

NAM TAI PROPERTY INC.  
Form 20-F  
March 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark one)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission File Number: 001-31583

Nam Tai Property Inc.

(Exact name of registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

Nam Tai Estate, No. 2, Namtai Road, Gushu Community, Xixiang Township,

Baoan District, Shenzhen City, Guangdong Province, People's Republic of China

(Address of principal executive offices)

Julian Lin, President

Tel: (86755) 2749-0666

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class	Name of each exchange on which registered
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Common shares, \$0.01 par value per share Securities registered pursuant to Section 12(g) of the Act.	New York Stock Exchange
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None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None.

As of December 31, 2017 there were 37,551,191 common shares of the registrant outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.    Yes    No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.    Yes    No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    Yes    No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).    Yes    No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company.. See definition of large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated	Accelerated filer	Non-accelerated filer	Emerging growth company
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If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP   International Financial Reporting Standards as issued   Other

by the International Accounting Standards Board

If "Other" has been checked, indicate by check mark which financial statement item the registrant has elected to follow:    Item 17    Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    Yes    No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.    Yes    No

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ITEM 19. EXHIBITS

SIGNATURE

CERTIFICATION PURSUANT TO SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

CERTIFICATION PURSUANT TO RULE 13a-14(b) AND 18 U.S.C. SECTION 1350

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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## NOTE REGARDING USE OF FORWARD LOOKING STATEMENTS

This Annual Report on Form 20-F (this “Report”) contains forward-looking statements. Words such as “aim”, “anticipate”, “believe”, “consider”, “continue”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “plan”, “potential”, “predict”, “seek”, “can”, “could”, “may”, “might”, “will”, “would”, “shall”, “should”, and the negative forms of these words and other similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, and the effects of future regulation and the effects of competition. We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. These statements are subject to many important factors, certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in the section entitled “Risk Factors” under ITEM 3. Key Information.

You should not place undue reliance on forward-looking statements, which reflect management’s view only as of the date of this Report. The Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in management’s expectations. You should also carefully review the risk factors described in other documents the Company files from time to time with the U.S. Securities and Exchange Commission, which we refer to in this Report as the SEC.

## FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and publishes its financial statements in United States dollars.

## INTRODUCTION

Except where the context otherwise requires and for purposes of this Report only:

- “we”, “us”, “our company”, “our”, the “Company” and “Nam Tai” refer to Nam Tai Property Inc. and, in the context of describing our operations, also include our PRC operating companies;
- “Board” and “Board of Directors” refers to the board of directors of our Company;
- “shares” refer to our common shares, \$0.01 par value;
- “China” or “PRC” refers to the People’s Republic of China, excluding Taiwan, Hong Kong and Macao;
- “Taiwan” refers to the Taiwan province of the People’s Republic of China;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the People’s Republic of China and “HK\$” refers to the legal currency of Hong Kong;
- “Macao” refers to the Macao Special Administrative Region of the People’s Republic of China; and
- all references to “Renminbi”, “RMB” or “yuan” are to the legal currency of China; all references to “U.S. dollars”, “US\$” or “\$” are to the legal currency of the United States.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable to Nam Tai.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable to Nam Tai.

ITEM 3. KEY INFORMATION

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and are presented in U.S. dollars. The following selected consolidated statements of income data for each of the three years in the period ended December 31, 2017 and the consolidated balance sheets data as of December 31, 2016 and 2017 are derived from our consolidated financial statements and notes thereto included in this Report. The selected consolidated statements of comprehensive income data for each of the two-year periods ended December 31, 2013 and 2014 and the consolidated balance sheets data as of December 31, 2013, 2014 and 2015 were derived from our audited financial statements, which are not included in this Report. The following data should be read in conjunction with the Section of the Report entitled ITEM 5. Operating and Financial Review and Prospects and our consolidated financial statements including the related footnotes which are included in the F pages of this Report immediately following page 76.



## Selected Financial Information

Consolidated statements of comprehensive income data <sup>(1)</sup> :	Year ended December 31,				
	2013	2014	2015	2016	2017
	(in thousands, except per share data)				
Operation income	\$ 136	\$ 2,341	\$ 2,978	\$ 2,508	\$ 1,851
Operation expenses	(68 )	(1,073 )	(1,949 )	(740 )	—
Net operation income	68	1,268	1,029	1,768	1,851
Cost and expenses:					
General and administrative expenses	(7,465 )	(13,417 )	(13,862 )	(8,359 )	(9,450 )
Operating loss	(7,397 )	(12,149 )	(12,833 )	(6,591 )	(7,599 )
Other income (expenses), net	1,377	(22,551 )	(8,019 )	(8,497 )	8,495
Interest income	4,939	9,173	8,054	5,554	7,621
Interest expenses	—	(61 )	(360 )	—	—
Write off of demolished building	—	—	—	—	(4,573 )
(Loss) income before income tax	(1,081 )	(25,588 )	(13,158 )	(9,534 )	3,944
Income tax recovery	1,378	—	—	—	—
Consolidated net income (loss)	297	(25,588 )	(13,158 )	(9,534 )	3,944
Other comprehensive income					
Foreign currency translation adjustment	—	—	(4,417 )	(7,736 )	6,311
Consolidated comprehensive income (loss)	297	(25,588 )	(17,575 )	(17,270 )	10,255
Earnings per share:					
Basic net earnings (loss) per share	\$0.01	\$(0.58 )	\$(0.32 )	\$(0.26 )	\$0.11
Diluted net earnings (loss) per share	\$0.01	\$(0.58 )	\$(0.32 )	\$(0.26 )	\$0.11
Consolidated balance sheet data:	2013	2014	2015	2016	2017
	(in thousands, except per share data)				
Cash and cash equivalents	68,707	212,760	157,371	94,558	165,173
Short term investments	201,565	85,295	49,983	89,624	—
Working capital <sup>(2)</sup>	316,478	280,159	226,568	194,731	152,554
Land use rights, property, plant and equipment, net					
and real estate properties under development, net	41,818	35,590	38,884	41,514	89,436
Total assets	494,419	367,753	271,480	248,801	262,077
Short term debts	—	40,000	—	—	—
Total shareholders' equity	363,390	316,952	265,565	236,346	244,358
Common shares	453	426	367	364	376
Total dividend per share <sup>(3)</sup>	0.08	0.08	0.08	0.28	0.28
Total number of common shares issued	45,273	42,618	36,700	36,447	37,551

## Notes:

(1) The Company's consolidated statements of comprehensive income for 2013 have been adjusted according to the reclassified profit and loss resulting from discontinued operations.

(2) Working Capital represents the excess of current assets over current liabilities.

(3)

For 2013, 2014, 2015, 2016 and 2017, the Company declared a dividend payable quarterly in 2014, 2015, 2016, 2017 and 2018, respectively. See the table entitled “Dividends declared for 2018” in ITEM 8. Financial Information – Dividends on page 62 of this Report for the schedule of dividend payments for 2018.

#### Risk Factors

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in this document and other documents filed with the SEC, in press releases, in reports to shareholders, on our website, and other documents. The Private Securities Reform Act of 1995 contains a safe harbor for forward-looking statements on which the Company relies in making such disclosures. In connection with this “safe harbor”, we are hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf. Any such statements are qualified by reference to the following cautionary statements.

You should carefully consider each of the following risks and uncertainties associated with our company and the ownership of our securities. You should pay particular attention to the fact that we conduct substantially all of our operations in China and are governed by a legal and regulatory environment that differs significantly from that of the United States. Additional risks referred to elsewhere in this annual report, and other risks which are not currently known to us or that we currently deem immaterial may also have a material adverse impact on our business operations and financial condition.

#### Risks Related to Our Business

We might not regain profitability for several years, if ever.

