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Midland IC&I Limited

美聯工商舖有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 459)

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF CROSS REFERRAL SERVICES AGREEMENT

On 16 December 2015, the Company entered into the Cross Referral Services Agreement (2015) with Midland in relation to the Cross Referral Services provided between the Group and Midland Group for the three financial years commencing from 1 January 2016 to 31 December 2018 (both days inclusive).

Under the Listing Rules, the Transactions will constitute non-exempt continuing connected transactions for the Company and shall be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In accordance with the Listing Rules, the Transactions together with the Annual Caps are conditional on approval by the Independent Shareholders at the EGM to be convened by the Company. Midland and its associates, currently holding approximately 70.78% of the issued share capital of the Company, will abstain from voting on the ordinary resolution at the EGM.

A circular containing, among other things, further information on the Cross Referral Services Agreement (2015), the Transactions and the Annual Caps, a letter from the Independent Board Committee, the recommendation of Octal Capital Limited as the independent financial adviser, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or before 31 December 2015.

INTRODUCTION

On 16 December 2015, the Company entered into the Cross Referral Services Agreement (2015) with Midland for provision of the Cross Referral Services to each other, the material terms of which are summarised below.

** For identification purpose only*

CROSS REFERRAL SERVICES AGREEMENT (2015)

(i) Date

16 December 2015

(ii) Parties

- (1) The Company; and
- (2) Midland

Midland is the controlling shareholder of the Company and hence a connected person of the Company. As at the date of this announcement, Midland and its associates were holding an aggregate of 9,700 million Shares, representing approximately 70.78% of the issued share capital of the Company.

(iii) Term

The term of the Cross Referral Services Agreement (2015) is 3 years from 1 January 2016 to 31 December 2018 (both days inclusive).

(iv) Transactions under the Cross Referral Services Agreement (2015)

The Cross Referral Services Agreement (2015) provides that Midland Group has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of the Group any business opportunity relating to or falling within the Group's estate agency business in respect of industrial and commercial properties and shops in the Relevant Territory; similarly, the Group also has the right (but not obligation) to introduce, refer and communicate to the relevant member(s) of Midland Group any business opportunity relating to or falling within Midland Group's estate agency business in respect of residential properties in the Relevant Territory.

Referrals of business opportunities to the counterparties to secure customers' engagements for estate agency services are made on a case-by-case basis. There is no legally binding commitment on any member of the Group or Midland Group to refer to the other any minimum number and/or target amount of the Transactions. Where concluded between the relevant parties, the terms and conditions of the Transactions shall be reduced into individual written agreements.

(v) Referral fees

In consideration of the referral services provided under a Transaction, the party making the referral is entitled to a referral fee by way of sharing the relevant commission income actually received from the customer of estate agency services in a property transaction.

The Cross Referral Services Agreement (2015) has provided reference ratios in which the commission income received in property transactions will be initially allocated between the respective parties to the Transactions so as to arrive at the amount of referral fees. Different reference allocation ratios are prescribed for the property transactions depending on whether the transactions are secondary market transactions or primary market transactions. In a secondary market transaction, the reference allocation ratio of “50:50” will be used, whereas in a primary market transaction, the reference allocation ratios ranging from “70:30” to “90:10” will apply, with a higher proportion being allocated to the party making the referral of the property purchaser it has successfully found and a lower proportion to the counterparty accepting the referral. Based on the applicable reference ratios, the final allocation of commission income with respect to each Transaction will be negotiated between the parties on arm’s length and case-by-case basis after taking into account factors including: (i) the characteristics, nature and value of properties involved such as the geographical locations, types, usages, areas or other objective features of the properties as well as the subjective requirements of the specific customers; (ii) the nature and workload of the respective agents; and (iii) the scope and nature of the requisite estate agency and consultancy services contemplated under the engagements with individual customers.

