group were also secured, inter alia, by floating charge over certain receivables of the Group, with carrying value of approximately HK$2,326,024,000 (2017: HK$2,186,067,000).

The Group's cash and cash equivalents are denominated in Hong Kong dollars, Renminbi and Macau Pataca and the Group's borrowings are in Hong Kong dollars. No currency hedging tool is used.

The Group's business has been conducted primarily in Hong Kong and its monetary assets and liabilities are mainly denominated in Hong Kong dollars. The Group is exposed to Renminbi exchange rate risk as the assets and liabilities of the Group's PRC subsidiaries are primarily denominated in Renminbi. Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. The Directors consider that no hedging measure against Renminbi exchange rate exposure is necessary at this stage but will closely monitor its fluctuations.

Contingent liabilities

As at 31 December 2018, the Company executed corporate guarantee of HK$2,753,818,000 (2017: HK$2,397,000,000) as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries of the Company. As at 31 December 2018, HK$296,977,000 of these facilities were utilised by the subsidiaries (2017: HK$387,006,000).

Employee information

As at 31 December 2018, the Group employed 6,563 full time employees (2017: 7,452) of which 5,428 were sales agents, 573 were back office supportive employees and 562 were frontline supportive employees.

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.

Independent Auditor's Report

pwc

羅兵咸永道

To the Shareholders of Midland Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Midland Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 134, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- 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(i) to the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates. For the year ended 31 December 2018, property agency fees amounted to approximately HK$4,984.1 million, representing 99.5% 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 estimations 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 estimations 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(ii) to the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates. As at 31 December 2018, the Group had gross trade receivables of approximately HK$2,686.2 million of which a provision for impairment of approximately HK$138.7 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 ageing profiles of trade receivables, their knowledge about the customers and the market conditions. Management grouped the remaining trade receivables with similar credit risk characteristics and ageing 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 ageing 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, in accordance with Section 90 of The Companies Act 1981 of Bermuda 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, 28 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenues	7	5,010,221	5,294,115
Other income and gains	9	5,882	13,436
Staff costs	10	(2,596,653)	(2,712,435)
Rebate incentives		(1,235,698)	(1,352,541)
Advertising and promotion expenses		(52,355)	(62,319)
Operating lease charges in respect of office and shop premises		(706,914)	(623,216)
Net impairment loss on financial assets		(47,706)	(61,749)
Depreciation and amortisation costs		(55,346)	(49,437)
Other operating costs		(270,874)	(253,774)
Operating profit	12	50,557	192,080
Finance income	13	546	813
Finance costs	13	(16,711)	(20,762)
Share of results of joint ventures	20	27,849	30,975
Share of results of associates	21	16,295	31,962
Profit before taxation		78,536	235,068
Taxation	14	(20,402)	(41,616)
Profit for the year attributable to equity holders		58,134	193,452
Dividends	15	22,977	35,902
Earnings per share	16	HK cents	HK cents
Basic		8.10	26.94
Diluted		7.95	26.45

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year attributable to equity holders	58,134	193,452
Other comprehensive income		
Item that will not be reclassified to profit or loss		
Fair value gains on financial assets at fair value through other comprehensive income	1,156	–
Items that may be reclassified to profit or loss		
Currency translation differences	1,435	(16,304)
Fair value gains on available-for-sale financial assets	–	2,665
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	(1,575)
Other comprehensive income/(loss) for the year, net of tax	2,591	(15,214)
Total comprehensive income for the year attributable to equity holders, net of tax	60,725	178,238

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property and equipment	17	136,518	140,235
Investment properties	18	91,160	90,591
Land use rights	19	1,072	1,174
Interests in joint ventures	20	45,637	49,254
Interests in associates	21	376,650	360,355
Available-for-sale financial assets	22	–	7,028
Financial assets at fair value through other comprehensive income	22	5,635	–
Deferred tax assets	30	17,093	19,432
Loan receivables	24	4,425	–
		678,190	668,069
Current assets			
Trade and other receivables	23	2,907,556	2,583,475
Taxation recoverable		27,102	2
Loan receivables	24	38,758	–
Short-term bank deposits	25	4,584	–
Cash and cash equivalents	25	937,706	1,158,645
		3,915,706	3,742,122
Total assets		4,593,896	4,410,191
EQUITY AND LIABILITIES			
Equity holders			
Share capital	26	71,805	71,805
Share premium	26	223,505	223,505
Reserves	27	1,160,788	1,066,469
Total equity		1,456,098	1,361,779
Non-current liabilities			
Deferred tax liabilities	30	3,980	3,846
Current liabilities			
Trade and other payables	28	2,874,810	2,626,842
Borrowings	29	255,500	359,900
Taxation payable		3,508	57,824
		3,133,818	3,044,566
Total liabilities		3,137,798	3,048,412
Total equity and liabilities		4,593,896	4,410,191

The consolidated financial statements on pages 62 to 134 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

WONG Ching Yi, Angela
Director

WONG Tsz Wa, Pierre
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Reserves HK$'000 (note 27)	Total HK$'000
At 1 January 2018	71,805	223,505	1,066,469	1,361,779
Impact on initial application of HKFRS 15 (note 3(b))	–	–	92,473	92,473
Restated balance at 1 January 2018	71,805	223,505	1,158,942	1,454,252
Comprehensive income				
Profit for the year	–	–	58,134	58,134
Other comprehensive income				
Fair value gains on financial assets at fair value through other comprehensive income	–	–	1,156	1,156
Currency translation differences	–	–	1,435	1,435
Total comprehensive income	–	–	60,725	60,725
Transactions with owners				
2017 final dividend paid (note 15)	–	–	(35,902)	(35,902)
2018 interim dividend paid (note 15)	–	–	(22,977)	(22,977)
	–	–	(58,879)	(58,879)
At 31 December 2018	71,805	223,505	1,160,788	1,456,098
At 1 January 2017	71,805	223,505	888,231	1,183,541
Comprehensive income				
Profit for the year	–	–	193,452	193,452
Other comprehensive income				
Currency translation differences	–	–	(16,304)	(16,304)
Fair value gains on available-for-sale financial assets	–	–	2,665	2,665
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	(1,575)	(1,575)
Total comprehensive income	–	–	178,238	178,238
At 31 December 2017	71,805	223,505	1,066,469	1,361,779

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	31	88,207	271,586
Hong Kong profits tax (paid)/refunded		(97,879)	13,359
Overseas taxation paid		(551)	(750)
Interest paid		(16,711)	(20,762)
Net cash (used in)/generated from operating activities		(26,934)	263,433
Cash flows from investing activities			
Purchase of property and equipment	17	(53,807)	(52,967)
Proceeds from disposal of an investment property		–	4,150
Return of capital from available-for-sale financial assets		–	6,086
Return of capital from financial assets at fair value through other comprehensive income		2,549	–
Increase in bank deposits with maturities over three months from date of deposits		(4,584)	–
Bank interest received		546	813
Dividend received from a joint venture		31,466	50,000
Net cash (used in)/generated from investing activities		(23,830)	8,082
Cash flows from financing activities			
Repayment of bank loans		(5,337,800)	(12,658,600)
Proceeds from bank loans		5,233,400	12,662,900
Dividends paid to equity holders		(58,879)	–
Net cash (used in)/generated from financing activities		(163,279)	4,300
Net (decrease)/increase in cash and cash equivalents		(214,043)	275,815
Cash and cash equivalents at 1 January		1,158,645	876,490
Exchange differences		(6,896)	6,340
Cash and cash equivalents at 31 December	25	937,706	1,158,645

Notes to the Consolidated Financial Statements

1 General information

Midland Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda and listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda 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 Hong Kong, the People's Republic of China (the "PRC") and Macau.

These consolidated financial statements have been approved by the board of directors on 28 March 2019.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with 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 financial assets at fair value through other comprehensive income, which are carried at fair values.

The preparation of consolidated financial statements in conformity with HKFRSs 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 these 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 classification of financial assets and the expected credit loss for financial assets, and impacted by HKFRS 15 in relation to timing of revenue recognition and 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 are mandatory 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
HKFRS 10 and HKAS 28 (amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Note:

HKFRS 16, "Leases"

HKFRS 16 will result in almost all leases being recognised on the consolidated 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 approximately HK$740 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 income statement 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 the 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 from 1 January 2018 resulted in changes in accounting policies. As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. The reclassification adjustments arising from the adoption of HKFRS 9 are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVTPL"). The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the financial assets at FVOCI reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the financial assets at FVOCI reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

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

(a) HKFRS 9, "Financial Instruments" (Continued)

Classification of financial assets and financial liabilities (Continued)

The directors reviewed and assessed the Group's financial assets as at 1 January 2018 and because this equity investment fund is held as long-term strategic investment, the Group elected to designate the investment as FVOCI (non-recycling). Changes in classification on the Group's financial assets and the impacts thereof are illustrated in the table below:

Consolidated balance sheet (extract)	As at 31 December 2017 HK$'000	Effects of the adoption of HKFRS 9 HK$'000	As at 1 January 2018 HK$'000
Non-current assets			
Available-for-sale financial assets	7,028	(7,028)	–
Financial assets at fair value through other comprehensive income	–	7,028	7,028
Equity			
Investment revaluation reserve	2,922	(2,922)	–
Financial assets at fair value through other comprehensive income reserve	–	2,922	2,922

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, cash and cash equivalents, short-term bank deposits and financial assets at amortised cost). 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, if any, 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 and throughout its life at an amount equal to lifetime ECL.

