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LT COMMERCIAL REAL ESTATE LIMITED

勒泰商業地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 112)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS HIGHLIGHTS

For the six months ended 30 June 2016

- Total revenue of the Group was HK\$6.3 million (2015: HK\$6.6 million). The revenue for the Period comprised rental income from the Group's investment property located in the USA, Lerthai South Hills Plaza only.
- The loss after taxation of the Group increased by 163% to HK\$107.3 million (2015: HK\$40.8 million). Among such loss, part of which was a share-based payment amounting to HK\$69.2 million incurred during the Period due to the share options granted (as announced by the Company on 16 May 2016) which is non-operation and one-off nature, represented 64.5% to the loss after taxation.
- If the share-based payment was excluded, the loss after taxation will be HK\$38.1 million representing a decrease of 14% compared with the corresponding period in 2015.
- Despite the Group recorded a loss after taxation for the Period, the management expects the loss position might be improved in second half of 2016 if taking into account of the followings:
 - the pre-sales income received from properties in Tangshan, China (such project has first been announced by the Company on 24 and 27 December 2013) amounted to HK\$671.6 million as at 30 June 2016, which is yet to be recognized for the Period due to accounting principle; and
 - delivery of the pre-sale properties in Tangshan, China is expected to take place in the fourth quarter of 2016, which will derive revenue to the Group

The management wishes to emphasize that such pre-sale income is subject to audit by the auditors of the Company and the expected time of delivery of the Tangshan properties is an estimation only and may subject to change or materialisation.

- Loss per share was approximately HK31.69 cents (2015: HK12.06 cents).
- The Board did not recommend the payment of interim dividend as of 30 June 2016 (2015: Nil).

The board (the “Board”) of directors (the “Directors”) of LT Commercial Real Estate Limited (the “Company”) would like to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2016 (the “Period”) together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
	<i>NOTES</i>	2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
			(Restated)
Continuing operations			
Revenue	3	6,260	6,554
Other income, gains and losses	5	(8,201)	(16,044)
Share-based payment	23	(69,242)	—
Increase in fair value of investment properties		117,009	64,356
Selling and marketing expenses		(10,593)	(6,489)
Administrative expenses		(63,726)	(64,886)
Share of loss of a joint venture		(1,108)	—
Finance costs		(48,782)	(14,242)
		<u>(48,782)</u>	<u>(14,242)</u>
Loss before taxation	6	(78,383)	(30,751)
Income tax expense	7	(28,960)	(13,648)
		<u>(28,960)</u>	<u>(13,648)</u>
Loss from continuing operations		<u>(107,343)</u>	<u>(44,399)</u>
Discontinued operation			
Profit for the period from discontinued operation	8	—	3,559
		<u>—</u>	<u>3,559</u>
Loss for the period attributable to owners of the Company		<u>(107,343)</u>	<u>(40,840)</u>
Other comprehensive (expense) income			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences arising from translation of functional currency to presentation currency		(22,613)	3,329
		<u>(22,613)</u>	<u>3,329</u>
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		(401)	(426)
		<u>(401)</u>	<u>(426)</u>
Release of securities investment reserve upon disposal of available-for-sale financial assets		—	(3,713)
		<u>—</u>	<u>(3,713)</u>
		<u>(401)</u>	<u>(4,139)</u>
Other comprehensive expense for the period		<u>(23,014)</u>	<u>(810)</u>

		Six months ended 30 June	
		2016	2015
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
			(Restated)
Total comprehensive expense for the period attributable to owners of the Company		<u>(130,357)</u>	<u>(41,650)</u>
Loss per share (<i>HK cents</i>)	9		
From continuing and discontinued operations			
Basic		<u>(31.69)</u>	<u>(12.06)</u>
Diluted		<u>(31.69)</u>	<u>(12.06)</u>
From continuing operations			
Basic		<u>(31.69)</u>	<u>(13.11)</u>
Diluted		<u>(31.69)</u>	<u>(13.11)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

		30 June 2016	31 December 2015
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Investment properties	10	2,476,832	1,274,937
Property, plant and equipment		9,638	9,565
Interest in a joint venture	11	—	59,428
Loans to a joint venture	11	—	388,314
Deposit paid for acquisition of a subsidiary		990	990
Pledged bank deposits		13,026	6,138
Deferred tax asset		21,678	21,678
		<u>2,522,164</u>	<u>1,761,050</u>
Current assets			
Properties under development for sale		2,576,737	1,262,005
Trade and other receivables, deposits and prepayments	12	113,190	49,162
Restricted bank balances	13	6,370	50,126
Pledged bank deposits		14,103	14,103
Time deposits and bank balances		48,807	71,980
		<u>2,759,207</u>	<u>1,447,376</u>
Current liabilities			
Trade and other payables and accruals	14	1,640,831	703,666
Deposits received from sales of properties		671,618	443,855
Amounts due to related companies	15	2,379	2,224
Tax payable		5,129	4,260
Convertible bonds	16	435,371	456,759
Bank and other borrowings	17	86,412	45,181
Senior notes		236,592	232,670
		<u>3,078,332</u>	<u>1,888,615</u>
Net current liabilities		<u>(319,125)</u>	<u>(441,239)</u>
Total assets less current liabilities		<u>2,203,039</u>	<u>1,319,811</u>
Capital and reserves			
Share capital	18	498,548	498,548
Reserves		(121,254)	(60,139)
Total equity attributable to owners of the Company		<u>377,294</u>	<u>438,409</u>
Non-current liabilities			
Rental deposits received		515	514
Bank and other borrowings	17	1,130,928	477,122
Bonds		40,070	38,475
Loans from related companies	19	588,530	326,805
Deferred tax liabilities		65,702	38,486
		<u>1,825,745</u>	<u>881,402</u>
		<u>2,203,039</u>	<u>1,319,811</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKSE”).

The financial information relating to the year ended 31 December 2015 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follow:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to the Hong Kong Company Ordinance (the “Company Ordinance”).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Company Ordinance.

In preparing the condensed consolidated financial statements, the Directors have given due and careful considerations to the future liquidity of the Group in light of the Group’s current liabilities exceeds current assets by approximately HK\$319,125,000 as at 30 June 2016. The Directors have carefully assessed the Group’s liquidity position. Having taken into account (i) a new loan advanced by a related company owned by Mr. Yang Longfei (“Mr. Yang”) of approximately RMB541 million (equivalent to approximately HK\$635 million); (ii) the estimated proceeds from the sales of properties in the next twelve months from the end of the financial period; (iii) the unutilised available facilities provided by banks, a financial institution and a related company owned by Mr. Yang of approximately HK\$485 million, HK\$237 million and HK\$741 million, respectively; and (iv) unutilised facility granted by a supplier of the Group to extend the repayment on construction cost of approximately RMB825 million (equivalent to approximately HK\$969 million), the Directors are satisfied that the Group will have sufficient working capital for its present requirements. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2015.

Furthermore, during the Period, the Group granted share options to its director and employees as set out in note 23. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 23 to the Group’s condensed consolidation financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

In the Period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the Period.

