

Innovation is our momentum  
躍進求變 連繫新價值



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# Corporate Information

## 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

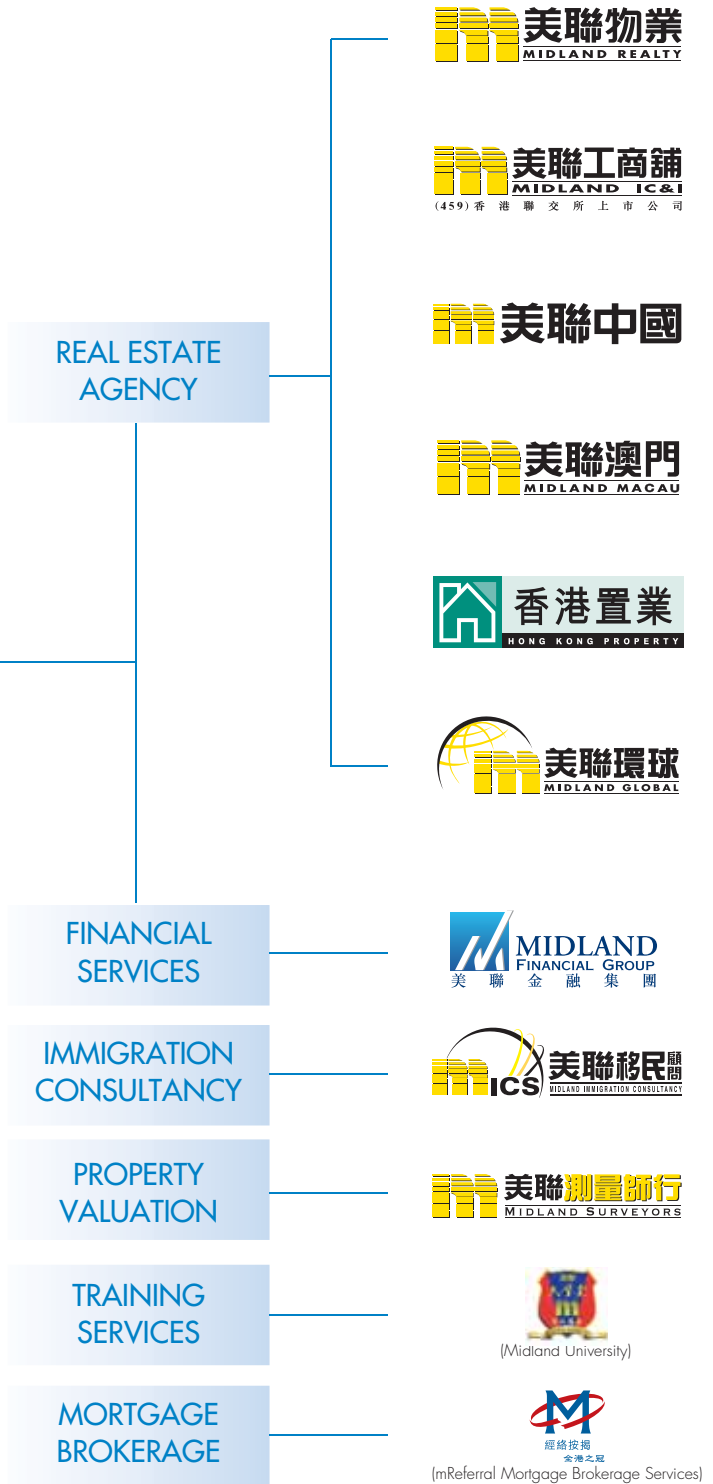
## WEBSITE

[www.midland.com.hk](http://www.midland.com.hk)

## STOCK CODE

1200

# Strategic Business Units



## Strategic Business Units

## Business Description



Provision of residential property agency services in Hong Kong



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



Provision of property agency services, project planning, commercial property management and marketing and sales planning in the PRC



Provision of property agency services, surveying, project planning, leasing and property management services in Macau



Provision of residential property agency services in Hong Kong



Provision of overseas property projects' marketing and referral services in the PRC, Hong Kong and Macau



A joint venture of the Company, providing independent financial planning consultancy services, insurance brokerage and wealth management services



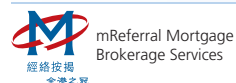
Provision of immigration consultancy services in Hong Kong and Macau



Provision of professional surveying consultancy services including valuation advisory, development study, sales, marketing, tender and auction for projects



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



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 and 45th Anniversary Cocktail Party “We fight for glory”**

The Annual Dinner and 45th Anniversary Cocktail Party was held at the Hong Kong Convention and Exhibition Centre. Carrying the theme “We fight for glory”, the event demonstrated Midland’s dedication, throughout its 45 years of history, in creating industry legends with our staff in a united effort. Celebrities and representatives of property developers were invited to the Cocktail Party and joined our management to celebrate on stage, showing determination to work together for future business opportunities.

### 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 on the property market, in-depth interviews, feature stories, instant responses, analytical articles and more, it showed its corporate credibility by sharing unique property insight, outlining trend of the property market, and offering professional and helpful information to the market.



### Developers’ recognition on brilliant performance in newly launched properties

Capturing market opportunities, the Group’s residential division sealed a series of transactions over HK\$100 million with smooth cooperation with major developers. Brilliant performance was recorded from newly launched properties, especially AVA61 for which we acted as the exclusive sales agent. Top sales performance was also achieved at numerous projects, including Seanorama, COO Residence, Victoria Harbour, etc.



### Initiating a new campaign about nurturing professionalism with professionalism

In December 2017, Midland Realty launched a new advertising campaign hosted by the highly intelligent character “Mr. S”, introducing Midland’s latest digital tools in property search. The campaign featured a family of three members, each with different requirements for agency services, and how our digital tools could fulfill them with professional assistance and convenient property searching services, with the objective of nurturing professionalism with professionalism.



## Major Events and Awards for the Year

**Pioneering the industry to introduce the “Midland Chat”**

Embracing its “Progressive” corporate value, Midland Realty introduced the “Midland Chat” on its official website, mobile app and social platforms. The platform is managed by a licensed professional customer service team, who have received intensive trainings, and supported by a comprehensive knowledge pool. Through online live chat, the team provides cross-district and personalised services to address customers’ enquiries on property purchase in accordance to their specific needs. Upon requests, the team will also refer customers to frontline staff for following-up. This platform has not only successfully enhanced sales channels, but also continuously optimised service quality and improved customer experience.

**Decade-high record of million-dollar branches**

The Group endeavoured to increase its market share. Our sales team achieved outstanding performance continuously. In March 2017, more than a hundred branches at the residential division recorded sales results of over a million dollars. This decade-high performance was highly appreciated by the management.

**“Back to School” CPU annual dinner**

Themed “Back to School”, annual dinner of Central Professional Units (CPU) gathered the management and back-office staff. All of them showed up in school uniforms, demonstrating high morale and unity in embracing the spirit of “Achieving your dreams with the very beginning mind”.

**Continuous website revamp facilitating informed home purchase**

With “Knowledgeable” as its corporate value, Midland’s website has kept visitors abreast of the latest information with revamped layout. At the same time, three regional pages, namely Kai Tak, North Point and Tseung Kwan O, were launched to provide comprehensive information about locational property market and complementary facilities. In response to the launch of new flats under Home Ownership Scheme (HOS) and regularising of “White Form Secondary Market Scheme” by the government, “Midland HOS Page” was introduced to provide transaction tips, information of HOS flats and a 1-minute qualification test, with the aim of devising the best plan of flat purchase for customers from information gathering to investment.

**Introducing “Dream Pursuer” series on social media platform**

Following the success of “Super Home Tour”, the Facebook page of Midland Realty introduced another key project, “Dream Pursuer” series, sharing the experience of seven local young people and four stories of dream pursuit and encouraging young people to strive for their goals. It highlighted Midland’s persistence on its “Approachable” brand value during its 45 years of support for Hong Kong people.

**Establishing “Midland Distinguished Sales-talent Academy”**

The Group actively developed talents for the industry and established “Midland Distinguished Sales-talent Academy” (MDSA) so as to provide a variety of advanced programmes for elite recipients of “Distinguished Salesperson Award” to sharpen their sales skills.





## Major Events and Awards for the Year

### Quality seminars on property education

The Group organised property seminars and group tours focusing on key regions with new developments. Combining property tours, on-site inspection and property education, the activities aimed to provide customers with the latest information on real estate and to perform our responsibility to educate people on property investment and home ownership.



### The sole winner in the industry to be granted the first “Outstanding Estate Agent Award”

The Group strives to enhance the professional level of its employees. It was the sole winner in the industry at the first “Outstanding Estate Agent Award” organised by the Estate Agents Authority, and was also granted the second runner-up of the “Outstanding Newcomer Award”. Presented with the two awards, Midland once again demonstrated its fruitful results in talent development.



### Facilitating industry exchange and development between mainland China and Hong Kong

The Group is concerned about industry development and has spared no effort in advocating exchange between industry players. Taking the opportunity of the visit of Nanning Association of Real Estate Agents to Hong Kong, the Group had in-depth exchange with them on topics such as property sales procedure, operating strategies and business model of property agency, facilitating communication and value-added development of the industry between mainland China and Hong Kong.



### “Elite Club” organised morale-boosting activities

Top performers in the industry gathered at the activities held by the “Elite Club”, including large-scale glee feast for hundreds of elites, property development inspection, etc., for a good opportunity of team-building, idea exchange and learning. For the first time, the Annual Tour ventured outside of Asia and aimed at landmark mansion projects in Sydney, Australia. In addition, upholding the corporate value of “Caring”, the club also organised the charity activity “Send care with Ming Gor”, bringing food to the homeless and singleton elders in the Sham Shui Po district.



### Organising seminar on overseas properties

Riding on the boom of buying and investing overseas properties, Midland Global has actively acted as the sales agent of overseas property projects in the UK, Canada and Australia etc. Midland Global and mReferral Mortgage Brokerage Services jointly organised the “Properties of Hong Kong vs. Singapore” seminar so as to achieve synergy and explore overseas businesses.



### Exceptional Results at the 49th “Distinguished Salesperson Award”

Thanks to the Group’s efforts in attracting and nurturing industry talents, 32 outstanding members of frontline staff won the 49th “Distinguished Salesperson Award” organised by the Hong Kong Management Association, a historic record in the number of recipients. The Group’s achievement in staff training and development has been widely recognised across industries.





Major Events and Awards for the Year

**Awarded “The Best O2O Platform of Property Agency”**

The Group expanded into the digital field with new online applications which excelled in boosting customer experience. It took home “The Best O2O Platform of Property Agency” from the “E-brand Awards 2017” by e-Zone, demonstrating the Group’s outstanding achievement in improving service standard with innovations in the era of new technology.



**Awarded the “Hong Kong Outstanding Enterprises (Main Board Companies)” for 5 consecutive years**

As a reputable brand in Hong Kong, the Group was awarded the “Hong Kong Outstanding Enterprises 2017 (Main Board Companies)” by the *Economic Digest* for 5 consecutive years. The Group was the only property agency to receive this accolade, recognising its position as the industry leader.



**Granted the “Happy Company” for 2 consecutive years**

As a people-oriented enterprise, the Group has built a pleasant workplace through combined efforts of our employees. We were recognised by Promoting Happiness Index Foundation and the Hong Kong Productivity Council as “Happy Company” for the 2nd consecutive year in appreciation of the Group’s active endeavors in creating a delightful working environment.



**Winning “Asia Pacific Outstanding Employer Award” for 2 consecutive years and “Employer of Choice Award” for 4 consecutive years (both awarded by JobMarket)**

By attaching importance to talent development, the Group once again won the “Asia Pacific Outstanding Employer Award” and also the “Employer of Choice Award” for the 4th consecutive year, as well as the “Best Employers Award Scheme”, all of which were awarded by JobMarket. Our management philosophy of “Talent seeking, Talent nurturing and Talent pooling” has been widely recognised.



**Received “Manpower Developer 1st” title for 8 straight years**

The Group has been excelling in manpower training and development. Our “Midland University” was founded with an aim to nurture talents and drive professional standard for the industry. In recognition of this effort, it was honoured with “Manpower Developer 1st” title for 8 straight years under the “ERB Manpower Developer Award Scheme”.



**Granted the title of “Work-Life Balance Week Practicing Organisation” for the 2nd time**

It has been the Group’s aim to provide an excellent career development platform with work-life balance. As a result, it was granted as one of the practising organisations of the “Work-Life Balance Week” organised by Community Business again.



## Major Events and Awards for the Year

### Winning the “ERB Merit Award for Employers”

The Group endeavored to create a wide range of career opportunities and its efforts in this regard were well recognised. Among a large pool of outstanding enterprises, the Group distinguished itself and won the 9th “Manpower Development Scheme – ERB Merit Award for Employers” organised by the Employees Retraining Board.



### Awarded “PROchoice Property Agency” for the 5th consecutive year

The Group kept its marketing strategy up-to-date and adopted well-received promotion efforts. With its outstanding performance, the Group clinched the honour of “PROchoice Property Agency” by *CAPITAL WEEKLY* for the 5th consecutive year, highlighting the appreciation for its brand notion.



### Honoured with “Partner Employer Award” – Commended Corporation

The Group actively recruits and provides internship opportunities to students and graduates from local universities and colleges with the objective of providing our next generation with work experience. The Group was awarded the “Partner Employer Award” – Commended Corporation by The Hong Kong General Chamber of Small and Medium Business, recognising the Group’s contribution in education affairs and philanthropy.



