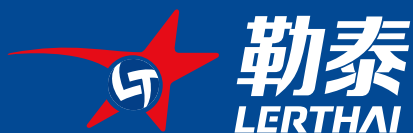


# 2017 ANNUAL REPORT



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 |



## Corporate Overview

LT Commercial Real Estate Limited (Stock Code: 112) (the “Company”, and with its subsidiaries collectively referred to as the “Group” or “Lerthai”) is incorporated in Hong Kong and the issued shares of which are listed on the Hong Kong Stock Exchange and is one of the leading property investment, management, and development groups in China and the USA. The controlling shareholder of the Company is China Lerthai Group which founded in 2003, built its unique brand and quality property portfolio for almost 15 years. The Company built its quality through excellence, integrity and partnership. The Group invests, develops, owns and manages about 20,000,000 sq. ft. of mixed use projects including large scale regional malls, luxurious residential units, Grade A office space, international quality hotels, serviced apartments, cinemas, ice-skating rinks, department stores, theatres, hypermarkets, entertainment complex and car-parking ports principally in China and the USA. Lerthai Capital Group Limited is a wholly-owned subsidiary of the Company which holds Type 1, 2, 4 and 9 Licenses of the Securities and Futures Commission of Hong Kong to carry out regulated activities in the financial services sector. At Lerthai, we create spaces for improving communities, inspiring people and inducing quality living!

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#### *Forward-Looking Statements*

*This annual report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.*

# Corporate Information

<b>Directors</b>	<i>Executive Directors:</i> Mr. Yang Longfei (Chairman and Chief Executive Officer) Mr. Yang Shao Xing Max Ms. Zhang Yan  <i>Independent Non-executive Directors:</i> Mr. Hung Ka Hai Clement Mr. Lo Wai Hung Ms. Shek Pui Michelle	<b>Auditor</b>	Deloitte Touche Tohmatsu 35/F One Pacific Place 88 Queensway Hong Kong
<b>Audit Committee</b>	Mr. Lo Wai Hung ( <i>Chairman</i> ) Mr. Hung Ka Hai Clement Ms. Shek Pui Michelle	<b>Principal Banker</b>	Industrial and Commercial Bank of China Limited The Bank of East Asia (China) Limited East West Bank China Construction Bank Corporation China Merchants Bank
<b>Remuneration Committee</b>	Mr. Hung Ka Hai Clement ( <i>Chairman</i> ) Mr. Yang Longfei Ms. Shek Pui Michelle	<b>Registered Office and Principal Place of Business</b>	Room 3303, Tower Two Lippo Centre, 89 Queensway Admiralty, Hong Kong
<b>Nomination Committee</b>	Mr. Hung Ka Hai Clement ( <i>Chairman</i> ) Mr. Yang Longfei Ms. Shek Pui Michelle	<b>Registrar and Transfer Office</b>	Tricor Secretaries Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Company Secretary</b>	Mr. Wong Shui Yeung	<b>Website</b>	<a href="http://www.lth.com.hk">http://www.lth.com.hk</a>
		<b>Stock Code</b>	112
		<b>Board Lot</b>	2,000 Shares
		<b>Investor Relations</b>	For enquiries relating to investor relations, please contact: Tel: (852) 2530 3313 Fax: (852) 3102 9203 E-mail: <a href="mailto:info@lth.com.hk">info@lth.com.hk</a>





Lerthai Platinum Center, Anaheim, California, USA (2023)



# CHAIRMAN'S STATEMENT





# Chairman's Statement

## Year Review

For the period under review, China continued to deepen the “One Belt One Road” initiative. This create a long term economic growth momentum of Asian and global economies. Meanwhile, the Beijing-Tinjian-Hebei integration policy of China is beneficial to our strategic investment projects in Hebei Province, China, I believe that the above will bring in economic vibrancy to our Group's businesses and provide catalytic effect on our Group's future growth. With the expected completion of our projects in China, I am confident that the Company has stepped into another important development milestone.

*Yang, Longfei*  
Chairman

## Property Investment and Real Estate Development

### *Property Investment and Real Estate Development in China*

Tangshan Lerthai City is a large-scale mixed use complex of the Group. It is located in the western part of Tangshan and close to Tangshan's High-speed Railway station and accessible to Beijing-Tangshan Inter-city Railway. This project has a GFA of approximately 8,988,000 sq. ft.. It comprises residential towers, regional shopping mall, hotels, office towers, apartments, catering facilities, entertainment facilities and car-parking ports. With the opening of Zones A, B and C of Tangshan Lerthai City's shopping mall and the delivery of the residential units of Towers 1 – 9 in Tangshan Lerthai City to the home buyers during the year, it is believed that the Tangshan Lerthai City enhanced the Group's rental and retail property portfolio in terms of the leasable areas and the properties held for sales. This shall provide a more steady cash flow from operations to support to the Group's recurring income in the future. Besides, the Group continued to adjust the trade mix and tenants mix to maximize the rental revenue. We are in confident that the business prospect of our portfolio mix shall be improved gradually.

Handan Lerthai City, a large-scale commercial mixed use complex of the Group, located at the central business district of the Handan City. The renowned Chuancheng Street is a historical avenue of the city. Handan is famous for being a city of international fame, with a vivid historic heritage as home to the birth of Qin Shi Huang, the first Emperor in China who unified China and later built the Beijing section of the Great Wall. The commercial section of Handan Lerthai City aims to rebuild the cityscape to rejuvenate the 3,000-year cultural significance of Handan with a contemporary touch around Chuancheng Street. This Chinese landmark is so named since the ancient time of the Seven Warring States some 3,000 years ago. This project has a planned GFA of approximately 3,037,000 sq. ft with a prestigious regional complex for tourism. It also comprises mega commercial facilities, leisure shopping, luxurious hotel, quadruple courts, as well as a wide range of dining, entertainment and sports venues. Owing to certain municipal and domestic

policies, certain construction work of Handan's project were delayed in 2017. We are currently speeding up the construction progress. The retail shopping mall portion of the Handan Lerthai City is scheduled to open in 2018.

"Lerthai Jiayuan", a residential project in Handan City with a planned GFA of approximately 3,335,000 sq. ft., obtained the pre-sale permit in the fourth quarter of 2016. Pre-sale of residential units were carried out in 2016. The Group expected that the residential units will be delivered to buyers in 2018.

In January 2018, the Company was in the process of negotiating for the possibility of acquisition of certain properties from the major shareholder of the Group. These properties were completed projects mainly comprised office towers, hotel properties and retail shopping malls located in the cities of Shijiazhuang and Tangshan, the PRC. Upon the completion of the acquisition, these two mature projects would enhance the capabilities of revenue generation and cash flows to the Group.

### *Property Investment and Real Estate Development in the United State of America ("USA")*

The Group's overseas project, namely the Lerthai Platinum Centre, in Anaheim, Orange County, California, USA, has a site area of approximately 632,000 sq. ft.. This project was planned to build a regional mixed use complex comprising premium residential units and multi-purpose commercial facilities. During the year under review, the project was undergoing certain refinement of the construction design which was subject to government's approval. Tentatively, the project is expected to be completed by year 2023.

Besides, the Group also invested in another retail properties in the USA, namely, the South Hills Plaza which was located in the City of West Covina, California, USA. South Hills Plaza is a retail shopping mall with a total GFA of approximately 382,000 sq. ft.. This property is an investment property of the Group and generating stable recurring rental income.



## Chairman's Statement

### Financial Services Businesses

Lerthai Capital Group currently holds Type 1, 2, 4 and 9 Licenses of the Securities and Futures Commission of Hong Kong to carry out regulated activities in the financial services sector. The Group manages our first real estate fund, namely, Lerthai Global Commercial Real Estate Fund SPC, which is incorporated in Cayman Island in 2017. Besides, China Handan Lerthai Commercial Real Estate Fund SP ("SP") was formed in the year under review. The SP was managed under the Type 9 Asset Management License of Lerthai Asset Management Limited. The Group is actively exploring potential development of real estate funds with the introduction any other qualified investors if market window and situation is available in future.

### Outlook

As China steps into a new era of development, the country's supply-side structural reform intended to help lower the financial risks, while putting emphasis on supply quality and economic rebalancing. China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development, and focusing on quality and efficiency for building a modernized economy.

China's new growth drivers to be fostered in medium-high end consumption, and innovation-driven development.

LT Commercial Real Estate continued adhere to the mission of improving urban life, and "one city, one landscape, and one landmark" strategy in developing our landmark mixed use complex to create its unique market value for stakeholders in pursuit of quality consumerism.

Besides, the Group endeavours to continue to identify quality land replenishment opportunities by evaluating quality investment projects to create long term stakeholders and shareholders values.

Last but not least, I would take this opportunity to express my sincere gratitude to the members of the Board and the Management teams, as well as our employees around the globe for their contributions during the year.

**Yang, Longfei**

*Chairman*

Hong Kong, 19 March 2018





# Management Discussion and Analysis



## Business Review

For the period under review, the principal business of the Group included (i) real estate business in Tangshan, the PRC; (ii) real estate business in Handan, the PRC; (iii) real estate business in West Covina, the USA; and (iv) real estate business in Anaheim, the USA. The Group's total revenue for the year ended 31 December 2017 amounted to approximately HK\$1,414.3 million (2016: HK\$12.6 million).

## Review By Segment

### *Real Estate Business in Tangshan, the PRC*

Tangshan Lerthai City, a large-scale mixed use complex, situated in the western part of Tangshan which is adjacent to the Tangshan High-speed Railway station and Beijing-Tangshan Inter-city Railway station. This project has a gross floor area ("GFA") of approximately 8,988,000 sq. ft. comprised residential units, regional retail shopping mall, hotels, commercial offices, entertainment facilities and sports facilities within the mega complexes. Tangshan Lerthai City mainly comprises (i) the Lerthai Centre, a regional shopping mall with a total GFA of approximately 3,106,000 sq. ft.; and (ii) the residential area of a total GFA of approximately 2,022,000 sq. ft. with approximately 1,500 residential units.

The Zones A, B and C of shopping mall of Tangshan Lerthai City was officially opened with enthusiastic market response. The residential units of Towers 4, 6, 7, 8, and 9 in Tangshan Lerthai City completed during the first quarter of 2017. Units completed were delivered to the buyers. The sale proceeds of properties was recognised as "Revenue" in the Consolidated Financial Statements during the year, which became the major source of revenue in current year.

### *Real Estate Business in Handan, the PRC*

The residential project "Lerthai Jiayuan" obtained pre-sale permit in the forth quarter of 2016 and commenced the pre-sale during the year. As at 31 December 2017, the Group received pre-sale deposits of approximately HK\$1,380.7 million. Deposits was recorded as "Deposits received from sales of properties" in the Consolidated Financial Statements. The Group expected that the project will be completed and delivered in 2018.

Handan Lerthai City, a large-scale mixed use complex, located at the central business district in Handan City, Chuancheng Street is situated north of Renmin Road, south of Congtai Road, east of Lingxi Street and west of Congtai Park. This project has a planned GFA of approximately 3,037,000 sq. ft with regional shopping mall, hotels, tourism facilities and mega commercial space.

The regional shopping mall of the Handan Lerthai City is scheduled for official opening in the second quarter of 2018. Currently, we have been actively attracting and selecting high quality tenants so as to maintain a diverse mix of tenants and to assure an optimised tenancy mix.

### *Real Estate Business in West Covina, the USA*

The South Hills Plaza, located in the City of West Covina, California, the USA which covers a total GFA of approximately 382,000 sq. ft. which mainly comprising (i) the retail shopping mall with GFA of approximately 121,000 sq. ft.; and (ii) parking space of 456 units. This property is being held by the Group as an investment property for its rental income with the occupancy rate of approximately 97.6% as at 31 December 2017. During the year ended 31 December 2017, revenue of approximately HK\$13.4 million (2016: HK\$12.6 million) was generated from the South Hills Plaza.

### *Real Estate Business in Anaheim, the USA*

The Lerthai Platinum Centre, located in Anaheim, California, USA near the California Disneyland, the second largest city in Orange County of California in the USA. The site area of approximately 632,000 sq. ft. is expected to turn into a regional modern complex comprising premium residential units and multi-purpose commercial facilities with a GFA of approximately 1,012,000 sq. ft. upon completion, which tentatively scheduled to include, among others, 150 luxury residential units, 200 premium hotel rooms and a modern regional shopping and entertainment centre with a total GFA of 530,000 sq. ft., office space with a total GFA of approximately 77,000 sq. ft. and parking spaces of 3,060 units. This project is expected to be completed on or around 2023. The Group expects the Lerthai Platinum Centre will generate stable and long-term recurring revenue for the Group in the future upon its completion.

## Prospect

The Group remains optimistic of the real estate industry in the PRC and the USA. With the Chinese government's planning and implementation of the "One Belt One Road" initiative, the coordinated development of Beijing-Tianjin-Hebei Region and China's targeted GDP growth of 6.5%, these three acts indicated positive signs for the economy in China. Besides, the USA started hiking rate cycle in tandem with the Federal Reserve led to its gradual economic recovery, it is anticipated that the future business environment in the USA remains favourable.

With the delivery of completed residential units of Tangshan Lerthai City, the Group successfully recorded a turnaround from loss to profit in 2017. The expected opening of Handan Lerthai City on Chuangcheng Street in 2018, it is anticipated that the Group's financial performance will be improved with the two completed shopping malls which will bring in new rental cash flow streams. Apart from the opening of shopping malls, the remaining residential units of Tangshan Lerthai City and most of residential units of Handan Lerthai Jiayuan are also expected to be delivered in 2018 for which considerable revenue will be recognized.

The portfolio of property projects of the Group will become more diversified: it will include both under-development/newly completed projects as well as mature properties that align with the principle of sustainable development. The Group endeavours to continue to strategically identify competent partners, land replenishments opportunities and other potential investment projects, with a view to enhance the long-term value to Shareholders.



### Financial Review

During the period under review, total revenue of the Group was HK\$1,414.3 million (2016: HK\$12.6 million). The revenue derived from the real estate business in Tangshan and West Covina of approximately HK\$1,400.9 million (2016: Nil) and HK\$13.4 million (2016: HK\$12.6 million) respectively. The increase in revenue for the year ended 31 December 2017 was mainly due to the recognition of revenue from the delivery of completed units of real estate in Tangshan to the buyers.

Other income, expenses, gains and losses decreased to net loss of HK\$3.2 million for the year (2016: net gain of HK\$4.3 million). The decrease was due to the compensation to customers for late delivery of properties of approximately HK\$11.3 million (2016: Nil) in current year.

The Group recorded an increase of fair value of the investment properties of HK\$477.7 million (2016: HK\$99.9 million), contributed by the capital appreciation of Lerthai South Hills Plaza, Tangshan Lerthai City and Handan Lerthai City during the year.

Selling and marketing expenses decreased to HK\$40.1 million (2016: HK\$47.1 million). Since most of the residential units of Tangshan Lerthai City were delivered in current year, the related promotion activities had been downsized.

Administrative expenses amounted to approximately HK\$140.7 million (2016: HK\$146.1 million) which mainly comprised of staff costs, rental and management fee for office premises and legal and professional fee.

Finance costs recognised as expenses for the year were HK\$150.1 million (2016: HK\$70.7 million). The increase was mainly due to the interest expense on convertible bonds issued during the year is not eligible for capitalisation to investment properties under construction and properties under development for sales.

During the year ended 31 December 2016, the Group recorded share-based payments of HK\$69.2 million, relating to share options granted to employees and a director. This expense item did not have impact on cash flow, but has been recognized as an expense in accordance with Hong Kong Financial Reporting Standards. The Group did not grant any share options during the year.

As a result of the various factors outlined above, the profit for the year attributable to owners of the Company was approximately HK\$166.2 million (2016: loss of approximately HK\$240.2 million).

### Liquidity and Financial Resources

As at 31 December 2017, the Group's cash and cash equivalents maintained at approximately HK\$107.0 million (2016: HK\$51.8 million). The current ratio was 0.66 times (2016: 0.92 times) as at 31 December 2017.

The Group's gearing ratio was 48.7% (2016: 47.2%), which is calculated based on the Group's total interest bearing borrowings of approximately HK\$4,030.3 million (2016: HK\$3,388.7 million) to total assets of approximately HK\$8,270.2 million (2016: HK\$7,181.7 million).

### Cash Flow Management and Liquidity Risk

The objective of liquidity risk management is to ensure that the Group always has sufficient cash to repay its maturing debt, perform other payment obligations and meet other funding requirements for normal business development.

The Group's liquidity management involves the regular cash flow forecast and the consideration of its liquid assets level and new financings necessary to meet future cash flow requirements.

With banking and controlling shareholder's facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

### 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 year. The revenue generated from the Tangshan Lerthai City was 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.

### Charge of Assets

As at 31 December 2017, the Group's facilities and other loans of approximately HK\$3,195.3 million (2016: HK\$2,645.4 million) were pledged with investment properties, properties under development for sales with an aggregate carrying amount of approximately HK\$5,096.9 million (2016: HK\$4,992.9 million).

### Capital Commitment and Contingent Liabilities

As at 31 December 2017, the Group's contingent liabilities amounted to approximately HK\$669.4 million (2016: HK\$574.3 million) relating to guarantees given by the Group to financial institutions on behalf of our purchasers of our property units in the PRC in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2017 (and such guarantees will be released upon the issuance of the Building Ownership Certificate). The guarantees were secured by the Group's pledged bank deposits amounting to HK\$24.4 million (2016: HK\$17.3 million).

As at 31 December 2017, the Group had contracted but not provided for commitments for development cost and capital expenditure in amount of approximately HK\$1,285.4 million (2016: HK\$3,224.3 million).

### Employee and Remuneration Policy

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include mandatory provident fund, medical insurance and performance related bonus. The Group has adopted the share award scheme and share option scheme as part of the long term incentives for the employees.

As at 31 December 2017, the Group had 258 employees (2016: 250 employees). Total staff costs for the year amounted to HK\$94.8 million (2016: HK\$151.0 million),

which comprised (i) directors' remuneration of HK\$6.0 million (2016: HK\$15.4 million) and (ii) staff costs (other than directors' remuneration) of HK\$88.8 million (2016: HK\$135.6 million). Decrease in total staff costs was mainly due to the share-based payments of HK\$69.2 million from the grant of share options to employees and a director during the year ended 31 December 2016.

### Property Valuation

The Group's investment properties located in the USA and the PRC were revalued as at 31 December 2017 by independent qualified professional valuers, Los Angeles Valuation Group, Inc. and Cushman & Wakefield 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\$5,146.2 million as at 31 December 2017 (2016: HK\$2,968.7 million), an increase in fair value of HK\$477.7 million (2016: HK\$99.9 million) was recognised in the condensed consolidated statement of profit or loss and other comprehensive income for the year.