Prior to the adoption of HKFRS 9, the Group estimated impairment of the unprovided trade receivable on a collective basis by considering the ageing profile of trade receivables and historical experience.

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

(a) HKFRS 9, "Financial Instruments" (Continued)

Impairment under ECL model (Continued)

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.

(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 new standard will be applied to all contracts at the date of initial application and the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

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

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

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that are not affected by the changes are not included.

Consolidated balance sheet (extract)	As at 31 December 2017 HK$'000	Effects of the adoption of HKFRS 15 HK$'000	As at 1 January 2018 HK$'000
Current assets			
Trade and other receivables	2,583,475	227,294	2,810,769
Current liabilities			
Trade and other payables	2,626,842	135,736	2,762,578
Taxation payables	57,824	(915)	56,909
Equity			
Retained earnings	997,128	92,473	1,089,601

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) 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, ageing 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 a 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.

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

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

(i) Agency fee income from property agency business in Hong Kong (Continued)

The amount of impairment provision derecognised for provision of uncollectible agency income upon the adoption of HKFRS 15 is disclosed in note 5(a)(i) to the consolidated financial statements.

This change in accounting policy had no material impact on the retained profits as at 1 January 2018.

(ii) Agency fee income from property agency business in the PRC

The adoption of HKFRS 15 has a significant impact on the timing of revenue recognition from provision of property agency services in the PRC primary properties market.

In previous accounting periods, the Group recognised revenue from the provision of property agency services in the PRC primary properties market when the services are rendered and it is probable that future economic benefits would flow to the Group and the amount can be measured reliably. 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. Taking into account the market conditions, customers' profiles, the Group's business practice, the legal and regulatory environment of the PRC and other relevant factors, the revenue could generally only be considered being able to measure reliably when uncertainty on contingent events are resolved, which generally coincides the time when cash is received by the Group.

Under HKFRS 15, the Group is required to estimate the total consideration, including an estimate of variable consideration, received in exchange for the services rendered. The variable consideration is the amount for which it is highly probable that a significant reversal in the cumulative amount of revenue recognised will not occur in future period when the uncertainty associated with the variable consideration is subsequently resolved.

Accordingly, the application of HKFRS 15 will result in an earlier recognition of revenue by an estimation of the minimum amount of variable consideration, whereas previously the Group did not recognise revenue until when uncertainty on all contingent events were resolved. Direct costs associated with these contracts will also be recognised earlier under HKFRS 15 as compared to prior accounting policy adopted by the Group.

As a result of this change in accounting policy, the Group has made adjustments to opening balances at 1 January 2018 which increased retained earnings by HK$92,473,000.

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

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

(iii) 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 tables summarise 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. These tables show 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 on 2018 (A)-(B) HK$'000
Line items in the consolidated income statement for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenues	5,010,221	5,085,814	(75,593)
Staff costs	(2,596,653)	(2,629,353)	32,700
Rebate incentives	(1,235,698)	(1,216,566)	(19,132)
Net impairment loss on financial assets	(47,706)	(76,604)	28,898
Operating profit	**50,557**	**83,684**	**(33,127)**
Profit before taxation	**78,536**	**111,663**	**(33,127)**
Taxation	(20,402)	(20,070)	(332)
Profit for the year attributable to equity holders	**58,134**	**91,593**	**(33,459)**
Earnings per share	HK cents	HK cents	HK cents
Basic	8.10	12.76	(4.66)
Diluted	7.95	12.61	(4.66)

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

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

(iii) 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 (Continued)

	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 on 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:			
Profit for the year attributable to equity holders	**58,134**	**91,593**	**(33,459)**
Total comprehensive income for the year attributable to the equity holders, net of tax	**60,725**	**98,504**	**(37,779)**
Line items in the consolidated balance sheet as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Trade and other receivables	2,907,556	2,741,267	166,289
Total assets	**4,593,896**	**4,427,607**	**166,289**
Trade and other payables	2,874,810	2,762,632	112,178
Taxation payable	3,508	4,091	(583)
Total liabilities	**3,137,798**	**3,026,203**	**111,595**
Reserves	1,160,788	1,106,094	54,694
Total equity	**1,456,098**	**1,401,404**	**54,694**
Line items in the reconciliation of operating profit to net cash generated from operations for the year ended 31 December 2018 impacted by the adoption of HKFRS 15 (note 31):			
Operating profit	50,557	83,684	(33,127)
Net impairment loss on financial assets	47,706	76,604	(28,898)
Changes in trade and other receivables	(154,356)	(232,936)	78,580
Changes in trade and other payables	133,834	150,389	(16,555)

The significant differences arise as a result of the changes in accounting policies are described above.

4 Summary of significant accounting policies

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

(a) Consolidation

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

(i) Subsidiaries

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.

Inter-company transactions, balances and unrealised gains 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.

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 consolidated income statement. 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. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(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.

4 Summary of significant accounting policies (Continued)

(a) Consolidation (Continued)

(iii) Joint ventures

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associates" in the consolidated income statement.

4 Summary of significant accounting policies (Continued)

(a) Consolidation (Continued)

(iv) Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

(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 make strategic decisions.

(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 consolidated 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 consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as FVOCI are included in other comprehensive income.

4 Summary of significant accounting policies (Continued)

(c) Foreign currency translation (Continued)

(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 income statement 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, are taken to equity. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement 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 asset's 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 to the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets are calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Over the period of the lease
Buildings	50 years
Leasehold improvements	Over the period of the lease
Furniture and fixtures	4 years
Office equipment	4 years
Motor vehicles	4 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's 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 income statement.

4 Summary of significant accounting policies (Continued)

(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 income statement 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 income statement 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 income statement.

(f) Impairment of investments in joint ventures, associates 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 joint ventures or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or joint venture 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.

4 Summary of significant accounting policies (Continued)

(g) Financial assets

From 1 January 2018, the Group classifies its financial assets in the categories of financial assets at amortised costs and financial assets at FVOCI. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at amortised costs

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

(ii) Financial assets at FVOCI

Financial assets at FVOCI are investments in equity instruments that are not held for trading, this will depend on whether the Group has made irrecoverable election at the time of initial recognition to account for the equity investment at FVOCI.

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.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

– *Financial assets at amortised costs*

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 income statement.

– *Financial assets at FVOCI*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income ("OCI"), there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

4 Summary of significant accounting policies (Continued)

(g) Financial assets (Continued)

Measurement (Continued)

– *Financial assets at FVOCI (Continued)*

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Prior to 1 January 2018, the group classifies its financial assets in the categories of loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months of the balance sheet date.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the consolidated income statement; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gain and loss from investment securities.

4 Summary of significant accounting policies (Continued)

(g) Financial assets (Continued)

Measurement (Continued)

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividend on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are 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 consolidated 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.

(i) Impairment of financial assets

(i) Policy applicable from 1 January 2018

The Group assesses the loss allowance for ECL on trade receivables, other receivables, deposits and loan receivables. 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 and loan receivables are individually assessed when there is objective evidence that they are impaired. For the remaining trade receivables which no objective evidence is available, loss allowances are 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. The impairment methodology applied depends on whether there is a significant increase in credit risk.

Notes to the Consolidated Financial Statements

4 Summary of significant accounting policies (Continued)

(i) Impairment of financial assets (Continued)

(ii) Policy applicable prior to 1 January 2018

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 income statement.

(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 credit loss and provision for impairment.

(k) Loan receivables

Loan receivables are loans to employees and property mortgage loans granted to customers. If collection of loan receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, cashier orders, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(m) 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.

4 Summary of significant accounting policies (Continued)

(n) 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 payables 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.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the consolidated income statement 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 the consolidated income statement in the period in which they are incurred.

(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, joint ventures and associates 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 taxation 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, the deferred taxation 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 taxation is determined using tax rates (and laws) that have been enacted or substantively 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.

4 Summary of significant accounting policies (Continued)

(q) Taxation (Continued)

Deferred taxation 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 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 income statement when the contributions are payable to the fund.

(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.