We are owner and developer of research and development parks. In April 2014, we ceased our core liquid crystal display modules (LCM) production business, changed our company name from Nam Tai Electronics, Inc. to Nam Tai Property Inc. and switched our business focus to the redevelopment of two parcels of land in Shenzhen, China, which formerly housed our manufacturing facilities, into high-end research and development complexes. We have named these property development projects in Guangming and Gushu, Shenzhen, “Nam Tai Inno Park” and “Nam Tai Inno City”, respectively. Upon the completion of the development, we will be the landlord and manager of these research and development complexes, and our core business will then become property development and management. During this development transition period, all overhead expenses, development costs and dividend distributions will be funded from our interest income and rental income together with our cash on hand and bank facilities. Subsequently, we believe that we will derive our principal income in the future from the rental income generated through these commercial complexes. As each of these projects may take around four to seven years to complete and we have no other source of significant income during this period, we do not anticipate that we will be profitable until at least the completion of these two projects.

We might not be able to carry all of our operating losses forward.

Our operating activities in the short term will consist principally of capitalized project investments. While certain operating losses may be carried forward as tax credits in future years; if there are changes in the relevant PRC tax policy with respect to the real estate industry, our forecasted profits in the future may also be affected.

Our business is largely affected by the general level of activity and growth in Shenzhen, China.

We mainly operate in the city of Shenzhen, China, and as a result, the continuous growth and development of Shenzhen and the surrounding Pearl River Delta are paramount to our business and future prospects. The infrastructure development of Shenzhen city is implemented in accordance with a city development plan that is subject to change from time to time. We have little or no influence over the development plan of the area. We cannot assure you that the infrastructure development plan will be effectively carried out as contemplated, or that the vision of Shenzhen city as the next technological development center in China will eventually be realized. Completion of the ongoing public transport infrastructure projects expected to benefit the development of Shenzhen city may be substantially delayed, or future planned infrastructure projects may be postponed indefinitely or cancelled. We cannot assure you that the drivers expected to facilitate Shenzhen’s development and also underlie our business strategies may eventually materialize, such as the continuous growth of the research and development business that is expected to increase the demand for our space, once operational. Many other factors can also affect the development of Shenzhen, including the state of the national and regional economies in China, changes in government policies leading to changes in market conditions, and political and social developments that may translate into project execution difficulties. In the event that our Nam Tai Inno Park and Nam Tai Inno City projects do not develop as we planned

and envisioned, there will be material and adverse effect on our business and prospects.

A slow-down of economic growth in China may adversely affect our growth and financial performance.

Our business is sensitive to the current China economic downturn. In recent years, the PRC economy has seen a slowdown related to the international financial crisis in 2008, and a slower growth since then. For 2018, China's economic conditions remain uncertain and unpredictable. With the government lowering economic growth targets, there are forecasts predicting a further significant slowdown.

The PRC economy also faces challenges in the short to medium term. Continued turbulence in the international markets and prolonged declines in consumer spending as well as the slowdown of economic growth in China may adversely affect our liquidity and financial condition, and significantly affect the demand for our commercial and residential units. A widespread change in spending habits may also lead to tighter credit markets, drops in business and consumer confidence and dramatic changes in business and consumer behaviors. In response to the perceived uncertainty in China's economic conditions, commercial tenants could delay,

reduce or cancel rental of office space, and homebuyers could also defer, reduce or cancel purchases of residential units, and thereby adversely affect our results of operations.

Our income will continue to drop due to the decrease in interest income from our deposits as well as the cessation of rental income upon expiration of the lease agreement that rented out our Gushu property in October 2017.

We currently derive a majority of our income from interest and rental income. The rates of interest receivable on our PRC time deposits are adjustable based on the range of 0% to 43% of the People's Bank of China (PBOC) benchmark rate, which fluctuates from time to time. The PBOC benchmark rate for a seven days' notice deposit was 1.35% as of December 31, 2017. As of December 31, 2017, the principal amount of our aggregate outstanding time deposits was \$166.1 million. A hypothetical 1% decrease in annual interest rates would decrease our interest income by \$1.7 million based on our deposit level at December 31, 2017. Since 2017, we have seen a stabilizing trend for the benchmark interest rates in China. However, due to the current economic conditions in China, we expect the PBOC to keep Renminbi-denominated official time deposit interest rates in China at a low level throughout 2018, which in turn would keep our interest income low. This lower interest rate environment will be compounded as a result of our rental income ceasing following the expiration of the lease agreement in October 2017 that rented out our existing manufacturing facilities of approximately 48,422 square meters in Gushu, Shenzhen. We will continue to expect operating losses in 2018 and beyond.

We may encounter difficulties in transforming our core business, which could adversely affect our growth and business prospects.

We are a property development and management company located in Shenzhen, China. Prior to becoming a property development and management company, we were an electronic manufacturing service (EMS) company. In April 2014, we ceased our LCM manufacturing business and switched our business focus to the redevelopment of two parcels of land in Gushu and Guangming, Shenzhen, China, which formerly housed our manufacturing facilities into high-end commercial complexes designated as "Nam Tai Inno City" and "Nam Tai Inno Park", respectively.

We cannot assure you that we will be able to obtain all requisite permits and approvals from relevant government authorities in relation to the redevelopment of the land, or to successfully redevelop the two parcels of land. The development of these real estate projects is subject to significant risks and uncertainties, including, without limitation, the following:

- we do not currently have strong brand recognition or relationships in the real estate development and management business;
- we may not be able to obtain all requisite permits and approvals from relevant government authorities in relation to the redevelopment of the land, or to successfully redevelop the two parcels of land for our property development projects in a timely manner or at all;
- we face intense competition from real estate developers that have been operating in this business for years;
- our experience and expertise gained from our EMS business may not be highly relevant or applicable to the real estate development and management business; and
- we may not be able to generate enough revenues to offset our costs in our real estate development and management business.

If we are not successful in the development of our two property development projects, our growth, business, financial condition and results of operations could be adversely affected.

We have a comparatively limited track record in the real estate development business and cannot guarantee our continued success.

In contrast to our 30 years of experience in the electronic manufacturing industry, we entered the real estate development business relatively recently. Nam Tai Inno Park and Nam Tai Inno City represent our first two projects. Given that the real estate development business in China is highly competitive and dominated by several large, experienced real estate developers, our limited track record may impact our ability to continue our real estate development business successfully. In addition, the success of our real estate development business will depend upon our ability to:

- complete construction of our self-developed properties on time and within estimated budgets;
- obtain, on a timely basis, all approvals necessary to develop and operate our properties;
- develop properties in locations that are desirable to prospective tenants;

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- accurately anticipate the requirements of prospective tenants; and
- respond to dynamic market conditions.

Our ability to manage these risks will directly impact the success of our real estate development business and, our failure to do so could adversely impact our overall financial condition, results and cash flows.

Our margins may be affected by increases in our operating and other expenses.

Our operations may be subject to increases in operating and other expenses due to a number of factors including, but not limited to, any of the following:

- increases in raw material prices;
- increases in labor costs;
- increases in construction costs;
- increases in the rate of inflation;
- changes in laws, regulations or government policies that increase the cost of compliance with such laws, regulations or policies;
- increases in insurance premiums;
- increases in customs duties, business taxes, property taxes and other statutory changes;
- adverse changes in the cost of existing and future debt financing; and
- other unanticipated circumstances or cost increases.

Any increase in the above operating and other expenses would have an adverse effect on our cash flows. Furthermore, any sustained increases in our operating and other expenses could result in all or a portion of our operations becoming unprofitable, thereby resulting in an adverse effect on our business, financial condition and results of operation.

Our timely and cost-effective development of projects is dependent on various factors outside of our control.