### Winning the “Outstanding New Trainer Awards”

“Midland University” follows the Group’s principle of “people-oriented and nurturing talents” to deliver professional, innovative and diversified training, leading the industry to achieve professionalism. Two of our training and development colleagues received the “Outstanding New Trainer Awards” from the Hong Kong Management Association, a solid proof to the industry’s wide recognition for our high-caliber teaching staff, training skills and teaching results.



### Awarded “ISO 9001:2015” Quality Certification

“Midland University” offers professional training programmes for property sales force in the industry. It constantly improves quality through regular reviews and was awarded “ISO 9001:2015” Quality Certification by the International Organization for Standardization, garnering recognition across the industry.



### Recognition for environmental protection and conservation

The Group is committed to the cause of environmental protection and energy conservation and received the Wastewi\$e Certificate-Excellence Level) in “Hong Kong Green Organisation Certification” held by the Environmental Campaign Committee, “Joint Energy Saving Award” in CLP GREENPLUS Award 2017 and the Platinum Award in “Charter on External Lighting” by the Environment Bureau, underlining the contribution of the Group to protect our environment.



# Chairman's Statement

## Business Review

Midland Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") is pleased to announce that for the year ended 31 December 2017, it recorded a consolidated net profit attributable to equity holders of approximately HK\$193 million, representing an increase of approximately 1,700% as compared with that of approximately HK\$11 million for the year of 2016.

The significant improvement of the Group's results was mainly attributable to:

1. the year-on-year increase in market transaction activity of the Hong Kong residential market in the year of 2017;
2. the increase in market share in the Hong Kong residential market;
3. effective reallocation and efficient utilization of resources; and
4. the implementation of costs control measures in response to the property market slowdown and challenging operating environment in major cities of mainland China.

During the reporting period, net profit of the Group reached a five-year high. Revenue of the Group, no longer consolidating the revenue of Midland IC&I Limited ("Midland IC&I") which is now an associate of the Group, also posted a growth of 4%. These good results demonstrate the agility, adaptability and capability of the management. Furthermore, the previously formulated 3-year plan has transformed and strengthened the Group, and allowed it to gain ground when opportunities arise.

## Healthy growth

The property market fared well in 2017. Buoyant equity market, strong local economy, low interest rate environment were among the factors supporting the growth in property sales activities. According to the figures from the Land Registry, the volume and value of the property registrations in 2017

amounted to 83,815 units and HK\$726 billion respectively, up 14.8% and 36.3% from that in 2016. The transaction value outgrew volume, mainly attributable to the extremely good performance of the high end segment, and the double digital growth of property prices in last year. The increase in property prices once raised the government's eyebrows. In last April, administrative measure was launched to plug the loophole of tax saving through multiple new flat purchases under a single sale and purchase contract. However, the impact was not long lasting. Primary home market had consolidated briefly and then revived in the second half.

Secondary market performed well despite the fact that its sales activity was still far from normalcy and the mortgage financing with high loan-to-value ratios offered by developers drew buyers away from the secondary market. Registering a growth of 13% in transaction volume, secondary home market marginally outperformed the primary market last year. Resale units gained attractiveness as the price gap between these units and the primary units widened. Transaction volume of the high-end segment increased the most. According to the figures provided by Midland Property Data and Research Center the transaction volume of the secondary residential properties valued over HK\$20 million surged by about 54% in 2017, and that valued between HK\$10 million to HK\$20 million increased by more than 50%. The growth in transaction volume of the medium-to-high end properties signified the revival of upgrading demand.

Among the segments of the non-residential market, the office sector was spectacularly strong, and its solid performances were backed by a lot of positive news. First, Henderson Land group in last May paid HK\$23.3 billion for the commercial site in the Central district sold by the government. Then, LVGEM (China) group in last October announced the HK\$9 billion purchase of an office building in Kwun Tong from The Wharf (Holdings) group. Another strong dose of stimulant was the disposal of The Center by CK Asset group for a record breaking price of HK\$40.2 billion. The buoyance of the office sector further invigorated the sentiments of the overall property market, especially at the higher end.



## Chairman's Statement

### Outlook

#### Synchronized global growth

The global economy is enjoying synchronized upswing. Worries about de-globalization, the tensions between US and North Korea and Brexit negotiations have caused only temporary setbacks to investors' confidence. The US economy is in great shape and is expected to bloom after the tax reform. After a good performance in 2017, the Euro economy is likely to register growth again in 2018. More encouragingly, the fundamentals of the mainland economy has been unscathed by the concerns of overcapacity and renminbi devaluation. Mainland GDP grew 6.9% in 2017, the first annual acceleration for the economy since 2010. Renminbi has even resumed its uptrend. While the global economic outlook is bright, the fear of accelerated interest hikes and threat of trade disputes may hamper the growth.

The local economy is also expected to show reasonable growth. Low unemployment rate and strong consumer confidence would provide support to the business environment. Moreover, the sharp rebound of renminbi has led to an uptick in mainland travelers, fueling the local retail sector. The economy is likely to continue to grow steadily when the physical connectivity between Hong Kong and the mainland further strengthens after the completion of the two mega projects, namely, the Hong Kong-Zhuhai-Macao Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link. The Group also believes that the spending earmarked by the recent financial budget for technological developments will boost the GDP growth in the longer term.

The Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect have already cemented the role of Hong Kong as an international financial center. The southbound flow (investment from the mainland to Hong Kong stock market) has also become an important force behind the local stock market.

#### Starting on a high note

Amid a positive economic outlook, the Group believes that the Hong Kong property market will continue to perform well in 2018. In the first two months of 2018, property prices rose moderately and sales responses to new launches have been strong. When the prices in the new home sector stay high, the secondary market is playing catchup. The growth of sales of the secondary units can be quite significant because of the low-comparative base. However, it is unlikely for the secondary market sales activity to return to pre-policy tightening level in the absence of drastic revisions of the housing policies.

The recent stock market turbulence is believed to have mixed impacts on the property sector. On one hand, wealth effect may be weakened. On the other hand, stock market volatility may strengthen the role of property market as a safe haven.

High property prices are a common concern in Hong Kong and the Mainland, and government policies are expected to remain as the most critical factor for the both property markets. Seemingly, the current local administration aims to steer the measures towards increasing supply. For a start, the starter home program announced in the latest policy address may expedite the farm land conversion. Then, the Legislative Council passed the amendment bill to extend the holding period for homeowners to sell their existing properties from 6 months to 12 months. In additions, the Housing Authority has regularized the White Form Secondary Market Scheme, thus boosting the supply of low-to-medium end units. There was no mention of any tightening measure when the budget speech was delivered at the end of last February. If the government focuses on managing supply instead of suppressing demand to deal with the asset appreciation, the home market and property agency industry will develop healthily. However, the improvements of the market sentiments may prompt our competitors to engage in aggressive expansion plan, resulting a more competitive environment.

#### Appreciation

I would like to express my heart-felt appreciation to the directors and our employees for their contributions to the Group. I would also like to take this opportunity to express my gratitude to all of our shareholders and customers for their continued support.

**WONG Kin Yip, Freddie**

*Chairman*

Hong Kong, 28 March 2018

# Strategic Review and Planning

## Improvements in operation

Hefty stamp duties and tight mortgage lending requirements have been the new normal of the property market for quite some time. Since the year of 2012, the overall market transaction volume in Hong Kong has failed to reach the level of 100,000 units a year. As a result, the competitive landscape has become fiercer and fiercer.

To stay ahead of the competition, the Group has responded through strengthening the efforts of resources allocation and expanding the market share in the new home sector.

The Group has also poured resources into infrastructure such as mobile platform and communication system. In recent years, the Group has reengineered the non-sales division as well. Some new professional units such as business process and digital marketing have been established to reinforce the support for the sales operations. Furthermore, the new on-line live chat services launched at the official website of Midland Realty have borne good fruits in enhancing customer experience, perfecting sales network and facilitating property deals closing.

During the reporting period, the business environment of our mainland operation was challenging. Last October, the central government reiterated that houses were built for inhabitation, but not for speculation. Due to the tightening of government policies, the volume of both primary and secondary home transactions in Shenzhen fell by 36% and 34% respectively last year. Since the majority of our branches in the mainland are located in this tier one city, our mainland operation was plagued by the drop in sales activity and in response, cost control measures were introduced to minimize the effect of the market slowdown.

## Progress with time

The world is ever changing and the Group needs to evolve so as to keep abreast of the times. The 3-year plan formulated at the end of 2013 has already brought positive impacts to the Group, and a new 3-year plan has been formulated for future developments:

1. Developing a holistic sales platform which caters for the property-related needs of our customers;
2. Improving the efficiencies and effectiveness of our online platform whilst increasing the mobility of our internal IT systems and platform;
3. Establishing solid relationships with the mainland developers who entered the local market in recent years; and
4. Improving the strategies of our mainland operations.

It has been an ongoing exercise to keep improving customer experience and staff productivity by better technological offerings. In the next few years, the Group will allot more resources in innovation and technology. We will strive to grow and strengthen our customer-centric holistic sales platform. Steps have been taken to strengthen the interaction between the Hong Kong and mainland operations with the goal to increase referrals of clients among various business units and market share. With the rising trend of the involvement of the mainland developers in the local property market, the Group has put up efforts to build long-term business relationships with them. One successful case is that Midland Realty has been appointed by China Metallurgical group to be the sole agent for the sale of L'AQUATIQUE, a new project located in Tsuen Wan.

The Group has also initiated measures to upgrade the infrastructure of our mainland supporting functions with a view to enhancing its capability to execute strategic projects and initiatives when opportunities arise.

The Group will step up its efforts in satisfying the needs of the modern customers who generally have a strong sense of entitlements. Comprehensive branch network, online and mobile platform, professional sales team and healthy financial background are still the key success factors in the Hong Kong property agency industry. The Group will definitely keep sharpening its edges in these areas and will keep looking for opportunities that may create synergies with the existing principal activities of the Group.

**WONG Ching Yi, Angela**

*Deputy Chairman and Managing Director*

Hong Kong, 28 March 2018

## 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 68, is the Founder, Chairman and Executive Director of the Company. He is also a member of the Remuneration Committee and the 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, 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 44 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 a Standing Committee member 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.



### Ms. WONG Ching Yi, Angela

aged 37, 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 the 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 the group of Midland IC&I, the Company's listed associate, (collectively, the "Groups"). She is also responsible for the overall management and sales operations of the Groups, and oversees other operations 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 its 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 and Honorary Vice President of the advisory board of Business Association BEA HKUSU. She was a member of the Practice and Examination Committee of the Estate Agents Authority and was a member of the Professional Development Committee of the Estate Agents Authority. She is also a member of the Sponsorship and Development Fund Committee of The Open University of Hong Kong.

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 54, 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 members 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 29 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.

## Profile of Directors

### Mr. CHEUNG Kam Shing

aged 54, 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 32 years of solid experience in the real estate agency business. Mr. CHEUNG has served the Group for 26 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 57, 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 panel member of Solicitors Disciplinary Tribunal Panel, the Chairman of Professional Building Surveying Consultants Association of Hong Kong and the alternate member of Structural Engineers Registration Committee.

### Independent Non-Executive Directors

#### Mr. HO Kwan Tat, Ted

aged 53, 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 of Hong Kong Limited (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 54, 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 the Nomination Committee of the Company.

Mr. SUN has over 31 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 61, 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 34 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 2017.

## 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 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 13 to 16 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 14 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 2017, the Board held six 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 23 of this Annual Report.

### (v) Non-Executive Directors

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 2017 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. 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.

## Corporate Governance Report

## 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 Company had provided the comprehensive induction package to the newly appointed directors, and also provided to the Directors reading materials and training webcasts covering topics on corporate governance, environmental, social and governance, roles and duties of directors and financial reporting. A summary of the record of training received by the Directors during the year is as follows:

Directors	Training on corporate governance, environmental, social and governance, roles and duties of directors, financial reporting and/or other relevant topics
<b>Executive Directors</b>	
Mr. WONG Kin Yip, Freddie ( <i>Re-designated from Non-Executive Director to Executive Director with effect from 29 March 2017</i> )	✓
Ms. WONG Ching Yi, Angela	✓
Mr. WONG Tsz Wa, Pierre	✓
Mr. CHEUNG Kam Shing	✓
<b>Non-Executive Director</b>	
Mr. WONG Wing Cheung Dennis ( <i>Appointed with effect from 28 November 2017</i> )	✓
<b>Independent Non-Executive Directors</b>	
Mr. HO Kwan Tat, Ted ( <i>Appointed with effect from the conclusion of the annual general meeting held on 28 June 2017</i> )	✓
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. During the year, Mr. KOO Fook Sun, Louis ceased to be the chairman of the Audit Committee, and Mr. HO Kwan Tat, Ted was appointed as the chairman of the Audit Committee, all with effect from 28 June 2017. 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

## Corporate Governance Report

## 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 2017, the Company had in place arrangement for employees and 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. During the year, Mr. KOO Fook Sun, Louis ceased to be a member of the Remuneration Committee, and Mr. HO Kwan Tat, Ted has been appointed as a member of the Remuneration Committee, all with effect from 28 June 2017. Majority of the Remuneration Committee members are Independent Non-Executive Directors.

The Remuneration Committee held three meetings in 2017. During the year, the Remuneration Committee reviewed and recommended the remuneration packages of the Directors to the Board for approval, reviewed the Group's overall remuneration and recommended the remuneration of the potential candidates proposed to be appointed as Directors to the Board for approval. 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 2017 is set out below:

Remuneration bands	Number of individuals
HK\$0 – HK\$1,000,000	1
HK\$2,000,001 – HK\$2,500,000	1
HK\$7,500,001 – HK\$8,000,000	1
HK\$15,000,001 – HK\$15,500,000	1
HK\$16,500,001 – HK\$17,000,000	1

Details of Directors' emoluments and five highest paid individuals during the year are set out in note 10 to the consolidated financial statements on pages 91 to 94 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. During the year, Mr. KOO Fook Sun, Louis ceased to be the chairman of the Nomination Committee, and Mr. HO Kwan Tat, Ted was appointed as the chairman of the Nomination Committee, all with effect from 28 June 2017. Majority of the Nomination Committee members are Independent Non-Executive Directors.