### Events After the Reporting Period

The Company is in negotiation with Mr. Yang Longfei, for a possible acquisition of his interests in certain property development companies, which holds interests in certain landed properties mainly comprising of office towers, hotels and shopping malls located in Shijiazhuang and Tangshan cities, the PRC.

As at the date of this report, no binding agreement has been signed in relation to this possible acquisition. Further details are set out in the announcement of the Company dated 26 January 2018.

# Profiles of Directors

## Board of Directors



*Mr. YANG Longfei, Executive Director*

**Mr. YANG Longfei**, aged 51, is currently the Executive Director, Chairman, Chief Executive Officer, a member of the remuneration committee and the investment committee of the Company. He joined the Group in 2013. Mr. Yang established a multi-billion value successful hypermarket chain Baolongchuang in Hebei Province in the 1990s and subsequently divested to the French listed company Carrefour in the early 2000s. Mr. Yang continued his retail career through engages in developing urban complexes and large scale mixed use development in China and USA. Mr. Yang found the Lerthai Commercial Real Estate Group in 2003, responsible for the land acquisition, design, investment, merger and acquisition. He is responsible for corporate strategies, functions of the Board, and the overall development of the Company in long term. Mr. Yang led iconic project development of the Shijiazhuang Lerthai Center, Pelagic Mall of Tangshan and other mega scale development. Mr. Yang has over 20 years of experience in commercial retail and real estate business. Mr. Yang is currently a committee member of the eleventh Chinese People's Political Consultative Conference of Hebei Province. Mr. Yang is also the director of certain subsidiaries of the Company. Mr. Yang is the father of Mr. Yang, Shao Xing Max, one of the Executive Directors.



*Mr. YANG Shao Xing Max, Executive Director*

**Mr. YANG Shao Xing Max**, aged 28, currently the Executive Director of the Company and chief executive officer of LT Global Investment, a subsidiary of the Company in the USA. He joined the Group in 2013. He graduated from the University of Southern California, USA with a Bachelor of Art degree in Economics and has been actively involved in real estate development business. He has been active in the real estate market, especially in the USA market. He is a Harvard AMD program candidate. Mr. Yang leads the team in designing, building and operational planning of the mixed use project – Lerthai Platinum Center project at Anaheim, California and managing the acquisition, development, financing and leasing of retail asset of South Hills Plaza, located at California, USA. Mr. Yang lead the acquisition team, asset management team to perform property due diligence on various target acquisitions in the US. He is a full member of Urban Land Institute Los Angeles chapter, a YPO member at Beverly Hill Chapter, a licensed California Real Estate Broker and a member of International Council of Shopping Centers. He serves on the board of China Enterprise Council and Anaheim Boys and Girls Club. He currently manages over HK\$450 million worth of asset under the subsidiaries in the USA. Currently he is orchestrating the identification of Investment Opportunities in US, EMEA and emerging markets globally. Mr. Yang helps the Company in developing opportunistic property fund and land funds. Mr. Yang, Shao Xing Max is the son of Mr. Yang Longfei, the executive Director, chairman and chief executive officer of the Company.





*Ms. ZHANG Yan, Executive Director*

**Ms. ZHANG Yan**, aged 43, is currently the Executive Director of the Group, responsible for the financial operations, financing, accounting activities, taxation of the Group. She is well experienced in cost control, taxation, financing and business operations and successfully issued the first Asset-backed Securities (ABS) without single subject credit rating. She is Vice Chairman of Promoting Development Alliances. She serves China Lerthai for over 15 years. Ms. Zhang holds a master's degree in business administration and a law degree awarded by People's University of China. Ms. Zhang was a committee of People's Congress Standing of Lubei District of Tangshan. Ms. Zhang was also a permanent member of Tangshan Tsinghua University Alumni Association and a member of Hebei Association of Women Entrepreneurs.



*Mr. HUNG Ka Hai, Clement, Independent Non-Executive Director*

**Mr. HUNG Ka Hai, Clement**, aged 62, is currently an Independent Non-executive Director of the Company and chairman of the remuneration and nomination committees of the Company. He joined the Group in 2017. Mr. Hung had served Deloitte China for 31 years. He retired from the Chairman role of Deloitte in June 2016 and had represented Deloitte China in the Deloitte Global Board and Governance Committee as a member during at that time. He has extensive experience in the areas of initial public offerings, mergers and strategic acquisitions and corporate finance, and advising multinational corporations, public companies and enterprises in Hong Kong and the People's Republic of China and is an expert in listings in Main Board and GEM in the Hong Kong Stock Exchange. In June, 2016, the Ministry of Finance of People's Republic of China appointed Mr. Hung as an expert Consultant under his extensive experience as a Hong Kong accounting professionals.

Mr. Hung had also assumed various leadership roles in Deloitte before he took up the appointment as Chairman. He was the Audit group leader and the Office Managing Partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team. Later on, Mr. Hung assumed the role of the Southern Audit Leader and the Deputy Managing Partner of the Southern Region.

Mr. Hung has become an honorary member of the Shenzhen Institute of Certified Public Accountants in 2004. He has served as the Guangzhou Institute of Chartered Accountants consultant in 2009. During 2006 to 2012, he also served as a member of the Political Consultative Committee of Luohu District, Shenzhen.

## Profiles of Directors

Mr. Hung has been appointed as an independent non-executive director of Gome Finance Technology Co., Ltd. (stock code: 0628) since 31 October 2016., as an independent non-executive director of SMI Holdings Group Limited (stock code: 0198) on 16 January 2017 and re-designated as non-executive director thereof with effect from 15 March 2017., as an independent non-executive director of Sheng Ye Capital Limited (stock code: 8469) on 6 July 2017, as a non-executive director of High Fashion International Limited (stock code:0608) since 1 December 2017 and as an independent non-executive director of Henry Group Holdings Limited (stock code: 0859) since 12 January 2018.



*Mr. LO Wai Hung, Independent Non-Executive Director*

**Mr. LO Wai Hung**, aged 58, joined the Group in 2017, is currently an Independent Non-executive Director and chairman of the audit committee of the Company. Mr. Lo graduated from James Cook University of North Queensland with a bachelor's degree in commerce in 1985. He is an associate member of the Institute of Chartered Accountants in Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lo is an independent non-executive director of Shandong Weigao Group Medical Polymer Company Limited (stock code: 1066), C Cheng Holdings Limited (stock code: 1486) and Talent Property Group Limited (stock code: 760), the shares of these companies are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lo was also an independent director of China Merchant Property Development Co. Ltd since 2011 and the shares of which were ceased from listing on the Shenzhen Stock Exchange on 30 December 2015.



*Ms. SHEK Pui Michelle, Independent Non-Executive Director*

**Ms. SHEK Pui Michelle**, aged 41, joined the Group in 2016, is currently an Independent Non-executive Director, the member of the remuneration committee, the nomination committee and audit committee of the Company. Ms. Shek, graduated from City University of Hong Kong with a Bachelor degree (first class honour) in Business Administration, China Business. She obtained Postgraduate Diploma in English and Hong Kong Law (Common Professional Examination) from The Manchester Metropolitan University and Postgraduate Certificate in Laws (PCLL) from City University of Hong Kong. Ms. Shek has been admitted to the roll of solicitors by the High Court of Hong Kong in 2006 and the Supreme Court of England and Wales in 2009, respectively. Ms. Shek has over 13 years of experience in legal profession.



# Corporate Governance Report

## 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 year. None of the Directors was aware of any information that would reasonably indicate that the Company was during the year in compliance 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.

Under Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee of every listed issuer must comprise a minimum of three members. After Mr. Fan Chun Wah Andrew’s resignation on 1 January 2017 and before Mr. Hung Ka Hai Clement’s appointment on 24 February 2017 as the independent non-executive director, the Board and audit committee of the Company comprised only two independent non-executive directors.

Save as the above, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code during the year.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 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 year.

## Board of Directors

### Structure

As at the date of this annual report, the Board comprised two executive Directors and three independent non-executive Directors. The composition of the Board is as follows:

#### *Executive Directors*

Mr. Yang Longfei (*Chairman and Chief Executive Officer*)

Mr. Yang Shao Xing Max

#### *Independent Non-executive Directors*

Mr. Hung Ka Hai Clement

(appointed as an Independent non-executive Director on 24 February 2017 and re-designated as Non-executive Director on 3 March 2017 and re-designated from Non-executive Director to Independent Non-executive Director on 30 June 2017)

Mr. Lo Wai Hung

Ms. Shek Pui Michelle

The number of independent non-executive Directors (the “INEDs”) represents more than one-third members of the Board. The profiles of all Directors are set out on pages 14 to 16 of this annual report. Save as disclosed in this annual report, there is no other relationship among members of the Board, including financial, business, family or other material/relevant relationship. The INEDs are highly experienced professionals and businessmen with a broad range of expertise and experience in accounting, finance, legal and business management and one of them has appropriate professional accounting qualification as required by the Stock Exchange.

The Board is responsible for directing and supervising the Company’s affairs. Each Director acts in good faith for the best interest of the Company. The Directors are collectively and individually responsible to the Company for the manner in which the affairs of the Company are managed, controlled and operated. They had devoted sufficient time and attention to the Company’s affairs during the year.

All the Directors, including the INEDs, must retire by rotation at least once every three years, and no Director shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Director’s appointment or re-election, whichever is longer, without submitting himself/herself for re-election at the annual general meeting, under the articles of association of the Company (the “Articles of Association”). As such, the term of office of each Director has been specified under the Articles of Association.



### Assistance to Directors in Decision Making

Throughout their period in office, the Directors have been informed of the Group's business, the competitive and regulatory environments in which it operates and other changes affecting the Group and the industry it operates in as a whole. They have also been advised on appointment of their legal and other duties and obligations as directors of a company and updated on changes to the legal and governance requirements of the Group and upon themselves as the Directors.

The Directors are given access to the company secretary of the Company (the "Company Secretary") or independent professionals for advice at the Company's expense, when they deem it is necessary in order for them to carry out their responsibilities from time to time.

### Conduct of Meetings

The Directors are consulted and properly briefed for matters to be included in the meeting agenda. The Board is supplied with relevant information as well as reports relating to operational and financial performance of the Group before each regular Board meeting. At least 14 days' notice of a regular Board meeting is given to all Directors providing them with the opportunity to attend the meeting. For regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are dispatched to all Directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and will be adequately prepared for the meeting. Senior management is invited to attend the meeting to address to the Board members' queries. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making purpose.

The Chairman has delegated the responsibility to the Company Secretary for drawing up and approving the meeting's agenda for each Board meeting, taking into account of any matter proposed by the other Directors for inclusion in the agenda.

The proceedings of the Board at its meetings are generally monitored by the Chairman who would ensure that sufficient time is allocated for discussion and consideration of each item on the agenda. Equal opportunities are given to each Director to express his/her views and concerns.

Each Director has to declare his/her interest and to abstain from voting on any board resolution in which he/she or any of his/her associates has a material interest pursuant to the Articles of Association and the Companies Ordinance (Cap. 622, Laws of Hong Kong).

All Directors have full access to the advice and services of the Company Secretary to ensure the Board's procedures, rules and regulations are followed. Draft and final versions of minutes of each Board meeting in sufficient details are sent to the Directors for comments and records within reasonable time after the meeting is held. The minutes of the Board and the Board committees' meetings are kept by the Company, which are open for inspection by the Directors on reasonable notice.

## Corporate Governance Report

During the year, 2 Board meetings, and 1 general meeting were held. The Company Secretary and the Company's senior management had attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting, finance and business. The individual attendance of each Director at the Board meetings and general meeting held during the year is as follows:

<b>Board meetings</b>	<b>No. of Board meetings attended/held (Percentage of attendance in total)</b>	<b>No. of General meetings attended/held (Percentage of attendance in total)</b>
<b>Directors during the year</b>		
<i>Executive Directors</i>		
Mr. Yang Longfei ( <i>Chairman and Chief Executive Officer</i> )	2/2 (100%)	1/1 (100%)
Mr. Yang Shao Xing Max	2/2 (100%)	1/1 (100%)
<i>Non-executive Directors</i>		
Mr. Lee Vincent Marshall Kwan Ho (retired on 30 June 2017)	1/1 (100%)	0/1 (0%)
Ms. Dai Hui (resigned on 17 July 2017)	1/1 (100%)	1/1 (100%)
<i>Independent Non-executive Directors</i>		
Mr. Fan Ren Da Anthony (retired on 30 June 2017)	1/1 (100%)	0/1 (0%)
Mr. Fan Chun Wah Andrew (resigned on 1 January 2017)	N/A	N/A
Mr. Hung Ka Hai, Clement	2/2 (100%)	1/1 (100%)
Mr. Lo Wai Hung	2/2 (100%)	1/1 (100%)
Ms. Shek Pui Michelle	1/2 (50%)	1/1 (100%)

### Works Performed

During the year, besides attending the Board meetings to consider and make decision on corporate governance, risk management, statutory compliance, accounting, finance and business matters, the Directors had brought professional opinion and judgement on the Company's strategy, performance and standards of conduct; had taken the lead where potential conflicts of interests arose; had served on Board committees; endorsed on various corporate governance related matters and policies; had ensured that the Board maintained high standards of financial and other mandatory reporting; carried out reviews on matters reported by the Board committees, and had provided adequate checks and balance to safeguard the interests of Shareholders in general and the Company as a whole.

During the year, the INEDs had actively participated in the Board meetings, brought independent opinion and judgment, and given their comments to the information or reports submitted to the meetings.

Besides attending the Board or committee's meetings, in order to make timely decision and have effective implementation of the Company's policy and practice, the Board had also adopted written resolutions signed by all Directors to make decision on corporate affairs from time to time.



As part of the continuing process on supervising the Company's affairs, the Directors, acting through by the audit committee of the Company (the "Audit Committee"), had reviewed the adequacy of resources, qualifications and experience of the Company's accounting staff and financial reporting function.

### Directors' Confirmation

The Company has received, from each INED, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the INEDs are independent.

### Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual.

Mr. Yang was appointed as the Chairman and the CEO, therefore, the Group 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.

### Board Committees

The Board has established the Audit Committee, remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") of the Company with defined roles and terms of reference.

#### Audit Committee

##### *Structure*

The Audit Committee has been established since December 2000 with the roles to assist the Board in establishing formal and transparent arrangements for considering how it will apply the financial reporting and the internal control principles and for maintaining an appropriate relationship with the Company's external auditor (the "Independent Auditor"). It acts in an advisory capacity and makes recommendations to the Board.

All the Audit Committee members possess diversified industry experience. The chairman of the Audit Committee has appropriate professional qualification, accounting or related financial management expertise as required by the Listing Rules.

As at the date of this annual report, the Audit Committee is made up of all the independent non-executive Directors, namely:

Mr. Lo Wai Hung (*Chairman*)

Mr. Hung Ka Hai Clement

Ms. Shek Pui Michelle

### *Function*

In accordance with the requirements of the CG Code, the latest terms and reference of the Audit Committee were adopted on 30 December 2015. The Audit Committee's terms of reference can be found on the websites of the Company and the Stock Exchange. The major duties of the Audit Committee are summarised below:

- i) to make recommendations to the Board on the appointment, re-appointment and removal of the Independent Auditor, review and monitor their independence and objectivity as well as the effectiveness of the audit process;
- ii) to monitor the integrity of the interim and annual consolidated financial statements, reports and accounts of the Group, and to review any significant financial reporting judgments contained in them;
- iii) to review and ensure the effectiveness of the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems; and
- iv) to develop and review the Company's policies and practices on corporate governance, make recommendations to the Board and to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

### *Conduct of Meetings*

The Audit Committee shall meet at least twice each year. The Company prepares and delivers an information memorandum that includes all relevant information about the meetings to the Audit Committee members at least 3 days prior to such meetings.

During the year, the Audit Committee members reviewed the information memorandum with due care and discussed with the Company's senior management during the meetings.

During the year, the Audit Committee held 3 meetings with the presence of the Company's senior management. Minutes drafted by the Company Secretary were circulated to the Audit Committee members for comments within a reasonable time after each meeting. Executed minutes were kept by the Company and copies of the minutes were sent to the Audit Committee members for records.

Individual attendance of each Audit Committee member at the meetings held during the year is as follows:

<b>Members</b>	<b>No. of Audit Committee meetings attended/held (Percentage of attendance in total)</b>
Mr. Fan Chun Wah Andrew (resigned on 1 January 2017)	N/A
Mr. Fan Ren Da Anthony (retired on 30 June 2017)	1/1 (100%)
Mr. Lo Wai Hung	3/3 (100%)
Mr. Hung Ka Hai, Clement (appointed on 30 June 2017)	2/2 (100%)
Ms. Shek Pui Michelle	2/3 (67%)



### *Works Performed*

The works performed by the members of the Audit Committee during the year are summarised below:

- i) reviewed and considered the accounts and consolidated financial statements of the Group for the year ended 31 December 2016 and interim accounts for 2017;
- ii) reviewed, discussed and agreed with the Independent Auditor in respect of the audit fee for the year; the terms of the engagement letters; the nature, scope of audit and reporting obligations for the year;
- iii) reviewed and assessed the adequacy and effectiveness of the Group's financial reporting and controls, internal control procedures and risk management systems;
- iv) reviewed the corporate governance practices and monitored the progress of compliance of the CG Code and its disclosure in the Corporate Governance Report;
- v) reviewed the performance of the properties of the Group for the year;
- vi) reviewed the adequacy of resources, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget;
- vii) discussed with Independent Auditor with respect to the accounting principles and practices adopted by the Group, compliance with the Listing Rules and other financing reporting requirements;

Overall, the Audit Committee is satisfied with the condition of the Company, including the corporate governance practices, internal control system, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget.

One of the specific works vested upon the Audit Committee is to develop and review the Company's policies and practices on corporate governance. Upon reviewed by the Audit Committee and endorsed with approval by the Board, the main policy for the Company's corporate governance is to develop the Company itself as a sustainable and competitive company in the business sector in the interests of the Company and the Shareholders as a whole, with an aim for a prudent and profitable development and long term achievement of growth through the well-established corporate governance principles, management and practices. As a listed company in Hong Kong, the Company is obliged to follow the principles, code provisions and recommended best practices (if applicable) set forth in Appendix 14 to the Listing Rules as the substantial requirement on achieving a high corporate governance standard as well as a fundamental part of the corporate governance policy of the Company.

### Remuneration Committee

#### *Structure*

The Remuneration Committee has been established since June 2005 with the roles to assist the Board in reviewing and determining the framework or broad policy for remuneration packages of the Directors and senior management, overseeing any major changes in employee benefit structures and considering other topics as defined by the Board. In accordance with the requirements of the CG Code, the latest terms of reference of the Remuneration Committee were adopted on 23 May 2014.