Our future financial performance may be significantly affected by factors outside of our control that limit our ability to successfully finance and complete current and future projects, including construction and real estate development projects, in a cost-effective manner. We may invest significant resources in a project that might not be commercially viable due to changes in government policies. We might not obtain governmental approvals and permits within the necessary time limits, and projects might not be completed on schedule and within budget. Project development and construction may also be adversely affected by many other factors, including shortages of materials, machinery malfunction, labor disputes involving us or our subcontractors, construction accidents, adverse weather conditions, RMB value depreciation, natural disasters, changes in laws, government policies or priorities and other unforeseen problems or circumstances that we might not have control over. Any of these factors could result in planned projects being delayed or cancelled or current projects being delayed or incurring cost overruns, which may adversely affect our margins. This may also result in sales and resulting profits from a particular development not being recognized in the year originally expected, which could adversely affect our results of operations for that year. Further, our failure to complete the construction of a project in accordance with the planned specifications or on schedule may result in contractual liabilities to purchasers and lower returns. The occurrence of any such events may adversely affect our business, financial condition and results of operations.

We may not have adequate financing, whether through bank loans or other arrangements, to fund our currently planned or future property developments, and such capital resources may not be available on commercially reasonable terms, or at all.

Property development is capital intensive and we require significant capital resources to fund our existing and future construction and real estate development activities. Our ability to finance our capital expenditure plans is subject to a number of risks, contingencies and other factors, some of which are beyond our control. To the extent that our funding

requirements exceed our financial resources, we may be required to seek additional debt or equity financing or to defer planned expenditures. As of December 31, 2017, we have a total cash balance of \$165.2 million and no debt. We plan to finance our property developments using our interest income together with our cash on hand and bank facilities. With our current cash position, we believe our financial position remains sufficient to fund the initial stages of these property development projects through 2018. While our cash on hand is expected to drop continuously, most of the expenses to be incurred are expected to be for project development, which will be capitalized as real estate properties under development (non-current asset) on our balance sheet. To address any potential shortage of funds beyond 2018, we



will consider utilizing banking facilities or issuing debt securities to raise funds. We cannot assure you that banks or other lenders will grant us sufficient financing in the future on favorable terms or at all. There are certain PRC laws and regulations that not only govern financing policies of PRC financial institutions with respect to the property development sector but impose more stringent requirements on banks in terms of providing loans to property development enterprises, and it is possible that the PRC government may decide to further tighten such restrictions. These property-related financing policies may limit our ability and flexibility to use bank borrowings to finance our property development projects, thereby causing us to maintain a relatively higher level of internally generated cash to serve our funding needs. If our financing measures are not successful, we may face liquidity and other financial risks, which could materially impair any property development efforts.

Furthermore, any adverse developments in the international equity capital or credit markets could be a barrier for us to raise additional financing and could increase the overall cost of our funds. We may also require additional financing to fund day-to-day operations and debt service payments. Additional financing, when needed, might not be available on acceptable terms, or at all. Our incurrence of additional debt would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on our assets that may restrict our operations. Without the required financing, we might not be able to continue our operations, implement our planned projects, hire, train and retain employees or respond to competitive pressures. The lack of adequate funding facilities on acceptable terms, or at all, may adversely affect our ability to fund the development and expansion of our business. Our inability to obtain sufficient funding to support our operations or development strategies could have an adverse effect on our business, financial condition and results of operations.

We may fail to obtain, or experience material delays in obtaining, requisite licenses, certificates, permits or governmental approvals for our property developments, and as a result our development plans, business, results of operations and financial condition may be materially and adversely affected.

As owner/developer, we face various execution risks that may adversely affect our revenue and operations. Property development in the PRC is heavily regulated, long and complicated process, generally requiring large amounts of capital and involving numerous parties, including designers, construction material suppliers, contractors, developers and individual consumers. Property developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. At various stages of our property development projects, we are required to obtain and maintain certain licenses, certificates, permits and governmental approvals, including, but not limited to, qualification certificates, land use rights certificates, land use permits, construction planning permits, construction permits, pre-sale permits, construction acceptance certificates and property ownership certificates. Before the government authorities issue any license, certificate or permit, we must also satisfy specific conditions and requirements. We cannot assure you that we will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain all necessary licenses, certificates or permits for our property developments in a timely manner, or at all, in the future. The progress and costs of a property development project can also be adversely affected by many factors beyond delays in obtaining necessary licenses, permits, certificates or approvals from government agencies or authorities, including shortages of materials, equipment, contractors and skilled labor, labor disputes, construction accidents, natural catastrophes, adverse weather conditions, and changes in government policies. Construction delays, cost overruns, or failure to complete and deliver a property development project on schedule and in accordance with specifications due to any or all of the above factors may affect our business, financial condition and results of operations and may also cause reputational damage. Also, we might not be able to adapt to new PRC land policies that may come into effect from time to time with respect to the property development industry. Any failure to obtain the necessary licenses, certificates, permits and approvals may result in us not being able to continue with our development plans, which may then materially adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience any significant delays in completion or delivery of any of our property development projects, or that we will not be subject to any contractual liabilities for any such delays. Moreover, if the design or construction of a property development

fails to meet applicable requirements, our revenues could be adversely affected. Claims that we have failed to produce property developments of sufficient quality could result in our involvement in legal disputes, which in turn could have an adverse effect on our business and results of operation.

We may be unable to complete our property developments on time or at all.

The progress and costs for a development project can be adversely affected by many factors, including, without limitation:

- delays in obtaining necessary licenses, certificates, permits or approvals from government agencies or authorities;
- shortage of materials, equipment, contractors and skilled labor or increased labor or raw material costs;
- failure by our third-party contractors to comply with our designs, specifications or standards;
- onsite labor disputes or work accidents; and
- natural catastrophes or adverse weather conditions, including strong winds, storms, floods, and earthquakes.

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Any construction delays, or failure to complete a project according to our planned specifications or budget, may delay our property leasing timetable, which could adversely affect our revenues, cash flows and our reputation. We may also be penalized if we fail to complete our projects on time as agreed with the local planning activities.

Increases in the price of raw materials or labor costs and the fluctuation of real estate prices in China, generally, and in Shenzhen, particularly, may increase our cost of sales and reduce our revenues and earnings.

We depend on our suppliers to provide us with sufficient quantities of raw materials such as steel, cement, sand, ballast and timber at acceptable prices and in a timely manner. As we are a new comer to the real estate development industry, we do not have long-term relationships with these suppliers and typically engage them only on a per project basis. Our project-specific supply contracts usually last only as long as the life of the individual project and we have not identified any other project for development beyond Nam Tai Inno Park and Nam Tai Inno City. As such, during times of short supply or price hikes, we may have to pay significantly higher prices to obtain sufficient raw materials or locate alternative suppliers. We have not entered into any raw materials hedging contracts. We also need raw materials of acceptable quality to maintain the quality of our work. Any failure to obtain adequate raw materials, or failure to do so on commercially acceptable terms and in a timely manner, could interfere with our operations and adversely affect the results of our operations. Our future revenues and earnings from leasing or selling properties are subject to the fluctuation of the real estate prices in China, particularly in Shenzhen. We may encounter substantial cost increases, cost overruns or delays in connection with the future development of our projects.

Our construction business, financial condition and results of operations may be affected by adverse weather conditions and natural disasters.

Adverse weather conditions, such as typhoons, flooding and heavy or sustained rainfall and natural disasters such as earthquakes, landslides or mudslides, may prevent us from conducting our construction activities or otherwise affect our productivity, preventing us from completing our project development on schedule, delaying our receipt of payment and possibly causing us to incur increased operating expenses. Unusually severe, intense or non-seasonal weather conditions could therefore have an adverse effect on our business, financial condition and results of operations.