The application of the new amendments to HKFRSs in the Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Six months ended 30 June	
2016	2015
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)
	(Restated)

Continuing operations

Revenue represents the aggregate amounts received and receivable, analysed as follows:

Rental income from investment properties	6,260	6,554
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4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments.

	Segment revenue		Segment profit (loss)	
	six months		six months	
	ended 30 June		ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
Continuing operations				
Property investment in the People's Republic of China ("PRC")	—	—	112,455	32,360
Property development in the PRC	—	—	(33,967)	(22,133)
Property investment in the United States of America ("USA")	6,260	6,554	1,944	20,699
Property development in the USA	—	—	(17,964)	(16,082)
	6,260	6,554	62,468	14,844
Unallocated items				
Other income, gains and losses			(8,201)	(16,044)
Unallocated corporate expenses, net			(13,518)	(15,309)
Share-based payments			(69,242)	—
Finance costs			(48,782)	(14,242)
Share of loss of a joint venture			(1,108)	—
Loss before taxation from continuing operations			(78,383)	(30,751)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Segment assets		
Continuing operations		
Property investment in the PRC	2,293,654	1,109,844
Property development in the PRC	2,511,566	1,130,290
Property investment in the USA	188,076	191,754
Property development in the USA	227,259	226,947
	<hr/>	<hr/>
	5,220,555	2,658,835
Deferred tax assets	21,678	21,678
Pledged bank deposits	20,103	14,103
Restricted bank balances	—	48,251
Time deposits and bank balances	5,291	4,850
Interest in a joint venture	—	59,428
Loans to a joint venture	—	388,314
Unallocated corporate assets	13,744	12,967
	<hr/>	<hr/>
Consolidated total assets	5,281,371	3,208,426
	<hr/> <hr/>	<hr/> <hr/>
	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Segment liabilities		
Continuing operations		
Property investment in the PRC	2,069,435	365,492
Property development in the PRC	1,335,313	1,177,388
Property investment in the USA	118,608	119,384
Property development in the USA	1,390	1,818
	<hr/>	<hr/>
	3,524,746	1,664,082
Convertible bonds	435,371	456,759
Senior notes	236,592	232,670
Loans from related companies	588,530	326,805
Bonds	40,070	38,475
Tax payable	5,129	4,260
Deferred tax liabilities	65,702	38,486
Unallocated corporate liabilities	7,937	8,480
	<hr/>	<hr/>
Consolidated total liabilities	4,904,077	2,770,017
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER INCOME, GAINS AND LOSSES

Six months ended 30 June

2016 2015

HK\$'000 HK\$'000

(Unaudited) (Unaudited)

(Restated)

Continuing operations

Interest income from bank deposits	157	577
Exchange gain, net	388	736
Change in fair value of financial liabilities designated as at fair value through profit or loss ("FVTPL")	(14,774)	(17,398)
Others	6,028	41
	<u>(8,201)</u>	<u>(16,044)</u>

6. LOSS BEFORE TAXATION FROM CONTINUING OPERATIONS

Six months ended 30 June

2016 2015

HK\$'000 HK\$'000

(Unaudited) (Unaudited)

Loss before taxation from continuing operations has been arrived at after charging (crediting):

Interest on convertible bonds	42,893	45,466
Interest on loans from related companies	44,880	19,769
Interest on senior notes	16,171	11,617
Interest on bonds	1,623	1,621
Interest on bank and other borrowings	23,440	1,004
	<u>129,007</u>	<u>79,477</u>
Total finance costs	129,007	79,477
Less: amount capitalised to investment properties under construction and properties under development for sale	(80,225)	(65,235)
	<u>48,782</u>	<u>14,242</u>
Depreciation	1,076	833
Directors' emoluments		
— Fees	813	883
— Salaries, bonuses and allowances	2,738	3,429
— Share-based payments	7,739	—
— Retirement benefit costs	50	94
	<u>11,340</u>	<u>4,406</u>
Other staff costs		
Salaries, bonuses and allowances	43,324	26,699
Share-based payments	61,503	—
Retirement benefit costs	2,643	1,768
	<u>107,470</u>	<u>28,467</u>
Total employee benefit expenses	118,810	32,873
Less: amount capitalised to investment properties under construction and properties under development for sale	(18,256)	(8,629)
	<u>100,554</u>	<u>24,244</u>
Rental charges under operating leases	<u>5,648</u>	<u>5,508</u>

7. INCOME TAX EXPENSE

Six months ended 30 June	
2016	2015
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Continuing operations

Deferred taxation — revaluation of investment properties	<u>(28,960)</u>	<u>(13,648)</u>
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Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit of the companies incorporated in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Group’s PRC subsidiaries is 25%.

The subsidiaries in the USA are subject to Federal Income Tax of 35% and State Tax of 8.8% on the taxable income. Certain subsidiaries are limited liability companies which are by default disregarded entities (i.e. viewed as divisions of the holding company) and taxed as part of their holding company for federal and state tax purposes.

No provision for income tax has been made as the companies within the Group incurred tax loss in Hong Kong, PRC and the USA.

8. DISCONTINUED OPERATION

During the second half year in 2015, the Group disposed of all its fixed rate notes and discontinued the operation of securities investment and finance operation. The profit for the period from the discontinued securities investment and finance operation is set out below. The comparative figures in the statement of profit or loss and other comprehensive income have been restated to re-present the securities investment and finance operation as a discontinued operation.

Six months ended 30 June	
2016	2015
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Profit for the period	<u>—</u>	<u>3,559</u>
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The results of the discontinued operation are as follows:

Six months ended 30 June	
2016	2015
<i>HK\$'000</i>	<i>HK\$'000</i>

Revenue	—	288
Gain on disposal of available-for-sale financial assets	—	3,297
Administrative expenses	—	(26)
Profit before tax	—	3,559
Income tax expense	—	—
Profit for the period	<u>—</u>	<u>3,559</u>

During the six months ended 30 June 2015, the net operating cash flows contributed by the securities investment and finance operation to the Group are insignificant, and the Group received HK\$62,901,000 in respect of investing activities during the six months ended 30 June 2015.

9. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period		
Loss for the period for the purpose of basic and diluted loss per share attributable to the owners of Company	<u>(107,343)</u>	<u>(40,840)</u>
	Six months ended 30 June	
	2016	2015
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>338,766</u>	<u>338,766</u>

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the owners of the Company is based on the following information:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period		
Loss for the period attributable to owners of the Company	(107,343)	(40,840)
Profit for the period from discontinued operation	—	3,559
Loss for the purpose of basic and diluted loss per share from continuing operations	<u>(107,343)</u>	<u>(44,399)</u>

The denominators used are the same as those detailed above for the basic and diluted loss per share.

From discontinued operation

Basic and diluted earnings per share from the discontinued operation is nil (2015: HK1.05) cents per share and diluted earnings per share from discontinued operations is nil (2015: HK1.05) cents per share, based on the profit for the period from discontinued operation of nil (2015: HK\$3,559,000) and the denominators detailed above for the basic and diluted loss per share.