As at the date of this annual report, the Remuneration Committee is made up of two independent non-executive Directors and one executive Director, namely:

Mr. Hung Ka Hai Clement (*Chairman*)

Ms. Shek Pui Michelle

Mr. Yang Longfei

#### *Function*

The principal responsibilities of the Remuneration Committee are as follows:

- i) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedures for developing remuneration policy;
- ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights, compensation payments (including any compensation payable for loss or termination of their office or appointment);
- iii) to make recommendations to the Board on the remuneration of executive Directors; and
- iv) to review and make recommendations to the Board for approving the services contracts/agreements of all Directors.

The Remuneration Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

The Remuneration Committee would seek internal and external professional advices about its proposals on remuneration packages of individual Directors and senior management if considered necessary.

### *Conduct of Meetings*

During the year, the Remuneration Committee held 2 meetings to consider and recommend, among others, to the Board on the annual remuneration of the Directors and senior management for the year.

Individual attendance of each committee member at the meetings held during the year is as follows:

<b>Members</b>	<b>No. of Remuneration Committee meetings attended/held (Percentage of attendance in total)</b>
Mr. Fan Chun Wah Andrew (resigned on 1 January 2017)	N/A
Mr. Fan Ren Da Anthony (retired on 30 June 2017)	1/1 (100%)
Mr. Hung Ka Hai, Clement (appointed on 30 June 2017)	1/1 (100%)
Mr. Yang Longfei	2/2 (100%)
Ms. Shek Pui Michelle	1/2 (50%)

### *Works Performed*

The works performed by the members of the Remuneration Committee during the year are summarised below:

- i) considered and made recommendations to the Board for endorsement of the remuneration policy of the Company and letters of appointment of the Directors and senior management with major terms and conditions, to comply with the CG Code; and
- ii) assessed performance of executive Directors and considered and made recommendations to the Board on the remuneration of the Directors and senior management for the year.

Details of the amount of Directors' emoluments during the year are set out in note 12 to the consolidated financial statements in this annual report.



### Nomination Committee

#### Structure

The Nomination Committee was established in 2012 with the role to lead the process and to make recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of challenges and opportunities facing the Company, as well as business development and requirements of the Company. In accordance with the requirements of the CG Code, the latest terms of reference of the Nomination Committee were adopted on 23 May 2014.

As at the date of this annual report, the Nomination Committee is made up of two independent non-executive Directors and one executive Director, namely:

Mr. Hung Ka Hai Clement (*Chairman*)  
Ms. Shek Pui Michelle  
Mr. Yang Longfei

#### Function

The principal responsibilities of the Nomination Committee are as follows:

- i) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- ii) to assess on the independence of the independent non-executive Directors; and
- iii) to make recommendations to the Board on the appointment or re-appointment and succession planning for Directors and to identify individuals suitably qualified to become Board members.

The Nomination Committee has adopted a "Policy, Procedure and Process, and Criteria for Nomination of Directors" setting out the approach to achieve diversity on the Board. The basic nomination policy is to keep under review the leadership needs of Board as the core organ of the Company, both executive and non-executive, with a view to ensure the continued stability of the Company and continued ability of the Board to lead the Company's business and development and to compete effectively in the business sector, taking into account the challenges and opportunities facing the Company currently and in the future. The Nomination Committee may evaluate the balance of skills, experience and knowledge in the Board members and may seek independent professional advice or assistance including engagement of recruitment agent or external research consultancy, or use open advertising or other appropriate means in appropriate circumstances at the Company's expense to assess a wide base of potential candidates to become a director of the Company.

For the purpose of implementation of the policy on Board diversity, the following measurable objectives were adopted:

- (A) at least one-third of the members of the Board shall be independent non-executive directors;
- (B) at least one of the members of the Board shall possess accounting or other professional qualifications;
- (C) certain members of the Board shall be professionals recognized in both China and Hong Kong.

For the year, the Board has fulfilled the measurable objectives of the policy on Board diversity.

The Nomination Committee monitors the implementation of this policy and reviews the same as appropriate to ensure the effectiveness of the policy. The Nomination Committee will discuss any revises as may be required and submit the proposed amendments to the Board for approval.

The Nomination Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

### Conduct of Meetings

During the year, the Nomination Committee held 2 meetings.

Individual attendance of each committee member at the meetings held during the year is as follows:

<b>Members</b>	<b>No. of Nomination Committee meetings attended/held (Percentage of attendance in total)</b>
Mr. Fan Chun Wah Andrew (resigned on 1 January 2017)	N/A
Mr. Fan Ren Da Anthony (retired on 30 June 2017)	1/1 (100%)
Mr. Hung Ka Hai, Clement (appointed on 30 June 2017)	1/1 (100%)
Mr. Yang Longfei	2/2 (100%)
Ms. Shek Pui Michelle	1/2 (50%)

### Works Performed

The works performed by the members of Nomination Committee during the year are summarised below:

- i) considered and reviewed the policy, procedures and process and criteria for the nomination of the Directors and made recommendations to the Board for its endorsement;
- ii) reviewed the structure, size and composition of the Board;
- iii) made recommendations to the Board on the retirement and re-election of Directors in the 2016 AGM; and
- iv) made recommendations to the Board on the appointment of executive Directors and re-designation of Director.

### *Nomination Procedures and Process*

The Nomination Committee may nominate any person that having the relevant qualities and criteria as determined by the Nomination Committee as well as required by the Companies Ordinance (Cap. 622, Laws of Hong Kong), the Listing Rules or other applicable laws and regulations in Hong Kong to become a director (whether executive or non-executive) whenever (i) the executive Director(s) or the Nomination Committee is/are of the view that according to the current or prospective business development and requirements of the Company; or (ii) for succession planning for the Board, there is a demand for an appointment of new Director as an addition to the Board or to fill up the casual vacancy in the Board.

During the nomination process, the Nomination Committee may evaluate the balance of skills, experience, independence and knowledge in the Board members and may prepare a description or job specification of the role and capabilities required for any new or particular appointment to the Board if it thinks fit and proper. The Nomination Committee may seek independent professional advice or assistance including engagement of recruitment agent or external research consultancy, or use open advertising or other appropriate means in appropriate circumstances at the Company's expense to assess a wide base of potential candidates to become a Director.

### **Management Functions**

Basically, during the year, the Board and its committees were responsible on the following matters:

- (i) oversee the general operations of the Company;
- (ii) ensure effective implementation of the Board decisions and corporate governance, with the assistance of the Company Secretary;
- (iii) ensure the short and long term sustainability of the business;
- (iv) lead the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;
- (v) provide coherent leadership of the Company;
- (vi) satisfy itself on the integrity of financial information and on robustness and defensibility of the financial controls and systems of risk management and carry out review thereon;
- (vii) scrutinise the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;
- (viii) constructively challenge and help developing proposals on business strategy;
- (ix) uphold high standards of corporate governance and compliance;
- (x) participate in the process of dealing with any conflict of interest between the Company and the Director, his/her associates or substantial Shareholders who has material interest in the transaction with the Company;



- (xi) attend the Shareholders' meeting to help developing a balanced understanding of their issues and concerns; and
- (xii) give independent opinion and advice to the Shareholders where required by the Listing Rules or any applicable laws and regulations on the business affairs of the Company.

During the year, the management was mainly responsible for:

1. daily investment, management, operation and administration of the Company;
2. compliance with the rules and regulations, including the Listing Rules, as well as to implement corporate governance policy determined by the Board;
3. draw the Directors' attention on the new corporate governance requirements;
4. organise the Board and various meetings for the Directors' discussion;
5. prepare various reports to the Board for review and decision making; and
6. organise training for the Directors.

During the year, the management provided all members of the Board with monthly updates in accordance with the code provision C.1.2 of the CG Code.

### Directors' Continuing Professional Development

#### Continuing Professional Development

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills through suitable trainings. These trainings included but are not limited to online debriefs regarding taxation, compliance, and global economic development. The participation in such trainings is to ensure that their contribution to the Board remains informed and relevant.

#### Auditor's Remuneration

Analysis of remuneration in respect of audit and non-audit service provided by the external auditor, Deloitte Touche Tohmatsu, for the year is as follows:

Nature of Service	Amount HK\$'000
Audit Service	1,800
Non-audit Service	534
	2,334

### Financial Reporting

The Company aims to present a clear, balanced and understandable assessment of its financial position and prospects. Financial results are announced as early as possible, with interim report and annual report as well as other price-sensitive announcements and financial disclosures published as required under the Listing Rules.

The management provides explanation, information and progress update to the Board for it to make an informed assessment of the financial and other issues put before the Board for approval and consideration.

Throughout the year, the Directors had selected appropriate accounting policies and applied them consistently. The Directors acknowledge their responsibilities for preparing the financial accounts of the Group which give a true and fair view and are in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. A statement by the Independent Auditor about their reporting responsibilities for the year is set out in this annual report.

### Internal Control and Risk Management

#### Scope of Works

The Board recognises its responsibility for establishment, maintenance and review of the internal control system that provides reasonable assurance on the reliability and integrity of financial and operational information, effective and efficient operations, safeguarding of assets and compliance with laws and regulations. The internal control system is designed to manage rather than to eliminate all risks of failure while its goal is to provide reasonable, not absolute, assurance regarding the achievement of organisational objectives. The Audit Committee is responsible to assist the Board for the annual review of the effectiveness of the internal control system of the Group.

During the year, the Company has engaged Asia Pacific(Group) CPAs(special general partnership) to perform a review of the internal control system of the Group, which includes evaluation of control environment, risk assessment, control activities, information and communication and monitoring activities, evaluation of the internal control system by business cycles and evaluation of the company secretarial record, the Board's practice and annual report disclosure against the requirement of the CG Code. Such report is addressed to the Board to assist the Board in the evaluation of the internal control system of the Group.

#### Audit Committee's and Board's Review

The Audit Committee and the Board had reviewed the financial control, internal control and risk management systems of the Company for the year. It considered the internal control system effective and adequate as they allowed the Board to monitor the Group's overall financial position and to provide reasonable assurance that assets are safeguarded against unauthorised use or material financial misstatement; transactions were executed in accordance with management's authorisation; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities. Further reviews will be conducted on the request of any Audit Committee member, Company Secretary, or any Director.

### Company Secretary

Mr. Wong Shui Yeung (“Mr. Wong”) has been appointed as the Company Secretary since 12 December 2016. Mr. Wong reports to the CEO directly and is responsible to the Board for ensuring that the Board procedures, applicable laws, rules and regulations are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant corporate governance developments relating to the Group and facilitating the induction and professional development of the Directors.

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training for the year.

### Shareholders’ Rights

The Company is committed to safeguarding the Shareholders’ and the Company’s interests as a whole and encouraging Shareholders to attend general meetings of the Company to participate in the important decisions of the Company for which the Shareholders’ approval is required under the Listing Rules and the Companies Ordinance. The Company regards general meetings of the Company as an important event as it provides an important opportunity for direct communication between the Board and the Shareholders. The Directors, including the INEDs were available to answer questions at the annual general meeting of the Company held on 30 June 2017. The chairmen of the Audit Committee, Remuneration Committee and Nomination Committee and the Independent Auditor were also available at the general meeting of the Company to address Shareholders’ queries.

The following set forth the procedures on (a) how Shareholders can convene an extraordinary general meeting of the Company (“EGM”), (b) the procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquires to be properly directed; and (c) the procedures and sufficient contact details for putting forward proposals at Shareholders’ meetings.

#### (a) Procedures on how Shareholders can convene an EGM

1. Any registered Shareholder in his/her sole name or the registered Shareholders jointly or collectively (whose name(s) appear in the register of the members of the Company) holding at the date of the deposit of the requisition not less than one-twentieth (5%) of the issued and paid up capital of the Company carrying the right to vote at general meeting of the Company may send a requisition to the Company to convene an EGM.
2. The requisition must state the objects of the EGM, and must be signed by the requisitionists and deposited at the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary.
3. The request will then be verified with the share registrar of the Company. Upon receiving confirmation from the share registrar of the Company that the request is in order, the Company Secretary will tender the request of the Shareholder to the Board to include the resolution in the notice and agenda for the EGM.



4. Upon receiving such requisition, the Directors shall, within 21 days from the date of the deposit of the requisition, proceed to convene the EGM. The EGM shall be held on a day not more than 28 days after the date on which the notice convening the meeting is given.
  5. If the Directors fail to convene the EGM as requisitioned by the Shareholder concerned in the aforesaid manner, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the EGM, but any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition.
  6. Where the EGM is held by the requisitionists, the requisitionists may claim from the Company any reasonable expenses incurred through the Directors' default.
- (b) Procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquiries to be properly directed
1. For any enquiry that a Shareholder may put to the Board otherwise than at the general meetings of the Company to be held from time to time, the Shareholder concerned should send the enquiry to the Board by means of letter to the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary.
  2. The Company Secretary will collect and read the letters received from the Shareholders.
  3. Any enquiry to the Board shall be made by means of a letter bearing the address, contact telephone number and signature of the enquirer who must be registered Shareholder with his/her name appears in the register of members of the Company. No enquiry by other means like telephone, fax or email will be entertained.
  4. Any enquiry should confine to any factual information contained in the announcement, circular, interim or annual reports of the Company published within the recent 3 years.
  5. Any enquiry will be replied within 21 days in any ordinary case. If the Board regards the Shareholder's enquiry is a complicate one, the reply will be given within 1 month or any extended period for reply that the Directors consider fit and proper.
  6. No enquiry shall be made by the Shareholder on any publication, hearsay or rumour come from the unidentified source concerning the business affairs of the Company. The Board may consider issuing an announcement to the general public whenever it is necessary under the requirements of the Listing Rules or other applicable laws and regulations to clarify any publication, hearsay or rumour that may appear in the newspaper or from any source that the Company may have known.
  7. Reply by the Board to the Shareholder concerning his/her enquiry is privy to the Shareholder concerned and no such reply shall be made public without the consent of the Company and the Company reserves the legal right to pursue for any breach thereof.

8. The Board reserves the right to turn down the request for answering enquiries or giving any explanation thereof in case:
    - (a) answering to the enquiry will require disclosure of any confidential or price-sensitive information of the Company;
    - (b) answering to the enquiry will require disclosure of any information that the Board considers (i) it is unlawful to disclose them under the current laws and regulations that the Company is subject to, including the laws and regulations of the place where the Company is incorporated or the place where the main business of the Company is operating or the place in which the Company is having its securities listed therein; or (ii) in the interest of the Company it should not be disclosed; or (iii) it is unreasonable to disclose them; and
    - (c) the enquiries themselves contain any defamatory or irresponsible statements with malice, or the enquiries are of irrelevance or of prejudicial or vexatious nature or showing any element of abuse of the rights by the Shareholder concerned.
  
  9. At the general meeting of the Company to be held from time to time, any shareholder, his/her proxy or corporate representative may raise any enquiry verbally to the Directors present at the general meeting concerning any business to be transacted at the general meeting of the Company as set forth in the notice and agenda of the general meetings of the Company. The Directors presented may answer verbally the enquiries raised by the Shareholders at the general meeting of the Company as the Directors consider appropriate. The Directors may decline to answer any enquiry based on the factors mentioned above in item 8, or irrelevant to the core theme of the general meeting purpose, or in order to allow the general meeting of the Company to be conducted in the orderly and lawful manner without undue disruption and to achieve a good sense of the general meeting of the Company.
  
  10. Any reply by the Board or by any of its members (whether acting collectively or individually and in whatsoever manner or circumstances) to the Shareholder concerned must not be treated as any advice for investment in the securities of the Company or for any other purpose whatsoever and the Board and any of its members and the Company disclaim any liability that may be suffered by the Shareholder concerned or any third party as a result of or arising from any reliance on any reply made by the Board or any of its members on behalf of the Company to the enquiries raised by the Shareholder concerned.
- (c) Procedures and sufficient contact details for putting forward proposals at Shareholders' meetings
1. Any number of registered Shareholders (whose name(s) appeared in the register of members) representing not less than one-fortieth (2.5%) of the total voting rights of all members having at the date of the requisition a right to vote at the meeting to which the requisition relates, or not less than 50 members holding shares in the Company on which there has been paid up an average number, of not less than HK\$2,000 (namely, such members holding between them a minimum of shares of the Company on which there has been paid up at least HK\$100,000), may request the Company to give to members of the Company a notice of any resolution which he/she/they may intend to move at the annual general meeting of the Company; and/or to circulate to members entitled to have notice of any general meeting of the Company sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolutions or the business to be dealt with at that general meeting of the Company.

2. A copy of the requisition signed by the requisitionists shall be deposited at the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary not less than 6 weeks before the general meeting of the Company (in case of a requisition requiring notice of a resolution) and not less than 1 week before the meeting (in case of any other requisition) and there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.
3. The request will be verified with the share registrar of the Company. Upon receiving confirmation from the share registrar of the Company that the request is in order, and provided that the Shareholder(s) concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement, the Company Secretary will tender the request of the Shareholder to the Board to include the resolution in the notice and agenda for the annual general meeting of the Company.
4. Should the request be not in order after verification by the share registrar of the Company or the Company finds that the sum not reasonably sufficient to meet the Company's expenses, the Company is not bound to give notice of any such resolutions or to circulate any such statement. The Shareholder will be advised accordingly and the proposed resolution will not be included in the agenda for the annual general meeting of the Company.

Regarding the "Procedures for Shareholders to propose a person for election as a Director", please visit the website of the Company for details.

### Investor Relations

Accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with the Shareholders, including institutional investors, is crucial. The Company considers good investor relations as a key part of its operations and continues to promote investor relations and enhances communications with the investors.

The Company maintains a corporate website (<http://www.lth.com.hk>) to make the corporate information available on the internet to facilitate its communication with Shareholders and to provide important information the investing public, including corporate governance structure and terms of reference of Board committees.

The Company welcomes suggestions from investors and Shareholders, and invites them to share their views and suggestions at [info@lth.com.hk](mailto:info@lth.com.hk).



# Directors' Report

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

## Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, investment holding, securities investment and finance business.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 7 to the consolidated financial statements.

## Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and Management Discussion and Analysis on pages 5 to 13 of this annual report.

Possible risks and uncertainties that the Group may be facing are set out in the Management Discussion and Analysis on pages 10 to 13 and the Corporate Governance Report on pages 17 to 34.

Particulars of important events affecting the Group that have occurred since the end of the financial year 2017 are set out in Management Discussion and Analysis Section on page 13. An analysis of the Group's performance during the year is provided in the Five year Financial Summary on page 127 of this annual report. An environmental policy has been put in place to give due consideration to environment issues and minimise the impact of business operations on environment. In addition, a discussion on the Group's environmental policies and performance and an account of the Group's key relationships with its stakeholders will be included in the Environmental, Social and Governance Report to be published in the Company's website in late May 2018.

## Compliance With The Relevant Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and the risk of non-compliance. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain strong working relationships with regulators through effective communications.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 50.