In any event, under the Cross Referral Services Agreement (2015), the allocation of commission income shall be on normal commercial terms or better, that is, terms which a party could obtain if the transaction were on an arm's length basis or terms no less favourable to the relevant members of the Group than terms available to or from (as appropriate) independent third parties. To that end, the Group will continue to observe the following policy and procedures in determining the commission income allocations:

- (1) the commission income allocations proposed by individual estate agents are submitted to the branch managers for review and approval;
- (2) upon receiving the submitted allocations from the branch managers, the finance department of the Group will then double check the information integrity and ensure that proper approvals have been obtained;
- (3) for the purpose of determining whether an allocation of commission income in a particular Transaction involving Midland Group satisfies such criteria, the most common approach used by the Group is based on comparable transactions with independent third parties. The branch managers would compare the allocation together with the related terms of the Transaction with other comparable transactions that the Group made with independent third parties, particularly those made under the then prevailing circumstances, in so far as they are available. The branch managers may also seek guidance and assistance from more senior managerial staff with more experience and deeper knowledge in market practice and information. In selecting the comparable transactions, particular weight would be given to those closely similar to the case in question in terms of, among other things, the nature of engagements by the customers, the workload of the respective agents relative to each other as well as the characteristics, nature and value of the properties involved;

- (4) where no comparable transactions are available for proper consideration, the Group would assess:
- the nature and workload – in general for a primary market transaction, a party referring a purchaser would ordinarily receive more commission income than the party acting for the developer because the former will typically assume relatively heavier workload. For an estate agent seeking purchasers for properties in a development, he is required not only to have solid knowledge of the characteristics of the properties offered for sale but he is also expected to proactively put efforts and time in the marketing process and adapting to the needs of the purchasers. By contrast, in primary market, the price and key commercial terms of the properties in the entire development are typically preset by the developer. Accordingly, the amount of time and efforts expected of the party acting for the developer in the sale process are limited;
 - the engagement scope and nature – a party acting for the vendor may bargain for higher commission income if he acts as a sole and exclusive agent for the vendor;
 - the characteristics, nature and value of the property – a party acting for vendor of unique and high value property is likely to be able to bargain for higher commission income; and
 - other factors relevant to the determination of an allocation that the Group could obtain on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties. For example, in some cases, the developer may set a sales target, above which the estate agent for the developer can get a higher commission rate for all the transactions. In such case, when it is close to the said sales target, the estate agent for the developer may be willing to give an increase of the proportionate commission income to the estate agent referring the purchaser if the said sales target can be achieved;
- (5) the allocation ratio for a particular property transaction finalized considering after the above factors will be fixed as and when the parties enter into the written agreement for the property transaction; and
- (6) the commission income allocation of the Transactions will be reviewed by the management from time to time and, in addition, the Transactions will also be reviewed by the independent non-executive Directors and reported on by the auditors of the Company on an annual basis in compliance with the relevant requirements in Chapter 14A of the Listing Rules.

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

(vi) Settlement

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

ANNUAL CAPS

(i) Historical figures

For the past financial years ended 31 December 2013 and 2014, and the nine months ended 30 September 2015, the amounts of referral fees paid/payable or received/receivable by the Group for the cross referral services under the Cross Referral Services Agreement (2012) are as follows:

	Year ended 31 December 2013 (HK\$ million)	Year ended 31 December 2014 (HK\$ million)	Nine months ended 30 September 2015 (HK\$ million)
Referral fees paid/payable to Midland Group in respect of industrial and commercial properties and shops	63.5	87.7	57.4
Referral fees received/receivable from Midland Group in respect of residential properties	39.2	27.3	23.6

(ii) Proposed Annual Caps

The maximum annual amounts of referral fees expected to be paid or received by the Group in connection with the Cross Referral Services under the Cross Referral Services Agreement (2015) for the financial years ending 31 December 2016, 2017 and 2018 are as follows:

	Year ending 31 December 2016 (HK\$ million)	Year ending 31 December 2017 (HK\$ million)	Year ending 31 December 2018 (HK\$ million)
Maximum annual amounts of referral fees expected to be paid to Midland Group in respect of industrial and commercial properties and shops	85.0	90.0	95.0
Maximum annual amounts of referral fees expected to be received from Midland Group in respect of residential properties	40.0	45.0	50.0