In the current and prior periods, the potential ordinary shares attributable to the Company's outstanding convertible bonds and share options have anti-dilutive effect as the assumed conversion and exercise would result in decrease in loss per share.

10. INVESTMENT PROPERTIES

	Completed investment property situated on a freehold land located in the USA HK\$'000	Investment property under construction situated on a land in the PRC under medium term lease HK\$'000	Total HK\$'000
At fair value			
At 1 January 2015 (Audited)	166,765	401,359	568,124
Additions	1,046	651,772	652,818
Change in fair value included in profit or loss			
— unrealised	16,780	75,698	92,478
Effect of foreign exchange difference	(125)	(38,358)	(38,483)
At 31 December 2015 (Audited)	184,466	1,090,471	1,274,937
Acquisition of a subsidiary	—	522,685	522,685
Additions	—	605,608	605,608
Change in fair value included in profit or loss			
— unrealised	(1,553)	118,562	117,009
Effect of foreign exchange difference	265	(43,672)	(43,407)
At 30 June 2016 (Unaudited)	183,178	2,293,654	2,476,832

The fair values of the Group's investment properties at 30 June 2016 have been arrived at on the basis of valuations carried out on those dates by DTZ Debenham Tie Leung Limited and CCP Group, Inc., independent qualified professional valuers not connected to the Group.

The fair values of completed investment properties is derived from the capitalisation of net income method with due allowance for the reversionary income.

For investment properties under construction that are measured at fair value, residual method of valuation is adopted. The value is based on the development potential of the properties as if they were completed in accordance with the existing development controls at the date of valuation. The value has also taken into consideration all costs of development and allowance of profit required for the development, which duly reflected the risks associated with the development.

11. INTEREST IN A JOINT VENTURE/LOANS TO A JOINT VENTURE

On 3 May 2016, Handan LT Real Estate Development Company Limited ("Handan LT"), an indirectly wholly owned subsidiary of the Company, Handan Municipal Investment Real Estate Development Company Limited ("Handan Municipal Real Estate"), an independent third party and Handan LT Municipal Investment Real Estate Development Company Limited ("JV"), a joint venture of the Company entered into a letter of intent for the transfer of 50% equity interest in JV held by Handan Municipal Real Estate to Handan LT. On the same date, Handan LT, Handan Municipal Real Estate, Shijiazhuang Lerthai Real Estate Development Company Limited ("Shijiazhuang LT"), a related company wholly owned by the controlling shareholder of the Company, and the JV entered into a loan purchase agreement (the "Loan Purchase Agreement"), pursuant to which Handan Municipal Real Estate agreed to dispose of and Shijiazhuang LT agreed to purchase the loan advanced by Handan Municipal Real Estate to the JV and Handan Municipal Real Estate ceased its participation in the management and operation of the JV. On 4 May 2016, representative from Handan Municipal Real Estate resigned and representative from the Company has been appointed as legal representative and general manager of JV. The JV has become a wholly owned subsidiary of the Group accordingly.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables	1,895	1,192
Prepayment of business taxes and other PRC taxes	85,591	33,363
Other deposits, prepayments and receivables	25,704	14,607
	<u>113,190</u>	<u>49,162</u>

Trade receivables represent rental receivables due from the property manager appointed by the Group. Pursuant to the agreement between the property manager and the Group, the property manager shall paid the rental collected on behalf of the Group to the Group within 30 days. At the end of reporting period, these trade receivable are not yet due for payment.

13. RESTRICTED BANK BALANCES

Restricted bank balances carry interest at market rate of 0.35% per annum. Restricted bank balance amounting to HK\$6,370,000 (31 December 2015: HK\$1,875,000) can only be applied to designated property development project of the Group in the PRC. At 31 December 2015, a balance amounting to HK\$48,251,000 represented the bank balance placed with a bank for application of a banking facility. During the Period, the restricted bank balance of HK\$48,251,000 was released.

14. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Construction costs payables	176,750	99,573
Accrued construction costs	790,967	528,270
Deposits received from suppliers/contractors on contracts tendering	18,609	48,986
Advance received from government (<i>Note</i>)	622,813	—
Other payables and accruals	31,692	26,837
	<u>1,640,831</u>	<u>703,666</u>

Note: The amount represents advance from government for construction of relocated residence for residents who originally lived in a site which acquired by the Group for property development.

Construction cost payables are aged within one year, based on invoice date.

15. AMOUNTS DUE TO RELATED COMPANIES

The amounts represent (a) certain operating expenses of the Group in the PRC paid on behalf of the Group by the related companies which are unsecured, interest-free and repayable on demand and (b) accrued interest on loan from a related company. These related companies are controlled by Mr. Yang.

16. CONVERTIBLE BONDS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
At the beginning of the period/year	456,759	568,523
Repayment of convertible bonds	(55,000)	(110,000)
Interest charged during the period/year	42,893	91,821
Interest paid	(24,055)	(55,409)
Change in fair value	14,774	(38,176)
	<u>435,371</u>	<u>456,759</u>
At the end of the period/year	435,371	456,759

On 10 January 2014, the Company issued convertible bonds to an independent third party in the principal amount of HK\$550,000,000. The convertible bonds will mature on 9 January 2017 (“Maturity Date”), are denominated in HK\$ and bear interest at three month Hong Kong Interbank Offered Rate plus 12% per annum. However, if the amount of the interest which accrues on each convertible bond on the day immediately before each redemption date or maturity date is less than an amount representing an internal rate of return of 15% on the relevant principal amount of such convertible bond (the “Guaranteed Return Amount”), the Company is required to pay to each bondholder an amount equal to a sum being: (a) the Guaranteed Return Amount; minus (b) the accrued interest; and then multiplied by (c) the number of convertible bonds held by the relevant holder of the convertible bonds as at the close of business on the relevant redemption date, conversion date or maturity date (as the case may be). Interest is payable quarterly in arrears and is capitalised.

Pursuant to the terms and conditions of the convertible bonds, the Company is required to repay certain amounts of the principal on the first and second anniversary of the date of issue of the convertible bonds (“Anniversary Dates”). If certain conditions set out in the terms are not met, the Company is required to repay additional amounts of the principal on the Anniversary Dates respectively. Details of the repayment terms and the conditions are set out in the Company’s announcements dated 24 December 2013 and 3 January 2014.

The convertible bonds can be converted into shares at an initial conversion price of HK\$2.6701 per share up to an aggregate of 33,537,900 shares or a number of shares that represents 9.01% of the then issued share capital of the Company as enlarged by and immediately following the issue of Shares upon such conversion, whichever is higher. The details of the terms of conversion and redemption and other terms of the convertible bonds are set out in the announcement issued by the Company on 24 December 2013 and 3 January 2014. Accordingly, the principal amount of convertible bonds with conversion feature is HK\$89,550,000 (“CB with Conversion Feature”) and principal amount of convertible bonds without conversion feature is HK\$460,450,000 (“Straight Note”).