4 Summary of significant accounting policies (Continued)

(r) Employee benefits (Continued)

(iii) Share-based payment (Continued)

Equity-settled share-based payment transactions (Continued)

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.

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.

Revenue excludes value added taxes and is after deduction of any trade discounts.

4 Summary of significant accounting policies (Continued)

(t) Revenue recognition (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(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, 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.

In the comparative period, revenue is recognised when it is probable that future economic benefits will flow to the Group, the amount can be measured reliably and specific criteria for each of the activities have been met. As a result of the change in accounting policy for agency fee from property agency business, adjustments have been made to opening balances as at 1 January 2018 (see note 3(b)).

(ii) Revenue from immigration consultancy services

Revenue from immigration consultancy services is recognised on a success basis, i.e. when the relevant application for immigration is approved.

(iii) Income from operating leases

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

(iv) Income from web advertising and other services income

Web advertising income and other services income including income from property valuation, other advertising and referral services are recognised when services are rendered.

(v) Interest income from loan receivables and finance income

Interest income from loan receivables and finance income are 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 income statement on a straight-line basis over the period of the lease.

4 Summary of significant accounting policies (Continued)

(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, foreign exchange risk, cash flow and fair value interest rate risk and liquidity risk. The overall risk management programme of the Group focuses on the unpredictability of the 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, short-term bank deposits, loan receivables and trade and other receivables. 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.

For loan receivables, the Group mitigates credit risk by credit protection provided by guarantors and by collaterals against loan receivables and interest receivable such as properties located in Hong Kong. Individual risk limits are set based on the value of collaterals provided by customers and internal or external ratings in accordance with limits set by the management.

Impairment of financial assets

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

5 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

Loan receivables

The Group applies the HKFRS 9 general approach to measure expected credit losses for loan receivables.

To measure the expected credit losses, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

– internal credit rating

– external credit rating (as far as available)

– actual or expected significant changes in the operating results of the borrower

– significant increases in credit risk on other financial instruments of the same borrower

– significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

Trade receivables

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

– primary properties market transactions

– other 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 not high.

For trade receivables from other transactions, the counterparties are primarily individuals. When there is an objective evidence that the 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 other transactions which no objective evidence that is available without undue cost to measure the lifetime expected credit loss, the Group's applies the HKFRS 9 simplified approach to measure expected credit losses for these trade receivables collectively which uses a lifetime expected loss allowance.

5 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

Trade receivables (Continued)

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

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 bases, the loss allowances for trade receivable as at 31 December 2018 were determined as follows:

			Loss allowance		
	Expected loss rate %	Gross carrying amount HK$'000	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'000
Current (not yet due)	0.6%-20.0%	2,487,377	(3,941)	(1,773)	(5,714)
Less than 30 days past due	0.4%-66.7%	40,705	(1,746)	(506)	(2,252)
31-60 days past due	3.1%-81.1%	15,317	(477)	(509)	(986)
61-90 days past due	8.2%-86.1%	6,013	(1,379)	(605)	(1,984)
More than 90 days past due	42.9%-100%	136,805	(102,556)	(25,218)	(127,774)
		2,686,217	(110,099)	(28,611)	(138,710)

Note: The customers are obliged to settle the amounts due upon the completion of or pursuant to the terms and conditions of the 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.

5 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

Trade receivables (Continued)

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 $180,834,000 was determined to be impaired.

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

	HK$'000
Current (not yet due)	2,147,197
Less than 30 days past due	40,058
31 to 60 days past due	14,355
61 to 90 days past due	10,833
More than 90 days past due	29,095
	2,241,538

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	HK$'000
At 31 December 2017	180,834
Amount derecognised upon the adoption of HKFRS 15	(52,060)
Opening loss allowance as at 1 January 2018	128,774
Increase in loss allowance recognised in profit or loss during the year	47,706
Receivables written off during the year as uncollectible	(37,770)
At 31 December 2018	138,710

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.

5 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

Other financial assets at amortised cost

For other financial assets at amortised cost, including deposits and other receivables, 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) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy and has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

The Group has foreign currency transactions, which mainly denominated in Renminbi ("RMB") which is different from the functional currency of the Group and accordingly, expose the Group to foreign currency exchange risk.

At the balance sheet date, if HK$ had weakened or strengthened by 5% (2017: 5%) against RMB with all other variables held constant, total comprehensive income for the year, net of tax would have been approximately HK$7,544,000 (2017 HK$7,877,000) lower or higher mainly as a result of foreign exchange losses or gains in other comprehensive income on translation of the RMB denominated net assets.

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

At the balance sheet date, the interest rate risk of the Group is considered to be insignificant.

5 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iv) 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 and draw down of borrowings. 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 29) 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, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room for the Group to meet the liquidity requirements. At 31 December 2018, the Group held cash and bank balances of HK$942,290,000 (2017: HK$1,158,645,000).

The following tables show the remaining contractual maturities 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
At 31 December 2018		
Trade and other payables	–	2,874,810
Borrowings	255,698	–
	255,698	2,874,810
At 31 December 2017		
Trade and other payables	–	2,626,842
Borrowings	360,135	–
	360,135	2,626,842

5 Financial risk management (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of equity attributable to the equity holders and borrowings. 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 adjust the amount of dividend paid to shareholders, repurchase of shares from shareholders or raise funding through borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio and the current ratio. The gearing ratio is calculated as total borrowings divided by total equity. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Borrowings	255,500	359,900
Total equity	1,456,098	1,361,779
Gearing ratio	17.55%	26.43%

The current ratio of the Group, which represents a ratio of current assets over current liabilities, at 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Current assets	3,915,706	3,742,122
Current liabilities	3,133,818	3,044,566
Current ratio	1.2	1.2

The current ratio of the Group is maintained at a stable level.

5 Financial risk management (Continued)

(c) Fair value estimation

The carrying amounts of the financial assets of the Group, including cash and cash equivalents, short-term bank deposits, trade and other receivables, loan receivables and financial assets at FVOCI; and financial liabilities including trade and other payables and borrowings approximate their fair values due to their short-term maturities.

The financial instruments are measured in the consolidated balance sheet at fair value, by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables present the Group's financial instruments that are measured at fair value:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2018				
Assets				
Financial assets at FVOCI	–	5,635	–	5,635
As at 31 December 2017				
Assets				
Available-for-sale financial assets	–	7,028	–	7,028

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as quoted market prices or dealer quotes for similar instruments, or discounted cash flow analysis. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between levels 1,2 and 3 during the year.

The fair value estimation of investment properties is disclosed in note 18 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.

(i) 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 income statement until the relevant transactions are completed or until the uncertainty of completion is removed.

(ii) 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 individually significant 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)

(iii) 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 18 to the consolidated financial statements.

(iv) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred taxation relating to certain temporary differences and tax losses are recognised as 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

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major service lines		
– Agency fee	4,984,090	5,277,605
– Immigration consultancy services	17,464	7,440
– Web advertising	1,489	1,581
– Other services	3,437	4,134
	5,006,480	5,290,760
Revenue from other sources		
– Rental income	2,843	3,355
– Interest income from loan receivables	898	–
	5,010,221	5,294,115

8 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 which are principally located in Hong Kong, the PRC and Macau, and comprises property agency businesses for residential, commercial and industrial properties and shops, and other businesses which mainly include property leasing, immigration consultancy services, money lending services and mortgage referral services.

	Year ended 31 December 2018			
	Property agency			
	Residential properties HK$'000	Commercial and industrial properties and shops HK$'000	Others HK$'000	Total HK$'000
Total revenues	4,897,474	86,616	33,763	5,017,853
Inter-segment revenues	–	–	(7,632)	(7,632)
Revenues from external customers	4,897,474	86,616	26,131	5,010,221
Timing of revenue recognition				
– At a point in time	4,897,474	86,616	3,437	4,987,527
– Over time	–	–	18,953	18,953
Rental income	–	–	2,843	2,843
Interest income from loan receivables	–	–	898	898
	4,897,474	86,616	26,131	5,010,221
Segment results	80,741	15,922	46,843	143,506
Net impairment loss on financial assets	(46,659)	(1,047)	–	(47,706)
Depreciation and amortisation costs	(52,760)	(1,418)	(703)	(54,881)
Share of results of joint ventures	–	–	27,849	27,849
Share of results of associates	–	16,295	–	16,295
Fair value gains on investment properties	–	–	2,465	2,465
Additions to property and equipment	53,043	710	54	53,807

8 Segment information (Continued)

	Year ended 31 December 2017			
	Property agency			
	Residential properties HK$'000	Commercial and industrial properties and shops HK$'000	Others HK$'000	Total HK$'000
Total revenues	5,167,977	109,628	24,142	5,301,747
Inter-segment revenues	–	–	(7,632)	(7,632)
Revenues from external customers	5,167,977	109,628	16,510	5,294,115
Timing of revenue recognition				
– At a point in time	5,167,977	109,628	4,134	5,281,739
– Over time	–	–	9,021	9,021
Rental income	–	–	3,355	3,355
	5,167,977	109,628	16,510	5,294,115
Segment results	232,652	27,593	43,971	304,216
Net impairment loss on financial assets	(59,625)	(2,124)	–	(61,749)
Depreciation and amortisation costs	(45,942)	(2,315)	(716)	(48,973)
Share of results of joint ventures	–	–	30,975	30,975
Share of results of associates	–	31,962	–	31,962
Fair value gains on investment properties	–	–	4,839	4,839
Additions to property and equipment	51,919	1,002	46	52,967

The Executive Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. Corporate expenses, release of investment revaluation reserve upon disposal of available-for-sale financial assets, gain on dilution of equity interests in associates, 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 income statement.