The Annual Caps were arrived at by reference to:

- (a) ***the historical amounts of referral fees paid/payable or received/receivable by the Group*** – The historical amounts of the referral fees for the cross referral services between the Group and Midland Group for the nine months ended 30 September 2015 are used to derive the annualized amounts for the whole financial year 2015, which are used as the baseline amount in making estimations for the amount of the Annual Caps for 2016 and similarly for 2017 and 2018;
- (b) ***the management's outlook and expectation of the general property market having considered the macroeconomic environment*** – The Group has considered market commentaries which include those referring to, among other things, macroeconomic factors such as possible increase of interest rates in the US, potential devaluation of Renminbi and adverse impact brought about by the decrease in the number of Mainland visitor arrivals. The Hong Kong property market, however, has been well known for its volatility, as evident from the publicly available information such as statistics from the Land Registry of the Government of Hong Kong on the amount of consideration of agreements for sale and purchase of building units (residential and non-residential) for years 2012 to 2015. For example, the historical year-to-year increase of the amount of consideration of agreements for sale and purchase of building units (residential) was as high as 45% in the year ended 31 December 2014. The market volatility may translate into direct effect on the Group itself;

- (c) ***more flexibility due to fluctuation in transaction volume of property market*** – To allow the Group to capture business opportunities, particularly if and when the local property market turns upwards contrary to market expectations, the management of the Company has taken the view that the Annual Caps should allow for reasonable degree of flexibility to enable the Group to adapt to the market change and react expeditiously and to capture business opportunities by engaging in Transactions as in the case of referrals with independent third parties in changing markets, which would contribute to the revenue of the Group; and
- (d) ***the intended closer co-operation between the Group and Midland Group in cross referral business*** – The Group intends to foster a closer co-operation with Midland Group in the near future through engagements in more cross referral transactions. The co-operation with Midland Group has been benefitting both parties for a long time. With long history of professional teams of both groups working with each other, the Group intends to continue and enhance the relationship to mutually benefit each other financially.

REASONS FOR THE TRANSACTIONS

The Company is an investment holding company and the principal business activities of its subsidiaries are provision of property agency services in respect of industrial and commercial properties and shops in Hong Kong.

The principal business activities of Midland Group are provision of property agency services in respect of residential properties in Hong Kong, Macau and the PRC.

The Group and Midland Group have been providing similar cross referral services to each other in the ordinary and usual course of their respective businesses. These services are currently governed by the Cross Referral Services Agreement (2012). Further details of the Cross Referral Services Agreement (2012) are set out in the circular of the Company dated 21 November 2012. The Cross Referral Services Agreement (2012) is due to expire on 31 December 2015. By entering into the Cross Referral Services Agreement (2015), the Company seeks to continue such Transactions for a further 3-year term.

The Group has recognized that for the nine months ended 30 September 2015, the most common range of allocation of commission income to the party making the referral for primary market transactions fell in the range of 70% to 90%, while the most common allocation basis for secondary market transactions was close to 50:50.

This market development with differentiation between primary and secondary market transactions in terms of commission income allocations is expected to continue in the near future. Accordingly, Midland and the Company have agreed to adopt “50:50” as the reference allocation ratio for secondary market transactions and “70:30” to “90:10” as the reference allocation ratio range for primary market transactions. Taking into account the said reference allocation ratios and depending on the circumstances of the case, the parties to the relevant Transactions would further negotiate and settle on the agreed extent of adjustments to the reference allocation ratio and hence the final commission income allocations for the Transactions on an arm’s length basis.

The Company believes that the proposed approach recognizes the reality of disparity of commission income allocation ratios between these two different markets. It would provide more meaningful and up-to-date commercial context in which the Transactions have occurred, and which is expected to continue in the next three years based on the prevailing market conditions, to the Independent Shareholders in reaching their informed decisions at the EGM.