The convertible bonds are secured by pledged bank deposits, the Company’s shares held by China Lerthai Real Estate Holdings Limited (“China Lerthai”), the ultimate holding company of the Company, guarantees provided by Mr. Yang, China Lerthai and certain related companies controlled by Mr. Yang. These related companies and Mr. Yang did not charge the Company for the securities and guarantees provided.

The convertible bonds have been designated as financial liabilities at FVTPL as they contain more than one non-closely related embedded derivatives. The fair value of the convertible bonds are determined by aggregating the fair value of (i) the Straight Note and (ii) CB with Conversion Feature. The fair value of the Straight Note was calculated as the present value of the contractually determined stream of future cash flows discounted at an interest rate which are determined by referencing the HK\$ Fund Note plus a credit spread by reference to the credit analysis of the Company and the market rate of comparable companies with similar credit ratio. The fair value of CB with Conversion Feature is determined using Binomial Option Pricing Model with the following key inputs.

	At 30 June 2016	At 31 December 2015
Share price of the Company	HK\$3.80	HK\$2.55
Risk free rates	0.14% to 0.29%	0.04% to 0.15%
Discount rate	21.54% to 21.69%	20.98% to 21.09%
Dividend yield	0%	0%
Option life	0.53 years	1.03 years
Volatility	42.09%	48.81%
Exercise price	HK\$2.6701	HK\$2.6701

The above risk free rates were determined with reference to yields of 0.53 years and 1.03 years Hong Kong Exchange Fund Notes available as of 30 June 2016 and 31 December 2015 respectively. The expected volatility was determined based on the historical volatility of the Company's share price for the past 0.5 year and 1 year respectively.

An increase in volatility would result in an increase in the fair value of convertible bonds, and vice versa. If the volatility is 10% higher and lower while all other variables are held constant, the carrying amount of the convertible bonds would increase by approximately HK\$575,000 and decrease by approximately HK\$523,000 respectively. An increase in discount rate would result in a decrease in the fair value of convertible bonds, and vice versa. If the discount rate is 10% higher and lower while all other variables are held constant, the carrying amount of the convertible bonds would decrease by approximately HK\$2,991,000 and increase by approximately HK\$3,077,000 respectively.

The fair values of convertible bonds at 30 June 2016 were arrived at on the basis of a valuation carried out on that dates by Asset Appraisal Limited, an independent qualified professional valuer not connected to the Group. They are categorised as Level 3 under the fair value hierarchy set out in HKFRS 13 Fair Value Measurement. Level 3 fair value measurements are those derived from valuation techniques that include inputs for that asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2016, the Group has breached the covenants of the convertible bonds.

17. BANK AND OTHER BORROWINGS

During the Period, the Group obtained new bank borrowings amounting to HK\$740,939,000 (31 December 2015: HK\$441,461,000). The borrowings carried interest at variable rates at base rate of the People's Bank of China ("PBOC") plus 0.4% and base rate of the PBOC plus 0.05% and are repayable in instalments over a period of 1 to 9 years. The proceeds are to finance the construction of investment properties and properties under development for sales.

The bank and other borrowings are secured by the Group's investment property located in the USA as well as the assignment of all rents to the bank on the investment property located in the USA, certain investment properties located in the PRC and properties of a related company controlled by Mr. Yang, the controlling shareholder of the Group.

Other than the new bank borrowings obtained during the Period, the existing bank borrowings carry both fixed interest at 13.6% and variable interest at the Daily Wall Street Journal Prime Rate minus 0.25% per annum and base rate of the PBOC plus 0.4%.

18. SHARE CAPITAL

Number of shares **Share capital**
HK\$'000

Authorised:

At 1 January 2015 (Audited), 30 June 2015 (Unaudited),
31 December 2015 (Audited) and 30 June 2016 (Unaudited)
— Unlimited number of ordinary shares with no par value

Issued and fully paid:

At 1 January 2015 (Audited), 30 June 2015 (Unaudited),
31 December 2015 (Audited) and 30 June 2016 (Unaudited)
— Ordinary share with no par value

338,765,987 498,548

19. LOANS FROM RELATED COMPANIES

The related companies are companies controlled by Mr. Yang, the controlling shareholder of the Company and the chairman of the Board.

As at 30 June 2016, included is an amount of HK\$115,305,000 (31 December 2015: HK\$326,805,000) drawn down from the revolving loan facility of RMB700,000,000 (approximately to HK\$822,520,000) provided by a related company controlled by Mr. Yang. The amount is unsecured, interest bearing at 12% per annum and repayable in full on the day falling 36 months from the date on which the loan is drawn down. During the Period, the Group obtained new loan amounting to HK\$305,976,000 and repaid loan amounting to HK\$520,928,000 under this revolving loan facility.

Upon the acquisition of a subsidiary as disclosed in note 20, the Group acquired a loan from a related party from the acquisition of the JV. The loan is unsecured and interest bearing at 10.455% per annum. The amount is repayable in full on the day falling 24 months from respective drawdown dates.

20. ACQUISITION OF A SUBSIDIARY

As set out in note 11, on 4 May 2016, the Group acquired remaining equity interest in JV at a cash consideration of RMB1 (equivalent to HK\$1).

The net assets recognised at the date of acquisitions:

	<i>HK\$'000</i>
Net assets acquired:	
Plant and equipment	809
Investment properties	522,685
Properties under development	980,048
Deposits and prepayments	26,340
Bank and cash balances	1,140
Trade payables	(9,664)
Other payables and accruals	(621,943)
Loan from a related party	(445,940)
Loan from the Group	(453,475)
	<hr/>
Net cash inflow arising on acquisition:	—
Bank and cash acquired	1,140
	<hr/>

Included in the loss for the interim period is loss of HK\$2,306,000 attributable to the subsidiary. There is no revenue attributable to the JV for the interim period.

Had the acquisition of the subsidiary been effective at the beginning of the interim period, the amount of loss for the interim period would have been HK\$108,451,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the ‘pro-forma’ loss of the Group had the subsidiary been acquired at the beginning of the interim period, the directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

21. COMMITMENTS

As of the end of the reporting period, the Group had the following commitments contracted for but not provided:

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Development costs for investment properties under construction or development	881,392	639,424
Capital contribution to a joint venture	—	30,157
Acquisition of a subsidiary	2,310	2,310
	<hr/>	<hr/>
Total capital commitments	883,702	671,891
Development costs for properties under development held for sale	2,307,890	1,241,234
	<hr/>	<hr/>
	3,191,592	1,913,125
	<hr/> <hr/>	<hr/> <hr/>

22. CONTINGENT LIABILITIES

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in favour of its customers in respect of mortgage loans provided by the banks	276,130	196,031
	<hr/> <hr/>	<hr/> <hr/>

The guarantees are given to banks with respect to loans procured by the purchasers of the Group’s properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant purchasers is remote and, in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

The guarantees are secured by the Group’s pledged bank deposits amounting to HK\$13,026,000 (31 December 2015: HK\$6,138,000).