The Board did not recommend the payment of final dividend for the year (2016: nil). No interim dividend was declared for the year (2016: nil).

## Directors' Report

### Segment Information

An analysis of the Group's revenue and contribution to profit or loss for the year by its principal activities is set out in note 7 to the consolidated financial statements.

### Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 127.

### Fixed Assets

Particulars of the movements of investment properties and property, plant and equipment are set out in notes 15 and 16 to the consolidated financial statement respectively.

### Share Capital

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

### Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 42 to the consolidated financial statements and the consolidated statement of changes in equity on page 53 respectively.

### Purchase, Sale or Redemption of Listed Securities

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

### Charitable Donations

During the year, charitable donations approximately HK\$115,000 had been made by the Group (2016: HK\$81,000).

### Major Suppliers and Customers

During the year, the Group's revenue represented rental income from investment properties and sales of properties and the total revenue of the top five customers accounted for less than 30% of the Group's total revenue.

The Group's top five suppliers accounted for approximately 71% of the total purchases for the year. In addition, the Group's largest supplier accounted for approximately 35% of the total purchases for the year.

At no time during the year have the then and current directors of the Company, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## Directors

The Directors for the year ended 31 December 2017 and present directors were/are:

### Executive Directors

Mr. Yang Longfei (*Chairman and CEO*)  
Mr. Yang Shao Xing Max  
Ms. Zhang Yan (appointed on 1 April 2018)

### Non-executive Directors

Mr. Lee Vincent Marshall Kwan Ho (retired on 30 June 2017)  
Ms. Dai Hui (resigned on 17 July 2017)

### Independent Non-executive Directors

Mr. Fan Ren Da Anthony (retired on 30 June 2017)  
Mr. Fan Chun Wah Andrew (resigned on 1 January 2017)  
Ms. Shek Pui Michelle  
Mr. Lo Wai Hung  
Mr. Hung Ka Hai Clement  
(appointed on 24 February 2017, re-designated from independent Non-executive Director to non-executive Director on 3 March 2017 and designated from Non-executive Director to Independent Non-executive Director on 30 June 2017)

Pursuant to Article 101 of the Articles of Association, Mr. Yang Longfei and Mr. Yang Shao Xing Max as executive Directors will retire from office by rotation as the Directors at the annual general meeting of the Company and being eligible, offer themselves for re-election.

Pursuant to Article 92, of the Articles of Association, Ms. Zhang Yan as executive Director will retire from office by rotation as the Director at annual general meeting of the Company and being eligible, offer herself for re-election.

### Directors' Service Contracts

No Director being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Directors' Report

### Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company for the year ended 31 December 2017 and present directors were/are:

Mr. Yang Longfei  
Ms. Dai Hui (resigned on 22 March 2018)  
Mr. Ip Tsz Tim  
Mr. Wong Wai San (resigned on 3 August 2017)  
Mr. Chan Hon Ming (resigned on 23 May 2017)  
Mr. Chiu Francis (appointed on 11 May 2017)  
Mr. Fan Lei (appointed on 9 March 2018)  
Mr. Lee Wai Chung (appointed on 22 August 2017 and resigned on 3 March 2018)  
Mr. Yang Shao Xing Max  
Mr. Yang Shao Ming  
Mr. Li Guoxiang  
Ms. Guo Niya  
Ms. Jennifer Cowdroy (appointed on 7 August 2017)

### Share Award Scheme

The Company has adopted the share award scheme (the "Share Award Scheme") to recognise the contributions of certain employees and help retain them for the Group's operations and further development. The Share Award Scheme was adopted by the Board on 8 August 2014 ("Adoption Date") and shall remain in force for a period of 10 years. The maximum number of shares which can be awarded under the Share Award Scheme is 10 per cent (ie, 33,876,598 shares) of Shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Share Award Scheme is 1 per cent (ie, 3,387,659 shares). The rules and trust deed of the Share Award Scheme are available on the Company's website.

Further details of the Share Award Scheme are set out in note 35(a) to the consolidated financial statements.

### Share Option Scheme

On 22 August 2014, the Company adopted the share option scheme (the "Share Option Scheme"), pursuant to which the Board may, at its discretion, grant options to any Directors and any employee of the Company or the Group, who, in the absolute opinion of the Board, have contributed or will contribute to the Company or the Group.

Based on the 338,765,987 shares in issue as at the date of adoption of the Share Option Scheme, the maximum number of shares to be issued upon the exercise of options that may be granted under the Share Option Scheme are 33,876,598 shares, being 10% of the shares in issue and the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Company is 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years commencing from 22 August 2014, the date of adoption of the Share Option Scheme. The Share Option Scheme is available on the Company's website.



On 16 May 2016, the Company granted 33,876,590 share options to the selected grantees under the Share Option Scheme, amongst which 3,387,659 share options were granted to Mr. Yang Shao Xing Max, the executive Director.

Further details of the Share Option Scheme are set out in note 35(b) to the consolidated financial statements.

## Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations

As at 31 December 2017, the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 (the "Model Code") to Listing Rules is as follow:

### Ordinary shares of the Company

Name	Number of Shares (ordinary share)	Capacity	Percentage of Issued Share Capital (approximately)
Mr. Yang, Longfei (Note)	254,055,888 (L)	Interest of Controlled Corporation	75%

(L): Long position

Note: The 254,055,888 shares of the Company held by China Lerthai Commercial Real Estate Holdings Limited, and Mr. Yang Longfei beneficially owns the entire issued share capital of China Lerthai Commercial Real Estate Holdings Limited. By virtue of the SFO, Mr. Yang, Longfei is deemed to be interested in the 254,055,888 shares of the Company held by China Lerthai Commercial Real Estate Holdings Limited.

## Directors' Report

### Options

Particulars of the Company's share option scheme are set out in note 35(b) to the consolidated financial statements.

The following table discloses details of the Company's share options in issue during the year:

Name of director	Date granted	Exercisable period	Exercise price per share HK\$	Outstanding at 1.1.2017 HK\$	Granted during the year	Exercised during the year	Outstanding at 31.12.2017
Category 1: Director							
Yang Shao Xing Max	16.5.2016	16.5.2016-15.5.2026	4.11	3,387,659	-	-	3,387,659
Total for director				3,387,659	-	-	3,387,659
Category 2: Employees							
	16.5.2016	16.5.2016-15.5.2026	4.11	30,488,931	-	-	30,488,931
Total for employees				30,488,931	-	-	30,488,931
Total for all categories				33,876,590	-	-	33,876,590

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, during the year, none of the Directors or chief executives of the Company, nor their spouses or children under the age of 18 years, were granted or had exercised any right to subscribe for any securities of the Company or its associated corporations.

## Substantial Shareholders' Interests in the Securities of the Company

As at 31 December 2017, so far as are known to any Director or chief executives of the Company, the following parties (other than a Director or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of Shares in issue (approximately)
China Lerthai Commercial Real Estate Holdings Limited ("China Lerthai") <sup>1</sup>	Beneficial owner	254,055,888 (L)	-	74.99%
Fantastic Stargaze Limited <sup>2</sup>	Beneficial owner	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
Peace Winner Limited <sup>3</sup>	Having a security interest in shares	254,055,888 (L)	-	74.99%
Huarong Overseas Investment Holdings Co., Limited <sup>4</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
華融華僑資產管理股份有限公司 <sup>5</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
華融致遠投資管理有限責任公司 <sup>6</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
China Huarong Asset Management Co., Ltd. <sup>7</sup>	Beneficial Interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Security interest held by controlled corporation	254,055,888 (L)	-	74.99%
Ministry of Finance of the People's Republic of China <sup>8</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
廣東錦峰集團有限公司 <sup>9</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%

## Directors' Report

Name of Shareholders	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of Shares in issue (approximately)
Hong Kong Kam Fung Group Company Limited <sup>10</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
Sun Siu Ki <sup>11</sup>	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%

(L) denotes long position

Notes:

- China Lerthai is wholly-owned by Mr. Yang, the chairman, chief executive officer and executive Director of the Company.
- China Lerthai has provided a first priority share charge in respect of the 254,055,888 shares of the Company held by it in favour of Fantastic Stargaze Limited, a subsidiary of Huarong Overseas Investment Holdings Co., Limited, to secure the payment obligations under the convertible notes in the principal amount of HK\$450 million issued by the Company. Fantastic Stargaze Limited is the holder of the convertible notes of the Company in the principal amount of HK\$450 million convertible into 30,000,000 shares of the Company. Please refer to the announcement of the Company dated 22 January 2017 for further details.
- Peace Winner Limited is a wholly-owned subsidiary of Huarong Overseas Investment Holdings Co., Limited.
- Fantastic Stargaze Limited is a wholly-owned subsidiary of Huarong Overseas Investment Holdings Co., Limited.
- Huarong Overseas Investment Holdings Co., Limited is a wholly-owned subsidiary of 華融華僑資產管理股份有限公司.
- 華融致遠投資管理有限責任公司 is interested in 51% of equity interests in 華融華僑資產管理股份有限公司.
- 華融致遠投資管理有限責任公司 is a wholly-owned subsidiary of China Huarong Asset Management Co. Ltd.
- Ministry of Finance of the People's Republic of China is interested in 67.75% of equity interests in China Huarong Asset Management Co. Ltd.
- 廣東錦峰集團有限公司 is interested in 40% of equity interests in 華融華僑資產管理股份有限公司.
- 廣東錦峰集團有限公司 is a wholly-owned subsidiary of Hong Kong Kam Fung Group Company Limited.
- Hong Kong Kam Fung Group Company Limited is wholly-owned by Mr. Sun Siu Ki.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.



## Arrangements to Purchase Shares or Debentures

Save as the Share Option Scheme and Share Award Scheme as disclosed in note 35 to the consolidated financial statements, there were no arrangements to which the Company, its ultimate holding company, or any of its ultimate holding company's subsidiaries was a party to enable the Directors to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the year.

## Directors' and Controlling Shareholders' Interests in Contracts

Save as deed of non-competition of 16 May 2013, the loan agreements executed or signed by the controlling shareholder or his controlled corporation, provided to the Group as disclosed in note 28 to the consolidated financial statements, and the loan purchase agreement dated 3 May 2016 pursuant to which Handen LT Municipal Investment Real Estate Development Company Limited provided its assets as guarantee for the obligations of Shijiazhuang Lerthai Real Estate Development Company Limited (a company wholly-owned by Mr. Yang) under the Loan Purchase Agreement, there were no contracts of significance in relation to the Company's business, to which the Company or any of the Company's subsidiaries was a party, subsisting at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there were any other contracts of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

## Related Party Transactions, Connected Transactions and Continuing Connected Transactions

Save as disclosed in note 38 to the consolidated financial statements, there were no significant related party transactions or connected party transactions, or continuing connected transactions entered into by the Group for the year.

## Directors' Interests in Competing Businesses

As at 31 December 2017, none of the Directors was interested in any business, which competed or was likely to compete, either directly or indirectly, with the Group's businesses except that Mr. Yang (through China Lerthai or other associates) has interest in 石家莊勒泰房地產開發有限公司 (Shijiazhuang Lerthai Real Estate Development Company Limited), the property developer of 石家莊勒泰中心 (Shijiazhuang Lerthai Centre) and 唐山遠洋城房地產開發有限公司 (Tangshan Oceancity Real Estate Development Company Limited), the property developer of 唐山遠洋城購物中心 (Tangshan Pelagic Mall).

## Retirement Benefit Schemes

Particulars of retirement benefits schemes of the Group are set out in note 36 to the consolidated financial statements.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year as required under the Listing Rules.

## Directors' Report

### Restatement

The “deposits received from government” of HK\$664,510,000 (2016: HK\$589,008,000) (“Deposits Received”) was reclassified from “Trade and other payables and accruals” under “Current liabilities” to “Deposits received from sales of properties” under “Current liabilities”. To the best of the knowledge and belief of the Board of Directors, the reclassification could give a better reflection of the nature of Deposits Received, being the deposits received from government for and on behalf of certain residents, who suffered from relocation, to acquire the residential properties of the Group.

Details of the Deposit Received was disclosed in note 20 of the consolidated financial statement and has been disclosed in note 21 of the consolidated financial statement after making the above reclassification.

### Auditor

Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Deloitte Touche Tohmatsu as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Yang Longfei**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 19 March 2018

# Independent Auditor's Report

**Deloitte.**

德勤

TO THE MEMBERS OF LT COMMERCIAL REAL ESTATE LIMITED

勒泰商業地產有限公司

*(incorporated in Hong Kong with limited liability)*

## Opinion

We have audited the consolidated financial statements of LT Commercial Real Estate Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 50 to 126, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report

## Key audit matter

## How our audit addressed the key audit matter

### *Valuation of investment properties*

We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgment associated with determining the fair value.

The carrying value of investment properties amounted to approximately HK\$5,146,150,000 at 31 December 2017 and increase in the fair value changes recorded in profit for the year in respect of investment properties was approximately HK\$477,683,000.

The Group's investment properties comprise various categories of properties including offices, carparks, commercial buildings and residential buildings and a property development project with tourism characteristics. The valuation models used to determine the fair values of investment properties in different categories and different nature may vary. The valuation models of different investment properties include income capitalisation approach, residual method and direct comparison cost method as disclosed in note 15 to the consolidated financial statements. The Group uses independent external valuers (the "Valuers") to determine the fair values for all of the properties held in these categories.

The inputs with the most significant impact on these valuations, which include capitalisation rates, are disclosed in note 15 to the consolidated financial statements.

Our procedures in relation to the valuation of investment properties included:

- obtaining valuation reports of the Group's investment properties performed by the Valuers from the management;
- evaluating the competence, capabilities and objectivity of the Valuers and obtaining an understanding of their scope of Valuers and their terms of engagement;
- evaluating the methodologies used and the key assumptions, such as capitalisation rates and market rents, adopted in the valuation models based on market data, entity-specific historical information, our knowledge of the real estate industry and the nature and composition of the Group's investment properties;
- involving our internal valuation experts to evaluate the appropriateness of the valuation process, including the valuation methodologies adopted and key valuation inputs including capitalisation rates and market rents;
- testing a selection of inputs used in the valuation of the Group's investment properties, including rental income, tenancy schedules, capital expenditure details, development cost schedules, construction costs to completion and expected developer's profit, against appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof; and
- evaluating the sensitivity analysis on the significant inputs for the extent of impact on the fair values and assessing the appropriateness of the Group's disclosures relating to investment properties in note to the consolidated financial statements.



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="134 472 612 495"><i>Valuation of properties under development for sales</i></p> <p data-bbox="134 551 756 909">We identified the valuation of the properties under development for sales as a key audit matter due to the involvement of significant judgment by the management in determining the prices at which the properties will be sold for the properties under development for sales. The property prices in the People's Republic of China (the "PRC") may be, from time-to-time affected by macroeconomic control measures executed by the PRC government as described in note 5 to the consolidated financial statements.</p> <p data-bbox="134 958 756 1205">The carrying value of properties under development for sales amounted to approximately HK\$2,247,780,000 as at 31 December 2017. The Group's properties under development for sales spread over various cities in the PRC where the underlying property projects are located. The properties under development for sales are stated at the lower of cost and net realisable value.</p> <p data-bbox="134 1254 756 1319">No impairment on the properties under development for sales was recognised for the year ended 31 December 2017.</p>	<p data-bbox="804 551 1474 616">Our procedures in relation to the valuation of properties under development for sales included:</p> <ul data-bbox="804 665 1474 1319" style="list-style-type: none"> <li data-bbox="804 665 1474 730">• obtaining an understanding of the impairment assessment of properties under development for sales;</li> <li data-bbox="804 779 1474 911">• testing the net realisable value of properties under development for sales, on a sample basis, against the latest selling prices of the Group's properties and those of comparable properties;</li> <li data-bbox="804 960 1474 1137">• evaluating the reasonableness of the estimated future cost to completion of the properties under development for sales, on a sample basis, by comparing it to the actual development cost of similar completed properties of the Group; and</li> <li data-bbox="804 1187 1474 1319">• challenging the management on its methodology with reference to the historical accuracy of the allowance for properties under development for sales against actual losses.</li> </ul>

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent Auditor's Report

### **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wong Wang Hei.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

19 March 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Revenue	6	1,414,321	12,560
Cost of sales		(1,206,945)	–
Gross profit		207,376	12,560
Other income, expenses, gains and losses	8	(3,200)	4,255
Increase in fair value of investment properties	15	477,683	99,917
Selling and marketing expenses		(40,059)	(47,107)
Administrative expenses		(140,690)	(146,073)
Share-based payments		–	(69,242)
Share of loss of a joint venture		–	(1,108)
Finance costs	9	(150,071)	(70,748)
Profit (loss) before taxation	10	351,039	(217,546)
Income tax expense	11	(184,870)	(22,700)
Profit (loss) for the year		166,169	(240,246)
<b>Other comprehensive income (expense)</b>			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of functional currency to presentation currency		24,937	(46,449)
<b>Other comprehensive income (expense) for the year</b>		24,937	(46,449)
<b>Total comprehensive income (expense) for the year attributable to owners of the Company</b>		191,106	(286,695)
<b>Earnings (loss) per share (HK\$)</b>	14		
Basic		0.49	(0.71)
Diluted		0.49	(0.71)



# Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Non-current assets</b>			
Investment properties	15	5,146,150	2,968,666
Property, plant and equipment	16	8,337	8,621
Pledged bank deposits	17	24,373	17,323
Deferred tax assets	29	6,528	22,931
Other non-current assets		3,300	3,300
		<b>5,188,688</b>	<b>3,020,841</b>
<b>Current assets</b>			
Properties under development for sales	18	2,247,780	3,413,157
Properties held for sales	18	202,608	–
Trade and other receivables, deposits and prepayments	19	240,791	650,874
Restricted bank balances	17	283,384	32,093
Pledged bank deposits	17	–	12,944
Bank balances	17	106,979	51,818
		<b>3,081,542</b>	<b>4,160,886</b>
<b>Current liabilities</b>			
Trade and other payables and accruals	20	2,062,180	1,634,737
Deposits received from sales of properties	21	1,540,414	1,867,809
Amounts due to related companies	22	18,076	2,788
Tax payable		9,356	4,943
Convertible bonds	23	77,167	444,518
Bank and other borrowings	24	837,806	384,168
Senior notes	25	93,297	180,983
		<b>4,638,296</b>	<b>4,519,946</b>
Net current liabilities		<b>(1,556,754)</b>	<b>(359,060)</b>
Total assets less current liabilities		<b>3,631,934</b>	<b>2,661,781</b>
<b>Capital and reserves</b>			
Share capital	26	498,548	498,548
Reserves		(86,486)	(277,592)
Total equity attributable to owners of the Company		<b>412,062</b>	<b>220,956</b>

## Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
<b>Non-current liabilities</b>			
Rental deposits received		–	677
Bank and other borrowings	24	2,344,529	2,037,182
Bonds	27	38,871	38,660
Convertible bonds	23	374,706	–
Senior note	25	–	90,309
Loans from a related company	28	263,884	212,881
Deferred tax liabilities	29	197,882	61,116
		<b>3,219,872</b>	<b>2,440,825</b>
		<b>3,631,934</b>	<b>2,661,781</b>

The consolidated financial statements on pages 50 to 126 were approved and authorised for issue by the Board of Directors on 19 March 2018 and are signed on its behalf by:

**YANG Longfei**  
*DIRECTOR*

**YANG Shao Xing Max**  
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company				Total HK\$'000
	Share capital	Share option reserve	Exchange reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016	498,548	–	(39,228)	(20,911)	438,409
Loss for the year	–	–	–	(240,246)	(240,246)
Other comprehensive expense of the year	–	–	(46,449)	–	(46,449)
Total comprehensive expense for the year	–	–	(46,449)	(240,246)	(286,695)
Recognition of share-based payments	–	69,242	–	–	69,242
At 31 December 2016	498,548	69,242	(85,677)	(261,157)	220,956
Profit for the year	–	–	–	166,169	166,169
Other comprehensive income of the year	–	–	24,937	–	24,937
Total comprehensive income for the year	–	–	24,937	166,169	191,106
At 31 December 2017	<b>498,548</b>	<b>69,242</b>	<b>(60,740)</b>	<b>(94,988)</b>	<b>412,062</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Operating activities</b>			
Profit (loss) before taxation		351,039	(217,546)
Adjustments for:			
Interest income		(1,128)	(312)
Net exchange gain		(2,090)	–
Fair value change on investment properties		(477,683)	(99,917)
Fair value change on convertible bonds designated at FVTPL		3,011	3,707
Share of loss of a joint venture		–	1,108
Depreciation of property, plant and equipment		4,209	3,252
Finance costs		150,071	70,748
Loss on disposal of property, plant and equipment		393	–
Share-based payments		–	69,242
Operating cash flows before movements in working capital		27,822	(169,718)
Decrease (increase) in properties under development for sales and properties held for sales		1,164,220	(703,618)
Decrease (increase) in trade and other receivables, deposits and prepayments		445,013	(579,242)
Placement of restricted bank balances		(248,478)	–
Increase (decrease) in trade and other payables and accruals		52,516	(38,374)
(Decrease) increase in deposits received from sales of properties		(486,498)	881,085
Cash generated from (used in) operating activities		954,595	(609,867)
People's Republic of China ("PRC") income taxes paid		(42,312)	–
<b>Net cash from (used in) operating activities</b>		<b>912,283</b>	<b>(609,867)</b>
<b>Investing activities</b>			
Interest received		1,128	312
Additions to investment properties		(1,058,472)	(646,565)
Acquisitions of assets through acquisitions of subsidiaries	30	–	(1,170)
Purchase of property, plant and equipment		(3,986)	(1,768)
Placement of pledged bank deposits		(5,549)	(12,778)
Release of pledged bank deposits		13,019	15,246
<b>Net cash used in investing activities</b>		<b>(1,053,860)</b>	<b>(646,723)</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000
<b>Financing activities</b>			
Net proceeds on issuance of convertible bonds		439,032	–
Repayment of convertible bonds		(385,000)	(55,000)
Repayment of senior notes		(192,000)	(57,000)
Loan from a related company		3,058,360	1,603,676
Repayment on loan from a related company		(3,033,015)	(2,163,540)
Net proceeds on issuance of senior notes		–	89,000
New bank and other borrowings raised		1,976,591	2,068,082
Repayment of bank and other borrowings		(1,395,267)	(134,540)
Interest paid		(286,580)	(113,186)
Advance from related companies		15,288	564
<b>Net cash from financing activities</b>	37	<b>197,409</b>	<b>1,238,056</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>55,832</b>	<b>(18,534)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>51,818</b>	<b>71,980</b>
<b>Effect of foreign exchange rate changes</b>		<b>(671)</b>	<b>(1,628)</b>
<b>Cash and cash equivalents at 31 December</b>		<b>106,979</b>	<b>51,818</b>
<b>Analysis of balances of cash and cash equivalents</b>			
Bank balances		106,979	51,818



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 1. General

The Company is a limited liability company incorporated and domiciled in Hong Kong. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The immediate and ultimate holding company of the Company is China Lerthai Commercial Real Estate Holdings Limited (“China Lerthai”), a private limited liability company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Yang Longfei (“Mr. Yang”), who is the chairman, chief executive officer and executive director of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40. The Company and its subsidiaries are hereinafter referred to as “the Group”.

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the 2017 annual report issued by the Company.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is different from the functional currency, which is Renminbi (“RMB”), as the directors of the Company consider that HK\$ is the most appropriate presentation currency in view of its place of listing.

## 2. Basis of Preparation of the Consolidated Financial Statements

In preparing the consolidated financial statements, the directors of the Company 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\$1,556,754,000 as at 31 December 2017. The directors of the Company have carefully assessed the Group’s liquidity position. Having taken into account (i) the estimated proceeds from the sales of properties in the next twelve months from the end of the financial year; (ii) undertaking from a creditor to postpone the settlement of a debt of approximately HK\$303,722,000 due to that creditor to a date after twelve months from the end of the financial year; (iii) the deposits received from sales of properties of HK\$1,540,414,000 that do not expect to have a cash outflow impact; (iv) a facility provided by a financial institution currently under negotiation which, in the opinion of the directors, is highly probable to be approved; and (v) the available facility provided by a related company controlled by Mr. Yang, the directors of the Company are satisfied that the Group will have sufficient working capital for its present requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

### 3. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRS”)

#### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as disclosed as below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 37, the application of these amendments has had no impact on the Group’s consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

#### New and revised to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>4</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 40	Transfer of Investment Property <sup>1</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

### 3. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRS”) (continued)

#### HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

#### **HKFRS 9 *Financial Instruments* (continued)**

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

#### ***Classification and measurement:***

- Convertible bonds issued by the Group designated as at FVTPL as disclosed in note 23: these financial liabilities qualified for designation as measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of those liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This is different from the current accounting treatment under which the entire change in fair value of the financial liabilities is recognised in profit or loss. The change in fair value attributed to a change in credit risk of these financial liabilities amounting to approximately HK\$5,771,000 during the current year would be recognised in other comprehensive income were HKFRS 9 applied; and
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

#### ***Impairment:***

- Based on the historical experience of the Group, the default rate of the outstanding balances with customers is low. Hence, the director of the Company anticipates that the application of HKFRS 9 would not have material impact on the Group’s future consolidated financial statements.



### 3. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRs”) (continued)

#### *HKFRS 15 Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of the HKFRS 15 will have a material impact on timing and amounts of revenue recognised in the respective reporting periods.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

#### HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK\$24,525,000 as disclosed in note 33. These commitments will wholly result in the recognition of right-of-use assets and liability for lease payments in the future.

In addition, the Group currently considers refundable rental deposits paid of HK\$4,078,000 and refundable rental deposits received of HK\$34,805,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

## 4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. Significant Accounting Policies (continued)

The principal accounting policies are set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of a subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Design service fee is recognised when service are provided.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

#### 4. Significant Accounting Policies (continued)

##### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *The Group as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

##### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

##### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation on monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

##### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. Significant Accounting Policies (continued)

#### Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

#### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

#### Share-based payment arrangements

##### *Equity-settled share-based payment transactions*

###### *Share options granted to employees*

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.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions 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). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. 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 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.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

#### 4. Significant Accounting Policies (continued)

##### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. Significant Accounting Policies (continued)

#### Taxation (continued)

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 4. Significant Accounting Policies (continued)

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purpose). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

Subsequent to initial recognition, investment properties, including completed investment properties and investment properties under construction are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

In circumstances where the fair values of investment properties under construction are not reliably determinable, such investment properties under construction are measured at cost less impairment, if any, until when their fair values become reliably determinable upon finalisation of the development plan, at which point in time the land and relocation cost and construction costs attributable to the investment property portion is reliably determinable.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

### Properties held for sale/Properties under development for sales

Properties held for sale and properties under development for sales are stated at lower of cost and net realisable value. Cost comprises the acquisition cost of land use rights and development costs for properties. Development costs of properties comprise construction costs, borrowing costs capitalised according to the Group's accounting policy and directly attributable costs incurred during the construction period.

Properties under development for sales are transferred to completed properties held for sales upon completion.

Net realisable value represents the selling price estimated by management based on prevailing market conditions less estimated costs of completion, where applicable, and costs necessary to make the sale.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. Significant Accounting Policies (continued)

#### Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash generating unit for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### 4. Significant Accounting Policies (continued)

##### Financial instruments (continued)

###### *Financial assets*

Financial assets are mainly loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

###### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, restricted bank balances and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. Significant Accounting Policies (continued)

#### Financial instruments (continued)

##### *Financial assets (continued)*

###### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 4. Significant Accounting Policies (continued)

##### Financial instruments (continued)

###### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

###### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

###### *Convertible bonds*

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. An embedded floor on the interest rate on a debt contract is closely related to the host contract, provided that the floor is at or below the market rate of interest when the contract is issued, and the floor is not leveraged in relation to the host contract.

The Group has designated the convertible bonds with conversion options and embedded floor on the interest rate as financial liabilities at FVTPL. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise.

###### *Financial liabilities*

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. Significant Accounting Policies (continued)

#### Financial instruments (continued)

##### *Financial liabilities and equity instruments (continued)*

###### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the other income, gains and losses line item.

###### *Financial liabilities at amortised cost*

Financial liabilities including trade and other payables, amounts due to related companies, senior notes, bonds, bank and other borrowings and loans from a related company are subsequently measured at amortised cost, using the effective interest method.

###### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### 4. Significant Accounting Policies (continued)

##### Financial instruments (continued)

##### *Financial liabilities and equity instruments (continued)*

##### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 “Provisions, contingent liabilities and contingent assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

##### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies which are described in note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that directors has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### *Fair value of investment properties*

Fair value of investment properties of the Group are quoted by independent professional valuers. The valuation involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and reversionary income potential. In relying on the valuation, the management has exercised judgement and is satisfied that the method of valuation is reflective of the current market conditions. As at 31 December 2017, the fair value of investment properties was approximately HK\$5,146,150,000 (2016: HK\$2,968,666,000).

##### *Allowance for properties under development for sales*

The management estimates the net realisable value for properties under development for sales. Significant judgement is required by the management in determining the prices at which the properties will be sold as the property prices in the PRC may be, from time-to-time, affected by macroeconomic control measures executed by the PRC government. As at 31 December 2017, the properties under development for sales was approximately HK\$2,247,780,000 (2016: HK\$3,413,157,000) with no allowance provided.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

### Critical judgements in applying accounting policies (continued)

#### *Classification of properties as investment properties or properties held for sales*

The Group develops properties held for sales and properties held to earn rentals and/or for capital appreciation. Judgement is made by the management in determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention of holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sales included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of construction of the properties, the properties under development for sales are transferred to completed properties held for sales and are stated at lower of cost and net realisable value, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

#### *Deferred tax on investment properties*

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted.

Accordingly, the Group recognised deferred tax in respect of the changes in fair value of the investment properties based on the directors' best estimate assuming future tax consequences through usage of such properties for rental purpose, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognised in the consolidated financial statements should the investment properties are subsequently disposed by the Group, rather than consume substantially all the economic benefits embodied in the investment properties by leasing over time. In the event the investment properties are being disposed, the Group may be liable to higher tax upon disposal considering the impact of enterprise income tax and land appreciation tax.

As at 31 December 2017, the Group recognised deferred tax on revaluation of investment properties amounted to HK\$197,882,000 (2016: HK\$61,116,000).

#### **Key sources of estimation uncertainty**

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

#### Key sources of estimation uncertainty (continued)

##### *Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of directors of the Company (the "Board").

Information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities are disclosed in notes 15, 23 and 32(c).

##### *Deferred tax asset*

As at 31 December 2017, a deferred tax asset of HK\$6,528,000 (2016: HK\$22,931,000) in relation to unused tax losses was recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of approximately HK\$608.6 million (2016: HK\$377.9 million) due to the unpredictability of future profit streams. The realisability of the deferred tax asset arising from the unused tax losses is mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits granted are more or less than expected, a material provision or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a provision or reversal takes place.

##### *Land appreciation tax*

Land appreciation tax ("LAT") in the PRC is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs and all other property development expenditures.

The Group's subsidiaries engaging in the properties development in the PRC are subject to LAT. However, the Group has not finalised its LAT calculation and tax payments with local tax bureau. Accordingly, significant judgements are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognised these liabilities based on the management's best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated statement of profit or loss and the provision of LAT in the period in which such determination is made.

For the year ended 31 December 2017

## 6. Revenue

Revenue represents income from sales of properties and rental and management fee income earned during the reporting period, net of discounts allowed, and is analysed as follows:

	2017 HK\$'000	2016 HK\$'000
Sales of properties	1,352,488	–
Rental and management fee income from investment properties	61,833	12,560
	<b>1,414,321</b>	<b>12,560</b>

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenues (2016: two).

## 7. Segment Information

Information reported to the Board, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance is based on real estate business in different geographical locations. This is also the basis upon which the Group is organised and managed. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2017, due to the expansion of the Group's business, the CODM has determined to change the structure of the internal organisation and in a manner that causes the composition of its operating segments to four core business geographical locations for the purpose of resource: (i) Real estate business in Tangshan, the People's Republic of China ("PRC"); (ii) Real estate business in Handan, the PRC; (iii) Real estate business in West Covina, the United State of America ("USA"); and (iv) Real estate business in Anaheim, the USA. The CODM considered such change provides more useful information about the impact of the real estate projects in each geographic location. The corresponding comparative information in last year has been restated.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 7. Segment Information (continued)

#### Segment revenue and results

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

	Segment revenue		Segment profit (loss)	
	2017 HK\$'000	2016 HK\$'000 (restated)	2017 HK\$'000	2016 HK\$'000 (restated)
Real estate business in				
Tangshan, the PRC	1,400,919	–	334,474	31,530
Handan, the PRC	–	–	223,194	(9,119)
West Covina, the USA	13,402	12,560	52,876	11,910
Anaheim, the USA	–	–	(6)	(17,891)
	<b>1,414,321</b>	<b>12,560</b>	<b>610,538</b>	<b>16,430</b>
<b>Unallocated items</b>				
Other income, expenses, gains and losses			(3,200)	4,255
Unallocated corporate expenses			(106,228)	(166,375)
Finance costs			(150,071)	(70,748)
Share of loss of a joint venture			–	(1,108)
<b>Profit (loss) before taxation</b>			<b>351,039</b>	<b>(217,546)</b>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represents the profit/loss by each segment without allocation of central administration costs including directors' emoluments, other income, expenses, gains and losses, share-based payments, finance costs and income tax expense. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers. There was no inter-segment revenue during both years.

For the year ended 31 December 2017

**7. Segment Information (continued)****Segment assets and liabilities**

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

	2017 HK\$'000	2016 HK\$'000 (restated)
<i>Segment assets</i>		
Real estate business in		
Tangshan, the PRC	3,761,184	3,891,748
Handan, the PRC	3,945,475	2,798,606
West Covina, the USA	233,881	189,870
Anaheim, the USA	237,342	227,485
Total segment assets	8,177,882	7,107,709
Deferred tax assets	6,528	22,931
Pledged bank deposits	–	12,944
Bank balances	62,737	12,404
Unallocated corporate assets	23,083	25,739
Consolidated total assets	8,270,230	7,181,727
<i>Segment liabilities</i>		
Real estate business in		
Tangshan, the PRC	1,640,302	3,260,947
Handan, the PRC	3,536,080	2,520,169
West Covina, the USA	103,035	117,546
Anaheim, the USA	225	1,540
Bank borrowings	5,279,642	5,900,202
Convertible bonds	1,470,750	–
Senior notes	451,873	444,518
Loan from a related company	93,297	271,292
Bonds	263,884	212,881
Tax payable	38,871	38,660
Deferred tax liabilities	9,356	4,943
Unallocated corporate liabilities	197,882	61,116
Consolidated total liabilities	52,613	27,159
Consolidated total liabilities	7,858,168	6,960,771

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 7. Segment Information (continued)

#### Segment assets and liabilities (continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain other receivables, deposits and prepayments, deferred tax assets, certain pledged bank deposits, certain restricted bank balances and certain bank balances; and
- all liabilities are allocated to operating segments other than certain other payables and accruals, certain bank borrowings, convertible bonds, senior notes, bonds, loan from a related company, tax payable and deferred tax liabilities.

#### Other segment information

2017

	Real estate business in				Unallocated HK\$'000	Consolidated HK\$'000
	Tangshan, the PRC HK\$'000	Handan, the PRC HK\$'000	West Covina, the USA HK\$'000	Anaheim, the USA HK\$'000		
Amounts include in the measure of segment profit or loss or segment assets:						
Depreciation	271	714	–	–	3,224	4,209
Increase in fair value of investment properties	182,327	253,872	41,484	–	–	477,683
Additions to property, plant and equipment	194	751	–	–	3,041	3,986
Additions to investment properties	394,298	1,008,237	210	–	–	1,402,745

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 7. Segment Information (continued)

#### Segment assets and liabilities (continued)

2016 (restated)

	Tangshan, the PRC HK\$'000	Real estate business in Handan, the PRC HK\$'000	West Covina, the USA HK\$'000	Anaheim, the USA HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts include in the measure of segment profit or loss or segment assets:						
Depreciation	236	443	-	-	2,573	3,252
Increase in fair value of investment properties	86,353	12,012	1,552	-	-	99,917
Additions to property, plant and equipment	14	965	-	-	1,598	2,577
Additions to investment properties	821,239	335,651	-	-	-	1,156,890
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segments assets:						
Share of loss of a joint venture	-	-	-	-	1,108	1,108

#### Geographical information

The Group's operations are located in Hong Kong, the PRC and the USA.