8 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	143,506	304,216
Corporate expenses	(48,805)	(54,038)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	1,575
Gain on dilution of equity interests in associates	–	3,264
Finance income	546	813
Finance costs	(16,711)	(20,762)
Profit before taxation per consolidated income statement	78,536	235,068

Segment assets and liabilities exclude corporate assets and liabilities, deferred taxation, available-for-sale financial assets and financial assets at fair value through other comprehensive income, all of which are managed on a central basis. The following sets out the assets and liabilities by reporting segments:

	As at 31 December 2018			
	Property agency			
	Residential properties HK$'000	Commercial and industrial properties and shops HK$'000	Others HK$'000	Total HK$'000
Segment assets	3,500,952	415,366	206,475	4,122,793
Segment assets include:				
Interests in joint ventures	–	–	45,637	45,637
Interests in associates	–	376,650	–	376,650
Segment liabilities	2,802,266	49,326	20,826	2,872,418

8 Segment information (Continued)

	As at 31 December 2017			
	Property agency			
	Residential properties HK$'000	Commercial and industrial properties and shops HK$'000	Others HK$'000	Total HK$'000
Segment assets	3,301,989	391,026	158,206	3,851,221
Segment assets include:				
Interests in joint ventures	–	–	49,254	49,254
Interests in associates	–	360,355	–	360,355
Segment liabilities	2,596,756	46,994	23,213	2,666,963

Reportable segment assets are reconciled to total assets as follows:

	2018 HK$'000	2017 HK$'000
Segment assets	4,122,793	3,851,221
Corporate assets	448,375	532,510
Deferred tax assets	17,093	19,432
Available-for-sale financial assets	–	7,028
Financial assets at fair value through other comprehensive income	5,635	–
Total assets per consolidated balance sheet	4,593,896	4,410,191

Reportable segment liabilities are reconciled to total liabilities as follows:

	2018 HK$'000	2017 HK$'000
Segment liabilities	2,872,418	2,666,963
Corporate liabilities	261,400	377,603
Deferred tax liabilities	3,980	3,846
Total liabilities per consolidated balance sheet	3,137,798	3,048,412

8 Segment information (Continued)

Geographical information:

	2018 HK$'000	2017 HK$'000
Revenues from external customers		
Hong Kong and Macau	4,160,330	4,388,582
PRC	849,891	905,533
	5,010,221	5,294,115

Revenues are attributed to locations where the transactions took place.

9 Other income and gains

	2018 HK$'000	2017 HK$'000
Fair value gains on investment properties (note 18)	2,465	4,839
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	1,575
Gain on dilution of equity interests in associates (Note)	–	3,264
Others	3,417	3,758
	5,882	13,436

Note: During the year ended 31 December 2017, Midland IC&I Limited ("Midland IC&I"), a listed associate of the Company, issued new shares to a company wholly-owned by Mr. WONG Kin Yip, Freddie ("Mr. WONG"), a director of the Company, pursuant to a transaction entered into between Midland IC&I and Mr. WONG. After the completion of the transaction in March 2017, the Group's equity interests in Midland IC&I was diluted from 44.58% to 33.84% which resulted in a gain on dilution of equity interests.

10 Staff costs, including directors' emoluments

	2018 HK$'000	2017 HK$'000
Salaries and allowances	839,006	859,214
Commissions	1,709,785	1,780,432
Pension costs for defined contribution plans	47,862	72,789
	2,596,653	2,712,435

The Group participates in a mandatory provident fund ("MPF") scheme which is available to eligible employees of the Group, including the 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 Group also contributes to employee retirement schemes established by municipal governments in respect of certain subsidiaries in the PRC. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

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

11 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	Discretionary bonus/ performance incentive* HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Executive Directors					
Mr. WONG Kin Yip, Freddie (Chairman)	200	10,129	–	–	10,329
Ms. WONG Ching Yi, Angela	200	7,496	1,744	18	9,458
Mr. WONG Tsz Wa, Pierre	200	9,171	1,744	18	11,133
Mr. CHEUNG Kam Shing	200	1,688	244	18	2,150
	800	28,484	3,732	54	33,070
Non-Executive Director					
Mr. WONG Wing Cheung Dennis	260	–	–	–	260
	260	–	–	–	260
Independent Non-Executive Directors					
Mr. HO Kwan Tat, Ted	260	–	–	–	260
Mr. SUN Tak Chiu	260	–	–	–	260
Mr. WONG San	260	–	–	–	260
	780	–	–	–	780
	1,840	28,484	3,732	54	34,110

11 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	Discretionary bonus/ performance incentive* HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Executive Directors					
Mr. WONG Kin Yip, Freddie (Chairman) (note 1)	214	7,692	–	–	7,906
Ms. WONG Ching Yi, Angela	200	7,481	7,542	18	15,241
Mr. WONG Tsz Wa, Pierre	200	9,129	7,542	18	16,889
Mr. CHEUNG Kam Shing	200	1,748	401	18	2,367
Ms. TANG Mei Lai, Metty (note 2)	–	232	15	10	257
	814	26,282	15,500	64	42,660
Non-Executive Directors					
Mr. WONG Wing Cheung Dennis (appointed with effect from 28 November 2017)	24	–	–	–	24
Ms. IP Kit Yee, Kitty (resigned with effect from 28 November 2017)	236	–	–	–	236
	260	–	–	–	260
Independent Non-Executive Directors					
Mr. HO Kwan Tat, Ted (note 3)	133	–	–	–	133
Mr. SUN Tak Chiu	260	–	–	–	260
Mr. WONG San	260	–	–	–	260
Mr. KOO Fook Sun, Louis (note 2)	128	–	–	–	128
	781	–	–	–	781
	1,855	26,282	15,500	64	43,701

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

Notes:

1) Mr. WONG was re-designated from Non-Executive Director to Executive Director with effect from 29 March 2017. The emoluments from 1 January 2017 up to the date of re-designation were HK$62,000.

2) Retired with effect from the conclusion of the annual general meeting of the Company held on 28 June 2017 (the "AGM").

3) Appointed with effect from the conclusion of the AGM.

11 Benefit and interest of directors and five highest paid individuals (Continued)

(a) Benefit and interest of directors (Continued)

Adoption of HKFRS 15 has affected the timing of revenue recognition from provision of property agency services in the PRC primary market, the cumulative effect of adoption has been adjusted at the opening balance of equity as at 1 January 2018 (note 3(b)). As a result of this change, additional performance incentive in relation to previous years' profits of HK$1,450,000 and HK$1,110,000 will be paid to Ms. WONG Ching Yi, Angela and Mr. WONG Tsz Wa, Pierre, respectively.

(i) Directors' emoluments

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).

(ii) Directors' retirement benefits and termination benefits

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

(iii) 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).

(iv) 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 are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors (2017: nil).

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

Saved as disclosed in note 35(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.