We face competition from developers in close proximity.

As we seek to grow our real estate portfolio by developing more of our own projects, including Nam Tai Inno Park and Nam Tai Inno City, income from these projects will become an increasingly important contributor to our revenue going forward. The success of our sales and leasing strategies for our properties, however, is not assured. An increase in the number of competing properties by developers in close proximity could increase competition for purchasers and tenants, and force us to reduce rent or sale prices or incur additional costs to make our properties more attractive. Moreover, competition among real estate developers may result in an increase in costs or a shortage of raw materials, an oversupply of properties, an inability to sell such properties, or an increase in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect our business, financial condition and results of operations. If we cannot remain competitive against other property developers in the areas in which our properties are situated, our profitability and prospects could be adversely affected.

We may not be able to compete successfully against our current or future competitors.

Some of our current and future competitors have competitive advantages over us, including more well-known brands, new and different business models, lower cost, larger customer bases, more experience in real estate development and greater financial, marketing, technology, human resources, and other expertise and resources. We cannot assure that we will always be able to successfully compete against our current or future competitors. If we are unable to compete

successfully with our current or future competitors, our business, financial condition and results of operations could be adversely affected.

The appraised values of our properties may be different from the actual realizable value and are subject to change.

The appraised values of our properties made available by us on our website were prepared by Savills, Cushman & Wakefield and Jones Lang LaSalle as real estate feasibility studies that are based on multiple assumptions containing elements of subjectivity and uncertainty, including, among other things, that:

- we will complete development projects on time;
- we have obtained or will obtain on a timely basis all approvals from regulators necessary for the development of the projects; and
- we have obtained valid land titles to the development projects.

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As a result, the appraised values of our properties may differ materially from the price we could receive in an actual lease or sale of the properties in the market and should not be taken as their actual realizable value or a forecast of their realizable value. Unforeseeable changes to our development of the property projects, as well as national and local economic conditions, may affect the value of our properties. In particular, the valuation of our properties could stagnate or even decrease if the market for comparable properties in Shenzhen, China experiences a downturn whether as a result of Government policies directed to the property sector or otherwise.

Information contained in or that can be accessed through the website mentioned in this Report does not form part of this Report.

We may be required to write down our long-lived assets, which could result in a significant impairment charge that would adversely affect our operating results.

As of December 31, 2017, we had \$89.4 million in long-lived assets on our balance sheet. In 2017, we also wrote down the demolished buildings on the site of Nam Tai Inno City – Phase I by \$4.6 million. The valuation of our long-lived assets requires us to make assumptions about future interest income. Our assumptions are used to forecast future undiscounted cash flows. Given the current economic environment, uncertainties regarding the duration and severity of these conditions, forecasting future business is difficult and subject to modification. If actual market conditions differ or our forecasts change, we may be required to reassess long-lived assets and we may have to record an impairment charge. Any impairment charge relating to long-lived assets would have the effect of decreasing our earnings or increasing our losses in such period. If we are required to take a substantial impairment charge, our operating results could be materially adversely affected in the periods and year in which the charge is incurred.

We rely on third-party contractors.

Substantially all of our project construction and related work are outsourced to third-party contractors. We are exposed to risks that the performance of our contractors may not meet our level of standards or specifications. Negligence, delay or poor work quality by contractors may result in defects in our buildings or residential units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims. If the performance of any third party contractor is not satisfactory or is delayed, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, the completion of our property developments may be delayed. Although our construction and other contracts contain provisions designed to protect us, we may be unable to successfully enforce these rights and, even if we are able to successfully enforce these rights, the third-party contractors may not have sufficient financial resources to compensate us. Moreover, the contractors may undertake projects from other property developers engage in risky undertakings or encounter financial or other difficulties, such as supply shortages, labor disputes or work accidents, which may cause delays in the completion of our property projects or increases in our costs.

Injury or damages to third parties may arise from construction accidents.

Risk related to injuries or damages to third parties arising from construction accidents is inherent in our business. As a policy, we require and uphold high construction safety standards within our project construction teams, in line with those set by reputable industry organizations in China. We also hold ourselves to the highest applicable safety standards and ensure all of our personnel, and require all of our subcontractors' personnel to, comply with such safety standards through consistent training, supervision and monitoring. Notwithstanding the foregoing, third parties may claim for damages from us in the event of accidents during construction, resulting in higher costs of construction. We cannot assure you that such injuries or damages to third parties and subsequent claim for damages would not occur. Although we require our subcontractors to comply with our safety and health policies in our contracts, we cannot assure you that our subcontractors will adhere to these safety provisions at all times. We may also be subject to claims

from customers or other third parties, resulting from the subsequent use of facilities and products we have constructed. If we fail to adequately protect ourselves or third parties against these potential liabilities, we could incur substantial costs, which could have an adverse effect on our business, financial condition and results of operations. Furthermore, any harm caused to third parties due to our operations could damage our reputation and relationship with regulators and other customers, which may hinder our chances to win tenders for new projects.

We are subject to potential environmental liability.

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations that apply to any given development site vary significantly according to the site's location and environmental condition, the present and former uses of the site and the nature of the adjoining properties. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally-sensitive regions or areas. Although we have received environmental assessments by the local PRC environmental to proceed with our projects, it is possible that these reviews did not reveal all environmental liabilities.

We also cannot assure you that the PRC government will not change the existing laws and regulations or impose additional or stricter laws or regulations, the compliance of which may cause us to incur significant capital expenditure.

The property development business is subject to claims under statutory quality warranties.

Under PRC law, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. We will be required to provide these warranties to our tenants and customers. Generally, we receive quality warranties from our third-party contractors with respect to our property projects. If a significant number of claims were brought against us under our warranties and if we were unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the money retained by us to cover our payment obligations under the quality warranties was not sufficient, we could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm our reputation, and materially adversely affect our business, financial condition and results of operations.

Damage to or other potential losses involving, our assets and business may not be covered by insurance

We face risks in our transition to the property development and management business. We maintain comprehensive property and liability insurance policies with coverage features and insured limits that we believe are consistent with market practice in the real estate industry in Shenzhen, China. Nonetheless, the scope of insurance coverage that we can obtain, or our ability to obtain such coverage at commercially reasonable rates, may be limited. In addition, our contractors may not be sufficiently insured themselves or have the financial ability to absorb any losses that arise with respect to our projects or pay our claims. Moreover, there are certain types of losses, which are currently uninsurable in China. While we believe that our practice is in line with the general practice in the PRC property development industry, there may be instances when we will have to internalize losses, damages and liabilities because of the lack of insurance coverage, which may in turn adversely affect our financial condition and results of operations. Furthermore, we generally do not maintain any business disruption insurance policies. As such, certain types of losses, generally of an unforeseen or catastrophic nature, such as fires, natural disasters, terrorist acts, the outbreak of infectious disease or any resulting losses causing disruptions to our business operations, may be uninsurable, or the required insurance premiums may be too expensive to justify obtaining insurance. In the event of a substantial loss, the insurance coverage we carry may not cover our damages, or be sufficient to pay the full market value or the replacement cost of our lost investment.

If we suffer any uninsured losses, damages or liabilities in the course of our business operations, we may not have sufficient funds to cover any such losses, damages or liabilities. Accordingly, we could lose some or all of the capital we have invested in a building or piece of land, as well as the anticipated future revenue from that building or piece of land. To the extent that we suffer losses or damages as a result of a risk for which we do not maintain insurance, or which is not covered by our insurance policies, or where the cost of the losses or damages exceeds our insurance coverage, we will have to bear such costs, which could have a material adverse effect on our business, financial results of operations and condition.

We face litigation risks and regulatory disputes in the course of our business.