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	-	-	1,029	1,680
The PRC	1,400,919	-	4,921,240	2,785,445
The USA	13,402	12,560	232,218	190,162
	1,414,321	12,560	5,154,487	2,977,287

Non-current assets exclude pledged bank deposits, deferred tax assets and other non-current assets.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 8. Other Income, Expenses, Gains and Losses

	2017	2016
	HK\$'000	HK\$'000
Interest income from bank deposits	1,128	312
Exchange gain (net)	2,090	380
Change of fair value of convertible bonds designated at FVTPL	(3,011)	(3,707)
Compensation to customers for late delivery of properties	(11,327)	–
Design service fee	5,357	6,445
Others	2,563	825
	(3,200)	4,255

### 9. Finance Costs

	2017	2016
	HK\$'000	HK\$'000
Interest on convertible bonds	50,416	84,038
Interest on loans from a related company	30,759	85,842
Interest on senior notes	45,258	35,531
Interest on bonds	3,411	3,221
Interest on bank borrowings	121,182	40,490
Interest on other borrowings	31,143	32,483
	282,169	281,605
Less: Amount capitalised to investment properties and properties under development for sales	(132,098)	(210,857)
	150,071	70,748

For the year ended 31 December 2017

**10. Profit (Loss) Before Taxation**

	2017 HK\$'000	2016 HK\$'000
Profit (loss) before taxation has been arrived at after charging:		
Employee benefits expenses		
Directors' emoluments (note 12)		
– Fees	1,677	1,460
– Salaries, bonuses and allowances	4,263	6,085
– Share-based payments	–	7,739
– Retirement benefits cost	100	108
	<b>6,040</b>	15,392
Other staff costs		
– Salaries, bonuses and allowances	76,900	64,189
– Share-based payments	–	61,503
– Retirement benefits cost	11,877	9,898
	<b>88,777</b>	135,590
Total employee benefits expenses	<b>94,817</b>	150,982
Less: amount capitalised to investment properties and properties under development for sales	<b>(16,086)</b>	(12,990)
	<b>78,731</b>	137,992
Auditor's remuneration		
– audit services	1,800	1,300
– non-audit services	534	374
Operating lease payments	14,566	12,501
Depreciation	4,209	3,252
Cost of completed properties held for sale recognised as an expense	1,155,436	–
Gross rental and management fee income from investment properties	61,833	12,560
Less: direct operating expenses incurred for investment properties that generated rental and management fee income during the year	<b>(15,814)</b>	(941)
	<b>46,019</b>	11,619

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 11. Income Tax Expense

	2017 HK\$'000	2016 HK\$'000
The charge comprises:		
Current tax	(19,244)	–
Deferred taxation (note 29)	(138,576)	(22,700)
LAT	(27,050)	–
	<b>(184,870)</b>	<b>(22,700)</b>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the “EIT”) and Implementation Rules 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 21% 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.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including borrowings costs and all property development expenditures.

Income tax expense for the year is reconciled to the profit (loss) before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK\$'000	2016 HK\$'000
Profit (loss) before taxation	351,039	(217,546)
Tax at PRC EIT rate of 25% (2016: 25%)	(87,760)	54,387
LAT	(27,050)	–
Income tax effect of LAT of 25%	6,762	–
Tax effect of income not taxable for tax purpose	–	78
Tax effect of expenses not deductible for tax purpose	(20,083)	(20,780)
Tax effect of tax losses not recognised	(57,683)	(55,816)
Tax effect of share of result of a joint venture	–	(277)
Effect of different tax rates of subsidiaries operating in other jurisdictions	944	(292)
Income tax expense for the year	<b>(184,870)</b>	<b>(22,700)</b>

For the year ended 31 December 2017

**12. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees****(a) Directors' and chief executive's emoluments**

Director's and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

Name of directors	2017			Total HK\$'000
	Fees HK\$'000	Salaries and other allowances HK\$'000 (Note a)	Employer's contributions to retirement benefits schemes HK\$'000	
<i>Executive directors</i>				
Mr. Yang (Note b)	251	3,250	18	3,519
Mr. Yang Shao Xing Max	251	1,013	75	1,339
<i>Non-executive directors</i>				
Mr. Lee Vincent Marshall Kwan Ho (Note j)	89	–	–	89
Ms. Dai Hui (Note c)	98	–	7	105
<i>Independent non-executive directors</i>				
Mr. Fan Ren Da Anthony (Note j)	130	–	–	130
Mr. Fan Chun Wah Andrew (Note i)	–	–	–	–
Mr. Lo Wai Hung (Note k)	300	–	–	300
Ms. Shek Pui Michelle (Note g)	251	–	–	251
Mr. Hung Ka Hai Clement (Note h)	307	–	–	307
	1,677	4,263	100	6,040

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 12. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

#### (a) Directors' and chief executive's emoluments (continued)

Name of directors	Fees HK\$'000	Salaries and other allowances HK\$'000 (Note a)	2016	Share-based payments HK\$'000	Total HK\$'000
			Employer's contributions to retirement benefits schemes HK\$'000		
<i>Executive directors</i>					
Mr. Yang (Note b)	180	3,250	18	–	3,448
Ms. Dai Hui (Note c)	15	100	2	–	117
Mr. Chan Tik Sang (Note d)	89	1,726	11	–	1,826
Mr. Yang Shao Xing Max	180	1,009	72	7,739	9,000
<i>Non-executive directors</i>					
Mr. Lee Vincent Marshall Kwan Ho	180	–	–	–	180
Ms. Dai Hui (Note c)	165	–	5	–	170
Mr. Lam Kwong Wai (Note e)	19	–	–	–	19
<i>Independent non-executive directors</i>					
Mr. Fan Ren Da Anthony	260	–	–	–	260
Mr. Fan Chun Wah Andrew	260	–	–	–	260
Mr. Lau Yu Fung Wilson (Note f)	89	–	–	–	89
Ms. Shek Pui Michelle (Note g)	23	–	–	–	23
	1,460	6,085	108	7,739	15,392

For the year ended 31 December 2017

## 12. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

### (a) Directors' and chief executive's emoluments (continued)

Notes:

- a. Other allowances represent operating lease rental of a quarter provided by the Group to Mr. Yang.
- b. Mr. Yang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.
- c. Ms. Dai Hui was re-designated as a non-executive director from an executive director on 7 February 2016 and resigned as non-executive director on 17 July 2017.
- d. Mr. Chan Tik Sang resigned as an executive director on 29 June 2016.
- e. Mr. Lam Kwong Wai resigned as a non-executive director on 7 February 2016.
- f. Mr. Lau Yu Fung Wilson retired as an independent non-executive director on 29 June 2016.
- g. Ms. Shek Pui Michelle was appointed as an independent non-executive director on 15 November 2016.
- h. Mr. Hung Ka Hai Clement was appointed as an independent non-executive director on 24 February 2017; re-designated as a non-executive director on 3 March 2017 and re-designated as an independent non-executive director on 30 June 2017.
- i. Mr. Fan Chun Wah Andrew resigned as an independent non-executive director on 1 January 2017.
- j. Mr. Lee Vincent Marshall Kwan Ho and Mr. Fan Ren Da Anthony retired as a non-executive director and an independent non-executive director respectively on 30 June 2017.
- k. Mr. Lo Wai Hung was appointed as an independent non-executive director on 3 March 2017.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 12. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

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

- (i) On 16 May 2013, Mr. Yang, China Lerthai and the Company entered into a deed of non-compliance (the "Deed") pursuant to which subject to the exceptions set out in the Deed, (a) Mr. Yang, China Lerthai and their respective associates will not, directly or indirectly, carry on, engage, invest or hold any right or interest or be involved in the real estate development business; and (b) in the event any of Mr. Yang, China Lerthai or their associates becomes aware of any new business opportunity relating to the real estate development business, Mr. Yang and China Lerthai must first offer to make available to the Board for consideration, and will not invest in such new business opportunity unless it is declined by the Board in accordance with the terms of the Deed. The Deed will expire on the earlier of (a) the day on which the shares of the Company cease to be listed on the Stock Exchange; and (b) the day on which China Lerthai, Mr. Yang and any of its/his associates, taken as a whole, cease to own either directly or indirectly, in aggregate, 30% (or such other percentage as may from time to time be specified in the Listing Rules as a controlling shareholder of a listed issue) or more of the then issued share capital of the Company.

Details of the Deed are set out in the Company's announcement dated 16 May 2013.

- (ii) Pursuant to the loan agreement dated 12 June 2014 and the supplement loan agreement dated 14 August 2015 and 3 November 2017, a related company controlled by Mr. Yang provides unsecured loan facility and made loans to the Group, details of which are set out in notes 28 and 38.

#### (c) Five highest paid employees

The five highest paid employees of the Group during the year included one director (2016: one director), details of whose remuneration are set out in note 12(a) above. Details of the remuneration for the year of the remaining four (2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other allowances	7,206	1,550
Employer's contributions to a retirement benefit scheme	212	48
Share-based payments	–	27,336
	7,418	28,934



For the year ended 31 December 2017

## 12. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

### (c) Five highest paid employees (continued)

The number of the highest paid employees who are not the directors of the Company and whose remuneration falls within the following bands:

	2017 HK\$'000	2016 HK\$'000
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	2	–
HK\$7,000,001 to HK\$7,500,000	–	4

## 13. Dividends

No dividends was paid or proposed for ordinary shareholders of the Company during 2017, nor has any dividend been proposed at the end of the reporting period (2016: nil).

## 14. Earnings (Loss) Per Share

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

	2017 HK\$'000	2016 HK\$'000
<b>Profit (loss) for the year</b>		
Profit (loss) for the year for the purpose of basic and diluted earnings (loss) per share attributable to the owners of Company	166,169	(240,246)
	2017 '000	2016 '000
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	338,766	338,766

The potential ordinary shares attributable to the Company's outstanding convertible bonds had anti-dilutive effect as the assumed conversion would result in an increase in profit (2016: decrease in loss) per share.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 14. Earnings (Loss) Per Share (continued)

The computation of diluted earnings per share for the years ended 31 December 2017 and 2016 did not assume the exercise of the Company's share options because the exercise price of these share options was higher than the average market price of shares for both years.

### 15. Investment Properties

	Completed investment properties in the USA HK\$'000	Completed investment properties in the PRC HK\$'000	Investment properties under construction in the PRC HK\$'000	Total HK\$'000
<b>At fair value</b>				
At 1 January 2016	184,466	–	1,090,471	1,274,937
Acquisition of a subsidiary (note 30)	–	–	522,685	522,685
Additions	–	–	1,156,890	1,156,890
Change in fair value included in profit or loss	1,552	–	98,365	99,917
Effect of foreign exchange difference	77	–	(85,840)	(85,763)
At 31 December 2016	186,095	–	2,782,571	2,968,666
Additions	210	–	1,402,535	1,402,745
Transfer	–	2,373,488	(2,373,488)	–
Change in fair value included in profit or loss	41,484	181,057	255,142	477,683
Effect of foreign exchange difference	1,551	103,416	192,089	297,056
At 31 December 2017	<b>229,340</b>	<b>2,657,961</b>	<b>2,258,849</b>	<b>5,146,150</b>

All of the Group's property interests held to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties with an aggregate carrying amount of HK\$5,096,874,000 (2016: HK\$2,941,996,000) at 31 December 2017 were pledged to secure bank borrowings granted to the Group.

For the year ended 31 December 2017

**15. Investment Properties (continued)**

The fair values of the Group's investment properties situated in the PRC and the USA at 31 December 2017 and 2016 were arrived at on the basis of valuations carried out on those dates by the following independent qualified professional valuers not connected with the Group:

Location of the properties	Independent qualified professional valuer	Qualification
<i>For the year ended 31 December 2017</i>		
PRC	Cushman & Wakefield	Member of the Hong Kong Institute of Surveyors
USA	Los Angeles Valuation Group, Inc.	Certified General Real Estate Appraiser in California
<i>For the year ended 31 December 2016</i>		
PRC	Cushman & Wakefield	Member of the Hong Kong Institute of Surveyors
USA	Edward Castillo of CCP Group, Inc.	Certified General Real Estate Appraiser in California

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The value of the completed investment property 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 and replacement cost method of valuation are 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.

All of the fair value measurements of the Group's investment properties were categorised into Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 15. Investment Properties (continued)

The valuation techniques and major inputs used in the fair value measurement of the Group's investment properties as at 31 December 2017 and 2016 are set out below:

Investment properties held by the Group in the consolidated statements of financial position	Valuation techniques	Unobservable inputs	Range/weighted average of unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Completed investment properties located in the USA – retail	Income capitalisation approach	(i) Capitalisation rate	6.5% (2016: 6.25% – 6.75%)	The higher the capitalisation rate, the lower the fair value.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.
		(ii) Market rent	Market rent: US\$18-US\$45 (2016: US\$20.25) per square foot ("sqft") per year	The higher the market rent, the higher the fair value.	A slight increase in the market rent used would result in a significant increase in fair value, and vice versa.
Investment properties measured at fair value located in Tangshan of the PRC	Income capitalisation approach (2016: Residual method)	(i) Capitalisation rate	5.0% – 6.5% (2016: 5.5% – 6.5%)	The higher the capitalisation rate, the lower the fair value.	A slight increase in capitalisation rate used would result in a significant decrease in fair value, and vice versa.
		(ii) Market rent per month	RMB27 – RMB208 per annum (2016: RMB41-RMB181) per square meter ("sqm")	The higher the market rent, the higher the fair value.	A slight increase in the market rent used would result in a significant increase in fair value, and vice versa.
		(iii) Expected developer's profit	N/A (2016: 5%)	The higher the expected developer's profit, the lower the fair value.	A slight increase in developer's profit used would result in a significant decrease in fair value, and vice versa.
		(iv) Construction costs to complete	N/A (2016: RMB82,000,000)	The higher the costs, the lower the fair value.	A slight increase in the construction costs used would result in a significant decrease in fair value, and vice versa.
Investment properties under construction that are measured at fair value located in Handan of the PRC	2017: Residual method	(i) Capitalisation rate	5.0% – 7.0%	The higher the capitalisation rate, the lower the fair value.	A slight increase in capitalisation rate used would result in a significant decrease in fair value, and vice versa.
		(ii) Market rent per month	RMB40-230 per annum per sqm	The higher the market rent, the higher the fair value.	A slight increase in the market rent used would result in a significant increase in fair value, and vice versa.
		(iii) Expected developer's profit	5.0% -15%	The higher the expected developer's profit, the lower the fair value.	A slight increase in developer's profit used would result in a significant decrease in fair value, and vice versa.
		(iv) Construction costs to complete	RMB276,000,000	The higher the costs, the lower the fair value.	A slight increase in the construction costs used would result in a significant decrease in fair value, and vice versa.
	2016: Direct comparison cost method	(i) Market price per sqm for land portion and expended construction cost	RMB9,287 per sqm in average	The higher the market price of land, the higher the fair value.	An increase in the market price would result in an increase in the fair value.

For the year ended 31 December 2017

**16. Property, Plant and Equipment**

	<b>Furniture and fixtures and computer equipment</b>	<b>Leasehold improvements</b>	<b>Motor vehicles</b>	<b>Machinery</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>					
At 1 January 2016	6,323	2,234	5,102	–	13,659
Acquisition of subsidiaries	177	–	632	–	809
Additions	932	74	610	152	1,768
Effect of foreign exchange difference	134	(436)	(17)	–	(319)
At 31 December 2016	7,566	1,872	6,327	152	15,917
Additions	3,670	46	270	–	3,986
Disposals	(19)	–	(663)	(2)	(684)
Effect of foreign exchange difference	439	79	192	12	722
At 31 December 2017	11,656	1,997	6,126	162	19,941
<b>DEPRECIATION</b>					
At 1 January 2016	2,042	747	1,305	–	4,094
Charge for the year	1,513	331	1,359	49	3,252
Effect of foreign exchange difference	38	(22)	(66)	–	(50)
At 31 December 2016	3,593	1,056	2,598	49	7,296
Charge for the year	2,474	291	1,393	51	4,209
Disposals	(14)	–	(276)	(1)	(291)
Effect of foreign exchange difference	230	72	82	6	390
At 31 December 2017	6,283	1,419	3,797	105	11,604
<b>CARRYING VALUES</b>					
At 31 December 2017	5,373	578	2,329	57	8,337
At 31 December 2016	3,973	816	3,729	103	8,621

The above items of property, plant and equipment are depreciated on a straight-line basis after taking into account their estimated residual values over their estimated useful lives of five years.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 17. Pledged Bank Deposits, Restricted Bank Balances and Bank Balances

Deposits amounting to HK\$24,373,000 (2016: HK\$17,323,000) 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, details of which are set out in note 39.

As at 31 December 2016, deposits amounting to HK\$12,944,000 had been pledged to secure the convertible bonds and were classified as current assets as the convertible bonds were classified as current liabilities, details of which are set out in note 23.

Restricted bank balances of HK\$283,384,000 (2016: HK\$32,093,000) carry interest at market rate of 0.35% (2016: 0.35%) per annum and can only be applied to settle the bills issued by the Group to its creditors (2016: can only be applied to designated property development projects of the Group in the PRC).

Bank balances carry interests at prevailing market rates.

### 18. Properties Under Development for Sales and Properties Held for Sales

#### (a) Properties under development for sales

	2017 HK\$'000	2016 HK\$'000
<b>Cost</b>		
At the beginning of the year	3,413,157	1,262,005
Acquisition of a subsidiary (note 30)	–	980,048
Additions	31,733	1,252,791
Transfer to properties held for sale	(1,350,652)	–
Exchange adjustment	153,542	(81,687)
At the end of the year	2,247,780	3,413,157
Properties under development for sales of which:		
– expected to be completed within twelve months	2,011,533	1,983,006
– expected to be completed after twelve months after the end of the reporting period	236,247	1,430,151
	2,247,780	3,413,157

As at 31 December 2016, the Group's properties under development for sales of HK\$2,020,607,000 were pledged to secure any borrowing facilities granted to the Group. (2017: Nil).

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**18. Properties Under Development for Sales and Properties Held for Sales (continued)****(b) Properties held for sales**

The Group's properties held for sales are situated in the PRC. All the properties held for sales are stated at lower of cost and net realisable value. In the opinion of the directors of the Company, properties held for sale would be realised within twelve months.

**19. Trade and Other Receivables, Deposits and Prepayments**

	2017 HK\$'000	2016 HK\$'000
Trade receivables	35,973	1,791
Prepayments of business taxes and other PRC taxes	146,880	100,865
Prepayments for purchase of construction materials	15,722	518,954
Deposits	19,542	18,283
Other receivables and prepayments	22,674	10,981
	<b>240,791</b>	<b>650,874</b>

Trade receivables represent rental and management fee receivables due from tenants and a property manager appointed by the Group. Rental and management fee from tenants are payable in accordance with the terms of relevant agreements. Pursuant to the agreement between the property manager and the Group, the property manager shall pay the rental collected on behalf of the Group to the Group within 30 days. At 31 December 2017 and 2016, these trade receivable are all aged within one year.

Receivables that were past due but not impaired of HK\$27,564,000 related to tenants that have a good track record with the Group. Based on assessment of the credit quality of the tenants, the management believes that no impairment allowance is necessary in respect of these balances and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.



## Notes to the Consolidated Financial Statements

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### 20. Trade and Other Payables and Accruals

	2017 HK\$'000	2016 HK\$'000
Construction cost payables (Note)	163,801	57,153
Accrued construction costs	1,519,354	1,499,471
Deposits received from suppliers/contractors on contracts tendering	14,835	28,510
Rental deposits	34,805	–
Bills payable	273,997	–
Other taxes payable	16,038	–
Other payables and accruals	39,350	49,603
	<b>2,062,180</b>	<b>1,634,737</b>

Note: Construction costs payables are aged within one year, based on invoice date.