11 Benefit and interest of directors and five highest paid individuals (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year include three (2017: three) directors whose emoluments are reflected in the analysis shown in note 11(a). The emoluments payable to the remaining two (2017: two) individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	4,859	4,577
Discretionary bonus	746	1,249
Retirement benefit costs	36	36
	5,641	5,862

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$2,500,001 – HK$3,000,000	1	1
HK$3,000,001 – HK$3,500,000	1	1
	2	2

12 Operating profit

Operating profit is arrived at after charging/(crediting):

	2018 HK$'000	2017 HK$'000
Loss on disposal of property and equipment	768	855
Direct operating expenses arising from investment properties that:		
– generated rental income	307	233
– did not generate rental income	119	50
Auditor's remuneration		
– audit services	3,259	3,068
– interim results review	573	573
– other non-audit services	650	660
Net foreign exchange losses/(gains)	2,682	(8,490)

13 Finance income and costs

	2018 HK$'000	2017 HK$'000
Finance income		
Bank interest income	546	813
Finance costs		
Interest on bank loans and overdrafts	(16,711)	(20,762)
Finance costs, net	(16,165)	(19,949)

14 Taxation

	2018 HK$'000	2017 HK$'000
Current taxation		
Hong Kong profits tax	17,132	39,014
Overseas	797	951
Deferred taxation (note 30)	2,473	1,651
	20,402	41,616

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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	78,536	235,068
Less: share of results of joint ventures	(27,849)	(30,975)
share of results of associates	(16,295)	(31,962)
	34,392	172,131
Calculated at a taxation rate of 16.5% (2017: 16.5%)	5,675	28,401
Effect of different taxation rates in other countries	(3,915)	(4,674)
Income not subject to taxation	(552)	(3,132)
Expenses not deductible for taxation purposes	712	584
Utilisation of previously unrecognised tax losses	(3,964)	(794)
Tax losses not recognised	23,613	22,404
Other temporary differences not recognised	(1,340)	(1,046)
Others	173	(127)
Taxation charge	20,402	41,616

15 Dividends

	2018 HK$'000	2017 HK$'000
Interim dividend of HK$0.032 (2017: nil) per share	22,977	–
Proposed final dividend of nil (2017: HK$0.05) per share	–	35,902
	22,977	35,902

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

At a board meeting held on 29 August 2018, the Board declared an interim dividend of HK$0.032 per share.

16 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 for the calculation of basic earnings per share	58,134	193,452
Adjustment on the effect of dilutive events of associates	(1,038)	(3,518)
Profit attributable to equity holders for the calculation of diluted earnings per share	57,096	189,934
Number of shares for the calculation of basic and diluted earnings per share (thousands)	718,046	718,046
Basic earnings per share (HK cents)	8.10	26.94
Diluted earnings per share (HK cents)	7.95	26.45

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 profit attributable to equity holders is adjusted to assume the conversion of all dilutive potential ordinary shares from share options and the convertible note of its associates. Adjustments have been made to profit attributable to equity holders to reflect the dilutive impact in respect of the exercise of share options and the convertible note issued by the Group's associates. The weighted average number of shares has not been adjusted as the exercise of the Company's share options have an anti-dilutive effect and the exercise of the share options and the convertible note of the associates do not affect the number of shares of the Company.

17 Property and equipment

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2018						
Cost	156,747	278,681	79,740	195,790	5,995	716,953
Accumulated depreciation and amortisation	(95,507)	(235,157)	(64,007)	(177,249)	(4,798)	(576,718)
Net book amount	61,240	43,524	15,733	18,541	1,197	140,235
Year ended 31 December 2018						
Opening net book amount	61,240	43,524	15,733	18,541	1,197	140,235
Additions	–	31,729	6,192	15,083	803	53,807
Disposals	–	(324)	(379)	(65)	–	(768)
Depreciation and amortisation costs	(1,124)	(38,401)	(7,017)	(8,237)	(531)	(55,310)
Exchange differences	(31)	(714)	(696)	(5)	–	(1,446)
Closing net book amount	60,085	35,814	13,833	25,317	1,469	136,518
At 31 December 2018						
Cost	156,709	284,407	80,012	210,056	6,798	737,982
Accumulated depreciation and amortisation	(96,624)	(248,593)	(66,179)	(184,739)	(5,329)	(601,464)
Net book amount	60,085	35,814	13,833	25,317	1,469	136,518
At 1 January 2017						
Cost	156,694	244,859	75,709	184,718	5,002	666,982
Accumulated depreciation and amortisation	(94,374)	(207,209)	(55,835)	(170,474)	(4,617)	(532,509)
Net book amount	62,320	37,650	19,874	14,244	385	134,473
Year ended 31 December 2017						
Opening net book amount	62,320	37,650	19,874	14,244	385	134,473
Additions	–	37,525	3,347	11,102	993	52,967
Disposals	–	(65)	(785)	(5)	–	(855)
Depreciation and amortisation costs	(1,124)	(33,235)	(8,050)	(6,811)	(181)	(49,401)
Exchange differences	44	1,649	1,347	11	–	3,051
Closing net book amount	61,240	43,524	15,733	18,541	1,197	140,235
At 31 December 2017						
Cost	156,747	278,681	79,740	195,790	5,995	716,953
Accumulated depreciation and amortisation	(95,507)	(235,157)	(64,007)	(177,249)	(4,798)	(576,718)
Net book amount	61,240	43,524	15,733	18,541	1,197	140,235

Land and buildings with net book value of HK$59,572,000 (2017: HK$60,679,000) are pledged as security for the Group's borrowing facilities (note 29).

18 Investment properties

	2018 HK$'000	2017 HK$'000
Opening net book amount	90,591	87,399
Change in fair value to consolidated income statement (note 9)	2,465	4,839
Disposal	–	(4,150)
Exchange differences	(1,896)	2,503
Closing net book amount	91,160	90,591

The fair value gain on investment properties is included in "other income and gains" in the consolidated income statement (note 9).

As at 31 December 2018, valuations were undertaken by Midland Surveyors Limited (2017: Midland Surveyors Limited), a qualified professional valuer under the Group with appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. Fair values of investment properties in Hong Kong and the PRC are generally derived using the income capitalisation method. This valuation 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.

Information about fair value measurements using significant unobservable inputs:

Location of investment properties	Fair value HK$'000	Range of significant unobservable inputs	
		Prevailing market rent per month	Capitalisation rate
Hong Kong	59,580	HK$40 to HK$118 per sq. ft. (saleable) (2017: HK$41 to HK$113 per sq. ft. (saleable))	3.20 % to 4.40 % (2017: 3.20 % to 4.50%)
The PRC	31,580	RMB187 to RMB 1,730 per sq. m. (gross) (2017: RMB185 to RMB1,690 per sq. m. (gross))	4.90 % to 5.80% (2017: 4.80 % to 5.80%)
Total	91,160		

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.

Investment properties with net book value of HK$74,796,000 (2017: HK$57,350,000) are pledged as security for the Group's borrowing facilities (note 29).

19 Land use rights

Land use rights represent prepaid operating lease payments:

	2018 HK$'000	2017 HK$'000
Opening net book amount	1,174	1,117
Amortisation	(36)	(36)
Exchange differences	(66)	93
Closing net book amount	1,072	1,174

20 Interests in joint ventures

	2018 HK$'000	2017 HK$'000
Share of net assets	45,637	49,254

Details of the principal joint ventures are set out in note 37(b) to the consolidated financial statements.

The summarised financial information below represents the aggregate amount of the Group's share of its interests in joint ventures:

	2018 HK$'000	2017 HK$'000
At the beginning of the year	49,254	68,279
Share of profit	27,849	30,975
Dividend received	(31,466)	(50,000)
At the end of the year	45,637	49,254

20 Interests in joint ventures (Continued)

The table below provides summarised financial information of joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not the Group's share of these amounts:

mReferral Corporation Limited and its subsidiaries ("mReferral Group")

	2018 HK$'000	2017 HK$'000
Total non-current assets	264	506
Total current assets	111,503	127,707
Total non-current liabilities	–	(7)
Total current liabilities	(22,521)	(31,086)
Net assets	89,246	97,120
Group's share of net asset	44,623	48,560
Revenues	146,500	156,573
Profit and total comprehensive income for the year attributable to equity holders	55,057	62,931
Group's share of the profit and total comprehensive income for the year	27,529	31,466

During the year ended 31 December 2018, the Group received dividends of HK$31,466,000 (2017: HK$50,000,000) from mReferral Group.

There are no significant contingent liabilities and capital commitments relating to the Group's interests in the joint ventures and the joint ventures do not have any significant contingent liabilities and capital commitments as at 31 December 2018 and 2017.

21 Interests in associates

	2018 HK$'000	2017 HK$'000
Listed investment, at cost		
At the beginning of the year	360,355	325,129
Gain on dilution of equity interests in associates (note 9)	–	3,264
Share of profit	16,295	31,962
At end of the year	376,650	360,355

As at 31 December 2018, the market value of the listed investment was HK$126,472,000 (2017: HK$247,446,000).

Details of the principal associates are set out in note 37(c) to the consolidated financial statements.

21 Interests in associates (Continued)

The summarised financial information extracted from the annual report of the listed associate is set out below:

Midland IC&I and its subsidiaries ("Midland IC&I Group")

	2018 HK$'000	2017 HK$'000
Total non-current assets	868,591	524,353
Total current assets	792,529	1,016,245
Total non-current liabilities	(312,962)	(173,361)
Total current liabilities	(227,492)	(302,480)
Non-controlling interests	(7,761)	–
Net assets	1,112,905	1,064,757
Group's share of net asset	376,650	360,355
Revenues	628,780	637,247
Profit for the year attributable to equity holders	48,148	89,918
Group's share of the profit for the year	16,295	31,962

There are no significant contingent liabilities and capital commitments relating to the Group's interests in associates as at 31 December 2018 and 2017 and the associates do not have any significant contingent liabilities and capital commitments as at 31 December 2018 and 2017.