The Nomination Committee held three meetings in 2017. 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 (including the Independent Non-Executive Directors who served on the Board for more than 9 years after determining their independence), identified individuals suitably qualified to become Directors by assessing the candidates' experience, skills, knowledge and time commitment to carry out the duties and responsibilities of the Directors and made recommendation to the Board for approval on change of composition of Board and Board committees, 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 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 2017. During the year, the Risk Committee assessed the independence of the Independent Non-Executive Directors who served on the Board for more than 9 years for re-election, 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.

## Corporate Governance Report

## 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 2017 are set out as follows:

Directors	Number of Meetings Attended/Held					Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	
<b>Executive Directors</b>						
Mr. WONG Kin Yip, Freddie ( <i>Chairman</i> ) ( <i>Note 1</i> )	5/6	N/A	3/3	3/3	N/A	1/1
Ms. WONG Ching Yi, Angela ( <i>Deputy Chairman and Managing Director</i> )	5/6	N/A	3/3	3/3	N/A	1/1
Mr. WONG Tsz Wa, Pierre ( <i>Managing Director</i> )	6/6	N/A	N/A	N/A	2/2	1/1
Mr. CHEUNG Kam Shing	6/6	N/A	N/A	N/A	N/A	1/1
Ms. TANG Mei Lai, Metty ( <i>Note 2</i> )	1/2	N/A	N/A	N/A	N/A	0/1
<b>Non-Executive Directors</b>						
Mr. WONG Wing Cheung Dennis ( <i>Note 3</i> )	N/A	N/A	N/A	N/A	N/A	N/A
Ms. IP Kit Yee, Kitty ( <i>Note 4</i> )	6/6	N/A	N/A	N/A	N/A	1/1
<b>Independent Non-Executive Directors</b>						
Mr. HO Kwan Tat, Ted ( <i>Note 5</i> )	3/3	1/1	1/1	1/1	N/A	N/A
Mr. SUN Tak Chiu	5/6	1/2	3/3	3/3	N/A	1/1
Mr. WONG San	6/6	2/2	3/3	3/3	N/A	1/1
Mr. KOO Fook Sun, Louis ( <i>Note 6</i> )	2/2	1/1	1/1	1/1	N/A	0/1

## Notes:

- Mr. WONG Kin Yip, Freddie was re-designated as an Executive Director with effect from 29 March 2017.
- Ms. TANG Mei Lai, Metty retired as an Executive Director with effect from the conclusion of the annual general meeting of the Company held on 28 June 2017 (the "AGM").
- Mr. WONG Wing Cheung Dennis has been appointed as a Non-Executive Director with effect from 28 November 2017.
- Ms. IP Kit Yee, Kitty resigned as a Non-Executive Director with effect from 28 November 2017.
- Mr. HO Kwan Tat, Ted 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 with effect from the conclusion of the AGM.
- Mr. KOO Fook Sun, Louis retired as an Independent Non-Executive Director and ceased to be the Chairman of the Audit Committee and the Nomination Committee, and the member of the Remuneration Committee with effect from the conclusion of the AGM.
- 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 2017.

## 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 44 to 45 in the Report of 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 2017 and of the Group's results and cash flows for the year ended 31 December 2017. In preparing the consolidated financial statements for the year ended 31 December 2017, 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 2017 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 2017, 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	
	2017	2016
	HK\$'000	HK\$'000
<b>Services rendered for the Group</b>		
Audit Services	2,478	3,284
Interim Results Review	573	916
Other non-Audit Services (Tax Services)	660	211
Total Fees	<u>3,711</u>	<u>4,411</u>

## 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 systems 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 2017 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 2017 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](http://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 2017 AGM of the Company was held on 28 June 2017. 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 2017 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 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

## Honoured as “Caring Company” for 14 consecutive years

The Group has devoted itself to charitable causes. For the 14th year in a row, it was awarded the Caring Company Logo by The Hong Kong Council of Social Service in recognition of its unremitting effort in fulfilling its social responsibilities and promoting corporate caring.



## Sponsoring “Lifeline Express Charity Run/Walk” for 7 consecutive years

The Group sponsored the “Charity Run/Walk” organised by Lifeline Express for 7 consecutive years. The charity event received enthusiastic responses from staff, and raised funds for the Lifeline Express, a hospital train aiming to give the gift of sight to cataract patients in remote areas in mainland China.

## Supporting “Project WeCan” for 4 consecutive years

The Group supported the “Project WeCan” for 4 consecutive years, offering all-round support to the partner school, HKSKH Bishop Hall Secondary School. This included supporting students to take part in the “Young Innovators Bazaar” and “Career Exploration Day”. Career seminar was also organised to allow students plan early for their future career.



## Participating in the “SHKP Vertical Run for Charity” for 6 consecutive years

For 6 consecutive years, the Group took part in the “SHKP Vertical Run for Charity – Race to Hong Kong ICC” organised by Sun Hung Kai Properties through sponsoring and joining the run to meet the challenge of taking 2,000 steps to the 100-storey height sky100 Hong Kong Observation Deck, showing our support to services targeting local children and young people.

## Corporate Social Responsibility Report

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

The Group has been a loyal supporter of St. James' Settlement's charity events. In addition to donating stationery gift packs, the Group organised the "Upcycling Workshop" with an aim to encourage students to make good use of resources and nurture the value of caring for the Earth.

**Supporting SPHC's "Hike for Hospice" for 13 consecutive years**

For the 13th year in a row, the Group supported "Hike for Hospice" held by the Society for the Promotion of Hospice Care. Combining charity with sports, members of the participating team strived their very best in the short route event, in order to give back to society and help recipients of hospice services.

**Named "Caring Corporate" by The Lok Sin Tong Benevolent Society, Kowloon for 3 consecutive years**

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

**Unremitted support for Chinachem Eco-Walk 2.0**

The Group fulfilled its corporate social responsibility with its unremitted support for "Chinachem Eco-Walk 2.0", 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.

# 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 includes all the operations of the Group for the year ended 31 December 2017.

## 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 copiers away 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.

In 2017, the Group started to implement 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 136.61 tonnes of CO<sub>2</sub>e, which most of the emission was from consumption of purchased electricity. We will continuously monitor the greenhouse gas emission and implement the environmental measures.

Resources	Consumption
Greenhouse gas	
Direct emission	31.16 tonnes of CO <sub>2</sub> e
Energy indirect emission	105.45 tonnes of CO <sub>2</sub> e

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.

## Environmental, Social and Governance Report

### 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 and sensor switch devices
- Maximize the natural light and use proper zoning measure so that lighting and air-conditioning systems can be turned off when they are not in use
- Painting the walls and ceilings with lighter colour to enhance reflectivity and lighting efficiency
- Automatic turn off of unused electrical appliances at the preset time
- Install timers to properly control the operating time of external lightings and electrical equipment in the branches

##### Reduction of Paper Consumption

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

##### Water Conservation Measure

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

##### Sustainable procurement

- Preference will be given to office equipment with relatively high energy efficiency
- Purchase Forest Stewardship Council (FSC) certified papers

##### Maximization of resources

- 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 Group are as follows:

Resources	Consumption
Electricity	9,495,611.9 kWh <sup>Note 1</sup>
Water	6,723 Liters <sup>Note 2</sup>

Notes:

1. only including 328 branches located in Hong Kong
2. only including 28 branches located in Hong Kong

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

#### Environment and Natural Resources

The Group is committed to support green activities. In 2016, the Group signed the "Charter on External Lighting" promising to switch off the external lighting at the preset time to reduce light pollution. During the reporting period, over 180 branches of the Group received "Platinum Award".

In addition, we participated CLP GREEN<sup>PLUS</sup> Award 2017 and received "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.

In addition to 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 and the Group. In order to recognise the employees' hard work and contribution, enhance their sense of belonging and establish harmonious working environment, the Group organises different activities to staff and also provides various welfares, including but not limited to:

- 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;
- Motivational Campaign – sponsorship for employee activities.

### 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 for the period that 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.

## Environmental, Social and Governance Report

### Society (Continued)

#### Development and Training

The Group regards employees as invaluable assets. The Group founded Midland University to provide special 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 for supporting the employees’ participation in external trainings, professional qualification applications and examinations with the aim that the employees would learn techniques to deal with the ever 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. In order to help the employees to get work life balance and release their working pressure, 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 has provided employees with opportunities to socialize, have better understandings and exchanges 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 bidding 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 the 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 has specifically established an Integrated Customer Center linking with big data analysis, Online to Offline (O2O) platform and customer relationship management, and aims to improve user experience through customer review and diversified social and digital platforms. Mystery shoppers also conduct irregular inspections 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.

#### 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 those issues.

## Society (Continued)

### 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. Based on such evaluation, the community event plan of the coming year will be decided.

During the reporting period, the Group has participated in community activities with students as the beneficiaries. The themes of those activities were mainly related to career sharing and consultation. Employees of the Group shared their working experience with the students to enhance their knowledge in the real estate agency industry. Host organizations include Chung Sing Benevolent Society Mrs. Aw Boon Haw Secondary School, Hong Kong Institute of Vocational Education, VTC – Youth College, The Young Entrepreneurs Development Council, The University of Hong Kong, The Chinese University of Hong Kong, City University of Hong Kong, The Open University of Hong Kong, Hong Kong Baptist University, The Hong Kong University of Science and Technology, The Hong Kong Polytechnic University, The Education University of Hong Kong, etc. For details of other community activities participated by the Group during the reporting period, please refer to the Corporate Social Responsibility Report of this Annual Report.

### Awards and Achievements

During the reporting period, the Group received many awards and achievements, including:

Award/Achievement	Issuing institution
ERB Manpower Developer Award Scheme – Manpower Developer 1st	Employees Retraining Board
Outstanding Graduate Recruitment Award 2017	Job Market
Asia Pacific Outstanding Employer Award	Job Market
Employer of Choice Award	Job Market
Happiness at Work Promotional Scheme 2017	Promoting Happiness Index Foundation and The Hong Kong Productivity Council
Wastewi\$e Certificate – Excellence Level in Hong Kong Green Organisation Certification	Environmental Campaign Committee
Charter on External Lighting – Platinum Award	Environment Bureau
CLP GREEN <sup>PLUS</sup> Award 2017 Joint Energy Saving Award	China Light & Power Group
Work-life Balance Week 2017	Community Business
ISO9001: 2015	SGS United Kingdom Limited
School-company-Parent Program-Great Entrepreneurial Spirit	Young Entrepreneurs Development Council
Partner Employer Award	The Hong Kong General Chamber of Small and Medium Business

# Report of Directors

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

## 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 36 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2017 by operating segments is set out in note 7 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement on page 62 of this Annual Report.

The Directors recommended the payment of a final dividend of HK\$0.05 per ordinary share for the year ended 31 December 2017 (2016: Nil) to shareholders whose names appear on the register of members of the Company on Friday, 8 June 2018. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 1 June 2018, the final dividend will be paid on Thursday, 14 June 2018.

## 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 2017 as well as discussion on the future business development of the Group are provided in the Chairman's Statement on pages 10 to 11, the Strategic Review and Planning on page 12 and the Management Discussion and Analysis on pages 54 to 55 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 10 to 11 and note 4 to the consolidated financial statements on pages 80 to 84 of this Annual Report. An analysis using financial key performance indicators can be found in the Management Discussion and Analysis on pages 54 to 55 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 30 to 34 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.

### 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.



## Business Review (Continued)

### Relationships with key stakeholders (Continued)

#### 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 17 to 27 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 2017. 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 25 and note 35 to the consolidated financial statements respectively.

### Charitable Donations

During the year, the Group made charitable donations totalling HK\$877,000 (2016: HK\$822,000).

### Property and Equipment

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

## Report of Directors

### Investment Properties

Details of the movements in investment properties of the Group during the year are set out in note 17 to the consolidated financial statements. Details of the properties held for investment purposes are set out on page 119 of this Annual Report.

### Share Capital

Details of the share capital of the Company during the year are set out in note 24 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 2017, the reserves of the Company available for distribution amounted to HK\$547,595,000 (2016: HK\$534,436,000).

### 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 120 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 2017 and up to the date of this report are as follows:

#### Executive Directors

Mr. WONG Kin Yip, Freddie (*Chairman*) (*Re-designated from Non-Executive Director to Executive Director with effect from 29 March 2017*)

Ms. WONG Ching Yi, Angela (*Deputy Chairman and Managing Director*)

Mr. WONG Tsz Wa, Pierre (*Managing Director*)

Mr. CHEUNG Kam Shing

Ms. TANG Mei Lai, Metty (*Retired with effect from the conclusion of the AGM*)

#### Non-Executive Directors

Mr. Wong Wing Cheung Dennis (*Appointed with effect from 28 November 2017*)

Ms. IP Kit Yee, Kitty (*Resigned with effect from 28 November 2017*)

#### Independent Non-Executive Directors

Mr. HO Kwan Tat, Ted (*Appointed with effect from the conclusion of the AGM*)

Mr. SUN Tak Chiu

Mr. WONG San

Mr. KOO Fook Sun, Louis (*Retired with effect from the conclusion of the AGM*)

## Board of Directors (Continued)

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. WONG Wing Cheung Dennis and Mr. HO Kwan Tat, Ted, being the Directors appointed during the year, shall hold office only until the forthcoming annual general meeting of the Company and, being eligible, shall offer themselves for re-election.