### 21. Deposits Received from Sales of Properties

	2017 HK\$'000	2016 HK\$'000
Deposits received from sales of properties		
– expected to be realised within twelve months	1,540,414	1,867,809

Included in balance above is an amount of HK\$664,510,000 (2016: HK\$589,008,000) representing the deposit received from government on 11 April 2014. Handan LT Municipal Investment Real Estate Development Co., Ltd., (“Handan LT Municipal”), a subsidiary of the Group entered into an agreement with local government, in which the local government committed to prepay Handan LT Municipal for construction cost of relocated residence, and in return, Handan LT Municipal will compensate certain residential properties to those originally resident who lived in the site which acquired by Handan LT Municipal for property development. The comparative figure of HK\$589,008,000 previously included in trade and other payables and accruals has been reclassified to deposits received from sales of properties to conform with current year’s presentation.

### 22. 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.

For the year ended 31 December 2017

**23. Convertible Bonds**

	2017 HK\$'000	2016 HK\$'000
At 1 January	444,518	456,759
Issue of convertible bonds	450,000	–
Expense on issuance of convertible bonds	(10,968)	–
Repayment of convertible bonds	(385,000)	(55,000)
Interest charged during the year	50,416	84,038
Interest paid	(100,104)	(44,986)
Change in fair value	3,011	3,707
At 31 December	451,873	444,518
Analysed for reporting purpose as		
Current liabilities	77,167	444,518
Non-current liabilities	374,706	–
	451,873	444,518

**2014 Convertible bonds**

On 10 January 2014, the Company issued convertible bonds to an independent third party in the principal amount of HK\$550,000,000 (“2014 Convertible Bonds”). The 2014 Convertible Bonds matured on 9 January 2017, were denominated in HK\$ and bore interest at three month Hong Kong Interbank Offered Rate (“HIBOR”) plus 12%. However, if the amount of the interest which accrued on each convertible bond on the day immediately before each redemption date or maturity date was 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 was required to pay to the 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 2014 Convertible Bonds as at the close of business on the relevant redemption date, conversion date or maturity date (as the case may be). Interest was payable quarterly in arrears.

Pursuant to the terms and conditions of the 2014 Convertible Bonds, the Company was required to repay certain amounts of the principal on the first and second anniversary of the date of issue of the 2014 Convertible Bonds (“Anniversary Dates”). If certain conditions set out in the terms were not met, the Company was required to repay additional amounts of the principal on the Anniversary Dates respectively. Details of the repayment terms and the conditions were set out in the Company’s announcements dated 24 December 2013 and 3 January 2014. The Group repaid principal amount of HK\$165,000,000 to the holder in prior years, the remaining balance of HK\$385,000,000 was fully repaid in the current year.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 23. Convertible Bonds (continued)

#### 2014 Convertible bonds (continued)

The 2014 Convertible Bonds with principal amount of HK\$550,000,000 could be converted into shares at conversion price of HK\$2.6701 per share up to an aggregate of 33,537,900 shares or a number of shares that represented 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 was higher. The details of the terms of conversion and redemption and other terms of the 2014 Convertible Bonds were set out in the announcement issued by the Company on 24 December 2013 and 3 January 2014. At 31 December 2016, the principal amount of convertible bonds with conversion feature (“CB with Conversion Feature”) was HK\$89,550,000 and the principal amount of the convertible bonds without conversion feature (“Straight Note”) was HK\$295,450,000.

The 2014 Convertible Bonds were secured by pledged bank deposits, the Company’s shares held by China Lerthai, 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 pledged and guarantees provided.

#### 2017 Convertible bonds

On 26 January 2017, the Company issued convertible bonds to an independent third party in the principal amount of HK\$450,000,000 (“2017 Convertible Bonds”) with a maturity period of three years to 25 January 2020 (“Maturity Date”). Net proceeds from the issue shall be solely used to finance the repayment of the 2014 Convertible Bonds. The 2017 Convertible Bonds are denominated in HK\$ and bear interest at 8% per annum. The interests shall be payable semi-annually in arrears, commencing on 30 June 2017. In addition, on the dates when all or a portion of the outstanding 2017 Convertible Bonds were redeemed or if the 2017 Convertible Bonds have not been fully redeemed prior to Maturity Date, on such redemption date or on Maturity Date, as the case may be, the Company shall pay to the bondholders an additional interest in an amount equal to 1% per annum of the principal amount of the 2017 Convertible Bonds so redeemed or matured.

Pursuant to the terms and conditions of the 2017 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 2017 Convertible Bonds. The Company may at any time on or after the date falling the eleventh calendar month after the date of issue and up to the Maturity Date by at least thirty days’ notice in writing to the bond holders redeem the whole or part of the outstanding principal amount of the bonds, provided that the principal amount to be so redeemed on each occasion shall not be less than the lesser of (i) HK\$50,000,000; and (ii) 100% of the then outstanding principal amount of the 2017 Convertible Bonds. Details of the repayment terms and the conditions are set out in the Company’s announcements dated 22 January 2017.

The 2017 Convertible Bonds with principal amount of HK\$450,000,000 can be converted into shares at a conversion price of HK\$3.90 per share up to an aggregate of 30,000,000 shares or a number of shares that represents 8.14% 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 2017 Convertible Bonds are set out in the announcement issued by the Company on 22 January 2017. At 31 December 2017, the principal amount of CB with Conversion Feature was HK\$117,000,000 and Straight Note was HK\$333,000,000.

The 2017 Convertible Bonds are secured by the Company’s shares held by China Lerthai and guaranteed by Mr. Yang.

For the year ended 31 December 2017

**23. Convertible Bonds (continued)****2017 Convertible bonds (continued)**

The above 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.

	<b>2017 Convertible Bonds</b>	2014 Convertible Bonds
Share price of the Company	<b>HK\$5.0</b>	HK\$3.8
Risk free rates	<b>1.00% – 1.32%</b>	0.69%
Discount rate	<b>8.65% – 8.97%</b>	22.30%
Dividend yield	<b>0%</b>	0%
Option life	<b>2.07 years</b>	0.03 years
Volatility	<b>32.23% – 33.66%</b>	24.48%
Exercise price	<b>HK\$3.90</b>	HK\$2.6701

The above risk free rates were determined with reference to yields of 0.07 years, 1.07 years, and 2.07 years HKD Hong Kong Sovereign available as of 31 December 2017 (2016: 0.03 years Hong Kong Exchange Fund Notes). The expected volatility was determined based on the historical volatility of the Company's share price for the past 1.07 years and 2.07 years (2016: 0.03 years).

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 nil (2016: nil) and decrease by approximately nil (2016: nil) 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\$1,634,000 (2016: HK\$177,000) and increase by approximately HK\$1,671,000 (2016: HK\$180,000) respectively.

The fair values of convertible bonds at initial recognition and at 31 December 2017 and 31 December 2016 were arrived at on the basis of a valuation carried out on those 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. 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).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 24. Bank and Other Borrowings

	2017 HK\$'000	2016 HK\$'000
Secured bank borrowings with carrying amount repayable:		
Within one year	837,806	163,696
Within a period of more than one year but not exceeding two years	1,389,163	613,141
Within a period of more than two year but not exceeding five years	815,858	677,659
More than five years	139,508	746,382
	<b>3,182,335</b>	2,200,878
Secured other borrowings with carrying amount repayable:		
within one year	–	220,472
	<b>3,182,335</b>	2,421,350
Amount shown under current liabilities	<b>(837,806)</b>	(384,168)
	<b>2,344,529</b>	2,037,182

As at 31 December 2017, the Group had not met certain financial covenant for its borrowings and an amount of approximately HK\$631,181,000 was then reclassified as current liabilities according to the loan agreement. Except for this, the remaining amounts due set out above are based on the scheduled repayment dates set out in the loan agreements. The Group will actively negotiate with the bank for the rectification.

The carrying amounts of the Group's bank and other borrowings and the weighted average effective interest rates are as follows:

	2017 HK\$'000	Effective interest rate	2016 HK\$'000	Effective interest rate
Fixed rate borrowings	–	–	220,472	13.6%
Floating rate borrowings	3,182,335	5.95%	2,200,878	5.0%

For the year ended 31 December 2017

**24. Bank and Other Borrowings (continued)**

The bank and other borrowings are:

- guaranteed by the related companies controlled by Mr. Yang and/or Mr. Yang and his spouse;
- personal guarantee provided by Mr. Yang;
- secured by the Group's certain investment properties under construction;
- secured by the Group's certain investment properties;
- pledged by equity and charged interest held by the Group; and
- secured by the assignment of all rents of certain investment properties located in the PRC and the USA.

**25. Senior Notes**

	2017 HK\$'000	2016 HK\$'000
At 1 January	271,292	232,670
Issue of senior notes (Note a)	–	100,000
Expenses on issue of senior notes	–	(11,000)
Principal repayment	(192,000)	(57,000)
Interest charged during the year	45,258	35,531
Interest paid	(31,253)	(28,909)
At 31 December	93,297	271,292
Analysed as:		
2018 Senior Notes (Note a)		
Non-current liabilities	–	90,309
Current liabilities	93,297	–
2017 Senior Notes (Note b)		
Current liabilities	–	180,983
	93,297	271,292

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 25. Senior Notes (continued)

Notes:

- (a) During the year ended 31 December 2016, the Company issued senior notes with aggregated principal amount of HK\$100,000,000 to independent third parties ("2018 Senior Notes"). The 2018 Senior Notes are denominated in HK\$, unsecured, transferrable, bear fixed interest at 7% per annum and will be redeemed at 100% of their principal amount on 29 November 2018. The Company may, on or at any time after the issue date and prior to 29 November 2018, upon giving not less than five business days' prior written notice to the noteholders, redeem the 2018 Senior Notes, in whole but not in part, at 101% of the principal amount, together with accrued interest.

As at 31 December 2016 and 2017, the principal amount of the 2018 Senior Notes is HK\$100,000,000.

- (b) The senior notes were denominated in HK\$, transferrable, unsecured, matured in October 2017 and bore interest at 10% per annum ("2017 Senior Notes"). The 2017 Senior Notes were fully repaid during the year ended 31 December 2017.

As at 31 December 2016, the principal amount of the 2017 Senior Notes was HK\$192,000,000.

### 26. Share Capital

	Number of shares	Share capital HK\$'000
Issued and fully paid ordinary share		
At 1 January 2016, 31 December 2016 and 31 December 2017	338,765,987	498,548

### 27. Bonds

	2017 HK\$'000	2016 HK\$'000
At 1 January	38,660	38,475
Interest charged during the year	3,411	3,221
Interest paid	(3,200)	(3,036)
At 31 December	38,871	38,660

The bonds are denominated in HK\$, transferrable, unsecured, matured on eight years after the date of issue and bear interest at 8% per annum. The Company may at any time prior to the maturity date redeem the bonds at 101% of the outstanding principal amount (in whole or in part) in cash by serving at least five business days' prior written notice to the holders of the bonds. In the opinion of the directors of the Company, the fair value of the option to early redeem the bonds is insignificant at initial recognition and at the end of the reporting period.

The bonds will mature on the date immediately following eight years after issuance which are 4 November 2022 and 6 January 2023. The effective interest rates of the bonds are 8.38% and 8.17% per annum.



For the year ended 31 December 2017

**28. Loans from a Related Company**

On 12 June 2014, the Group entered into a loan agreement with a related company controlled by Mr. Yang, pursuant to which the related company agreed to provide a revolving loan with a principal amount of RMB400,000,000 (approximately HK\$502,800,000) to the Company. On 14 August 2015, the Group entered into a supplementary loan agreement with the related company pursuant to which the related company agreed to increase the revolving loan amount to RMB700,000,000 (approximately to HK\$847,000,000) while other terms remain the same.

On 3 November 2017, the Group entered into a supplementary loan agreement with the related company pursuant to which the related company agreed to extend the revolving loan to 31 December 2020.

The loans are unsecured, interest bearing at 12% per annum and repayable in full on the day falling 36 months from the date on which the loans are drawn down.

**29. Deferred Taxation**

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years.

	Tax losses HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2016	(21,678)	38,486	16,808
(Credit) charge to profit or loss (note 11)	(2,960)	25,660	22,700
Effect of foreign exchange difference	1,707	(3,030)	(1,323)
At 31 December 2016	(22,931)	61,116	38,185
Charge to profit or loss (note 11)	17,540	121,036	138,576
Effect of foreign exchange difference	(1,137)	15,730	14,593
At 31 December 2017	(6,528)	197,882	191,354

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 29. Deferred Taxation (continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 HK\$'000	2016 HK\$'000
Deferred tax assets	6,528	22,931
Deferred tax liabilities	(197,882)	(61,116)
	<b>(191,354)</b>	<b>(38,185)</b>

At the end of the reporting period, the Group had estimated unused tax losses of HK\$634.7 million (2016: HK\$469.6 million) available for offsetting against future profits. A deferred tax asset has been recognised in respect of HK\$26.1 million (2016: HK\$91.7 million) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$608.6 million (2016: HK\$377.9 million) due to the uncertainty of future profits streams.

### 30. Acquisitions of Assets Through Acquisitions of Subsidiaries

On 27 November 2015, the Group entered into the sales and purchase agreement with an independent third party, pursuant to which the Group has conditionally agreed to acquire the entire issued share capital of LERTHAI Asset Management Limited (formally known as First Investment Management Limited), at a consideration of HK\$3,300,000. LERTHAI Asset Management Limited is principally holding of Type 9 (Asset Management) license under the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong). The transaction had been completed on 26 July 2016.

In addition, on 4 May 2016, the Group acquired the remaining equity interests of 50% in Handan LT Municipal Investment Real Estate Development Company Limited at a cash consideration of RMB1 (equivalent to HK\$1). Before this acquisition, Handan LT Municipal Investment Real Estate Development Company Limited was a joint venture of Handan LT, wholly owned subsidiary of the Company, and Handan Municipal Investment Real Estate Development Company Limited (an independent third party).

For the year ended 31 December 2017

**30. Acquisitions of Assets Through Acquisitions of Subsidiaries (continued)**

The net assets and liabilities acquired:

	HK\$'000
<hr/>	
Net assets acquired:	
Plant and equipment	809
Investment properties	522,685
Other non-current assets	3,300
Properties under development for sales	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/>
	3,300
	<hr/>
Net cash outflow arising on acquisition:	
Consideration	(3,300)
Deposit paid for acquisition of a subsidiary	990
Bank and cash balance acquired	1,140
	<hr/>
	(1,170)
	<hr/>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 31. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes convertible bonds, bank and other borrowings, senior notes, bonds and loans from a related company, disclosed in notes 23, 24, 25, 27 and 28 respectively net of bank balances, pledged bank deposits and restricted bank balances, and equity of the Group, comprising issued share capital and reserves.

The directors of the Company 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 convertible bonds, bank and other borrowings, senior notes, bonds and loans from a related company by total assets. The review is conducted at least semi-annually and before each major financing or investment decision is made.

The gearing ratios at the end of reporting dates are as follows:

	2017 HK\$'000	2016 HK\$'000
Bank and other borrowings	3,182,335	2,421,350
Convertible bonds	451,873	444,518
Loans from a related company	263,884	212,881
Senior notes	93,297	271,292
Bonds	38,871	38,660
<b>Total interest bearing borrowings</b>	<b>4,030,260</b>	<b>3,388,701</b>
<b>Total assets</b>	<b>8,270,230</b>	<b>7,181,727</b>
<b>Total interest bearing borrowings to total assets</b>	<b>49%</b>	<b>47%</b>

For the year ended 31 December 2017

**32. Financial Instruments****a. Categories of financial instruments**

	2017 HK\$'000	2016 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	465,910	121,361
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	5,626,050	4,578,262
Convertible bonds	451,873	444,518

**b. Financial risk management objectives and policies**

Details of the Group's financial instruments are disclosed above and in the respective notes. The risks associated with these financial instruments include foreign currency risk, credit risk and liquidity risk.

Management monitors and manages the financial risk of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk******Foreign currency risk***

Certain assets and liabilities are denominated in foreign currencies of respective group entities, which are mainly USD and HK\$. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 32. Financial Instruments (continued)

#### b. Financial risk management objectives and policies (continued)

##### *Market risk (continued)*

##### *Foreign currency risk (continued)*

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2017 HK\$'000	2016 HK\$'000
Assets		
USD	6,645	5,933
HK\$	56,544	29,469
Liabilities		
USD	123,015	–
HK\$	1,422,980	761,680

##### Foreign currency sensitivity

The Group's foreign currency risk is mainly concentrated on fluctuation among RMB against HK\$ and USD. The following table details the Group's sensitivity to a 5% increase or decrease in RMB against HK\$ and USD.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in RMB. If RMB had weakened against the HK\$ and USD by 5%, the impact on the Group's post-tax loss for the year would be:

	2017 HK\$'000	2016 HK\$'000
<b>US\$</b>		
Decrease in profit/Increase in loss	5,819	297
<b>HK\$</b>		
Decrease in profit/Increase in loss	68,322	36,611

For a 5% strengthening of RMB against HK\$ and USD, there would be an equal and opposite impact on the results.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

## 32. Financial Instruments (continued)

### b. Financial risk management objectives and policies (continued)

#### *Market risk (continued)*

##### *Interest rate risk*

The Group's results and operating cash flows would be affected by the changes of market interest rates. The Group's exposure to market risk for changes in interest rates mainly arises from borrowings (including convertible bonds, bank and other borrowings, senior notes, bonds and loans from a related company). Borrowings arranged at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group has exposure to cash flow interest rate risk through the impact of the rate changes on bank balances, convertible bonds and bank and other borrowings which are carried at variable interest rate. The Group has exposure to fair value interest rate risk through fixed rate bank deposits, fixed rate other borrowings, loans from a related company, bonds and senior notes.

The directors of the Company consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest bearing bank deposits at fixed rates are within short maturity periods in general.

##### *Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates risk for its variable rate borrowings at the end of the reporting period. The sensitivity analysis does not consider the exposure of the bank deposits because the impact is not significant. The variable-rate borrowings (including convertible bonds and bank borrowings) carry interests at HIBOR, Daily Wall Street Journal Prime Rate and base rate of PBOC.

The analysis is prepared assuming that the bank and other borrowings outstanding at the end of the reporting periods were outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in the interest rates.

If the floating interest rates had been 50 basis points higher/lower, the Group's post-tax profit for the year would decrease/increase by approximately HK\$8,688,000 (2016: loss for the year increase/decrease by HK\$583,000) and the interest capitalised to the Group's properties under development for sale or investment properties under development would decrease/increase by approximately HK\$7,223,000 (2016: HK\$10,421,000).