23. SHARE-BASED PAYMENTS

The Company’s share option scheme was adopted on 22 August 2014, for the primary purpose of providing the participants with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group, and will expire on 22 August 2024.

On 16 May 2016, a total of 33,876,590 share options were granted to a director and employees of the Group under the share option scheme of the Company. The share options are exercisable during the period from 16 May 2016 to 15 May 2026.

The fair value of options granted by the Company was assessed using the binomial model. The following inputs were used:

Date of grant	16 May 2016
Share price on date of grant	HK\$4.11
Exercise price	HK\$4.11
Expected volatility (<i>Note (a)</i>)	57.76%
Expected life	10 years
Risk-free rate (<i>Note (b)</i>)	1.189%
Expected dividend yield	0%

Notes:

- (a) Expected volatility was determined based on the historic daily volatility of the Company's share prices (calculated based on the expected life of the share options).
- (b) Risk-free rate was determined based on the yields to maturity of respective Hong Kong Sovereign Curve.

The binomial option pricing model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the best assessment of the Directors on the valuer's estimation. Changes in variables and assumptions may result in changes in the fair value of the share options.

The estimated fair value of the options granted was approximately HK\$69,242,000. In the Period, the Group recognised share-based payments of HK\$69,242,000 in profit or loss and the corresponding amount has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

24. MATERIAL RELATED PARTY TRANSACTIONS

Apart from related party transactions disclosed in notes 11, 15, 16, 19 and certain assets of the Group agreed to be charged as guarantee of loan due by a related party pursuant to the Loan Purchase Agreement as set out in the Company's announcement dated 19 July 2016, during the Period, the Group had the following transaction with related parties:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on loans from related companies	<u>16,121</u>	<u>19,769</u>

25. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2016. The Directors have determined that no dividend will be paid in respect of the six months ended 30 June 2016.

DIVIDENDS

The Board did not recommend the payment of an interim dividend for the Period (six months ended 30 June 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During Period, the Group has been actively pursuing opportunities in the property investment and development business in the PRC and USA and expanding the securities investment business.

Property Investment and Development

Tangshan

Tangshan Tiexi Lerthai Project — “Tangshan Lerthai City”

The Group succeeded in the bidding of two pieces of land in Tangshan City, Hebei Province, the PRC, in January 2014.

The first piece of land is located at junction of Beixin West Road and Xihuan Road, Lubei District, Tangshan City, Hebei Province, the PRC with a site area of approximately 93,706.33 sq.m.. The land is designated for commercial use with a plot ratio of not more than 4.5. The Group acquired the land at the auction held on 22 January 2014 for approximately RMB198.2 million.

The second piece of land is located at junction of Beixin West Road and Xihuan Road, Lubei District, Tangshan City, Hebei Province, the PRC with a site area of approximately 63,595.87 sq.m.. The land is designated for commercial and residential use with a plot ratio of not more than 4.0. The Group acquired the land at the auction held on 24 January 2014 for approximately RMB190.8 million. The two pieces of land are adjacent to each other.

The Group had developed the two pieces of land together to form the *Tangshan Lerthai City*. *Tangshan Lerthai City* shall be a complex comprising shopping malls, office, hotel, residential and retail properties under the master development plan. For details, please refer to the Company’s announcements dated 22 and 24 January 2014 and circular dated 31 March 2014.

On 21 June 2014, the Group entered into a series of foundation works contractor contracts and main contractor contracts with the two subsidiaries of China Railway Construction Corporation Limited (Stock Code: 1186) as the main contractors for the earthwork, foundation pit support, piling work and construction of *Tangshan Lerthai City* covering a gross floor area of approximately 660,000 sq.m.. For details, please refer to the Company’s announcement dated 23 June 2014 and circular dated 28 July 2014.

Tangshan Lerthai City was still under construction as at 30 June 2016. According to the relevant PRC laws and regulations, pre-sale permit of *Tangshan Lerthai City* project was obtained during the year ended 31 December 2015. As of 30 June 2016, a total of 989 units had been sold with a total Gross Floor Area (“GFA”) of 105,442 square meters and the sales amount approximately RMB641.2 million and the Group recorded cash collection of approximately HK\$671.6 million as of 30 June 2016, which was included in “Deposits received from sales of properties” in the Group’s consolidated financial statements. The delivery of the whole project is expected to be commenced from the fourth quarter of 2016.

Handan

On 5 August 2015, the joint venture held by Handan LT and Handan Municipal Real Estate was established. Each of the companies shares 50% of shareholding respectively. On 3 May 2016, Handan LT, Handan Municipal Real Estate and JV entered into a letter of intent for the transfer of 50% equity interest in JV held by Handan Municipal Real Estate to Handan LT. On the same day, Handan LT, Handan Municipal Real Estate, Shijiazhuang LT and the JV entered into the Loan Purchase Agreement, pursuant to which Handan Municipal Real Estate agreed to dispose of and Shijiazhuang LT agreed to purchase the loan advanced by Handan Municipal Real Estate to the JV and Handan Municipal Real Estate ceased its participation in the management and operation of the JV. On 4 May 2016, representative from Handan Municipal Real Estate resigned and representative from the Company has been appointed as legal representative and general manager of JV. The JV has become a wholly owned subsidiary of the Group accordingly. For further details, please refer to the announcement of the Company dated 20 July 2016.

Lerthai City (Chuancheng Street)

In April 2015, the Group made investment in the redevelopment of “Chuancheng Street” in Congtai District, Handan City, Hebei Province, redeveloping it into a pedestrian street for culture and tourism that will feature the ancient cultures of the Warring State Period (戰國時期), Han Dynasty and the Yue State (古越時期). The project will have multi-purpose facilities to bring culture, tourism, catering, entertainment, leisure and shopping under one roof, allowing people to experience a multifaceted lifestyle.

On 5 August 2015, the JV succeeded in jointly bidding of the land use rights of a piece of residential land with total site area of 59,471.7 sq.m. listed on Handan Land Bureau, at a consideration of approximately RMB260.5 million. The Group will develop the land into a commercial land with a plot ratio of not more than 3.5.

The project was still under construction as at 30 June 2016. Pre-sale permit of the whole project will be obtained during the fourth quarter of 2016. The Group expected that the overall project will be completed in late June 2017 and it will commence business in the third quarter of 2017.

Lerthai Jiayuan (勒泰家園)

On 14 August 2015, the JV succeeded in bidding of the land use rights of a piece of residential land with total site area of 94,257.9 sq.m., at a consideration of approximately RMB848.3 million. The Group will develop the land into a residential and commercial land with a plot ratio of not more than 1.4. The project is named as Lerthai Jiayuan (勒泰家園).

The project was still under construction as at 30 June 2016. Pre-sale permit of the whole project is expected to be obtained in September 2016. The Group expected that the overall project will be completed and delivered during second half of 2017.

USA

Lerthai South Hills Plaza

In April 2014, the Group entered into a sale and purchase agreement with a vendor, as such the Group will acquire of a property in California, the USA at a consideration of US\$20.7 million. The acquisition of Lerthai South Hills Plaza will be completed in November 2014.