In accordance with bye-law 87 of the Company's bye-laws, Ms. WONG Ching Yi, Angela, Mr. WONG Tsz Wa, Pierre and Mr. CHEUNG Kam Shing 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.

## Report of Directors

### 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.



## Report of Directors

### 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.

## Report of Directors

## 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:

Name	Date of grant	Exercise price per share HK\$	Number of share options				Balance outstanding as at 31 December 2017	Exercisable period
			Balance outstanding as at 1 January 2017	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year		
<b>Current Directors</b>								
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
<b>Former Directors</b>								
Ms. TANG Mei Lai, Metty (Former Executive Director)	27 October 2011	3.81	3,604,580	-	3,604,580 (Note)	-	-	1 January 2012 to 31 December 2019
	27 October 2011	3.81	3,604,580	-	3,604,580 (Note)	-	-	1 October 2013 to 30 September 2021
Mr. KOO Fook Sun, Louis (Former Independent Non-Executive Director)	21 July 2011	4.29	150,000	-	150,000 (Note)	-	-	1 August 2011 to 31 July 2019
Total			<u>21,927,480</u>	<u>-</u>	<u>7,359,160</u>	<u>-</u>	<u>14,568,320</u>	

Note: Share options were lapsed on 29 September 2017.

Information on the accounting policy for share options granted under the share option schemes of the Company is provided in note 3(q)(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 2017, the interests and short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director	Number of ordinary shares		Number of underlying shares		Approximate percentage of the issued voting shares of the Company
	Personal interest/Beneficial owner	Corporate interest/Interest of controlled corporation	Personal interest/Beneficial owner (Note 1)	Total	
Mr. WONG Kin Yip, Freddie	24,490,000	161,972,144 (Note 2)	7,209,160	193,671,304	26.97%
Ms. WONG Ching Yi, Angela	–	–	7,209,160	7,209,160	1.00%
Mr. SUN Tak Chiu	–	–	150,000	150,000	0.02%

#### Notes:

- 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.
- 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.
- 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.

## Report of Directors

## 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			Number of underlying shares		Total	Approximate percentage of the issued voting shares of associated corporation
		Personal interest/Beneficial owner	Corporate interest/Interest of controlled corporation	Family interest/Interest of spouse	Personal interest/Beneficial owner (Note 4)	Corporate interest/Interest of controlled 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%

## 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 the him/her as follows:

Name	Date of grant	Exercise price per share HK\$	Number of share options		Exercisable period
			As at 1 January 2017	As at 31 December 2017	
Mr. WONG Tsz Wa, Pierre	10 December 2014	0.44	30,000,000	3,000,000	15 December 2014 to 14 December 2019
	10 December 2014	0.44	30,000,000	3,000,000	15 December 2015 to 14 December 2019
	10 December 2014	0.44	30,000,000	3,000,000	15 December 2016 to 14 December 2019
Mr. CHEUNG Kam Shing	10 December 2014	0.44	5,000,000	500,000	15 December 2015 to 14 December 2019
	10 December 2014	0.44	5,000,000	500,000	15 December 2016 to 14 December 2019

\* Immediately upon the share consolidation of Midland IC&I becoming effective from 28 June 2017, the exercise price of the outstanding share options was adjusted from HK\$0.044 per share to HK\$0.44 per share and the number of shares of Midland IC&I comprised in the outstanding share options which may be allotted and issued upon exercise was also adjusted on the basis that every ten (10) shares of Midland IC&I of HK\$0.01 each be consolidated into one (1) share of Midland IC&I of HK\$0.1 each.

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.
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 2017, 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 2017, 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
Southern Field Trading Limited ( <i>Note 1</i> )	161,972,144 (L)	Interest of controlled corporation/ Corporate interest	22.55%
Sunluck Services Limited ( <i>Note 1</i> )	161,972,144 (L)	Beneficial owner/Beneficial interest	22.55%
Apex Benchmark Limited ( <i>Note 2</i> )	75,666,000 (L)	Beneficial owner/Beneficial interest	10.54%
Edgbaston Asian Equity Trust ( <i>Note 2</i> )	43,460,000 (L)	Beneficial owner/Beneficial interest	6.05%
Edgbaston Investment Partners LLP ( <i>Note 2</i> )	59,864,000 (L)	Investment manager/Other interest	8.34%
Hosking Partners LLP ( <i>Note 2</i> )	50,836,047 (L)	Investment manager/Other interest	7.08%
Massachusetts Financial Services Company ( <i>Note 3</i> )	82,025,000 (L)	Investment manager/Other interest	11.42%
Sun Life Financial, Inc. ( <i>Note 3</i> )	82,025,000 (L)	Investment manager/Other interest	11.42%
Sun Life of Canada (U.S.) Financial Services Holdings, Inc. ( <i>Note 3</i> )	82,025,000 (L)	Investment manager/Other interest	11.42%
UBS AG ( <i>Note 4</i> )	7,111,844 (L)	Beneficial owner/Beneficial interest	0.99%
	8,196,000 (L)	Security interest/Other interest	1.14%
	24,770,000 (L)	Interest of controlled corporation/ Corporate interest	3.45%
	4,035,548 (S)	Beneficial owner/Beneficial interest	0.56%
	24,272,000 (S)	Interest of controlled corporation/ Corporate interest	3.38%
Ms. TANG Mei Lai, Metty ( <i>Note 6</i> )	193,671,304 (L) ( <i>Note 5</i> )	Interest of spouse/Family interest	26.97%

Remark: (L) – Long Position, (S) – Short Position

## Report of Directors

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

### Notes:

1. The two references to 161,972,144 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".
2. Such long position includes interests in ordinary shares only.
3. Details of the interest in long position of the 82,025,000 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 82,025,000 shares. MFS was a 93.35% owned subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc. ("SLCFS") which was a 99.89% owned subsidiary of Sun Life Financial (U.S.) Investments LLC ("SLF(US)"). SLF(US) was a wholly-owned subsidiary of Sun Life Financial (U.S.) Holdings, Inc. which was a wholly-owned subsidiary of Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc. ("SLACC"). SLACC was a wholly-owned subsidiary of Sun Life Global Investments Inc. which was a wholly-owned subsidiary of SLF.  
  
MFS and SLCFS were subsidiaries of SLF. Accordingly, MFS's and SLCFS's interest in 82,025,000 shares was duplicated with the interest of SLF.
4. The interest of UBS AG included derivative interest in 530,000 shares of the Company (being long position and unlisted physically settled derivatives).
5. Such interests comprise (i) 186,462,144 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.
6. The 186,462,144 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 section headed "Share Option Schemes" in this report.

Save as disclosed above, as at 31 December 2017, 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 2017. 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 34 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.

## Report of Directors

## 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, 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.
11. A licence agreement was made on 15 December 2015 between Crown Lucky Investment Limited, an indirect wholly-owned subsidiary of Midland IC&I, as licensee and Moral Winner, a company indirectly wholly owned by Mr. WONG Kin Yip, Freddie, as licensor whereby a licence was granted to install billboard at the lower part of the external wall facing Shanghai 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 2015 to 31 October 2017 at a monthly licence fee of HK\$82,000 with right to terminate in which either party is entitled to terminate the licence by giving to the other party one month's prior notice in writing.

## Continuing Connected Transactions (Continued)

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

12. 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.

### (C) Continuing Connected Transactions (Disclosed by the Company's announcement dated 14 October 2015)

13. A tenancy agreement was made on 14 October 2015 between Union Honor, 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 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 2015 to 31 October 2017 at a monthly rental of HK\$54,000 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.
14. A licence agreement was made on 14 October 2015 between Great Century (H.K.) Limited, an indirect wholly-owned subsidiary of the Company, as licensee and Moral Winner, a company indirectly wholly owned by Mr. WONG Kin Yip, Freddie, as licensor whereby a licence was granted to install signage at 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 2015 to 31 October 2017 at a monthly licence fee of HK\$103,000.
15. A tenancy agreement was made on 31 March 2015 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. 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 2015 to 31 March 2017 at a monthly rental of HK\$49,600 without rent-free period and option to renew.

\* For identification purpose only



**Report of Directors****Continuing Connected Transactions (Continued)****(C) Continuing Connected Transactions (Disclosed by the Company's announcement dated 14 October 2015) (Continued)**

16. A licence agreement was made on 31 March 2015 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 2015 to 31 March 2017 at a monthly licence fee of HK\$5,000.

**(D) Continuing Connected Transactions (Disclosed by the Company's announcement dated 8 January 2015)**

17. A tenancy agreement was made on 8 January 2015 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 2015 to 9 January 2017 at a monthly rental of HK\$63,000 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.

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 48 to 51 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.

## 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 2017, that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

1. A discretionary bonus for the year ended 31 December 2017 amounted to HK\$138,334 (equivalent to his monthly additional remuneration) was received by Mr. CHEUNG Kam Shing in February 2018.
2. Mr. WONG Wing Cheung Dennis has been appointed as the alternate member of Structural Engineers Registration Committee effective from 1 January 2018.
3. A discretionary bonus for the year ended 31 December 2017 amounted to HK\$1,738,680 will be paid to each of Ms. WONG Ching Yi, Angela and Mr. WONG Tsz Wa, Pierre as approved by the Directors at a Board meeting held on 28 March 2018.

## Retirement Scheme

Details of the Group's retirement scheme are set out in note 9 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 2017 are set out in note 36 to the consolidated financial statements.

## Borrowings

Particulars of borrowings of the Group as at 31 December 2017 are set out in note 27 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 Directors and Independent Non-Executive Directors are reviewed by the Remuneration Committee and determined by the Board. No Director or any of his or her associates was involved in deciding his or her own remuneration.

## 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 same businesses of real estate agency and surveying 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 the group engaged in the same 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 those companies which engage in the same businesses 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 those 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.

## Report of Directors

### 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 2017 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 2018

## Management Discussion and Analysis

The Chairman's Statement on pages 10 to 11 and the Strategic Review and Planning on page 12 form part of the Management Discussion and Analysis.

### Liquidity and financial resources

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

As at 31 December 2017, the Group had cash and cash equivalents of HK\$1,158,645,000 (2016: HK\$876,490,000). The increase in the cash and cash equivalents was mainly due to the increase in cash inflows from operating activities.

As at 31 December 2017, the interest-bearing bank borrowings of the Group amounted to HK\$359,900,000 (2016: HK\$355,600,000) and with maturity profile set out as follows:

Repayable	2017 HK\$'000	2016 HK\$'000
Within 1 year	<u>359,900</u>	<u>355,600</u>

As at 31 December 2017, the gearing ratio, which is calculated on the basis of total borrowings over total equity of the Group, was 26.4% (2016: 30.0%). The liquidity ratio, which represents a ratio of current assets over current liabilities, to reflect the adequacy of the financial resources, was 1.2 (2016: 1.2). The return on equity, which is the ratio of profit for the year over total equity of the Group, was 14.21% (2016: 1.29%).

As at 31 December 2017, the Group has unutilised borrowing facilities amounting to approximately HK\$1,975,100,000 (2016: HK\$1,464,400,000) from various banks. The borrowing facilities were granted to the Group on a floating rate basis. 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 2017, certain land and buildings and investment properties held by the Group of HK\$60,679,000 (2016: HK\$61,786,000) and HK\$57,350,000 (2016: HK\$58,510,000) 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\$2,186,067,000 (2016: HK\$1,850,736,000).

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.

## Management Discussion and Analysis

### Contingent liabilities

As at 31 December 2017, the Company executed corporate guarantee of HK\$2,397,000,000 (2016: HK\$1,862,000,000) as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries of the Company. As at 31 December 2017, HK\$387,006,000 of these facilities were utilised by the subsidiaries (2016: HK\$367,177,000).

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

### Employee information

As at 31 December 2017, the Group employed 7,452 full time employees (2016: 9,267) of which 6,239 were sales agents, 660 were back office supportive employees and 553 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.



## Additional Financial Information

On 6 December 2016, the Company declared a dividend, satisfied by distribution in specie of the shares of Midland IC&I held by the Group to the shareholders of the Company in the proportion of 5 Midland IC&I shares for every share in the issued share capital of the Company. Details of the transaction were disclosed in the announcements of the Company dated 6 December 2016 and 23 December 2016 respectively.

After the distribution in specie of the shares of Midland IC&I held by the Group to the shareholders of the Company in December 2016, the Group's equity interest in Midland IC&I has been diluted from 70.78% to 44.58%, resulting in a loss of control over Midland IC&I and Midland IC&I and its subsidiaries (collectively the "Midland IC&I Group") ceased to be the subsidiaries of the Company. Accordingly, the Group's investment in Midland IC&I was accounted for as interests in associates using the equity method.

The following unaudited pro forma consolidated income statement has been prepared on the basis that the Midland IC&I Group has ceased to be the subsidiaries of the Company since 1 January 2016 and has been prepared for information purposes only and does not form part of the financial information as set out on pages 62 to 118.