In the ordinary course of our business, claims and disputes involving project owners, customers, labor subcontractors, suppliers, business partners and regulatory authorities may be brought against us and by us in connection with our contracts or business. Claims may be brought against us for alleged defective or incomplete work, liabilities for defective products, related personal injuries and death, damage to or destruction of property, breaches of warranty and late completion of the project, as well as claims relating to taxes, among others. Such claims can involve actual damages and liquidated damages. If found to be liable, we would have to incur a charge against earnings to the extent

a reserve had not been established for the matter in our accounts, or to the extent the claims were not sufficiently covered by our insurance. Claims between us and our labor subcontractors and vendors may include claims similar to those described above. We may also engage in disputes with regulatory authorities on tax-related matters in connection with our business and operations. Both claims brought against us and by us, if not resolved through negotiation, are often subject to lengthy and expensive litigation or arbitration proceedings such that the amounts ultimately realized from claims by us could differ from the balances included in our consolidated financial statements. Such claims could therefore have an adverse impact on our business, financial condition and results of operations.

Certain information contained herein is derived from unofficial publications.

Certain information in this Report relating to the growth of the Shenzhen city, including statistics relating to the growth of its GDP and industry sectors, is derived from various government publications. Such information may not be consistent with those prepared by other independent market research within or outside of the mainland China. Such information also has not been independently verified by us.



The PRC legal system has inherent uncertainties that could materially and adversely impact our ability to enforce the agreements governing our properties and their development and to do business.

We occupy our former manufacturing facilities under China land use agreements with agencies of the PRC government. Our operations depend on our relationship with the local governments in the regions which our facilities are located. Our operations and prospects could be materially and adversely affected by the failure of the local government to honor these agreements or an adverse change in the law governing them. In the event of a dispute, enforcement of these agreements could be difficult in China. Unlike the United States, China has a civil law system based on written statutes in which judicial decisions have limited precedential value. The PRC government has enacted laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, its experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes in China is unpredictable. These matters may be subject to the exercise of considerable discretion by agencies of the PRC government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination.

Changes to PRC tax laws and heightened efforts by the PRC tax authorities to increase revenues have subjected us to greater taxes.

Under PRC law before 2008, we were afforded a number of tax concessions by, and tax refunds from, PRC tax authorities on a substantial portion of our operations in China by reinvesting all or part of the profits attributable to our PRC manufacturing operations. However, on March 16, 2007, the PRC government enacted a unified enterprise income tax law or EIT, which became effective on January 1, 2008. Prior to the EIT, as a foreign invested enterprise, or “FIE”, located in Shenzhen, China, our PRC subsidiaries enjoyed a national income tax rate of 15% and were exempted from the 3% local income tax. The preferential tax treatment given to our subsidiaries in the PRC as a result of reinvesting their profits earned in previous years in the PRC also expired on January 1, 2008. Under the EIT, most domestic enterprises and FIEs are subject to a single PRC enterprise income tax rate of 25% from 2012 onwards. For information on the EIT rates as announced by the PRC’s State Council for the transition period until year 2013, please see the table in ITEM 5. Operating and Financial Review and Prospects on page 40 of this Report.

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various administrative regions and countries in which we have assets or conduct activities; however, our tax position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. According to Circular of the State Administration of Taxation on Issues Related to the End of Various Preferential Tax Policies for Foreign and Foreign-Invested Enterprises (STA [2008] No. 23) published by the State Administration of Taxation of the PRC) on February 27, 2008, a FIE may be required to pay back the taxes previously exempted as a result of the preferential tax treatment enjoyed in accordance with the Income Tax Law of People’s Republic of China for Foreign Investment Enterprises and Foreign Enterprise, if such FIE no longer meets the conditions for preferential tax treatment after 2008 due to a change in its nature of business or if the term of its business operation is determined to be less than ten years since its inception. As we have ceased our production operations at all of our manufacturing facilities and are switching our core business to property development and management, our tax position may be subject to review by relevant tax authorities, and we cannot determine in advance whether, or the extent to which, such tax policy may require us to pay taxes or make payments in lieu of taxes.

We may be deemed to be an investment company under the United States Investment Company Act of 1940, which could have a significant negative impact on our results of operations.

We may be deemed to be an investment company under the United States Investment Company Act of 1940 (the “1940 Act”), and may suffer adverse consequences as a result. Generally, the 1940 Act provides that a company is an investment company if the company (i) holds itself out as or proposes to be engaged primarily in the business of investing, reinvesting or trading in securities or (ii) is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire “investment securities” having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities or cash items) on an unconsolidated basis. For purposes of the foregoing test, investment securities include, among other things, securities of non-majority owned businesses.

Due to deteriorating business conditions, we ceased our original core LCM production business in April 2014, and are switching over to property development and management. In addition, we completed the sale of all of our EMS manufacturing equipment as of September 2014 to third parties and our last remaining production line in Wuxi was removed in September 2014. As a result of these transactions, we have a significant amount of cash. See ITEM 4. Information on the Company — Historical Business Overview for additional information. Consequently, there is a risk that we could be deemed to be an investment company.

We intend to continue to conduct our businesses and operations so as to avoid being deemed to be an investment company. If, nevertheless, we are deemed to be an investment company, because we are a foreign company, in the absence of a grant by SEC of an exemptive order permitting us to register under the 1940 Act, the 1940 Act would prohibit us and any person deemed to be an underwriter of our securities from offering for sale, selling or delivering after sale, in connection with a public offering, any security issued by us in the United States. Additionally, we may be unable to continue operating as we currently do and might need to acquire or sell assets that we would not otherwise acquire or sell in order to avoid being treated as an “investment company” as defined under the 1940 Act. We may incur significant costs and management time in this regard, which could have a significant negative impact on our results of operations.

We believe we were a passive foreign investment company for 2017 and we may be a passive foreign investment company for 2018, which could result in adverse U.S. federal income tax consequences for U.S. investors.

The determination of whether we are a passive foreign investment company, or PFIC, in any taxable year is made on an annual basis after the close of that year and depends on the composition of our income and the nature and value of our assets, including goodwill. Specifically, we will be classified as a PFIC if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either (i) 75% or more of our gross income for such taxable year is passive income (the “PFIC income test”), or (ii) 50% or more of the value of our assets (based on an average of the quarterly values of the assets during such year) are passive assets, which generally means that they either produce passive income or are held for the production of passive income (the “PFIC asset test”).

Although not free from doubt, we believe we were a PFIC for U.S. federal income tax purposes for 2017. The PFIC asset test requires a determination of the fair market value of each asset and a determination of whether such asset produces or is held for the production of passive income and involves complex legal issues. We have not made a determination of the fair market value of our assets for 2017 and do not plan to do so for 2018, and we cannot anticipate our market capitalization for 2018. Accordingly, we may be treated as a PFIC for 2017 under the PFIC asset test, or under the PFIC income test, or both. Our characterization as a PFIC during any year could result in adverse U.S. federal income tax consequences for U.S. investors. For example, if we were a PFIC in 2017 or in any other taxable year, U.S. investors who owned our common shares during such year generally would be subject to increased U.S. tax liabilities and reporting requirements.

Given the complexity of the issues regarding our classification as a PFIC, U.S. investors are urged to consult their own tax advisors for guidance as to our PFIC status. For further discussion of the adverse U.S. federal income tax consequences arising from the classification as a PFIC see “Taxation—United States Federal Income Tax Consequences” beginning on page 65 of this Report.

Changes in foreign exchange regulations of China could adversely affect our operating results.