22 Available-for-sale financial assets/ Financial assets at fair value through other comprehensive income

Available-for-sale financial assets

	2018 HK$'000	2017 HK$'000
Unlisted equity investments, at fair value	–	7,028

Financial assets at fair value through other comprehensive income

	2018 HK$'000	2017 HK$'000
Unlisted equity investments, at fair value	5,635	–

The Group's available-for-sale financial assets were reclassified to financial assets at fair value through other comprehensive income upon initial adoption of HKFRS 9 at 1 January 2018 (see note 3(a)).

The Group's available-for-sale financial assets/financial assets at fair value through other comprehensive income are denominated in United States dollars.

23 Trade and other receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	2,686,217	2,422,372
Less: loss allowance	(138,710)	(180,834)
Trade receivables, net	2,547,507	2,241,538
Other receivables, prepayments and deposits	360,049	341,937
	2,907,556	2,583,475

23 Trade and other receivables (Continued)

Trade receivables mainly represent agency fees receivable 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 ageing analysis of the trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Current (not yet due)	2,481,663	2,147,197
Less than 30 days past due	38,453	40,058
31 to 60 days past due	14,331	14,355
61 to 90 days past due	4,029	10,833
More than 90 days past due	9,031	29,095
	2,547,507	2,241,538

Trade receivables of HK$65,844,000 (2017: HK$94,341,000) were past due but not impaired.

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

The deposits and other receivables 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 mainly denominated in Hong Kong dollars and Renminbi.

Borrowing facilities granted to the Group were secured, inter alia, by floating charge over certain receivables of the Group, with carrying value of approximately HK$2,326,024,000 as at 31 December 2018 (2017: HK$2,186,067,000).

24 Loan receivables

	2018 HK$'000	2017 HK$'000
Loan receivables – loans to employees	5,183	–
Loan receivables – property mortgage loans	38,000	–
Total loan receivables	43,183	–
Less: non-current portion	(4,425)	–
Current portion	38,758	–

Loan receivables represent loans to employees and property mortgage loans granted to customers in Hong Kong. The Group's loan receivables are denominated in Hong Kong dollars. Loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Details on the Group's credit policy and credit risk arising from loan receivables are set out in note 5(a)(i).

The loan receivables do not contain impaired assets. The Group holds properties located in Hong Kong as collateral for property mortgage loans.

A maturity profile of the loan receivables as at the end of the reporting periods, based on the maturity date and net of provision, is as follows:

	2018 HK$'000	2017 HK$'000
Current	38,758	–
Over 1 year but less than 3 years	4,425	–
	43,183	–

25 Cash and bank balances

	2018 HK$'000	2017 HK$'000
Cash and bank balances	942,290	1,158,645
Less:		
Short-term bank deposits with maturity over three months from date of deposits	(4,584)	–
Cash and cash equivalents in the consolidated balance sheet and the consolidated statement of cash flow	937,706	1,158,645

As at 31 December 2018, the Group's cash and bank balances included balances of HK$111,471,000 (2017: HK$121,145,000), which were deposits with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

26 Share capital and premium

	Number of issued shares (HK$0.10 each)	Nominal value HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2017, 31 December 2017 and 31 December 2018	718,046,005	71,805	223,505	295,310

26 Share capital and premium (Continued)

Notes:

(a) Share capital

The total authorised number of ordinary shares is 1 billion shares (2017: 1 billion shares) with a nominal value of HK$0.10 per share (2017: HK$0.10 per share). All issued shares are fully paid.

(b) Share options of the Company

The Company has adopted a share option scheme on 30 April 2002 (the "2002 Share Option Scheme"). The 2002 Share Option Scheme became effective on 30 April 2002 and had remained in force for a period of ten years from that date and had expired on 29 April 2012. The terms of the 2002 Share Option Scheme for those outstanding share options already granted under the 2002 Share Option Scheme remain in force.

The Company has adopted the share option scheme on 23 June 2016 (the "2016 Share Option Scheme"). No share options of the Company were granted, exercised, cancelled or lapsed since the adoption of the 2016 Share Option Scheme.

(i) Terms of unexpired and unexercised share options 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 share HK$	Number of options 2018	Number of options 2017
1 August 2011 to 31 July 2019	4.29	3,754,580	3,754,580
1 January 2012 to 31 December 2019	4.29	3,604,580	3,604,580
1 January 2012 to 31 December 2019	3.81	3,604,580	3,604,580
1 October 2013 to 30 September 2021	3.81	3,604,580	3,604,580
		14,568,320	14,568,320

(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 share HK$	Number of options	Weighted average exercise price per share HK$	Number of options
At beginning of the year	4.052	14,568,320	3.974	21,927,480
Lapsed	–	–	3.820	(7,359,160)
At end of the year	4.052	14,568,320	4.052	14,568,320

All the 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 1.32 years (2017: 2.32 years).

No share options had been granted or exercised during the year (2017: nil). In 2018, there was no share option expense recognised (2017: nil) in relation to share options granted under the share option scheme of the Company.

27 Reserves

	Capital redemption reserve HK$'000	Capital reserve HK$'000	Legal reserve HK$'000	Employee benefits reserve HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Financial assets at FVOCI reserve HK$'000	Property revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	4,917	(11,553)	12	23,208	25,634	2,922	–	24,201	997,128	1,066,469
Impact on initial adoption of HKFRS 9 & 15 (note 3)	–	–	–	–	–	(2,922)	2,922	–	92,473	92,473
Restated balance at 1 January 2018	4,917	(11,553)	12	23,208	25,634	–	2,922	24,201	1,089,601	1,158,942
Profit for the year	–	–	–	–	–	–	–	–	58,134	58,134
Fair value gains on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	1,156	–	–	1,156
Currency translation differences	–	–	–	–	1,435	–	–	–	–	1,435
Transfer of gain on disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	–	–	–	(1,488)	–	1,488	–
2017 final dividend paid (note 15)	–	–	–	–	–	–	–	–	(35,902)	(35,902)
2018 interim dividend paid (note 15)	–	–	–	–	–	–	–	–	(22,977)	(22,977)
At 31 December 2018	4,917	(11,553)	12	23,208	27,069	–	2,590	24,201	1,090,344	1,160,788
At 1 January 2017	4,917	(11,553)	12	34,217	41,938	1,832	–	24,201	792,667	888,231
Profit for the year	–	–	–	–	–	–	–	–	193,452	193,452
Currency translation differences	–	–	–	–	(16,304)	–	–	–	–	(16,304)
Fair value gains on available-for-sale financial assets	–	–	–	–	–	2,665	–	–	–	2,665
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(1,575)	–	–	–	(1,575)
Employee share option scheme – lapse of share options	–	–	–	(11,009)	–	–	–	–	11,009	–
At 31 December 2017	4,917	(11,553)	12	23,208	25,634	2,922	–	24,201	997,128	1,066,469

28 Trade and other payables

	2018 HK$'000	2017 HK$'000
Commissions and rebate payables	2,400,026	2,135,340
Other payables and accruals	474,784	491,502
	2,874,810	2,626,842

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 commissions and rebate payables of HK$373,718,000 (2017: HK$355,727,000) in respect of which the corresponding agency fees have been received, and are due for payment within 30 days after year end. All the remaining commissions and rebate payables are not yet due.

The management considers the balance of contract liabilities arising from immigration consultancy services is not material to the Group and hence not presented as a separate line item in the financial statements.

The Group's trade and other payables are mainly denominated in Hong Kong dollars and Renminbi.

29 Borrowings

As at 31 December 2018 and 2017, the Group's borrowings include a repayment on demand clause and are classified as current liabilities.

	2018 HK$'000	2017 HK$'000
Bank loans repayable within 1 year	255,500	359,900

These borrowing facilities are secured by certain land and buildings and investment properties held by the Group (notes 17 and 18), certain trade receivables (note 23) and guarantees provided by the Company (note 32).

The effective interest rate of the borrowings is 3.80% to 4.35% (2017: 1.68% to 3.01%). The carrying amount and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Borrowings	255,500	359,900	255,500	359,900

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 3.80% to 4.35% (2017: 1.68% to 3.01%).

Borrowings are denominated in Hong Kong dollars.