### Unaudited Pro Forma Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK\$'000	2016 HK\$'000
Revenues	5,294,115	4,689,998
Other income and gains	13,436	15,265
Staff costs	(2,712,435)	(2,641,657)
Rebate incentives	(1,352,541)	(994,375)
Advertising and promotion expenses	(62,319)	(71,633)
Operating lease charges in respect of office and shop premises	(623,216)	(586,377)
Impairment of receivables	(61,749)	(76,097)
Depreciation and amortisation costs	(49,437)	(47,192)
Other operating costs	(253,774)	(269,921)
Operating profit	<u>192,080</u>	<u>18,011</u>

# Independent Auditor's Report



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 118, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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 judgment, 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 (Continued)

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
<p><b><i>Revenue recognition for property agency fees</i></b></p> <p>Refer to notes 3(s) and 5(i) to the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates.</p> <p>We focused on this area because management has made significant and subjective judgements on the amounts of property agency fees to be recognised. For the year ended 31 December 2017, property agency fees amounted to approximately HK\$5,278 million, representing 99.7% of the revenues reported by the Group.</p> <p>In order to determine the amounts of property agency fees which can be measured reliably and whether the underlying economic benefits would flow to the Group, management takes into account factors such as market conditions, customers' profiles, contractual terms and other relevant factors. Revenue is recognised only when the uncertainty related to the above factors is removed and it is probable that economic benefits will flow to the Group.</p>	<p>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.</p> <p>We evaluated management's estimate of the amount of agency fees to be recognised by testing, on a sample basis, the property agency fees recognised based on the terms set out in the contracts and other relevant factors. We also took reference to the general market conditions and market data of comparable properties in the same industry and management's knowledge about individual contracted parties in evaluating the estimation.</p> <p>We consider the judgements made by management are supportable by the evidence obtained and procedures performed.</p>

## Independent Auditor's Report

## Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b><i>Impairment of trade receivables</i></b></p> <p>Refer to notes 3(j) and 5(ii) to the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates.</p> <p>We focused on this area because there is complex and subjective judgement over both the timing of recognition and the magnitude of the provision for trade receivables impairment, which amounted to approximately HK\$181 million as at 31 December 2017.</p> <p>Management estimates impairment of trade receivables that are individually significant by considering the aging profiles of trade receivables, their knowledge about the customers and the market conditions.</p> <p>In addition, management estimates impairment of the unprovided trade receivables on a collective basis by considering the aging profiles of trade receivables and historical experience.</p>	<p>We understood, evaluated and tested the design and operating effectiveness of the key management controls over debt collection and impairment assessment process, including relevant information technology systems. These controls included those over the identification of which receivable was impaired and the calculation of the impairment provision. We determined that we could rely on these controls for the purpose of our audit.</p> <p>We tested the accuracy of the aging of trade receivables on a sample basis by tracing to the respective sale and purchase agreements.</p> <p>We discussed with management the recoverability of those individually significant receivables, corroborating management explanation by checking to the status of underlying transactions, information about contracted parties and subsequent settlements, if any.</p> <p>Where impairment was calculated on a collective basis, we evaluated the basis, calculation model and assumptions used, and tested the underlying data on a sample basis, including evaluating the outcome of management's estimations in the prior years.</p> <p>We consider the estimates made by management were within a reasonable range based on the procedures performed.</p>

## 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 judgment 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.

## Independent Auditor's Report

### 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 2018



# Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Revenues	6	5,294,115	5,076,148
Other income and gains	8	13,436	16,196
Staff costs	9	(2,712,435)	(2,885,498)
Rebate incentives		(1,352,541)	(1,014,430)
Advertising and promotion expenses		(62,319)	(85,431)
Operating lease charges in respect of office and shop premises		(623,216)	(622,481)
Impairment of receivables		(61,749)	(97,126)
Depreciation and amortisation costs		(49,437)	(52,012)
Other operating costs		(253,774)	(297,877)
Operating profit	11	192,080	37,489
Finance income	12	813	2,736
Finance costs	12	(20,762)	(10,504)
Share of results of joint ventures	19	30,975	11,544
Share of results of associates	20	31,962	(1,256)
Profit before taxation		235,068	40,009
Taxation	13	(41,616)	(24,730)
Profit for the year		193,452	15,279
Profit attributable to:			
Equity holders		193,452	10,549
Non-controlling interests		–	4,730
		193,452	15,279
Dividends	14	35,902	168,741
Earnings per share	15	HK cents	HK cents
Basic		26.94	1.47
Diluted		26.45	1.47

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Profit for the year	193,452	15,279
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(16,304)	12,314
Fair value gains on available-for-sale financial assets	2,665	1,178
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	(1,575)	(418)
	(15,214)	13,074
Total comprehensive income for the year, net of tax	178,238	28,353
Total comprehensive income for the year attributable to:		
Equity holders	178,238	23,623
Non-controlling interests	–	4,730
	178,238	28,353

# Consolidated Balance Sheet

As at 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	16	140,235	134,473
Investment properties	17	90,591	87,399
Land use rights	18	1,174	1,117
Interests in joint ventures	19	49,254	68,279
Interests in associates	20	360,355	325,129
Available-for-sale financial assets	21	7,028	10,449
Deferred taxation assets	28	19,432	20,467
		668,069	647,313
<b>Current assets</b>			
Trade and other receivables	22	2,583,475	2,219,865
Taxation recoverable		2	777
Cash and cash equivalents	23	1,158,645	876,490
		3,742,122	3,097,132
<b>Total assets</b>		4,410,191	3,744,445
<b>EQUITY AND LIABILITIES</b>			
<b>Equity holders</b>			
Share capital	24	71,805	71,805
Share premium	24	223,505	223,505
Reserves	25	1,066,469	888,231
<b>Total equity</b>		1,361,779	1,183,541
<b>Non-current liabilities</b>			
Deferred taxation liabilities	28	3,846	3,230
<b>Current liabilities</b>			
Trade and other payables	26	2,626,842	2,196,049
Borrowings	27	359,900	355,600
Taxation payable		57,824	6,025
		3,044,566	2,557,674
<b>Total liabilities</b>		3,048,412	2,560,904
<b>Total equity and liabilities</b>		4,410,191	3,744,445

The consolidated financial statements on page 62 to 118 were approved by the Board of Directors on 28 March 2018 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 2017

	Attributable to equity holders of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Reserves HK\$'000 (note 25)	Total HK\$'000		
At 1 January 2017	71,805	223,505	888,231	1,183,541	–	1,183,541
Comprehensive income						
Profit for the year	–	–	193,452	193,452	–	193,452
Other comprehensive income						
Currency translation differences	–	–	(16,304)	(16,304)	–	(16,304)
Fair value gains on available-for-sale financial assets	–	–	2,665	2,665	–	2,665
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	(1,575)	(1,575)	–	(1,575)
Total comprehensive income	–	–	178,238	178,238	–	178,238
At 31 December 2017	71,805	223,505	1,066,469	1,361,779	–	1,361,779
At 1 January 2016	71,805	223,505	1,033,062	1,328,372	201,635	1,530,007
Comprehensive income						
Profit for the year	–	–	10,549	10,549	4,730	15,279
Other comprehensive income						
Currency translation differences	–	–	12,314	12,314	–	12,314
Fair value gains on available-for-sale financial assets	–	–	1,178	1,178	–	1,178
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	(418)	(418)	–	(418)
Total comprehensive income	–	–	23,623	23,623	4,730	28,353
Transactions with owners						
Employee share option scheme – value of employee services of Midland IC&I Limited	–	–	287	287	118	405
Distribution in specie (note 14)	–	–	(168,741)	(168,741)	–	(168,741)
Disposal of subsidiaries (note 32)	–	–	–	–	(206,483)	(206,483)
	–	–	(168,454)	(168,454)	(206,365)	(374,819)
At 31 December 2016	71,805	223,505	888,231	1,183,541	–	1,183,541

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
<b>Cash flows from operating activities</b>			
Net cash generated from/(used in) operations	29	271,586	(26,755)
Hong Kong profits tax refunded/(paid)		13,359	(6,417)
Overseas taxation paid		(750)	(164)
Interest paid		(20,762)	(10,504)
Net cash generated from/(used in) operating activities		263,433	(43,840)
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	16	(52,967)	(51,486)
Proceeds from disposal of property and equipment		–	3
Proceeds from disposal of an investment property		4,150	15,800
Return of capital from available-for-sale financial assets		6,086	2,711
Bank interest received		813	2,736
Dividend received from a joint venture		50,000	14,152
Cash outflow from disposal of subsidiaries	32	–	(659,160)
Net cash generated from/(used in) investing activities		8,082	(675,244)
<b>Cash flows from financing activities</b>			
Repayment of bank loans		(12,658,600)	(4,492,945)
Proceeds from bank loans		12,662,900	4,797,600
Net cash generated from financing activities		4,300	304,655
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January		876,490	1,303,066
Exchange differences		6,340	(12,147)
Cash and cash equivalents at 31 December	23	1,158,645	876,490

## Major non-cash transaction

During the year ended 31 December 2016, the Group paid an interim dividend in the form of distribution in specie of the shares of Midland IC&I Limited (note 14).

# 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 2018.

## 2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale financial assets, which are carried at fair values.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5 below.

### (a) Amendments effective in 2017

Annual Improvements Project	Annual Improvements 2014-2016 Cycle
HKAS 7 (amendments)	Disclosure Initiative
HKAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses

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



## 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 2017 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Annual Improvements Project	Annual Improvements 2014-2016 Cycle	1 January 2018
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9 (Note (i))	Financial Instruments	1 January 2018
HKFRS 15 (Note (ii))	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (amendments)	Clarifications to HKFRS 15	1 January 2018
HKAS 40 (amendments)	Transfers of Investment Property	1 January 2018
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 16 (Note (iii))	Leases	1 January 2019
Annual Improvements Project	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 28	Long-term Interests in Associates and Joint Ventures	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

Notes:

#### (i) HKFRS 9, “Financial Instruments”

Management is assessing the impacts of the adoption of this new standard but does not consider there will be a significant impact to the Group’s consolidated financial statements.

#### (ii) HKFRS 15, “Revenue from Contracts with Customers”

##### *Nature of change*

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

## Notes to the Consolidated Financial Statements

### 2 Basis of preparation (Continued)

#### (b) New standards, interpretation and amendments which are not yet effective (Continued)

Notes: (Continued)

##### (ii) HKFRS 15, “Revenue from Contracts with Customers” (Continued)

###### *Impact*

Management is currently assessing the effects of applying the new standards on the Group’s consolidated financial statements and has identified the application of HKFRS 15 may result in the identification of variable consideration. More detailed assessment will be carried out by the Group to estimate the impact of the new rules on the Group’s consolidated financial statements.

###### *Date of adoption by the Group*

The adoption of this new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard from its effective date.

##### (iii) HKFRS 16, “Leases”

###### *Nature of change*

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet, 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 accounting for lessors will not significantly change.

###### *Impact*

The standard will affect primarily the accounting for Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$962,528,000 (Note 33).

The Group has not yet assessed what adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group’s profit or loss and classification of cash flows going forward.

###### *Date of adoption by the Group*

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

The expected impacts of the adoption of the other new standards, interpretation and amendments to standards are still being assessed by the management, and management is not yet in a position to state whether they would have a significant impact on the Company’s results of operations and financial position.

### 3 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.

## Notes to the Consolidated Financial Statements

### 3 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.

### 3 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 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 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 available-for-sale are included in other comprehensive income.

## Notes to the Consolidated Financial Statements

## 3 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.



### 3 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.

## Notes to the Consolidated Financial Statements

### 3 Summary of significant accounting policies (Continued)

#### (g) Financial assets

The Group classifies its financial assets in the categories of loans and receivables and available-for-sale financial assets. 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) 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 measurement*

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. 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.

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.

### 3 Summary of significant accounting policies (Continued)

#### (h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement) is removed from equity and recognised in the consolidated income statement. Impairment recognised in the consolidated income statement on equity instruments are not reversed through 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 provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within other operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivable. Subsequent recoveries of amounts previously written off are credited against other operating costs in the consolidated income statement.

#### (k) Cash and cash equivalents

Cash and cash equivalents include cash in 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.

#### (l) Share capital

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

## Notes to the Consolidated Financial Statements

### 3 Summary of significant accounting policies (Continued)

#### (m) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade 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.

#### (n) 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.

#### (o) 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.

#### (p) 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 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 taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation 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.

### 3 Summary of significant accounting policies (Continued)

#### (p) 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 taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation against current taxation liabilities and when the deferred taxation 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.

#### (q) 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.

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.

## Notes to the Consolidated Financial Statements

### 3 Summary of significant accounting policies (Continued)

#### (q) Employee benefits (Continued)

##### (iii) Share-based payment (Continued)

###### *Equity-settled share-based payment transactions (Continued)*

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.

#### (r) 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.

#### (s) Revenue recognition

Revenue comprises the fair value of the consideration for the sale of goods and services in the ordinary course of the activities of the Group. 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. Revenue is shown net of discounts and other revenue reducing factors.

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

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

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

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



### 3 Summary of significant accounting policies (Continued)

#### (t) 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.

#### (u) 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.

#### (v) 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.

### 4 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 and trade and other receivables. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

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 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.

Cash and cash equivalents are deposited in banks with sound credit ratings. Given their sound credit ratings, the Group does not expect to have high credit risk in this respect.

## Notes to the Consolidated Financial Statements

### 4 Financial risk management (Continued)

#### (a) Financial risk factors (Continued)

##### (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% (2016: 5%) against RMB with all other variables held constant, pre-tax profit for the year would have been approximately HK\$7,877,000 (2016: HK\$5,204,000) higher or lower mainly as a result of foreign exchange gains or losses on translation of the RMB denominated receivables.

##### (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.

##### (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 27) 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 2017, the Group held cash and cash equivalents of HK\$1,158,645,000 (2016: HK\$876,490,000).