Some of our earnings are denominated in yuan, the base unit of the RMB. The People’s Bank of China, or PBOC, and the State Administration of Foreign Exchange (“SAFE”) regulate the conversion of RMB into foreign currencies. Under the current unified floating exchange rate system, the PBOC publishes a daily exchange rate for RMB based on the previous day’s dealings in the inter-bank foreign exchange market. Financial institutions may enter into foreign exchange transactions at exchange rates within an authorized range above or below the exchange rate published by the PBOC according to market conditions. Since 1996, the PRC government has issued a number of rules, regulations and notices regarding foreign exchange control designed to provide for greater convertibility of RMB. Under such regulations, any FIE must establish a “current account” and a “capital account” with a bank authorized to deal in foreign exchange. Currently, FIEs are able to exchange RMB into foreign exchange currencies at designated foreign exchange banks for settlement of current account transactions, which include payment of dividends based on the board resolutions authorizing the distribution of profits or dividends of the company concerned, without the approval of

SAFE. Conversion of RMB into foreign currencies for capital account transactions, which include the receipt and payment of foreign currencies for loans and capital contributions, continues to be subject to limitations and requires the approval of SAFE. There can be no assurance that we will be able to obtain sufficient foreign currencies to make relevant payments or satisfy other foreign currency requirements in the future.

Changes in currency exchange rates involving the RMB had and could continue to significantly affect our financial results.

For 2014 and earlier, our functional currencies were U.S. dollars and Hong Kong dollars. Our financial results were affected by currency fluctuations, resulting in total foreign exchange gains and losses. Effective from April 1, 2015, the Company's subsidiaries in China changed their functional currency from the U.S. dollar to the Renminbi. This change was made due to the progress of our property development projects in China, which caused our subsidiaries' primary operating activities to be transacted in Renminbi and these entities to primarily generate and expend cash in Renminbi.

As the majority of our assets and our primary operating activities are denominated in Renminbi, the translation of Renminbi-denominated assets to U.S. dollar for our reporting purposes can result in a foreign exchange loss. We expect to continue to see fluctuations in the reporting of foreign exchange loss/gain in the financial statements due to the movement of Renminbi against the U.S. dollar. The fluctuation of foreign exchange rate will affect the amount for translation the financial statement in function currency to reporting currency and the impact was recorded in other comprehensive income (loss) in the equity.

Our declaration and payment of dividends is not assured. Although our Board has declared dividends for 2014, 2015, 2016, 2017 and 2018, we may not declare or pay dividends thereafter.

We declared the payment of quarterly dividends of \$0.02, \$0.02, \$0.02, \$0.07 and \$0.07 per share for 2014, 2015, 2016, 2017 and 2018, respectively. The payment of dividends in 2014, 2015, 2016, 2017 and 2018 does not necessarily mean that dividend payments will continue thereafter. Whether future dividends after 2018 will be declared will depend on our future growth and earnings at each relevant period, of which there can be no assurance, and our cash flow needs for our business transformation. Accordingly, there can be no assurance that cash dividends on the Company's common shares will be declared beyond those declared for 2018, what the amounts of such dividends will be or whether such dividends, once declared for a specific period, will continue for any future period, or at all. For additional information on the dividends we declared for 2018 and historically, please see ITEM 8. Financial Information — Dividends on page 60 of this Report.

Payment of dividends by our subsidiaries in the PRC to our subsidiaries outside of the PRC and to us, as the ultimate parent, is subject to restrictions under PRC law. If we determine to continue our payment of dividends to our shareholders, the PRC tax law could force us to reduce the amount of dividends we have historically paid to our shareholders or possibly eliminate our ability to pay any dividends at all.

Under PRC law, dividends may only be paid out of distributable profits. Distributable profits with respect to our subsidiaries in the PRC refers to after-tax profits as determined in accordance with accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many respects from the calculation under U.S. GAAP. As a result, our subsidiaries in the PRC may not be able to pay a dividend in a given year as determined under U.S. GAAP. China's tax authorities may also change the determination of income which would limit our PRC subsidiaries' ability to pay dividends and make other distributions.

Prior to the EIT law, which became effective on January 1, 2008, PRC-organized companies were exempt from withholding taxes with respect to earnings distributions, or dividends, paid to shareholders of PRC companies outside the PRC. However, under the EIT, dividends payable to foreign investors which are derived from sources within the PRC are subject to income tax at the rate of 5% to 15% by way of withholding unless the foreign investors are companies incorporated in countries which have tax treaty agreements with the PRC and then the rate agreed by both parties will be applied. For example, under the terms of the tax treaty between Hong Kong and the PRC, which became effective in December 2006, distributions from our PRC subsidiaries to our Hong Kong subsidiary, will be subject to a withholding tax at a rate ranging from 5% to 10%, depending on the extent of ownership of equity interests held by our Hong Kong subsidiary in our PRC enterprises. As a result of this PRC withholding tax, amounts available to us in earnings distributions from our PRC enterprises will be reduced. Since we derive most of our profits from our subsidiaries in the PRC, the reduction in amounts available for distribution from our PRC enterprises could, depending on the income generated by our PRC subsidiaries, force us to reduce, or possibly eliminate, the dividends we have paid to our shareholders historically. For this reason, or other factors, we may decide not to declare dividends in the future. If we do pay dividends, we will determine the amounts when they are declared and even if we do declare

dividends in the future, we may not continue them in any future period.

The market price of our shares will likely be subject to substantial price and volume fluctuations.

The markets for equity securities have been volatile and the price of our common shares has been and could continue to be subject to wide fluctuations in response to variations in our operating results, news announcements, trading volume, sales of common shares by our officers, directors and our principal shareholders, customers, suppliers or other publicly traded companies, general market trends both domestically and internationally, currency movements and interest rate fluctuations. Other events, such as the issuance of common shares upon the exercise of our outstanding stock options could also materially and adversely affect the prevailing market price of our common shares.

Further, the stock markets have often experienced extreme price and volume fluctuations that have affected the market prices of the equity securities of many companies and that have been unrelated or disproportionate to the operating performance of such companies. These fluctuations may materially and adversely affect the market price of our common shares.

The interests of our largest shareholder may differ from the interests of other shareholders.

Based on the Schedule 13D/A filed with the SEC on December 15, 2017, Kaisa Group Holdings Ltd. (“Kaisa”) beneficially owned approximately 24.5% of our outstanding shares as of December 14, 2017. An affiliate of Kaisa, Mr. Ying Chi Kwok, also serves as our chief executive officer and executive director. Our company is mindful of protecting the interest of minority shareholders. Our corporate governance procedures, including the election of a board that comprises of majority independent directors, is set up to safeguard the interests of all shareholders, particularly our minority shareholders, and not to favor any significant shareholder. However, under most circumstances, we cannot prevent companies that are controlled by Kaisa or its affiliates from engaging in activities that may compete directly with the development of our Nam Tai Inno Park and Nam Tai Inno City projects or other activities that may have an adverse effect on our business. Further, as shareholders, they could also influence the outcome of any corporate transaction or other matters submitted to our shareholders for approval, including the election of directors, mergers and acquisitions, and other significant corporate actions, to the extent they are not required to abstain from voting in respect of such transactions. The interests of Kaisa and its affiliates may differ significantly from, or compete with, our interests or the interests of our other shareholders, and we cannot assure you that Kaisa and its affiliates would always exercise influence over us in a manner that is consistent with the interests of our other shareholders

We rely on the support of our key management members and Kaisa.