Lerthai South Hills Plaza consists of a piece of land situated at 1410–1432 South Azusa Avenue, in the City of West Covina, California, the USA which covers a total area of 9.43 acres with improvements thereon, including but not limited to five single-storey retail buildings and one 2-storey multi-tenant retail building with an aggregate gross leaseable floor area of approximately 120,589 square feet. The property is being held by the Group as an investment property and earns rental income. The occupancy rate for Lerthai South Hills Plaza was 80.9% as at 30 June 2016 and it contributed rental income of approximately HK\$6.3 million to the Group during the Period.

Lerthai Platinum Center

In November 2014, the Group acquired a land lot consisting of seven parcels of land at a consideration of US\$28.4 million. The land is located in the northeast of the intersection of South Stage College Boulevard and East Orangewood Avenue, which is centrally located in Orange County, California, the USA within a district referred to as the “Platinum Triangle” which is generally situated between State Route 57, Interstate 5 and Katella Avenue with an area of approximately 59,000 sq.m.. The land had been granted approval for development for 525 dwelling units. The project is under planning and design stage as at 30 June 2016.

Securities Investment and Finance

As at 30 June 2016, the acquisition of First Investment Management Limited (name changed to “LERTHAI Asset Management Limited”) through LERTHAI Capital Group Limited, a wholly-owned subsidiary of the Company, has not been completed yet. In the beginning of July 2016, LERTHAI Securities (Hong Kong) Limited, a wholly-owned subsidiary of the Company, has obtained the license to carry out Type 1 (Dealing in Securities) and Type 2 (Dealing in Futures Contracts) regulated activities granted by Securities and Futures Commission under Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). In the same month, the acquisition of First Investment Management Limited (name changed to “LERTHAI Asset Management Limited”) has been completed. Please refer to the announcement of the Company dated 26 July 2016.

PROSPECT

In response to the development trend of the Internet, the Group has a preliminary plan of proactively develop internet financial products by using the tools of “Internet Plus”. The Group will explore an innovative business model of internet finance, with its major products being mobile products based on big data and cloud platforms. The Group is striving to establish an internet financial platform based on property and engaging in property funds to create an integrated investment and financing platform in terms of products, platforms, channels and customers in the internet finance sector. The Group aims at providing users with a wide range of products and services relating to property internet finance. Innovatively designed internet finance product will provide favourable offers to property buyers, and also help property developers utilize their capital in an efficient manner. As for the development of the finance business, REITs product targeting commercial property will be planned to be issued by the Group in the private equity market with the aim of enhancing investment returns by assisting property projects in completing sales and realizing quick capital payback. Rental income will be earned through property management by subsequently establishing a property fund, thereby adding value to the property sector. The Group also considers to apply for financial licenses necessary for internet finance in the PRC.

Backed by a sufficient fund, sizable client base and long-term client relations, the experienced management and the aggressive development strategies, the Group intends to become one of the most comprehensive and integrated financial service providers in Hong Kong. With such a goal, apart from having obtained Type 1 (Dealing in securities) and Type 2 (Dealing in Futures Contracts) license under the Securities and Futures Ordinance at the beginning of July 2016, the Group is actively seeking to expand product and service under the Type 9 (asset management) licence. The Group is

also in the course of reviewing the possibility of applying to the SFC for Type 4 (Advising on securities) and Type 6 (Advising on corporate finance) licences under the SFO. It is expected that these licences will enable the Group to broaden the business scope and its client base, generating recurring and stable income stream. The Group has completed the acquisition of First Investment Management Limited (name changed to “LERTHAI Asset Management Limited”) which is principally engaged in Type 9 (Asset Management) regulated activity under the Security and Futures Ordinance. For further details, please refer to the announcement of the Company dated 26 July 2016.

The Acquisition would enable the Group to diversify its business into the financial services sector through direct investment in and hands-on management and operation of the Target. Through the Acquisition, the Group is expected to take advantage of the future exponential growth in capital markets and continuous products development, by diversifying its business into the financial services sector and to broaden the Group’s revenue base. The Acquisition will diversify the business of the Group into the financial services sector and will broaden the Group’s revenue base.

China’s economy growth is expected to stabilise and experience a balanced growth in the forthcoming years. The Directors are of the view that the PRC property sector still has long term prospects in view of the continued growing household income, urbanisation trends, increasing demand of end-users and the governmental relaxation of property measures.

Lerthai South Hills Plaza had generated stable rental income to the Group. The Group also plans to carry out value-add work to enhance the capital value and return of the property. The Group’s investment projects in the USA will provide investment diversification against the domestic businesses. The Group will focus on the development of the existing projects and at the same time continue to identify suitable land acquisition opportunities for future development.

FINANCIAL REVIEW

During the Period, total revenue of the Group was HK\$6.3 million (2015: HK\$6.6 million). The revenue for the Period comprised rental income from the Group’s investment property located in the USA, Lerthai South Hills Plaza only.

Other income, gains and losses represent a net loss of HK\$8.2 million for the Period (2015: net loss of HK\$16.0 million). The net loss was mainly due to the loss arising from the change in fair value of convertible bonds amounting to HK\$14.8 million (2015: loss of HK\$17.4 million).

The share-based payment amounting to HK\$69.2 million (2015: nil) was arising from the share options granted to a director and employees of the Group under the Company’s share option scheme (the Scheme) adopted on 22 August 2014 for the purpose of providing them with an incentive to work better for the interests of the Group.

During the Period, the Group recorded an increase in fair value of investment properties of HK\$117.0 million (2015: increase of HK\$64.4 million), which was mainly contributed by *Tangshan Lerthai City*. The increase in fair value of *Tangshan Lerthai City* amounting to HK\$119.2 million was set-off by a decrease in fair value of Handan and Lerthai South Hills Plaza amounting to HK\$0.6 million and HK\$1.6 million respectively.

Administrative expenses decreased to HK\$63.7 million for the Period from HK\$64.9 million during the corresponding period in 2015. During the Period, the Group has been actively pursuing opportunities in the property development and investment business.

Share of loss of a joint venture amounting to HK\$1.1 million represented sharing the loss from the JV held by Handan LT Real Estate Development Company Limited (“Handan LT”) which is the wholly-owned subsidiaries of the Group, and Handan Municipal Investment Real Estate Development Company Limited (“Handan Municipal Real Estate”) before the acquisition date.

Selling and marketing expenses increased significantly to HK\$10.6 million (2015: HK\$6.5 million) which was mainly related to the promotion for the pre-sale of *Tangshan Lerthai City* during the Period.

Total finance costs for the Period were HK\$129.0 million (2015: HK\$79.4 million) which was mainly attributable to (i) convertible bonds with remaining principal amount of HK\$385.0 million; (ii) bonds with maturity of 8 years; (iii) senior notes with maturity of 3 years and (iv) loan from a related company. Of these finance costs, HK\$80.2 million (2015: HK\$65.2 million) was directly attributable to investment properties and properties under development for sale and thus was capitalised. The remaining interest costs of HK\$48.8 million (2015: HK\$14.2 million) were related to borrowings for general working capital purposes and were being expensed as finance costs.