## 4 Financial risk management (Continued)

### (a) Financial risk factors (Continued)

#### (iv) Liquidity risk (Continued)

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
<b>At 31 December 2017</b>		
Trade and other payables	–	2,626,842
Borrowings	360,135	–
	<u>360,135</u>	<u>2,626,842</u>
<b>At 31 December 2016</b>		
Trade and other payables	–	2,196,049
Borrowings	355,828	–
	<u>355,828</u>	<u>2,196,049</u>

## Notes to the Consolidated Financial Statements

## 4 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 2017 and 2016 were as follows:

	2017 HK\$'000	2016 HK\$'000
Borrowings	359,900	355,600
Total equity	1,361,779	1,183,541
Gearing ratio	26.43%	30.05%

The current ratio of the Group, which represents a ratio of current assets over current liabilities, at 31 December 2017 and 2016 were as follows:

	2017 HK\$'000	2016 HK\$'000
Current assets	3,742,122	3,097,132
Current liabilities	3,044,566	2,557,674
Current ratio	1.2	1.2

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

## (c) Fair value estimation

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

## 4 Financial risk management (Continued)

### (c) Fair value estimation (Continued)

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
<b>As at 31 December 2017</b>				
Assets				
Available-for-sale financial assets	–	7,028	–	7,028
<b>As at 31 December 2016</b>				
Assets				
Available-for-sale financial assets	–	10,449	–	10,449

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. Instruments included in level 1 comprise primarily trading securities or available-for-sale.

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 and 2 during the year.

The fair value estimation of investment properties is disclosed in note 17 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

### 5 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 market conditions, customers' profiles, contractual terms and other relevant factors. 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 trade receivables

Management reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment is made for the irrecoverable amounts. Management assesses the recoverable amount of each individual trade receivable whether there is objective evidence that the trade 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. Management reassesses the provision for impairment at each balance sheet date.

#### (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 17 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 taxation 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 taxation assets and taxation in the periods in which such estimate is changed.

## 6 Revenues

	2017 HK\$'000	2016 HK\$'000
Agency fee	5,277,605	5,054,125
Immigration consultancy services	7,440	15,572
Rental income	3,355	3,448
Web advertising	1,581	1,486
Other services	4,134	1,517
	<u>5,294,115</u>	<u>5,076,148</u>

## 7 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 and mortgage referral services.

	Year ended 31 December 2017			
	Property agency			Total HK\$'000
	Residential properties HK\$'000	Commercial and industrial properties and shops HK\$'000	Others 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	<u>5,167,977</u>	<u>109,628</u>	<u>16,510</u>	<u>5,294,115</u>
Segment results	<u>232,652</u>	<u>27,593</u>	<u>43,971</u>	<u>304,216</u>
Impairment of receivables	(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 non-current assets	<u>51,919</u>	<u>1,002</u>	<u>46</u>	<u>52,967</u>



## Notes to the Consolidated Financial Statements

## 7 Segment information (Continued)

	Year ended 31 December 2016			
	Property agency			Total HK\$'000
	Residential properties HK\$'000	Commercial and industrial properties and shops HK\$'000	Others HK\$'000	
Total revenues	4,505,707	680,911	29,655	5,216,273
Inter-segment revenues	(106,387)	(26,106)	(7,632)	(140,125)
Revenues from external customers	<u>4,399,320</u>	<u>654,805</u>	<u>22,023</u>	<u>5,076,148</u>
Segment results	<u>43,531</u>	<u>7,715</u>	<u>18,125</u>	<u>69,371</u>
Impairment of receivables	(73,318)	(23,808)	–	(97,126)
Depreciation and amortisation costs	(41,801)	(8,159)	(856)	(50,816)
Share of results of joint ventures	–	–	11,544	11,544
Share of results of associates	–	(1,256)	–	(1,256)
Fair value gains on investment properties	–	–	1,438	1,438
Additions to non-current assets	<u>49,743</u>	<u>1,712</u>	<u>31</u>	<u>51,486</u>

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 disposal of subsidiaries, 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.

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

	2017 HK\$'000	2016 HK\$'000
Segment results for reportable segments	304,216	69,371
Corporate expenses	(54,038)	(31,816)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	1,575	418
Gain on disposal of subsidiaries	–	9,804
Gain on dilution of equity interests in associates	3,264	–
Finance income	813	2,736
Finance costs	(20,762)	(10,504)
Profit before taxation per consolidated income statement	<u>235,068</u>	<u>40,009</u>

## 7 Segment information (Continued)

Segment assets and liabilities exclude corporate assets and liabilities, deferred taxation and available-for-sale financial assets, all of which are managed on a central basis. The following is assets and liabilities by reporting segments:

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

	As at 31 December 2016			
	Property agency			Total HK\$'000
	Residential properties HK\$'000	Commercial and industrial properties and shops HK\$'000	Others HK\$'000	
Segment assets	<u>2,767,027</u>	<u>349,425</u>	<u>176,798</u>	<u>3,293,250</u>
Segment assets include:				
Interests in joint ventures	–	–	68,279	68,279
Interests in associates	<u>–</u>	<u>325,129</u>	<u>–</u>	<u>325,129</u>
Segment liabilities	<u>2,122,591</u>	<u>43,249</u>	<u>20,165</u>	<u>2,186,005</u>

## Notes to the Consolidated Financial Statements

## 7 Segment information (Continued)

Reportable segment assets are reconciled to total assets as follows:

	2017 HK\$'000	2016 HK\$'000
Segment assets	3,851,221	3,293,250
Corporate assets	532,510	420,279
Deferred taxation assets	19,432	20,467
Available-for-sale financial assets	7,028	10,449
Total assets per consolidated balance sheet	<u>4,410,191</u>	<u>3,744,445</u>

Reportable segment liabilities are reconciled to total liabilities as follows:

	2017 HK\$'000	2016 HK\$'000
Segment liabilities	2,666,963	2,186,005
Corporate liabilities	377,603	371,669
Deferred taxation liabilities	3,846	3,230
Total liabilities per consolidated balance sheet	<u>3,048,412</u>	<u>2,560,904</u>

Geographical information:

	2017 HK\$'000	2016 HK\$'000
Hong Kong and Macau	4,388,582	3,746,736
PRC	905,533	1,329,412
Revenues from external customers	<u>5,294,115</u>	<u>5,076,148</u>

Revenues are attributed to locations where the transactions took place.

## 8 Other income and gains

	2017 HK\$'000	2016 HK\$'000
Fair value gains on investment properties (note 17)	4,839	1,438
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	1,575	418
Gain on disposal of subsidiaries (note 32)	–	9,804
Gain on dilution of equity interests in associates (Note)	3,264	–
Others	3,758	4,536
	<u>13,436</u>	<u>16,196</u>

Note:

During the year, 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.

## 9 Staff costs, including directors' emoluments

	2017 HK\$'000	2016 HK\$'000
Salaries and allowances	859,214	907,046
Commissions	1,780,432	1,866,826
Pension costs for defined contribution plans	72,789	111,221
Share-based benefits	–	405
	<u>2,712,435</u>	<u>2,885,498</u>

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.

## Notes to the Consolidated Financial Statements

## 10 Benefit and interest of directors and five highest paid individuals

## (a) Benefit and interest of directors

The remuneration of each director for the year ended 31 December 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
<b>Executive Directors</b>					
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
	<u>814</u>	<u>26,282</u>	<u>15,500</u>	<u>64</u>	<u>42,660</u>
<b>Non-Executive Directors</b>					
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
	<u>260</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>260</u>
<b>Independent Non-Executive Directors</b>					
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
	<u>781</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>781</u>
	<u>1,855</u>	<u>26,282</u>	<u>15,500</u>	<u>64</u>	<u>43,701</u>

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.

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

## (a) Benefit and interest of directors (Continued)

The remuneration of each director for the year ended 31 December 2016 is set out below:

Name of director	Fees HK\$'000	Salaries and allowances HK\$'000	Performance incentive* HK\$'000	Retirement benefit costs HK\$'000	Total HK\$'000
<b>Executive Directors</b>					
Ms. WONG Ching Yi, Angela	230	7,072	458	19	7,779
Mr. WONG Tsz Wa, Pierre	200	8,781	458	18	9,457
Mr. CHEUNG Kam Shing	200	1,783	292	18	2,293
Ms. TANG Mei Lai, Metty	–	425	34	16	475
	<u>630</u>	<u>18,061</u>	<u>1,242</u>	<u>71</u>	<u>20,004</u>
<b>Non-Executive Directors</b>					
Mr. WONG Kin Yip, Freddie (Chairman)	260	78	–	–	338
Ms. IP Kit Yee, Kitty	260	–	–	–	260
Mr. KAN Chung Nin, Tony (resigned with effect from 18 October 2016)	<u>207</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>207</u>
	<u>727</u>	<u>78</u>	<u>–</u>	<u>–</u>	<u>805</u>
<b>Independent Non-Executive Directors</b>					
Mr. SUN Tak Chiu	260	–	–	–	260
Mr. WONG San	260	–	–	–	260
Mr. KOO Fook Sun, Louis	260	–	–	–	260
Mr. CHAN Nim Leung, Leon (resigned with effect from 23 November 2016)	<u>232</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>232</u>
	<u>1,012</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,012</u>
	<u>2,369</u>	<u>18,139</u>	<u>1,242</u>	<u>71</u>	<u>21,821</u>

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

## Notes to the Consolidated Financial Statements

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

## (a) Benefit and interest of directors (Continued)

## (i) Directors' emoluments

During the year ended 31 December 2016, director's fee of HK\$120,000 received by Ms. TANG Mei Lai, Metty from Midland IC&I was paid back to the Company. The amount has not been included in the above balance.

During the year ended 31 December 2016, in addition to the directors' emoluments disclosed above, the assessed fair value of share options granted by Midland IC&I to Mr. WONG Tsz Wa, Pierre, Ms. IP Kit Yee, Kitty and Mr. CHEUNG Kam Shing amounting to HK\$280,000, HK\$31,000 and HK\$47,000 respectively (2017: nil). Including the assessed fair value of share options granted, total remuneration of Mr. WONG Tsz Wa, Pierre, Ms. IP Kit Yee, Kitty and Mr. CHEUNG Kam Shing for the year ended 31 December 2016 amounted to HK\$9,737,000, HK\$291,000 and HK\$2,340,000 respectively.

No director waived or agreed to waive any emoluments during the year (2016: nil). No incentive payment for joining the Group was paid or payable to any director during the year (2016: 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 (2016: nil).

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

During the year ended 31 December 2017, the Group did not pay consideration to any third parties for making available directors' services (2016: 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 2017, there are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors (2016: nil).

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

Saved as disclosed in note 34(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.



## 10 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 (2016: three) directors whose emoluments are reflected in the analysis shown in note 10(a). The emoluments payable to the remaining two (2016: two) individuals during the year are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and allowances	4,577	4,177
Discretionary bonus	1,249	593
Retirement benefit costs	36	36
	<u>5,862</u>	<u>4,806</u>

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	–
	<u>2</u>	<u>2</u>

## Notes to the Consolidated Financial Statements

## 11 Operating profit

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

	2017 HK\$'000	2016 HK\$'000
Loss on disposal of property and equipment	855	1,089
Direct operating expenses arising from investment properties that:		
– generated rental income	233	332
– did not generate rental income	50	62
Auditor's remuneration		
– audit services	3,068	3,914
– interim results review	573	916
– other non-audit services	660	211
Net foreign exchange (gains)/losses	(8,490)	8,735

## 12 Finance income and costs

	2017 HK\$'000	2016 HK\$'000
Finance income		
Bank interest income	813	2,736
Finance costs		
Interest on bank loans and overdrafts	(20,762)	(10,504)
Finance costs, net	(19,949)	(7,768)

## 13 Taxation

	2017 HK\$'000	2016 HK\$'000
Current taxation		
Hong Kong profits tax	39,014	30,208
Overseas	951	537
Deferred taxation (note 28)	1,651	(6,015)
	41,616	24,730

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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.

### 13 Taxation (Continued)

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:

	2017 HK\$'000	2016 HK\$'000
Profit before taxation	235,068	40,009
Less: share of results of joint ventures	(30,975)	(11,544)
share of results of associates	(31,962)	1,256
	<u>172,131</u>	<u>29,721</u>
Calculated at a taxation rate of 16.5% (2016: 16.5%)	28,401	4,904
Effect of different taxation rates in other countries	(4,674)	(2,865)
Income not subject to taxation	(3,132)	(2,623)
Expenses not deductible for taxation purposes	584	1,179
Utilisation of previously unrecognised tax losses	(794)	(7,365)
Tax losses not recognised	22,404	27,138
Other temporary differences not recognised	(1,046)	3,538
Others	(127)	824
Taxation charge	<u>41,616</u>	<u>24,730</u>

### 14 Dividends

	2017 HK\$'000	2016 HK\$'000
Interim dividend by way of distribution in specie (note 32)	–	168,741
Proposed final dividend of HK\$0.05 (2016: nil) per share	35,902	–
	<u>35,902</u>	<u>168,741</u>

At a board meeting held on 28 March 2018, the board of directors (the "Board") proposed a final dividend of HK\$0.05 per share (2016: nil). This proposed final dividend is not reflected as a dividend payable in the consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

On 6 December 2016, the Board declared an interim dividend, satisfied by distribution in specie of the shares of Midland IC&I held by the Group to the shareholders of the Company in the proportion of 5 Midland IC&I shares for every share in the issued share capital of the Company. A total of 3,590,230,025 Midland IC&I shares with an aggregate market value of HK\$168,741,000 was recognised as distribution in 2016.