We have begun certain strategic cooperation with Kaisa, including hiring a number of engineers and real estate professionals from Kaisa to join the Company as officers and employees, as well as appointed one of Kaisa’s founders, Mr. Ying Chi Kwok, as an Executive Director and Chief Executive Officer of our Company together with other Kaisa affiliates Ms. Yu Zhang as our Chief Financial Officer and Ms. Xiaoxia (Shirley) Yin as our Project Director. We also expect to continue to consult with Kaisa from time to time, leveraging Kaisa’s knowledge and experience in the areas of construction and real estate development. We depend on the services provided by these key management members that have pre-existing affiliation with Kaisa. Competition for management talent is intense in the property development sector in the PRC. In particular, we are highly dependent on Mr. Kwok Ying Chi, our Executive Director and Chief Executive Officer. We do not maintain key employee insurance. In the event that we lose the services of any key management member, we may be unable to identify and recruit suitable successors, from Kaisa or elsewhere, in a timely manner or at all, which will adversely affect our business and operations. If we cannot attract and retain suitable human resources, especially at the management level, our business and ability to complete our projects on time and within budget may be adversely affected.

Our directors, senior management and principal shareholders own a large portion of our common stock allowing them to control or substantially influence the outcome of matters requiring shareholder approval.

On January 31, 2018, members of our senior management, our Board of Directors and principal shareholders including Kaisa as a group beneficially owned approximately 44.0% of our common shares. As a result, acting together, they may be able to control and substantially influence the outcome of all matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This ability may have the effect of delaying or preventing a change in control of Nam Tai, or causing a change in control of Nam Tai that may not be favored by our other shareholders.

Regulatory initiatives in the United States, such as the Dodd-Frank Act and the Sarbanes-Oxley Act have increased, and may continue to increase the time and costs of being a U.S. public company and any further changes would likely continue to increase our costs.

In the United States, changes in corporate governance practices due to the Dodd-Frank Act and the Sarbanes-Oxley Act, changes in the continued listing rules of the New York Stock Exchange, new accounting pronouncements and new regulatory legislation, rules or accounting changes have increased our cost of being a U.S. public company and may have an adverse impact on our future financial position and operating results. These regulatory changes and other legislative initiatives have made some activities more time-consuming and have increased financial compliance and administrative costs for public companies, including foreign private issuers like us. In addition, any future changes in regulatory legislation, rules or accounting may cause our legal and accounting costs to further increase. These new rules and regulations require increasing time commitments and resource commitments from our company, including from senior management. This increased cost could negatively impact our earnings and have a material adverse effect on our financial position results of operations.

Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors or fraud, or in informing management of all material information in a timely manner.



Our management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that our disclosure controls and internal controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur or may not be detected.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. GAAP. Any changes in estimates, judgments and assumptions could have a material adverse effect on our business, financial position and results of operations.

The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to changes in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operation.

It may be difficult to serve us with legal process or enforce judgments against our management or us.

We are a British Virgin Islands holding corporation with subsidiaries in Hong Kong and China. Substantially, all of our assets are located in the PRC. In addition, most of our directors and executive officers reside within the PRC or Hong Kong, and substantially all of the assets of these persons are located within the PRC or Hong Kong. It may not be possible to affect service of process within the United States or elsewhere outside the PRC or Hong Kong upon our directors, or executive officers, including effecting service of process with respect to matters arising under United States federal securities laws or applicable state securities laws. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in the United States or many other jurisdictions in relation to any matter, including securities laws, may be difficult or impossible. An original action may be brought against our assets and our subsidiaries, our directors and executive officers in the PRC only if the actions are not required to be arbitrated by PRC law and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

No treaty exists between Hong Kong or the British Virgin Islands and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of Hong Kong and the British Virgin Islands are generally

prepared to accept a foreign judgment as evidence of a debt due. An action may then be commenced in Hong Kong or the British Virgin Islands for recovery of this debt. A Hong Kong or British Virgin Islands court will only accept a foreign judgment as evidence of a debt due if:

- the judgment is for a liquidated amount in a civil matter;
- the judgment is final and conclusive;
- the judgment is not, directly or indirectly, for the payment of foreign taxes, penalties, fines or charges of a like nature (in this regard, a Hong Kong court is unlikely to accept a judgment for an amount obtained by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained by the person in whose favor the judgment was given);
- the judgment was not obtained by actual or constructive fraud or duress;
- the foreign court has taken jurisdiction on grounds that are recognized by the common law rules as to conflict of laws in Hong Kong or the British Virgin Islands;

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the proceedings in which the judgment was obtained were not contrary to natural justice (i.e. the concept of fair adjudication);

- the proceedings in which the judgment was obtained, the judgment itself and the enforcement of the judgment are not contrary to the public policy of Hong Kong or the British Virgin Islands;

the person against whom the judgment is given is subject to the jurisdiction of a foreign court; and

the judgment is not on a claim for contribution in respect of damages awarded by a judgment, which fall under Section 7 of the Protection of Trading Interests Ordinance, Chapter 7 of the Laws of Hong Kong.

Enforcement of a foreign judgment in the PRC, Hong Kong or the British Virgin Islands may also be limited or affected by applicable bankruptcy, insolvency, liquidation, arrangement and moratorium, or similar laws relating to or affecting creditors' rights generally, and will be subject to a statutory limitation of time within which proceedings may be brought.

Future issuances of preference shares could materially and adversely affect the holders of our common shares or delay or prevent a change of control.

Our Board of Directors may amend our Memorandum and Articles of Association without shareholder approval to create from time to time, and issue, one or more classes of preference shares (which are analogous to preferred stock of corporations organized in the United States). While we have never issued any preference shares and we have none outstanding, we could issue preference shares in the future. Future issuance of preference shares could materially and adversely affect the rights of the holders of our common shares, or delay or prevent a change of control.

Our status as a foreign private issuer in the United States exempts us from certain of the reporting requirements under the Securities Exchange Act of 1934, and corporate governance standards of the New York Stock Exchange, or NYSE limiting the protections and information afforded to investors.

We are a foreign private issuer with the meaning of the rules under the Securities Exchange Act of 1934, as such we are exempt from certain provisions applicable to a U.S. domestic public company, including:

the rules under the Securities Exchange Act of 1934 requiring the filing with the SEC of quarterly reports on Form 10-Q, current reports on Form 8-K or annual reports on Form 10-K;

the section of the Securities Exchange Act of 1934 regulating the solicitation of proxies, consents or authorizations respect of a security registered under the Exchange Act;

the section of the Securities Exchange Act of 1934 requiring directors, officers and 10% holders to file public reporting of their stock ownership and trading activities and imposing liability on insiders who profit from trades made in a short period of time;

the selective disclosure rules under Regulation FD restricting issuers from selectively disclosing material nonpublic information; and

the sections of the Securities Exchange Act of 1934 requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short-swing" trading transaction (i.e. a purchase and sale, or sale and purchase, of the issuer's equity securities within less than six months).

In addition, because the Company is a foreign private issuer, certain corporate governance standards of the NYSE that apply to domestic companies listed on that exchange may not be applicable to us. For information regarding whether our corporate governance standards differ from those applied to U.S. domestic issuers, see the discussion under "NYSE listed Company Manual Disclosure" in ITEM 6. Directors and Senior Management of this Report.

Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States or traded on the NYSE. See reference "\*" on page 52 of this Report under the heading "Compensation on an Individual Basis" for information and risks associated with disclosures we have made in this Report or may make in our proxy statements regarding compensation we have

paid to our directors and senior management on an individual basis.

We face uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Share Transfer ("Circular 698") released in December 2009 by China's State Administration of Taxation (SAT), effective as of January 1, 2008.

Where a foreign investor indirectly transfers equity interests in a PRC resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction where the effective tax burden is less than 12.5% or where the offshore income of its residents is not taxable, the foreign investor is required to provide the tax authority in charge of that PRC resident enterprise with the relevant information within 30 days of any such transfer.