The Group has the following undrawn borrowing facilities:

	2018 HK$'000	2017 HK$'000
Floating rates		
Expiring within one year	2,436,318	1,975,100

30 Deferred taxation

	2018 HK$'000	2017 HK$'000
Deferred tax assets	(17,093)	(19,432)
Deferred tax liabilities	3,980	3,846
	(13,113)	(15,586)

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

	2018 HK$'000	2017 HK$'000
At 1 January	(15,586)	(17,237)
Recognised in the consolidated income statement (note 14)	2,473	1,651
At 31 December	(13,113)	(15,586)

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

	Provision HK$'000	Decelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2017	(17,276)	(2,857)	(1,064)	(21,197)
Recognised in the consolidated income statement	1,239	(534)	329	1,034
At 31 December 2017	(16,037)	(3,391)	(735)	(20,163)
Recognised in the consolidated income statement	2,590	(255)	8	2,343
At 31 December 2018	(13,447)	(3,646)	(727)	(17,820)

30 Deferred taxation (Continued)

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Fair value gains of investment properties HK$'000	Total HK$'000
At 1 January 2017	2,842	1,118	3,960
Recognised in the consolidated income statement	617	–	617
At 31 December 2017	3,459	1,118	4,577
Recognised in the consolidated income statement	130	–	130
At 31 December 2018	3,589	1,118	4,707

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$105,269,000 (2017: HK$93,999,000) in respect of losses amounting to HK$555,391,000 (2017: HK$495,814,000) as at 31 December 2018. These tax losses are subject to the agreement with the tax authorities and can be carried forward against future taxable income. Tax losses have no expiry date except for tax losses amounting to HK$118,667,000 (2017: HK$143,410,000) which will expire from 2019 to 2023 (2017: from 2018 to 2022).

In addition, the Group did not recognise deferred tax assets of HK$1,807,000 (2017: HK$1,296,000) and HK$1,363,000 (2017: HK$3,224,000) in respect of decelerated tax depreciation and provision respectively.

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	(3,646)	(3,391)
Recoverable within twelve months	(13,447)	(16,045)
	(17,093)	(19,436)
Deferred tax liabilities		
Payable or settle after more than twelve months	3,980	3,850

31 Notes to consolidated statement of cash flows

Reconciliation of operating profit to net cash generated from operations

	2018 HK$'000	2017 HK$'000
Operating profit	50,557	192,080
Net impairment loss on financial assets	47,706	61,749
Depreciation and amortisation costs	55,346	49,437
Fair value gains on investment properties (note 9)	(2,465)	(4,839)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets (note 9)	–	(1,575)
Gain on dilution of equity interests in associates (note 9)	–	(3,264)
Loss on disposal of property and equipment (note 12)	768	855
Operating profit before working capital changes	151,912	294,443
Changes in loan receivables	(43,183)	–
Changes in trade and other receivables	(154,356)	(420,315)
Changes in trade and other payables	133,834	397,458
Net cash generated from operations	88,207	271,586

(a) Net debt reconciliation

Movements in net debt are as follows:

Borrowings due within one year	2018 HK$'000	2017 HK$'000
Net debt as at 1 January	359,900	355,600
Cash flows	(104,400)	4,300
Net debt as at 31 December	255,500	359,900

32 Contingent liabilities

As at 31 December 2018, the Company executed corporate guarantee of HK$2,753,818,000 (2017: HK$2,397,000,000) as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries of the Company. As at 31 December 2018, HK$296,977,000 of these facilities were utilised by the subsidiaries (2017: HK$387,006,000).

33 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	3,014	2,300
After one year but within five years	1,973	2,317
	4,987	4,617

34 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 payable under non-cancellable operating leases in respect of office and shop premises as follows:

	2018 HK$'000	2017 HK$'000
Within one year	513,609	561,072
After one year but within five years	226,096	387,726
More than five years	–	13,730
	739,705	962,528

35 Significant related party transactions

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

(a) Transactions with related parties

	Note	2018 HK$'000	2017 HK$'000
Agency fee income from associates	(i)	99,035	97,676
Rebate incentives to associates	(ii)	(27,838)	(34,591)
Operating lease rental expenses to associates in respect of office premise	(iii)	(2,478)	(2,510)
Service fee paid to associates	(iv)	–	(692)
Operating lease rental expenses to related companies in respect of office and shop premises	(v)	(5,552)	(5,290)
Operating lease rental expenses to a director in respect of shop premises	(vi)	(370)	(348)

Notes:

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

(ii) Rebate incentives to associates represents rebate incentives for property agency transactions referred by associates on terms mutually agreed by both parties.

(iii) The Group entered into an operating lease agreement with an associate on terms mutually agreed by both parties.

(iv) Service fee paid to associates represents service fee for assistance provided by associates in procuring the issuance of cashier's orders to prospective purchasers of primary residential properties referred by the Group. The service fee is charged on terms mutually agreed by both parties.

(v) The Group entered into certain operating lease agreements with certain related companies owned by Mr. WONG, who is the director of the Company and father of Ms. WONG Ching Yi, Angela, on terms mutually agreed by both parties.

(vi) The Group entered into an operating lease agreement with Ms. WONG Ching Yi, Angela, who is the director of the Company, on terms mutually agreed by both parties.

The Group shared administrative and corporate services fee with its associates on a cost basis. During the year ended 31 December 2018, the expenses shared by the associates amounted to HK$8,189,000 (2017: HK$10,475,000).

35 Significant related party transactions (Continued)

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

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

(c) Key management compensation

	2018 HK$'000	2017 HK$'000
Fees, salaries, allowances and incentives	33,016	42,534
Retirement benefit costs	54	64
	33,070	42,598

The amount represents emoluments paid or payable to the Executive Directors for the year.

36 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		108,501	108,501
Current assets			
Other receivables, prepayments and deposits		24	2,215
Amounts due from subsidiaries		797,083	782,656
Taxation recoverable		62	–
Cash and cash equivalents		734	486
		797,903	785,357
Total assets		906,404	893,858
EQUITY AND LIABILITIES			
Equity holders			
Share capital		71,805	71,805
Share premium		223,505	223,505
Reserves	(a)	598,751	575,720
Total equity		894,061	871,030
Current liabilities			
Other payables and accruals		11,905	22,104
Amounts due to subsidiaries		438	400
Taxation payable		–	324
Total liabilities		12,343	22,828
Total equity and liabilities		906,404	893,858

The balance sheet of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf.

WONG Ching Yi, Angela
Director

WONG Tsz Wa, Pierre
Director

36 Balance sheet and reserve movement of the Company (Continued)

Note (a) Reserve movement of the Company

	Capital redemption reserve HK$'000	Employee benefits reserve HK$'000	Contributed surplus HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	4,917	23,208	108,001	439,594	575,720
Profit for the year	–	–	–	81,910	81,910
2017 final dividend paid (note 15)	–	–	–	(35,902)	(35,902)
2018 interim dividend paid (note 15)	–	–	–	(22,977)	(22,977)
At 31 December 2018	4,917	23,208	108,001	462,625	598,751
At 1 January 2017	4,917	34,217	108,001	426,435	573,570
Profit for the year	–	–	–	2,150	2,150
Employee share option scheme					
– lapse of share options	–	(11,009)	–	11,009	–
At 31 December 2017	4,917	23,208	108,001	439,594	575,720

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Astra Profits Limited and the value of the net assets of the underlying subsidiaries acquired as at 12 May 1995. The contributed surplus is distributable to the equity holders. In the Group's consolidated financial statements, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