## Notes to the Consolidated Financial Statements

## 15 Earnings per share

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

	2017 HK\$'000	2016 HK\$'000
Profit attributable to equity holders for the calculation of basic earnings per share	193,452	10,549
Adjustment on the effect of dilutive events of associates	(3,518)	–
Profit attributable to equity holders for the calculation of diluted earnings per share	<u>189,934</u>	<u>10,549</u>
Number of shares for the calculation of basic and diluted earnings per share (thousands)	<u>718,046</u>	<u>718,046</u>
Basic earnings per share (HK cents)	<u>26.94</u>	<u>1.47</u>
Diluted earnings per share (HK cents)	<u>26.45</u>	<u>1.47</u>

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 associate. 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 does not affect the number of shares of the Company.

## 16 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 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	<u>62,320</u>	<u>37,650</u>	<u>19,874</u>	<u>14,244</u>	<u>385</u>	<u>134,473</u>
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	<u>61,240</u>	<u>43,524</u>	<u>15,733</u>	<u>18,541</u>	<u>1,197</u>	<u>140,235</u>
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	<u>61,240</u>	<u>43,524</u>	<u>15,733</u>	<u>18,541</u>	<u>1,197</u>	<u>140,235</u>
At 1 January 2016						
Cost	185,273	241,088	75,316	199,982	4,683	706,342
Accumulated depreciation and amortisation	(98,378)	(205,936)	(54,151)	(177,005)	(4,397)	(539,867)
Net book amount	<u>86,895</u>	<u>35,152</u>	<u>21,165</u>	<u>22,977</u>	<u>286</u>	<u>166,475</u>
Year ended 31 December 2016						
Opening net book amount	86,895	35,152	21,165	22,977	286	166,475
Additions	–	35,332	10,138	5,696	320	51,486
Disposals	–	(422)	(603)	(67)	–	(1,092)
Disposal of subsidiaries (note 32)	(22,680)	(2,354)	(283)	(2,156)	–	(27,473)
Depreciation and amortisation costs	(1,856)	(28,493)	(9,213)	(12,193)	(221)	(51,976)
Exchange differences	(39)	(1,565)	(1,330)	(13)	–	(2,947)
Closing net book amount	<u>62,320</u>	<u>37,650</u>	<u>19,874</u>	<u>14,244</u>	<u>385</u>	<u>134,473</u>
At 31 December 2016						
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	<u>62,320</u>	<u>37,650</u>	<u>19,874</u>	<u>14,244</u>	<u>385</u>	<u>134,473</u>

## Notes to the Consolidated Financial Statements

## 16 Property and equipment (Continued)

Land and buildings with net book value of HK\$60,679,000 (2016: HK\$61,786,000) are pledged as security for the Group's borrowing facilities (note 27).

## 17 Investment properties

	2017 HK\$'000	2016 HK\$'000
Opening net book amount	87,399	105,074
Change in fair value to consolidated income statement (note 8)	4,839	1,438
Disposal	(4,150)	(15,800)
Disposal of subsidiaries (note 32)	–	(1,400)
Exchange differences	2,503	(1,913)
Closing net book amount	<u>90,591</u>	<u>87,399</u>

The fair value gains on investment properties is included in “other income and gains” in the consolidated income statement (note 8).

As at 31 December 2017, valuations were undertaken by Midland Surveyors Limited (2016: Knight Frank Petty 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. The prevailing market rents adopted in the valuation have reference to valuer's view of recent lettings, within the subject properties and other comparable properties.

The Group's policy is to recognise transfers between fair value measurements as of the date of the event or change in circumstances that caused the transfer.

## 17 Investment properties (Continued)

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	57,350	HK\$41 to HK\$113 per sq. ft. (saleable) (2016: HK\$33 to HK\$98 per sq. ft. (saleable))	3.20% to 4.50% (2016: 3.20% to 4.40%)
The PRC	33,241	RMB185 to RMB1,690 per sq. m. (gross) (2016: RMB170 to RMB1,400 per sq. m. (gross))	4.80% to 5.80% (2016: 4.50% to 5.50%)
Total	<u>90,591</u>		

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\$57,350,000 (2016: HK\$58,510,000) are pledged as security for the Group's borrowing facilities (note 27).

## 18 Land use rights

Land use rights represent prepaid operating lease payments:

	2017 HK\$'000	2016 HK\$'000
Opening net book amount	1,117	1,233
Amortisation	(36)	(36)
Exchange differences	93	(80)
Closing net book amount	<u>1,174</u>	<u>1,117</u>



## Notes to the Consolidated Financial Statements

## 19 Interests in joint ventures

	2017 HK\$'000	2016 HK\$'000
Share of net assets	49,254	68,279
Unlisted shares, at costs	13,094	13,094

The management considers the interests in joint ventures are not individually material to the Group.

Details of the principal joint ventures are set out in note 36(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:

	2017 HK\$'000	2016 HK\$'000
Share of profit	30,975	11,544
Share of other comprehensive income	–	–
Share of total comprehensive income	30,975	11,544
Carrying amount of interests in these joint ventures	49,254	68,279

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 2017 and 2016.

## 20 Interests in associates

	2017 HK\$'000	2016 HK\$'000
Listed investment, at cost		
At the beginning of the year	325,129	–
Addition (note 32)	–	326,385
Gain on dilution of equity interests in associates (note 8)	3,264	–
Share of profit/(loss)	31,962	(1,256)
At end of the year	360,355	325,129

As at 31 December 2017, the market value of the listed investment was HK\$247,446,000 (2016: HK\$274,940,000).

Details of the principal associates are set out in note 36(c) to the consolidated financial statements.

## 20 Interests in associates (Continued)

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

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

	2017 HK\$'000	2016 HK\$'000
Total non-current assets	524,353	71,473
Total current assets	1,016,245	924,570
Total non-current liabilities	(173,361)	(631)
Total current liabilities	(302,480)	(266,106)
Net assets	<u>1,064,757</u>	<u>729,306</u>
Group's share of net asset	<u>360,355</u>	<u>325,129</u>
Revenues	<u>637,247</u>	<u>520,268</u>
Profit for the year	<u>89,918</u>	<u>18,100</u>
Group's share of the profit/(loss) for the year/period (Note)	<u>31,962</u>	<u>(1,256)</u>

Note:

In 2016, the amount represents share of loss for the period from completion of distribution in specie (note 14) to 31 December 2016.

There are no significant contingent liabilities and capital commitments relating to the Group's interests in associates as at 31 December 2017 and 2016.

## 21 Available-for-sale financial assets

	2017 HK\$'000	2016 HK\$'000
Unlisted equity investments, at fair value	<u>7,028</u>	<u>10,449</u>

The Group's available-for-sale financial assets are denominated in United States dollars.

## Notes to the Consolidated Financial Statements

## 22 Trade and other receivables

	2017 HK\$'000	2016 HK\$'000
Trade receivables	2,422,372	2,090,269
Less: provision for impairment	(180,834)	(182,143)
Trade receivables, net	2,241,538	1,908,126
Other receivables, prepayments and deposits	341,937	311,739
	<u>2,583,475</u>	<u>2,219,865</u>

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

	2017 HK\$'000	2016 HK\$'000
Not yet due	2,147,197	1,859,402
Less than 30 days	40,058	26,394
31 to 60 days	14,355	8,936
61 to 90 days	10,833	6,365
Over 90 days	29,095	7,029
	<u>2,241,538</u>	<u>1,908,126</u>

Trade receivables of HK\$94,341,000 (2016: HK\$48,724,000) were past due but not impaired. Such receivables were either past due for less than six months or subsequently settled after the year end.

As at 31 December 2017, provision for impairment for trade receivables of HK\$180,834,000 (2016: HK\$182,143,000) was made after taking into account the ageing of the trade receivables, the default history of customers or other specific reasons.

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

	2017 HK\$'000	2016 HK\$'000
At 1 January	182,143	163,290
Provision for impairment	61,749	97,126
Write-off of uncollectible debts	(63,058)	(39,876)
Disposal of subsidiaries	–	(38,397)
At 31 December	<u>180,834</u>	<u>182,143</u>

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

## 22 Trade and other receivables (Continued)

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\$2,186,067,000 as at 31 December 2017 (2016: HK\$1,850,736,000).

## 23 Cash and cash equivalents

	2017 HK\$'000	2016 HK\$'000
Cash and cash equivalents in the consolidated statement of cash flows	<u>1,158,645</u>	<u>876,490</u>

As at 31 December 2017, the Group's cash and cash equivalents included balances of HK\$121,145,000 (2016: HK\$136,292,000), 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.

## 24 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 2016, 31 December 2016 and 31 December 2017	<u>718,046,005</u>	<u>71,805</u>	<u>223,505</u>	<u>295,310</u>

## Notes to the Consolidated Financial Statements

## 24 Share capital and premium (Continued)

Notes:

**(a) Share capital**

The total authorised number of ordinary shares is 1 billion shares (2016: 1 billion shares) with a nominal value of HK\$0.10 per share (2016: 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 under 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	
		2017	2016
1 August 2011 to 31 July 2019	4.29	3,754,580	3,904,580
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	7,209,160
1 October 2013 to 30 September 2021	3.81	3,604,580	7,209,160
		<u>14,568,320</u>	<u>21,927,480</u>

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

	2017		2016	
	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	3.974	21,927,480	3.974	21,927,480
Lapsed	3.820	<u>(7,359,160)</u>	–	–
At end of the year	4.052	<u>14,568,320</u>	3.974	<u>21,927,480</u>

All the outstanding options were exercisable as at 31 December 2017 and 2016.

The options outstanding as at 31 December 2017 had a weighted average remaining contractual life of 2.32 years (2016: 3.50 years).

No share options had been granted or exercised during the year (2016: nil). In 2017, there was no share option expense recognised (2016: nil) in relation to share options granted under the share option scheme of the Company.

## 25 Reserves

	Capital redemption reserve	Capital reserve	Legal reserve	Employee benefits reserve	Exchange reserve	Investment revaluation reserve	Property revaluation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
At 1 January 2016	4,917	(11,553)	12	36,030	29,624	1,072	24,201	948,759	1,033,062
Profit for the year	-	-	-	-	-	-	-	10,549	10,549
Currency translation differences	-	-	-	-	12,314	-	-	-	12,314
Fair value gains on available-for-sale financial assets	-	-	-	-	-	1,178	-	-	1,178
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	-	-	-	-	-	(418)	-	-	(418)
Distribution in specie (note 14)	-	-	-	-	-	-	-	(168,741)	(168,741)
Employee share option scheme – value of employee services of Midland IC&I	-	-	-	287	-	-	-	-	287
– lapse of share options of Midland IC&I	-	-	-	(398)	-	-	-	398	-
Disposal of subsidiaries	-	-	-	(1,702)	-	-	-	1,702	-
At 31 December 2016	4,917	(11,553)	12	34,217	41,938	1,832	24,201	792,667	888,231

## 26 Trade and other payables

	2017 HK\$'000	2016 HK\$'000
Commissions and rebate payables	2,135,340	1,771,002
Other payables and accruals	491,502	425,047
	<u>2,626,842</u>	<u>2,196,049</u>

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\$355,727,000 (2016: HK\$276,199,000) 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 Group's trade and other payables are mainly denominated in Hong Kong dollars and Renminbi.

## Notes to the Consolidated Financial Statements

## 27 Borrowings

As at 31 December 2017 and 2016, the Group's borrowings include a repayment on demand clause and are classified as current liabilities.

	2017 HK\$'000	2016 HK\$'000
Bank loans repayable within 1 year	<u>359,900</u>	<u>355,600</u>

These borrowing facilities are secured by certain land and buildings and investment properties held by the Group (notes 16 and 17), certain trade receivables (note 22) and guarantees provided by the Company (note 30).

The effective interest rate of the borrowings is 1.68% to 3.01% (2016: 1.79% to 2.60%). The carrying amount and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Borrowings	<u>359,900</u>	<u>355,600</u>	<u>359,900</u>	<u>355,600</u>

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 1.68% to 3.01% (2016: 1.79% to 2.60%).

The Group has the following undrawn borrowing facilities:

	2017 HK\$'000	2016 HK\$'000
Floating rates Expiring within one year	<u>1,975,100</u>	<u>1,464,400</u>

Borrowings are denominated in Hong Kong dollars.



## 28 Deferred taxation

	2017 HK\$'000	2016 HK\$'000
Deferred taxation assets	(19,432)	(20,467)
Deferred taxation liabilities	3,846	3,230
	<u>(15,586)</u>	<u>(17,237)</u>

The net movements on the deferred taxation are as follows:

	2017 HK\$'000	2016 HK\$'000
At 1 January	(17,237)	(12,871)
Recognised in the consolidated income statement (note 13)	1,651	(6,015)
Disposal of subsidiaries	–	1,649
At 31 December	<u>(15,586)</u>	<u>(17,237)</u>

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

## Deferred taxation assets

	Provision HK\$'000	Decelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2016	(9,595)	(2,146)	(4,337)	(16,078)
Recognised in the consolidated income statement	(9,186)	(955)	2,610	(7,531)
Disposal of subsidiaries	1,505	244	663	2,412
At 31 December 2016	(17,276)	(2,857)	(1,064)	(21,197)
Recognised in the consolidated income statement	1,239	(534)	329	1,034
At 31 December 2017	<u>(16,037)</u>	<u>(3,391)</u>	<u>(735)</u>	<u>(20,163)</u>

## Notes to the Consolidated Financial Statements

## 28 Deferred taxation (Continued)

## Deferred taxation liabilities

	Accelerated tax depreciation HK\$'000	Fair value gains of investment properties HK\$'000	Total HK\$'000
At 1 January 2016	3,207	–	3,207
Recognised in the consolidated income statement	398	1,118	1,516
Disposal of subsidiaries	(763)	–	(763)
At 31 December 2016	2,842	1,118	3,960
Recognised in the consolidated income statement	617	–	617
At 31 December 2017	3,459	1,118	4,577

Deferred taxation 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 taxation assets of HK\$93,999,000 (2016: HK\$79,342,000) in respect of losses amounting to HK\$495,814,000 (2016: HK\$428,631,000) as at 31 December 2017. These tax losses are subject to the agreement with the tax authorities and can be carried forward against future taxable income. Tax losses amounting to HK\$143,410,000 (2016: HK\$101,380,000) will expire from 2018 to 2022 (2016: from 2017 to 2021).