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 32. Financial Instruments (continued)

#### b. Financial risk management objectives and policies (continued)

##### *Credit risk*

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure the adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2017 and 31 December 2016, the Group also had concentration risk on bank deposits. The directors of the Company consider the credit risk for bank deposits is limited because the counterparties are financial institutions with high credit ratings.

##### *Liquidity risk*

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 loans 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 31 December 2017, the Group had net current liabilities of HK\$1,556,754,000. Having taken into account (i) the estimated proceeds from the sales of properties in the next twelve months from the end of the financial year; (ii) undertaking from a creditor to postpone the settlement of a debt of approximately HK\$303,722,000 due to that creditor to a date after twelve months from the end of the financial year; (iii) the deposits received from sales of properties of HK\$1,540,414,000 that do not expect to have a cash outflow impact; (iv) a facility provided by a financial institution currently under negotiation which, in the opinion of the directors, is highly probable to be approved; and (v) the available facility provided by Mr. Yang, the directors of the Company are satisfied that the Group will have sufficient working capital for its present requirements.

The following table details the Group's remaining contractual maturity of the Group's non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For the year ended 31 December 2017

**32. Financial Instruments (continued)****b. Financial risk management objectives and policies (continued)***Liquidity risk (continued)**Liquidity and interest risk tables*

	Weighted average effective interest rate %	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>2017</b>							
<b>Non-derivative financial liabilities</b>							
Convertible bonds	10.44	117,444	145,667	251,389	–	514,500	451,873
Trade and other payables and accruals	–	2,029,587	–	–	–	2,029,587	2,029,587
Amounts due to related companies	–	18,076	–	–	–	18,076	18,076
Loans from a related company	12	31,666	31,666	295,550	–	358,882	263,884
Senior notes	10	99,284	–	–	–	99,284	93,297
Bonds	8	3,200	3,200	49,236	–	55,636	38,871
Bank borrowings	5.33	971,274	1,441,876	897,360	190,258	3,500,768	3,182,335
Financial guarantee contracts issued – maximum amount guaranteed	–	669,431	–	–	–	669,431	–
		3,939,962	1,622,409	1,493,535	190,258	7,246,164	6,077,923
<b>2016</b>							
<b>Non-derivative financial liabilities</b>							
Convertible bonds	12.38	444,518	–	–	–	444,518	444,518
Trade and other payables and accruals	–	1,631,291	–	–	–	1,631,291	1,631,291
Amounts due to related companies	–	2,788	–	–	–	2,788	2,788
Loans from a related company	12	25,546	238,427	–	–	263,973	212,881
Senior notes	9	195,211	107,000	–	–	302,211	271,292
Bonds	8	3,200	3,200	9,600	42,836	58,836	38,660
Other borrowings	13.6	244,209	–	–	–	244,209	220,472
Bank borrowings	5	262,396	752,334	814,902	811,137	2,640,769	2,200,878
Financial guarantee contracts issued – maximum amount guaranteed	–	574,276	–	–	–	574,276	–
		3,383,435	1,100,961	824,502	853,973	6,162,871	5,022,780

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 32. Financial Instruments (continued)

#### b. Financial risk management objectives and policies (continued)

##### *Liquidity risk (continued)*

##### *Liquidity and interest risk tables (continued)*

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by counterparty which are guaranteed after credit losses.

#### c. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the determination of fair value of convertible bonds are set out in note 23; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

For the year ended 31 December 2017

### 33. Operating Lease

#### The Group as lessor

Property rental and management fee income in respect of the investment properties earned is HK\$61,833,000 (2016: HK\$12,560,000). The completed investment properties held have committed tenants for the next one to ten years (2016: one to ten).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments (i.e. fixed rental income) which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	108,674	30,343
In the second to fifth years inclusive	340,939	91,147
Over five years	151,323	21,201
	<b>600,936</b>	<b>142,691</b>

#### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	12,197	11,571
In the second to fifth years inclusive	12,328	11,080
	<b>24,525</b>	<b>22,651</b>

Operating lease payments represent rental payable by the Group for its office premises and director's quarter. Leases are negotiated and fixed for one to three years.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 34. Commitments

As of the end of the reporting period, the Group had the following commitments:

	2017 HK\$'000	2016 HK\$'000
Development costs for investment properties under construction	766,334	1,084,798
<b>Other commitment</b>		
Development costs for properties under development for sales	519,036	2,139,509

### 35. Share-Based Payment Transactions

#### (a) Share award scheme

On 8 August 2014, the Board resolved to adopt a share award scheme (the "Award Scheme") to provide incentives to attract and retain selected employees for the benefits of the Group. The Award Scheme will remain in force for a period of 10 years commencing from 8 August 2014. Pursuant to the Award Scheme, existing ordinary shares in the capital of the Company will be purchased in the market by the trustee at the cost of the Company and held on trust for all or one or more of the employees until such ordinary shares in the capital of the Company are vested with the relevant selected employees in accordance with the rules of the Award Scheme. The Award Scheme shall be subject to the administration of the Board and the trustee in accordance with the Award Scheme and the trust deed. The number of ordinary shares in the capital of the Company to be awarded under the Scheme throughout its duration shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of ordinary shares in the capital of the Company which may be awarded to a selected employee under the Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

No ordinary share in the capital of the Company has been purchased and awarded pursuant to the Award Scheme since its adoption.

For the year ended 31 December 2017

**35. Share-Based Payment Transactions (continued)****(b) Share option scheme**

On 22 August 2014, the Company adopted a share option scheme (the “Option Scheme”). The Option Scheme will remain in force for a period of 10 years commencing from 22 August 2014. The purpose of the Option Scheme is to provide 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.

The subscription price shall be determined by the Board and shall be at least the higher of (i) the closing price of a share as stated in the daily quotation sheet issued by the Stock Exchange on the date of offer of the grant; and (ii) the average closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the date of offer of the grant. Without prior approval from the Company’s shareholders, (i) and total number of shares in respect of which options may be granted under the Option Scheme shall not exceed 10% of the shares of the Company in issue at any point in time; (ii) the maximum aggregate number of shares in respect of which options may be granted under the Option Scheme and any other share option schemes adopted by the Company exceeding, in aggregate, shall not exceed 30% of the shares in issue from time to time; (iii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period shall not exceed 1% of the shares of the Company in issue at any point in time. An option may be exercised at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

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. 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 (Note (a))	57.76%
Expected life	10 years
Risk-free rate (Note (b))	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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 35. Share-Based Payment Transactions (continued)

#### (b) Share option scheme (continued)

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 of the Company 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 year ended 31 December 2016, 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.

### 36. Retirement Benefits Schemes

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The assets of the MPF Scheme are held separately from those of the Group, and are in funds under the control of trustees. Contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee.

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions.

Employees of the subsidiaries in the USA are members of pension schemes operated by the respective governments and private sectors. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

Total retirement benefit expense charged to profit or loss for the year amounted to HK\$11,977,000 (2016: HK\$10,006,000).



For the year ended 31 December 2017

**37. Reconciliation of Liabilities Arising from Financing Activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to related companies	Convertible bonds	Bank and other borrowings	Loan from a related company	Senior notes	Bonds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	2,788	444,518	2,421,350	212,881	271,292	38,660	3,391,489
Financing cash flow	15,288	(46,072)	460,060	(5,414)	(223,253)	(3,200)	197,409
Fair value changes	-	3,011	-	-	-	-	3,011
Foreign exchange translation	-	-	148,600	25,658	-	-	174,258
Interest recognised	-	50,416	152,325	30,759	45,258	3,411	282,169
At 31 December 2017	18,076	451,873	3,182,335	263,884	93,297	38,871	4,048,336

**38. Related Party Transactions**

During the year, the Group had the following transactions with related parties:

	2017 HK\$'000	2016 HK\$'000
Interest expense on loans from a related company	30,759	85,842
Cost of properties investment	1,155	-

Mr. Yang, together with China Lerthai and/or related companies controlled by him, have provided guarantees for the Group's convertible bonds, details of which are set out in note 23. Mr. Yang, together with his spouse and companies controlled by him have provided guarantees and properties for the Group's bank and other borrowings, details of which are set out in note 24. These related parties did not charge the Group for the guarantees provided and assets pledged to banks and a financial institution for the Group's credit facilities.

Remuneration paid and payable to the members of key management, who are the directors during the year, are disclosed in note 12.

Balances with related parties are set out in the consolidated statement of financial position and details of terms are set out in notes 22 and 28.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 39. Contingent Liabilities

	2017 HK\$'000	2016 HK\$'000
Guarantees given to banks in favour of its customers in respect of mortgage loans provided by the banks	669,431	574,276

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 of the Company, 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 is adequate to recover the outstanding amount of the mortgage loans together with 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\$24,373,000 (2016: HK\$17,323,000).

For the year ended 31 December 2017

**40. Particulars of the Subsidiaries of the Company**

Particulars of the principal subsidiaries of the Company at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2017 %	2016 %	2017 %	2016 %	
Jumbo Legend Limited	British Virgin Islands ("BVI")	US\$2 Ordinary shares	100	100	–	–	Inactive
Chi Cheung (Nominees) Limited	Hong Kong	HK\$1 Ordinary share	100	100	–	–	Investment holding
Chi Cheung Management Services Limited	Hong Kong	HK\$2 Ordinary shares	50	50	50	50	Provision of management services
Lerthai (Cayman Islands) Holding Limited	Cayman Islands	HK\$1 Ordinary share	100	100	–	–	Investment holding
Lerthai Capital Group Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Investment holding
LERTHAI Assets Management Limited	Hong Kong	HK\$300,000 Ordinary shares	–	–	100	100	Provision of advisory and asset management services
LERTHAI Future (Hong Kong) Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Futures and securities investment
LERTHAI Securities (Hong Kong) Limited	Hong Kong	HK\$8,705,000 Ordinary shares	–	–	100	100	Securities trading and investment
LT Design Studio	USA	US\$1,000 Shares common stock	100	100	–	–	Project design
LT International Investment Holdings Limited	BVI	US\$1 Ordinary share	100	100	–	–	Investment holding
LT Investment Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Inactive
LT Global Investment Limited	USA	US\$1,000,000 Shares common stock	–	–	100	100	Investment holding

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 40. Particulars of the Subsidiaries of the Company (continued)

Name of subsidiary	Place/country of incorporation/operation	Paid up issued/registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2017 %	2016 %	2017 %	2016 %	
LTG South Hills, LLC	USA	Note	–	–	100	100	Property investment
LTG Platinum, LLC	USA	Note	–	–	100	100	Property development
LTG Services & Management LLC	USA	Note	–	–	100	–	Provision of property management services
LT Commercial Holdings Limited	BVI	US\$1 Ordinary share	100	100	–	–	Investment holding
LT Commercial Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Investment holding
北京勒泰商業管理有限公司 Beijing Lerthai Commercial Management Co. Ltd. ("BJ Lerthai")	PRC	Registered capital of RMB10,000,000	–	–	100	100	Provision of management services
唐山勒泰購物廣場有限公司 Tangshan LT Shopping Mall Ltd. ("TS Lerthai Shopping")	PRC	Registered capital of RMB250,000,000	–	–	100	100	Property development and investment
唐山勒泰房地產開發有限公司 Tangshan Lerthai Properties Development Co. Ltd. ("TS Lerthai Development")	PRC	Registered capital of RMB250,000,000	–	–	100	100	Property development and investment
河北勒泰商業管理有限公司 Hebei Lerthai Commercial Management Co. Ltd. ("Hebei Lerthai")	PRC	Registered capital of RMB3,000,000	–	–	100	–	Property investment
邯鄲勒泰房地產開發有限公司 Handan LT Real Estate Development Co., Ltd (Handan LT")	PRC	Registered capital of RMB30,000,000	–	–	100	100	Inactive (2016: Investment holding)
邯鄲勒泰城投房地產開發有限公司 Handan LT Municipal	PRC	Registered capital of RMB80,000,000	–	–	100	100	Property development and investment

For the year ended 31 December 2017

**40. Particulars of the Subsidiaries of the Company (continued)**

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2017 %	2016 %	2017 %	2016 %	
LT Commercial Management (International) Holdings Limited	BVI	US\$1 Ordinary share	100	100	–	–	Provision of property management services
LT Commercial Management (HK) Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Inactive
Lerthai Global Commercial Real Estate Fund SPC	Cayman Islands	US\$1 Management share	–	–	100	–	Investment holding
Baoding LT Commercial (International) Holdings Limited	BVI	US\$2 Ordinary shares	–	100	100	–	Investment holding
Baoding LT Commercial (HK) Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Investment holding (2016: Inactive)

Note: According to the operating agreements, members may be obligated to make any additional contribution to the capital if management deemed necessary and approved by shareholders holding 70% of equity interests.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

BJ Lerthai is a wholly foreign-owned enterprise. Handan LT, Handan LT Municipal, Hebei Lertai, TS Lerthai Shopping and TS Lerthai Development are wholly domestic owned enterprises.

None of the subsidiaries had any debt securities subsisting at 31 December 2017 and 31 December 2016 or at any time during the year.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 40. Particulars of the Subsidiaries of the Company (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2017	2016
Investment holding	Cayman Islands	2	1
	BVI	5	5
	Hong Kong	5	4
	Canada	2	2
		14	12
Inactive	BVI	1	1
	Hong Kong	3	4
	USA	1	0
		5	5

### 41. Event after the Reporting Period

The Company is in negotiation with Mr. Yang, for a possible acquisition of his interests in certain property development companies, which holds interests in certain landed properties mainly comprising of office towers, hotels and shopping malls located in Shijiazhuang and Tangshan cities, the PRC.

Up to the date of issuance of these consolidated financial statements, no binding agreement has been signed in relation to this acquisition. Further details are set out in the announcement of the Company dated 26 January 2018.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 42. Statement of Financial Position and Reserves of the Company

	Notes	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		133	233
Investments in subsidiaries		914,053	851,451
Amount due from a subsidiary		456,647	–
		<b>1,370,833</b>	851,684
<b>Current assets</b>			
Amounts due from subsidiaries		137,041	591,826
Trade and other receivables, deposits and prepayments		3,710	2,210
Pledged bank deposits		–	12,944
Bank balances		9,370	8,443
		<b>150,121</b>	615,423
<b>Current liabilities</b>			
Trade and other payables and accruals		2,567	5,461
Amounts due to subsidiaries		766,496	239,467
Convertible bonds	23	77,167	444,518
Senior notes	25	93,297	180,983
		<b>939,527</b>	870,429
<b>Net current liabilities</b>		<b>(789,406)</b>	(255,006)
<b>Total assets less current liabilities</b>		<b>581,427</b>	596,678
<b>Capital and reserves</b>			
Share capital	26	498,548	498,548
Reserves (Note)		(330,698)	(210,413)
		<b>167,850</b>	288,135
<b>Non-current liabilities</b>			
Bonds	27	38,871	38,660
Convertible bonds	23	374,706	–
Senior notes	25	–	90,309
Loans from a related company		–	179,574
		<b>413,577</b>	308,543
		<b>581,427</b>	596,678

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 42. Statement of Financial Position and Reserves of the Company (continued)

Note: Details of the Company's reserves are set out below:

	Share option reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000 (Note)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2016	–	(4,853)	59,973	(156,034)	(100,914)
Loss for the year	–	–	–	(171,387)	(171,387)
Other comprehensive expense for the year	–	(7,354)	–	–	(7,354)
Recognition of share-based payments	69,242	–	–	–	69,242
At 31 December 2016	69,242	(12,207)	59,973	(327,421)	(210,413)
Loss for the year	–	–	–	(120,118)	(120,118)
Other comprehensive income for the year	–	(167)	–	–	(167)
At 31 December 2017	69,242	(12,374)	59,973	(447,539)	(330,698)

Note: Amount represented fair value adjustment on amount due to a subsidiary at initial recognition.



# Five Year Financial Summary

	For the year ended 31 December				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>RESULTS</b>					
Revenue	1,414,321	12,560	12,898	4,726	10,165
Profit (loss) before taxation	351,039	(217,546)	(39,255)	(18,456)	(20,888)
Income tax (expense) credit	(184,870)	(22,700)	742	(20,570)	(126)
Profit (loss) for the year	166,169	(240,246)	(38,513)	(39,026)	(21,014)
Profit (loss) for the year attributable to owners of the Company from continuing operation	166,169	(240,246)	(41,497)	(41,770)	(20,313)
from discontinued operation	–	–	2,984	2,744	(701)
	166,169	(240,246)	(38,513)	(39,026)	(21,014)
Basic and diluted earnings (loss) per share (HK cents) (Note)	0.49	(0.71)	(0.11)	(0.12)	(0.06)
Final and interim dividends per share (HK cents)	–	–	–	–	–
Special interim dividend per share (HK cents)	–	–	–	–	–

Note: The calculation of basic and diluted earnings per share is based on the profit attributable to owners of the Company for the years and on the weighted average number of shares in issue during the relevant years.

	As at 31 December				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	8,270,230	7,181,727	3,208,426	2,005,918	565,213
Total liabilities	(7,858,168)	(6,960,771)	(2,770,017)	(1,492,415)	(5,490)
Total equity attributable to owners of the Company	412,062	220,956	438,409	513,503	559,723
Net asset value per share attributable to owners of the Company (HK\$)	1.22	0.65	1.29	1.52	1.65
Number of shares issued	338,765,987	338,765,987	338,765,987	338,765,987	338,765,987

# Investment Properties and Properties under Development for Sale

Particulars of investment properties and properties under development for sale at 31 December 2017

Location	Type	Lease term	Effective % held	Gross floor area	Participated completion
<b>Completed property held for investment</b>					
Lerthai South Hills Plaza 1410-1432 South Azusa Avenue City of West Covina California The United States of America	Shopping mall	Freehold	100%	348,000 sq.ft.	N/A
Tangshan Lerthai City – Phase 1 298 Beixin West Road Lubei District Tangshan City Hebei Province The People's Republic of China	Commercial, office and hotel	Long-term	100%	3,106,000 sq.ft.	N/A
<b>Properties under construction for investment and sale</b>					
Tangshan Lerthai City – Phase 2 298 Beixin West Road Lubei District Tangshan City Hebei Province The People's Republic of China	Residential, commercial, office and hotel	Long-term	100%	3,764,000 sq.ft.	2018
North of Remin Road, east of Lingside Street, south of Congtai Road and west of Congtai Road, Handan City Heibui Province The People's Republic of China	Residential and commercial	Long-term	100%	3,335,000 sq.ft.	2018
North of Qin River, east of Chengneishong Street and south of Qingnian Road, Handan City, Heibei Province The People's Republic of China	Residential and commercial	Long-term	100%	3,037,000 sq.ft.	2018
<b>Land held for development for sale</b>					
Lerthai Platinum Centre Northeast of the intersection of South Stage College Boulevard and East Orangewood Avenue Orange Country California The United States of America	Residential and commercial	Freehold	100%	1,012,000 sq.ft.	Planning and designing stage



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