37 Particulars of principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

Company name	Place of incorporation/ establishment	Issued/registered and paid-up capital	Principal activities and places of operation	Percentage of ownership interest 2018 %	2017 %
Astra Profits Limited (note a)	British Virgin Islands	4 shares of US$1 each	Investment holding in Hong Kong	100	100
Guangzhou Midland Property Agency Company Limited (note b)	The PRC	US$5,606,000	Property agency in the PRC	100	100
Hong Kong Property Services (Agency) Limited	Hong Kong	2 shares	Property agency in Hong Kong	100	100
Hong Kong Property Services (China) Limited	Hong Kong	1 share	Investment holding in the PRC	100	100
Midland Credit Limited	Hong Kong	1 share	Money lending business in Hong Kong	100	100
Midland CyberNet Limited	Hong Kong	39,100,000 shares	Investment holding and operation of internet website in Hong Kong	100	100
Midland HKP Services (Administration) Limited	Hong Kong	2 shares	Provision of management services in Hong Kong	100	100
Midland Immigration Consultancy Limited	Hong Kong	500,000 shares	Immigration consultancy services in Hong Kong	100	100
Midland Realty (Global) Limited	Hong Kong	1 share	Promotion of overseas properties in Hong Kong	100	100
Midland Realty (Macau) Agency Limited	Macau	MOP$25,000	Property agency in Macau	100	100
Midland Realty (Macau) Limited	Macau	MOP$25,000	Property agency in Macau	100	100
Midland Realty (Strategic) Limited	Hong Kong	10,000 shares and 2,000,000 non-voting deferred shares	Investment holding and provision of administration and treasury services to group companies in Hong Kong	100	100
Midland Realty International Limited	Hong Kong	1,000 shares	Property agency in Hong Kong	100	100
Midland Surveyors Limited	Hong Kong	1,000,000 shares	Provision of professional surveying consultancy and valuation services in Hong Kong	100	100
Perfect Tower Limited	Hong Kong	2 shares	Property investment in the PRC	100	100
Real Gain Limited	Hong Kong	10,000 shares	Property investment in Hong Kong	100	100
Teston Profits Limited	British Virgin Islands	1 share of US$1	Investment holding in Hong Kong	100	100
Worldboss Limited	Hong Kong	2 shares	Property investment in Hong Kong	100	100
港置地產代理(深圳)有限公司 (note b)	The PRC	HK$45,000,000	Property agency in the PRC	100	100
美聯物業代理(深圳)有限公司 (note b)	The PRC	US$13,510,000	Property agency in the PRC	100	100
重慶美聯營銷策劃有限公司 (note b)	The PRC	US$2,147,000	Property agency in the PRC	100	100
成都港美聯房地產顧問有限公司 (note b)	The PRC	US$1,065,000	Property agency in the PRC	100	100
縱橫擔保(深圳)有限公司 (note b)	The PRC	US$5,400,000	Property investment in the PRC	100	100
北京美聯房地產經紀有限公司 (note b)	The PRC	US$3,400,000	Property agency in the PRC	100	100

Notes:

(a) This subsidiary is directly held by the Company.

(b) Registered as wholly foreign owned enterprise under the PRC law.

37 Particulars of principal subsidiaries, joint ventures and associates (Continued)

(b) Principal joint ventures

Company name	Place of incorporation	Principal activities and places of operation	Percentage of interest in ownership/voting power/profit sharing 2018	2017
mReferral Corporation Limited	British Virgin Islands	Investment holding in Hong Kong	50%/50%/50%	50%/50%/50%
mReferral Corporation (HK) Limited	British Virgin Islands	Provision of mortgage referral services in Hong Kong	50%/50%/50%	50%/50%/50%
Vision Year Investments Limited	British Virgin Islands	Investment holding in Hong Kong	10%/50%/10%	10%/50%/10%

(c) Principal associates

Company name	Place of incorporation	Principal activities and places of operation	Percentage of ownership interest 2018 %	2017 %
Midland IC&I Limited	Cayman Islands	Investment holding in Hong Kong	33.84	33.84
Bright Eastern Limited	Hong Kong	Property investment in Hong Kong	33.84	N/A
Century Hover Limited	British Virgin Islands	Property investment in Hong Kong	30.46	N/A
Champion Shine International Limited	Hong Kong	Property investment in Hong Kong	30.46	N/A
Dragon Magic Investments Limited	Hong Kong	Property investment in Hong Kong	30.46	N/A
Gainwell Group Limited	British Virgin Islands	Investment holding in Hong Kong	33.84	33.84
Glorious Success Global Limited	British Virgin Islands	Property investment in Hong Kong	30.46	N/A
Grand Win (H.K.) Limited	Hong Kong	Property investment in Hong Kong	33.84	N/A
Ketanfall Group Limited	British Virgin Islands	Investment holding in Hong Kong	33.84	33.84
Leader Concord Limited	Hong Kong	Provision of management services to the group companies in Hong Kong	33.84	33.84
Legend Credit Limited (Previously known as "Easy Lending Limited")	Hong Kong	Money lending business in Hong Kong	33.84	33.84
Midland IC&I Surveyors Limited	Hong Kong	Provision of surveying services in Hong Kong	33.84	33.84

37 Particulars of principal subsidiaries, joint ventures and associates (Continued)

(c) Principal associates (Continued)

Company name	Place of incorporation	Principal activities and places of operation	Percentage of ownership interest 2018 %	2017 %
Midland IC&I Treasury Services Limited	Hong Kong	Provision of treasury services to the group companies in Hong Kong	33.84	33.84
Midland Realty (Comm.) Limited	Hong Kong	Property agency in Hong Kong	33.84	33.84
Midland Realty (Comm. & Ind.) Limited	Hong Kong	Property agency in Hong Kong	33.84	33.84
Midland Realty (Comm. & Ind. II) Limited	Hong Kong	Property agency in Hong Kong	33.84	33.84
Midland Realty (Comm. & Ind. III) Limited	Hong Kong	Property agency in Hong Kong	33.84	33.84
Midland Realty (Shops) Limited	Hong Kong	Property agency in Hong Kong	33.84	33.84
Midland Realty (Shops II) Limited	Hong Kong	Property agency in Hong Kong	33.84	33.84
Most Wealth (Hong Kong) Limited	Hong Kong	Property investment in Hong Kong	33.84	33.84
Powerful Surge Group Limited	British Virgin Islands	Investment holding in Hong Kong	30.46	N/A
Princeton Residence (HK) Limited	Hong Kong	Serviced apartment operation in Hong Kong	33.84	N/A
Ruby Hill Ventures Limited	British Virgin Islands	Investment holding in Hong Kong	33.84	N/A
Shine Treasure Holdings Limited	British Virgin Islands	Property investment in Hong Kong	30.46	N/A
Sino Hover Limited	British Virgin Islands	Property investment in Hong Kong	30.46	N/A
Supreme Gold Development Limited	Hong Kong	Property investment in Hong Kong	33.84	N/A
Teamway Group Limited	British Virgin Islands	Property investment in Hong Kong	33.84	33.84

List of Investment Properties

Location	Lot number	Existing use	Lease term	Group's interest
Unit A1 on Ground Floor of the Commercial Accommodation, Well On Garden, 9 Yuk Nga Lane, Tseung Kwan O, Sai Kung, New Territories, Hong Kong	TKOTL18	Commercial	Medium	100%
Shop No. 6 on Lower Ground Floor, Franki Centre (formerly known as Kowloon Tong Centre), 320 Junction Road, Kowloon Tong, Kowloon, Hong Kong	NKIL5746	Commercial	Medium	100%
Unit 4 on Level (Site 1) 36 (excluding Market Entrance at L36) of Commercial Development, Sceneway Garden, 8 Sceneway Road, Lam Tin, Kowloon, Hong Kong	NKIL6046	Commercial	Medium	100%
Shops 1 and 2 on Ground Floor, Wai Wah Court, 12R Smithfield, Kennedy Town, Hong Kong	IL4097	Commercial	Long	100%
Shop No. 80, Harmony Garden, No.9 Siu Sai Wan Road, Hong Kong	CWIL154	Commercial	Medium	100%
Units 1202, 1203 and 1204 on Level 12 of Tower 1, Henderson Centre, 18 Jianguomennei Avenue, Dongcheng District, Beijing, the People's Republic of China	N/A (note)	Commercial	Medium	100%
Shop No. 1D 128 on Level 1, Sun Asia Guo Li Building, 8 Zhong Hang Road, Futian District, Shenzhen, the People's Republic of China	N/A (note)	Commercial	Long	100%
Shop No. 1D 188 on Level 1, Sun Asia Guo Li Building, 8 Zhong Hang Road, Futian District, Shenzhen, the People's Republic of China	N/A (note)	Commercial	Long	100%

Note: Property located in the People's Republic of China without lot number.

Five-Year Financial Summary

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
For the year					
Revenues	5,010,221	5,294,115	5,076,148	3,906,524	4,118,267
Profit/(loss) before taxation	78,536	235,068	40,009	(90,589)	114,315
Profit/(loss) attributable to equity holders of the Company	58,134	193,452	10,549	(99,486)	63,975
Cash flows					
Net cash (outflow)/inflow from operating activities	(26,934)	263,433	(43,840)	(37,856)	341,135
At year end					
Total assets	4,593,896	4,410,191	3,744,445	3,108,820	4,096,420
Total liabilities	3,137,798	3,048,412	2,560,904	1,578,813	2,489,880
Non-controlling interests	–	–	–	201,635	200,431
Total equity	1,456,098	1,361,779	1,183,541	1,530,007	1,606,540
Cash and cash equivalents (include short-term bank deposits)	942,290	1,158,645	876,490	1,303,066	1,764,485
Per share data					
Basic earnings/(loss) per share (HK cents)	8.10	26.94	1.47	(13.86)	8.91
Diluted earnings/(loss) per share (HK cents)	7.95	26.45	1.47	(13.86)	8.91
Dividend per share (HK cents)					
Interim	3.20	–	23.50	–	–
Final	–	5.00	–	–	–
Total	3.20	5.00	23.50	–	–

香港德輔道中19號環球大廈25樓2505-8室
Rooms 2505-8, 25th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong
www.midland.com.hk