In addition, the Group did not recognise deferred taxation assets of HK\$1,296,000 (2016: HK\$1,300,000) and HK\$3,224,000 (2016: HK\$4,071,000) in respect of decelerated tax depreciation and provision respectively.

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

	2017 HK\$'000	2016 HK\$'000
Deferred taxation assets		
Recoverable after more than twelve months	(3,391)	(2,857)
Recoverable within twelve months	(16,045)	(17,610)
	<u>(19,436)</u>	<u>(20,467)</u>
Deferred taxation liabilities		
Payable or settle after more than twelve months	<u>3,850</u>	<u>3,230</u>

## 29 Notes to consolidated statement of cash flows

Reconciliation of operating profit to net cash generated from/(used in) operations

	2017 HK\$'000	2016 HK\$'000
Operating profit	192,080	37,489
Impairment of receivables	61,749	97,126
Depreciation and amortisation costs	49,437	52,012
Fair value gains on investment properties (note 8)	(4,839)	(1,438)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets (note 8)	(1,575)	(418)
Gain on disposal of subsidiaries (note 8)	–	(9,804)
Gain on dilution of equity interests in associates (note 8)	(3,264)	–
Loss on disposal of property and equipment (note 11)	855	1,089
Share-based benefits (note 9)	–	405
Operating profit before working capital changes	294,443	176,461
Changes in trade and other receivables	(420,315)	(1,172,951)
Changes in trade and other payables	397,458	969,735
Net cash generated from/(used in) operations	<u>271,586</u>	<u>(26,755)</u>

### (a) Net debt reconciliation

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

	Borrowings due within one year HK\$'000
Net debt as at 1 January 2017	355,600
Cash flows	<u>4,300</u>
Net debt as at 31 December 2017	<u>359,900</u>

## Notes to the Consolidated Financial Statements

### 30 Contingent liabilities

As at 31 December 2017, the Company executed corporate guarantee of HK\$2,397,000,000 (2016: HK\$1,862,000,000) as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries of the Company. As at 31 December 2017, HK\$387,006,000 of these facilities were utilised by the subsidiaries (2016: HK\$367,177,000).

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

### 31 Future lease rental receivable

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

	2017 HK\$'000	2016 HK\$'000
Within one year	2,300	2,431
After one year but within five years	2,317	718
	<u>4,617</u>	<u>3,149</u>

### 32 Disposal of subsidiaries

During the year ended 31 December 2016, an interim dividend was declared by way of distribution in specie of the shares of Midland IC&I held by the Group to the shareholders of the Company in the proportion of 5 Midland IC&I shares for every share in the issued share capital of the Company. After the completion of the distribution in specie on 23 December 2016, the Group's equity interest in Midland IC&I has been decreased from 70.78% to 44.58%, resulting in a loss in control over Midland IC&I. Accordingly, the investment in Midland IC&I has been accounted for as interests in associates.

The assets and liabilities of Midland IC&I Group were deconsolidated from the Group's consolidated balance sheet and the interest in Midland IC&I Group have been accounted for as interests in associates using the equity method of accounting. The fair value of the 44.58% retained interest in Midland IC&I Group at the date on which the control was lost is regarded as the cost on initial recognition of the investment in Midland IC&I as associates.

## 32 Disposal of subsidiaries (Continued)

	HK\$'000
Fair value of interest retained (note 20)	<u>326,385</u>

	HK\$'000
<b>Non-current assets</b>	
Property and equipment (note 16)	27,473
Investment properties (note 17)	1,400
Deferred taxation assets	2,280
<b>Current assets</b>	
Trade and other receivables	261,575
Taxation recoverable	1,812
Cash and cash equivalents	659,160
<b>Non-current liabilities</b>	
Deferred taxation liabilities	(631)
<b>Current liabilities</b>	
Trade and other payables	(251,627)
Taxation payable	(2,394)
Borrowings	<u>(7,243)</u>
<b>Net assets disposed of</b>	<u>691,805</u>

## Gain on disposal of Midland IC&amp;I

	HK\$'000
Net assets disposed of	(691,805)
Fair value of interest retained	326,385
Non-controlling interests	206,483
Distribution in specie (note 14)	<u>168,741</u>
Gain on disposal (note 8)	<u>9,804</u>

## 33 Commitments

## (a) Capital commitments

The Group did not have any significant capital commitments as at 31 December 2017 and 2016.

## Notes to the Consolidated Financial Statements

## 33 Commitments (Continued)

## (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:

	2017 HK\$'000	2016 HK\$'000
Within one year	561,072	507,274
After one year but within five years	387,726	434,276
More than five years	13,730	7,335
	<u>962,528</u>	<u>948,885</u>

## 34 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	2017 HK\$'000	2016 HK\$'000
Agency fee income from associates	(i)	97,676	1,486
Rebate incentives to associates	(ii)	(34,591)	(90)
Operating lease rental expenses to associates in respect of office premise	(iii)	(2,510)	(58)
Service fee paid to associates	(iv)	(692)	–
Operating lease rental expenses to related companies in respect of office and shop premises	(v)	(5,290)	(9,440)
Operating lease rental expenses to a director in respect of shop premises	(vi)	<u>(348)</u>	<u>(257)</u>

## 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 also the spouse of Ms. TANG Mei Lai, Metty 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 2017, the expenses shared by the associates amounted to HK\$10,475,000 (2016: HK\$602,000).

## 34 Significant related party transactions (Continued)

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

	2017 HK\$'000	2016 HK\$'000
Amounts due from associates	74,311	77,181
Amounts due to associates	<u>(24,756)</u>	<u>(23,596)</u>

(c) Key management compensation

	2017 HK\$'000	2016 HK\$'000
Fees, salaries, allowances and incentives	42,534	19,933
Share-based benefits	–	327
Retirement benefit costs	<u>64</u>	<u>71</u>
	<u>42,598</u>	<u>20,331</u>

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

## Notes to the Consolidated Financial Statements

## 35 Balance sheet and reserve movement of the Company

## Balance sheet of the Company

	Note	As at 31 December	
		2017 HK\$'000	2016 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries		108,501	108,501
<b>Current assets</b>			
Other receivables, prepayments and deposits		2,215	1,686
Amounts due from subsidiaries		782,656	766,134
Taxation recoverable		–	152
Cash and cash equivalents		486	1,001
		<u>785,357</u>	<u>768,973</u>
<b>Total assets</b>		<b>893,858</b>	<b>877,474</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity holders</b>			
Share capital		71,805	71,805
Share premium		223,505	223,505
Reserves	(a)	575,720	573,570
<b>Total equity</b>		<b>871,030</b>	<b>868,880</b>
<b>Current liabilities</b>			
Other payables and accruals		22,104	8,337
Amounts due to subsidiaries		400	257
Taxation payable		324	–
<b>Total liabilities</b>		<b>22,828</b>	<b>8,594</b>
<b>Total equity and liabilities</b>		<b>893,858</b>	<b>877,474</b>

The balance sheet of the Company was approved by the Board of Directors on 28 March 2018 and was signed on its behalf.

**WONG Ching Yi, Angela**  
Director

**WONG Tsz Wa, Pierre**  
Director



## 35 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 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	<u>4,917</u>	<u>23,208</u>	<u>108,001</u>	<u>439,594</u>	<u>575,720</u>
At 1 January 2016	4,917	34,217	108,001	594,739	741,874
Profit for the year	–	–	–	437	437
Distribution in specie (note 14)	–	–	–	(168,741)	(168,741)
At 31 December 2016	<u>4,917</u>	<u>34,217</u>	<u>108,001</u>	<u>426,435</u>	<u>573,570</u>

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.

## 36 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 interest held	
				2017 %	2016 %
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, c)	The PRC	US\$5,606,000	Property agency in the PRC	100	100
Hong Kong Property Services (Agency) Limited (note b)	Hong Kong	2 shares	Property agency in Hong Kong	100	100
Hong Kong Property Services (China) Limited (note b)	Hong Kong	1 share	Investment holding in the PRC	100	100
Jolly Grace Limited (note b)	British Virgin Islands	1 share of US\$1	Property investment in Hong Kong	100	100
Midland CyberNet Limited (note b)	Hong Kong	39,100,000 shares	Investment holding and operation of internet website in Hong Kong	100	100

## Notes to the Consolidated Financial Statements

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

## (a) Principal subsidiaries (Continued)

Company name	Place of incorporation/ establishment	Issued/registered and paid-up capital	Principal activities and places of operation	Percentage of interest held	
				2017 %	2016 %
Midland HKP Services (Administration) Limited (note b)	Hong Kong	2 shares	Provision of management services in Hong Kong	100	100
Midland Immigration Consultancy Limited (note b)	Hong Kong	500,000 shares	Immigration consultancy services in Hong Kong	100	100
Midland Realty (Global) Limited (note b)	Hong Kong	1 share	Promotion of overseas properties in Hong Kong	100	100
Midland Realty (Macau) Limited (note b)	Macau	MOP\$25,000	Property agency in Macau	100	100
Midland Realty (Macau) Agency Limited (note b)	Macau	MOP\$25,000	Property agency in Macau	100	N/A
Midland Realty (Strategic) Limited (note b)	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 (note b)	Hong Kong	1,000 shares	Property agency in Hong Kong	100	100
Midland Surveyors Limited (note b)	Hong Kong	1,000,000 shares	Provision of professional surveying consultancy and valuation services in Hong Kong	100	100
Perfect Tower Limited (note b)	Hong Kong	2 shares	Property investment in the PRC	100	100
Real Gain Limited (note b)	Hong Kong	10,000 shares	Property investment in Hong Kong	100	100
Teston Profits Limited (note b)	British Virgin Islands	1 share of US\$1	Investment holding in Hong Kong	100	100
Worldboss Limited (note b)	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, c)	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, c)	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, c)	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, c)	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, c)	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, c)	The PRC	US\$3,400,000	Property agency in the PRC	100	100

## Notes:

- (a) This subsidiary is directly held by the Company.
- (b) These subsidiaries are indirectly held by the Company.
- (c) Registered as wholly foreign owned enterprise under the PRC law.

## 36 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	
			2017	2016
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	
			2017 %	2016 %
Midland IC&I Limited	Cayman Islands	Investment holding in Hong Kong	33.84	44.58
Hong Kong Property (Comm.) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Hong Kong Property (I&O) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Hong Kong Property Services (IC&I) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Leader Concord Limited	Hong Kong	Provision of management services to the group companies in Hong Kong	33.84	44.58
Midland IC&I Treasury Services Limited	Hong Kong	Provision of treasury services to the group companies in Hong Kong	33.84	44.58
Midland Realty (Comm.) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Midland Realty (Comm. & Ind.) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Midland Realty (Comm. & Ind. II) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Midland Realty (Comm. & Ind. III) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Midland Realty (Shops) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Midland Realty (Shops II) Limited	Hong Kong	Property agency in Hong Kong	33.84	44.58
Teamway Group Limited	British Virgin Islands	Property investment in Hong Kong	33.84	44.58
Most Wealth (Hong Kong) Limited	Hong Kong	Property investment in Hong Kong	33.84	N/A

Note: The above companies became associates of the Group after the distribution in specie in December 2016 (note 14).

## 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

	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>For the year</b>					
Revenues	<u>5,294,115</u>	<u>5,076,148</u>	<u>3,906,524</u>	<u>4,118,267</u>	<u>3,343,972</u>
Profit/(loss) before taxation	<u>235,068</u>	<u>40,009</u>	<u>(90,589)</u>	<u>114,315</u>	<u>(199,962)</u>
Profit/(loss) attributable to equity holders of the Company	<u>193,452</u>	<u>10,549</u>	<u>(99,486)</u>	<u>63,975</u>	<u>(204,037)</u>
<b>Cash flows</b>					
Net cash inflow/(outflow) from operating activities	<u>263,433</u>	<u>(43,840)</u>	<u>(37,856)</u>	<u>341,135</u>	<u>(167,574)</u>
<b>At year end</b>					
Total assets	4,410,191	3,744,445	3,108,820	4,096,420	3,273,206
Total liabilities	3,048,412	2,560,904	1,578,813	2,489,880	1,745,658
Non-controlling interests	–	–	201,635	200,431	189,648
Total equity	<u>1,361,779</u>	<u>1,183,541</u>	<u>1,530,007</u>	<u>1,606,540</u>	<u>1,527,548</u>
Cash and cash equivalents	<u>1,158,645</u>	<u>876,490</u>	<u>1,303,066</u>	<u>1,764,485</u>	<u>1,434,300</u>
<b>Per share data</b>					
Earnings/(loss) per share (HK cents)					
Basic	<u>26.94</u>	<u>1.47</u>	<u>(13.86)</u>	<u>8.91</u>	<u>(28.42)</u>
Diluted	<u>26.45</u>	<u>1.47</u>	<u>(13.86)</u>	<u>8.91</u>	<u>(28.42)</u>
Dividend per share (HK cents)					
Interim	–	23.50	–	–	–
Final	<u>5.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u>5.00</u>	<u>23.50</u>	<u>–</u>	<u>–</u>	<u>–</u>

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