As a result of the various factors outlined above, loss before taxation for the Period increased to HK\$78.4 million (2015: HK\$30.8 million). The increase in loss before taxation is mainly attributable to share-based payment expense amounting to HK\$69.2 million arising from the share option issued during the Period. Income tax expense increased to HK\$29.0 million (2015: 13.6 million). The significant increase of income tax expense was mainly attributable to deferred tax expenses as a result of the increase in fair value of investment properties in the *Tangshan Lerthai City* amounting to HK\$119.2 million. Due to the above reasons, the loss after tax of the Group for the Period increased to HK\$107.3 million (2015: loss of HK\$40.8 million).

NET ASSET VALUE

As at 30 June 2016, the Group’s net assets attributable to owners of the Company were HK\$377.3 million as compared to HK\$438.4 million as at 31 December 2015. Net asset value per share attributable to owners of the Company was HK\$1.11 (31 December 2015: HK\$1.29).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group’s cash and cash equivalents was HK\$48.8 million (31 December 2015: HK\$72.0 million). The current ratio was 0.9 times as at 30 June 2016 (31 December 2015: 0.8 times). As at 30 June 2016, the Group’s net debt balance was HK\$2,435.6 million (31 December 2015: HK\$1,434.7 million) and its total equity was HK\$377.3 million (31 December 2015: HK\$438.4 million). The Group’s net gearing ratio was 645.5% (31 December 2015: 327.2%), calculated on basis of the excess of the sum of convertible bonds, senior notes, bonds, loan from a related company and bank borrowing net of pledged bank deposits, restricted bank balances and time deposits and bank balances over the total equity.

In January 2014, the Group issued convertible bonds in the principal amount of HK\$550.0 million with interest rate of 12% plus three month HIBOR per annum for a term of 3 years. The net proceed from the issue of convertible bonds had been used for financing the development of *Tangshan Lerthai City*. The convertible bonds are secured by, among others, a first priority share charge of the Company by China Lerthai Commercial Real Estate Limited (“China Lerthai”), a controlling shareholder of the Company, in respect of all the 254,055,888 shares held by China Lerthai in the Company, representing 74.99% of the issued share capital of the Company.

In addition, as disclosed in the Company's announcement dated 24 December 2013, under the subscription agreement of the convertible bonds, Mr. Yang undertakes with the subscriber that, for so long as any of the convertible bonds or the exchangeable bonds remains outstanding, Mr. Yang has and will continue to have and maintain an aggregate direct and/or indirect shareholding interest of 65% or above in the total issued share capital of the Company on an as enlarged, converted and exchanged and fully diluted basis (i.e., assuming that all outstanding convertible bonds, exchangeable bonds and all other securities convertible or exchangeable into shares or other securities of the Company, if any, are converted or exchanged in full) at all times.

In June 2014, the Group entered into a loan agreement with a related company which is controlled by Mr. Yang. Pursuant to such agreement, the related company agreed to provide a facility with principal amount of HK\$502 million (equivalent to approximately RMB400 million) to the Group with interest rate of 12% per annum. On 14 August 2015, the Group entered into a supplemental loan agreement with the related company to increase the facility to HK\$847 million (equivalent to RMB700 million) with remaining terms unchanged. The borrowing is unsecured and repayable within three years.

In November 2014, the Group obtained a mortgage loan with an amount of US\$11.5 million with maturity of 10 years with the pledge of Lerthai South Hills Plaza. As at 30 June 2016, this mortgage loan facility amount was increased to US\$15.3 million.

In 2014, the Company issued bonds in amount of HK\$30 million with interest rate of 8% per annum with maturity of 8 years. In 2015, the Company also issued the second tranche of bonds in amount of HK\$10 million with interest rate of 8% per annum with maturity of 8 years. In 2014, the Company also issued 3-year senior notes with an aggregate amount of HK\$163 million with interest rate of 10% per annum. The Company additionally issued another tranche of seniors notes amounted to HK\$86 million in 2015 with interest rate of 10% per annum. The majority of the proceeds from these bonds and senior notes had been used to finance the development of real estate projects located in the PRC and USA and as general working capital of the Group.

CASH FLOW MANAGEMENT AND LIQUIDITY RISK

Management of the Group's cash flows is the responsibility of the Group's treasury function at the corporate level. Our objective is to maintain a balance between continuity of funding and flexibility through a combination of internal resources, bank borrowings, debts and equity securities, where appropriate. We are comfortable with our present financial and liquidity position, and will continue to maintain a reasonable liquidity buffer to ensure sufficient funds are available to meet liquidity requirements at all times.

The Directors review the capital structure of the Group by using a gearing ratio, which is calculated on the basis of dividing the excess of the sum of loan from a related company, convertible bonds, bank and other borrowings, senior notes and bonds over the sum of bank balances and cash (inclusive of pledged bank deposits and restricted bank balances) by total equity. The review is conducted at least semi-annually and before each major financing or investment decision is made.

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings including bank and other borrowings, senior notes, bonds and loan from a related company. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

At 30 June 2016, the Group had the unutilised available facilities provided by banks, a financial institution and a related company owned by Mr. Yang of approximately HK\$485 million, HK\$237 million and HK\$741 million, respectively; and also the unutilised facility granted by a supplier of the Group to extend the repayment on construction cost of approximately RMB825 million (equivalent to approximately HK\$969 million). Subsequent to the end of the reporting period, the convertible bonds' holder agreed to waive its right to demand for immediate repayment of the convertible bonds due to the non-compliance of the terms and conditions as at 30 June 2016. In view of the interest of senior notes, the holders of the senior notes may redeem the senior notes in October 2016.

Having considered (i) a new loan advanced by a related company owned by Mr. Yang Longfei ("Mr. Yang") of approximately RMB541 million (equivalent to approximately HK\$635 million); (ii) the estimated proceeds from the sales of properties in the next twelve months from the end of the financial period; (iii) the unutilised available facilities provided by banks, a financial institution and a related company owned by Mr. Yang of approximately HK\$485 million, HK\$237 million and HK\$741 million, respectively; and (iv) unutilised facility granted by a supplier of the Group to extend the repayment on construction cost of approximately RMB825 million (equivalent to approximately HK\$969 million); (v) the estimated proceeds from the sales of properties in the next twelve months from the period; the Directors are satisfied that the Group will have sufficient working capital for its present requirements.

FOREIGN EXCHANGE EXPOSURE

The Group's investment, assets and liabilities are mainly denominated in Hong Kong dollar ("HK\$"), Renminbi ("RMB") and United States dollar ("US\$") and no hedging has been made during the Period. The revenue to be generated in the *Tangshan Lerthai City* under the Group will be denominated in RMB, while the convertible bonds, senior notes and bonds of the Group are denominated in HK\$. The Group will continue to monitor closely its exposure to exchange rate and interest rate risks, and may employ derivative financial instruments to hedge against risks when necessary.