Apart from the above changes made in the Cross Referral Services Agreement (2015), there is no other material amendments to its terms. The overriding pricing policy as stated in the Cross Referral Services Agreement (2015) will remain the same as the Cross Referral Services Agreement (2012) – that the allocation of commission income shall be on normal commercial terms or better.

The Directors (other than the independent non-executive Directors whose views and opinion will be set out in the letter from the Independent Board Committee to be included in the circular to be despatched to the Shareholders) consider that the Cross Referral Services Agreement (2015) and the Transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and that the terms of the Cross Referral Services Agreement (2015), the Transactions contemplated thereunder (including the commission income allocation ratio) and the Annual Caps are fair and reasonable. They also consider that the Transactions are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Midland, through its indirect wholly-owned subsidiary, was interested in approximately 70.78% of the issued share capital of the Company. Midland is therefore the controlling shareholder of the Company. The Transactions contemplated under the Cross Referral Services Agreement (2015) will constitute continuing connected transactions for the Company under the Listing Rules.

The highest applicable percentage ratio (other than the profits ratio) calculated using the Annual Caps for each of the financial years ending 31 December 2016, 2017 and 2018 as the numerator exceeds 5%; and the thresholds prescribed in Rule 14A.76(2) of the Listing Rules to qualify for exemption from independent shareholders' approval requirements are not met. Under the Listing Rules, the Transactions will constitute non-exempt continuing connected transactions for the Company and shall be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In accordance with the Listing Rules, the Transactions and the Annual Caps are conditional on approval by the Independent Shareholders.

Ms. TANG Mei Lai, Metty and Ms. WONG Ching Yi, Angela are a non-executive director and an executive director of the Company respectively. Both of them are also executive directors of Midland. They had abstained from voting on the resolutions of the Board approving the Cross Referral Services Agreement (2015), the Transactions and the Annual Caps.

The Independent Board Committee has been established to advise the Independent Shareholders, and Octal Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, among other things, further information on the Cross Referral Services Agreement (2015), the Transactions and the Annual Caps, a letter from the Independent Board Committee, the recommendation of Octal Capital Limited, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or before 31 December 2015.

DEFINITIONS

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

“Annual Caps”	in relation to each of the financial years ending 31 December 2016, 2017 and 2018, the maximum annual amounts of referral fees expected to be received or paid by the Group in connection with the Cross Referral Services under the Cross Referral Services Agreement (2015)
“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Midland IC&I Limited (Stock Code: 459), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Cross Referral Services”	the cross referral services to be provided between the Group and Midland Group as more particularly described in the paragraph headed “Transactions under the Cross Referral Services Agreement (2015)” in this announcement
“Cross Referral Services Agreement (2012)”	the cross referral services agreement dated 31 October 2012 entered into between the Company and Midland in relation to the cross referral services
“Cross Referral Services Agreement (2015)”	the cross referral services agreement dated 16 December 2015 entered into between the Company and Midland in relation to the Cross Referral Services
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Cross Referral Services Agreement (2015), the Transactions and the Annual Caps

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising three independent non-executive Directors, namely, Messrs. YING Wing Cheung, William, SHA Pau, Eric and HO Kwan Tat, Ted
“Independent Shareholders”	Shareholders other than Midland and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macao Special Administrative Region of the PRC
“Midland”	Midland Holdings Limited (Stock Code: 1200), a company incorporated in Bermuda with limited liability and holding company of the Company, the shares of which are listed on the main board of the Stock Exchange
“Midland Group”	Midland and its subsidiaries (but excluding the Group for the purpose of this announcement)
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Relevant Territory”	Hong Kong, Macau and the PRC or any part of the foregoing, where Midland Group or the Group, as the case may be, carries on its business during the term of the Cross Referral Services Agreement (2015)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction(s)”	the provision or acceptance, as the case may be, of the Cross Referral Services by the Group pursuant to the Cross Referral Services Agreement (2015)

“HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

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

Hong Kong, 16 December 2015

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