PLEDGE OF ASSETS

As at 30 June 2016, the Group had certain investment properties with an amount of HK\$1,956.3 million (31 December 2015: HK\$221.9 million) to secure bank borrowings of approximately HK\$984.2 million (31 December 2015: HK\$283.0 million).

As at 30 June 2016, the Group's properties under development for sales with a carrying value of approximately HK\$1,370.8 (31 December 2015: HK\$457.1 million) were pledged to secure certain bank borrowing facilities granted to the Group.

As at 30 June 2016, bank deposits amounting to HK\$14.1 million (31 December 2015: HK\$14.1 million) have been pledged to secure the convertible bonds. As at 30 June 2016, they were classified as current assets as the convertible bonds were classified as current liabilities.

As at 30 June 2016, deposits amounting to HK\$13.0 million (31 December 2015: HK\$6.1 million) have been pledged for the guarantees given to banks with respect to loans procured by the purchasers of the Group's properties and thus, are classified as non-current assets. The pledged deposits will be released upon the release of guarantees by banks.

CAPITAL AND OTHER DEVELOPMENT RELATED COMMITMENT AND CONTINGENT LIABILITIES

As at 30 June 2016, the Group had guarantees given to banks in favour of its customers in respect of mortgage loans provided by the banks amounted to HK\$276.1 million (31 December 2015: HK\$196.0 million). The guarantees are given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant purchasers is remote and in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no provision had been made in the consolidated financial statements for these guarantees.

The guarantees were secured by the Group's pledged bank deposits amounting to HK\$13.0 million (31 December 2015: HK\$6.1 million).

As at 30 June 2016, the Group had contracted but not provided for commitments for development cost and capital expenditure in amount of approximately HK\$3,192 million (31 December 2015: HK\$1,913 million).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2016, the Group had 255 employees (2015: 184 employees). The staff costs (other than the directors' emoluments) increased by 277.5% from HK\$28.5 million for the six-month period ended 30 June 2015 to HK\$107.5 million for the six-month period ended 30 June 2016. The increase of other staff cost was primarily due to share-based payment amounting to HK\$61.5 million arising from granted share options during the period to employees (the "Grantees") under the share option scheme adopted by the Company on 22 August 2014. The emoluments payable to Directors were recommended by the remuneration committee of the Company by making reference to their duties and responsibilities with the Company. The remuneration of employees is determined by the management with reference to the performance and working experience of the employees and the current market conditions. The Group offers competitive wages to the employees and pays bonus pursuant to the performance of the Group and the individual employee. Other benefits include the contributions to the statutory mandatory provident fund scheme for the employees in Hong Kong and to the central pension scheme for the employees in the PRC and the USA and Canada. In 2014, the Group has adopted a share award scheme as part of the long term incentives for the employees.

PROPERTY VALUATION

Property valuations on the Group's investment properties located in the USA and the PRC as at 30 June 2016 have been carried out by independent qualified professional valuers, CCP Group, Inc. and DTZ Debenham Tie Leung Limited, respectively. The valuations were based on income capitalisation approach and residual method by making reference to comparable market information as available in the relevant markets. For investment properties under development, the valuation has also taken into account the construction costs expended and to be expended to complete the development. The Group's investment properties were valued at HK\$2,476.8 million as at 30 June 2016 (31 December 2015: HK\$1,274.9 million), an increase in fair value of HK\$117.0 million (31 December 2015: increase of HK\$92.5 million) was recognised in the consolidated statement of profit or loss and other comprehensive income for the Period.

EVENTS AFTER THE REPORTING PERIOD

On 27 November 2015, the Group entered into the sale and purchase agreement with an independent third party (the “Vendor”), pursuant to which the Group has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the entire issued share capital of the First Investment Management Limited (name changed to “LERTHAI Asset Management Limited”) (the “Target”) at a consideration of HK\$3,300,000.

On 26 July 2016, all the conditions precedent set out in the sale and purchase agreement have been fulfilled and completion of the acquisition took place on the same date.

Following completion of the acquisition, the Target will become an indirect wholly-owned subsidiary of the Company. The Target is principally engaged in Type 9 (Asset Management) regulated activity under the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong). The Directors are in progress in assessing the financial impact to the Group.

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance in order to ensure high transparency and protection of interests of the shareholders and the Company as a whole. The Company has adopted the code provisions and certain recommended best practices (with amendments from time to time) as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) under Appendix 14 to the Listing Rules.

Upon review of the corporate governance practice of the Company, the Board believed that the Company has applied the principles in the CG Code and complied with the code provisions of the CG Code during the Period. None of the Directors was aware of any information that would reasonably indicate that the Company was during the Period in compliant with the code provisions of the CG Code, except for the deviations as follows:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yang was appointed as the chairman (the “Chairman”) and the chief executive officer of the Company (the “CEO”) on 28 February 2013 and 20 March 2014 respectively. The Group therefore did not separate the roles of the Chairman and the CEO. The Board considered that Mr. Yang had in-depth knowledge and experience in the property investment and development industry and was the most appropriate person to manage the Group, therefore, the roles of Chairman and CEO by the same individual, Mr. Yang, was beneficial to the business prospects and management of the Group.

Upon retirement of Mr. Lau Yu Fung Wilson as an independent non-executive Director at the annual general meeting of the Company on 29 June 2016 (the “Annual General Meeting”), the number of independent non-executive Directors and the members of audit committee, nomination committee and remuneration committee of the Company fell below the minimum number required under Rule 3.10(1), Rule 3.10A and Rule 3.21 of the Listing Rules and the relevant terms of reference of the Company.

The Company is endeavouring to identify suitable candidate to fill the vacancies as soon as practicable, with the relevant appointment to be made within three months from the date of the Annual General Meeting to meet the requirements under the Listing Rules. The Company will make further announcement as and when appropriate.

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 (the "Model Code") to the Listing Rules as a code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), which comprised all the independent non-executive Directors has reviewed with management of the accounting policies adopted by the Group, the risk management and internal control systems, the effectiveness of the internal audit function and the unaudited condensed consolidated financial statements for the Period.

The Company's external auditor, Deloitte Touche Tohmatsu, has conducted a review of the interim financial information of the Group for the Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

APPRECIATION

I would like to take this opportunity to thank the shareholders for their continuous support, and my fellow Directors and those who have worked for the Group for their valuable contribution.

By order of the Board of
LT Commercial Real Estate Limited
Yang Longfei
Chairman and Chief Executive Officer

Hong Kong, 26 August 2016

As at the date of this announcement, the executive Directors are Mr. Yang Longfei (Chairman and Chief Executive Officer) and Mr. Yang Shao Xing Max, the non-executive Directors are Mr. Lee Vincent Marshall Kwan Ho and Ms. Dai Hui and the independent non-executive Directors are Mr. Fan Ren Da Anthony and Mr. Fan Chun Wah Andrew.

Website of the Company: <http://www.lth.com.hk>