Where a foreign investor indirectly transfers equity interests in a PRC resident enterprise through the abuse of form of organization and there are no reasonable commercial purposes such that the corporate income tax liability is avoided, the tax authority has the power to re-assess the nature of the equity transfer in accordance with the “substance-over-form” principle and deny the existence of the offshore holding company that is used for tax planning purposes. “Income derived from equity transfers” as mentioned in Circular 698 refers to income derived by non-resident enterprises from direct or indirect transfers of equity interest in the PRC resident enterprises, excluding share in the PRC resident enterprises that are bought and sold openly on the stock exchange.

While the term “indirectly transfer” is not defined, we understand that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with the PRC. The relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax in the relevant country or jurisdiction, and the process of the disclosure to the tax authority in charge of that PRC resident enterprise. Meanwhile, there are no formal declarations with regard to how to decide “abuse of form of organization” and “reasonable commercial purpose,” which can be utilized by us to determine if our company complies with the Circular 698.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

As an NYSE listed company, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, may not be subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we may be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

#### PRC Regulations on Real Estate Development and Management

The PRC government regulates the real estate industry. This section summarizes the principal PRC regulations relating to our business.

We operate our business in China under a legal regime consisting of the National People’s Congress, State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the Ministry of Housing and Urban-Rural Development, or the MOHURD, the Ministry of Land and Resources, or the MLR, the Ministry of Commerce, or the MOFCOM, the National Development and Reform Commission, or the NDRC, the State Administration for Industry and Commerce, or the SAIC, the State Administration of Taxation, or the SAT, and the State Administration of Foreign Exchange, or the SAFE, and their respective authorized local counterparts.

#### Shenzhen City Zoning Measures

Urban Planning Criteria and Standards of Shenzhen City promulgated by the People's Government of Shenzhen City on January 1, 2014, among other things, classifies zoning of land. "M" stands for the industrial land that is mainly used for the production, manufacture and fine machining of products. Other auxiliary use includes research, design, testing, management and other activities. Within the M zone, "M-1" refers to common industrial land that is mainly zoned for factory buildings for the production and manufacturing. Other uses for this type of land include warehouse, small business, staff dormitory, attachable public facilities, attachable transportation facilities and other auxiliary facilities. "M-0" refers to a new type of industrial zone that combines research, originality, design, test pilot production, pollution-free production, other innovative industry and relevant supporting services. Land zoned as such is mainly used for the factory buildings (pollution-free production) and research and development building and can also be used for the associated commercial and staff building, attachable public facilities, attachable transportation facilities and other auxiliary facilities.

Compared to M-1, M-0 has a lower minimum usable area for partial transfer of property rights, which for M-1 according to current regulations is 500 square meters, and for M-0 is 180 square meters. If the draft for public comments on “the Measures on Administration of Industrial Block and Line of Shenzhen City” issued on December 22, 2017 is passed and formally promulgated, the minimum usable area for subdivision and partial transfer of property rights will be raised to 1,000 square meters for M-1 and 500 square meters for M-0. We believe a smaller subdivision and partial transfer area will be more beneficial to us for the sale of constructed units, as it would give us greater flexibility. Further, buildings in M-0 zone must follow certain legal planning construction index allocation for a percentage of the buildings to be designated as research and development offices, commercial, and apartments, while index for buildings in M-1 zone must be designated as factory buildings, small commercial and auxiliary dormitory. As a result, we believe the planning construction index for M-0 zone offers us greater commercial advantages. Finally, the permitted floor area ratio for M-0 is 6:1, compared with 4:1 for M-1. Higher floor area ratio means permission for larger building areas and potentially higher value for the projects as constructed.

As stipulated in the Measures on Administration of Industrial Occupancy Zoning Transformation of the City Renewal Project in the Baoan district, Shenzhen, the site of Phase I of Nam Tai Inno City falls within the city renewal project of the Baoan district industrial red line zone and can generally only be rezoned into the common industrial zone M-1, unless otherwise approved by relevant government department to change into the new type industrial zone, M-0.

Currently, the site of our Nam Tai Inno Park is zoned as M-1 with 50 years of Land Use Rights starting from 2007. Phase I of Nam Tai Inno City, the eastern section, is zoned as M-0 with 50 years of Land Use Rights starting from 1993, but we plan to re-execute the land use rights contract with the urban planning, land and resource department in the second quarter of 2018, which would restart the 50 years Land Use Rights from the date of re-execution. Phase II of Nam Tai Inno City, the western section, is currently zoned as M-1 with 50 years of Land Use Rights starting from 1999. We plan to apply for the M-0 zoning approval on June 2020, after our existing facilities on the site have aged for 15 years, or earlier if permitted. We plan to re-execute the land use rights contract at the same time, which would also restart the 50 years Land Use Rights from the date of re-execution.

#### Shenzhen City Renewal Measures

Our two development projects, Nam Tai Inno Park and Nam Tai Inno City are located within the municipality of Shenzhen city. Our development must be made in compliance with the relevant rules and regulations of Shenzhen City.

The Shenzhen City Renewal Measures promulgated by the Shenzhen government on November 12, 2016 restricts city renewal projects as follows:

- city renewal refers to activities in certain types of building construction in areas of the city (including old industrial parks, old commercial districts, old residential districts, urban villages and old housing districts) and existing of comprehensive improvement, functional alteration, or demolition and reconstruction ;
- demolition and reconstruction of a city renewal project should strictly follow the city renewal unit plan and city annual renewal plan; and
- the responsible body of demolition and reconstruction of a city renewal project should sign a land use rights supplementary contract or re-execute a land use rights contract with the Urban Planning, Land and Resource department after obtaining the documents of approval of city renewal project. In such circumstances, the term for land use rights will be recalculated and the responsible body needs to pay the additional premium according to the relevant regulations.

Our Nam Tai Inno City project is a demolition and reconstruction city renewal project. Phase I of the Nam Tai Inno City project has received the approval documents for city renewal. We plan to re-execute the land use rights contract with the urban planning, land and resource department in the second quarter of 2018, so that the 50 years term of Land

Use Rights will restart from the date of the re-execution. As a part of re-executing the land use rights contract, however, we are required to pay an additional land premium which would bring up the costs basis of our land. The amount of the land premium differs based on the different property usage or transfer method in the future. As we obtained our land at a relatively low cost historically, we may be subject to significant additional land premium when we re-execute the land use right contracts.

The Interim Measures on Strengthening and Improving City Renewal Implementation promulgated by Shenzhen government on December 29, 2016 and effective as of January 1, 2017 provide that:

to apply to demolish and reconstruct buildings as a part of a city renewal projects, the age of the building must be no less than 20 years for buildings located in residential districts; and for buildings located in industrial or commercial districts, not less than 15 years; and

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to demolish and reconstruct buildings as a part of a city renewal project located in the state-owned industrial land, warehousing land, land for logistics purposes, land for urban infrastructure and public service facilities' updating and rebuilding for industrial purposes or for industry that government encourages to develop, their correction factor for land granting premium based on the public benchmark land price will be: 0.1 for private use; 0.7 for wholly transfer; 1.0 for partial transfer of industrial plants or new industrial occupancy; and 5 for auxiliary facilities.

Our Nam Tai Inno City project is a demolition and reconstruction city renewal project in an industrial district, the buildings of which shall be no less than 15 years old before it can be demolished and reconstructed. The buildings located on the site of Phase I of Nam Tai Inno City, the eastern section, were built in 1996, thus they have satisfied the 15 years age requirement. However, for buildings located on the site of the Phase II of Nam Tai Inno City, the western section, they will satisfy the 15 years age requirement on schedule in June 2020. However, we may speed up the process for earlier zoning approval through discussions with the relevant authorities.

Furthermore, the floor area ratio of Nam Tai Inno City project has greatly increased from 2.3: 1 for our prior facilities located on the site of Phase I of Nam Tai Inno City to 6:1 for Phase I of Nam Tai Inno City. For Phase II of our Nam Tai Inno City project, it is also expected that the floor area ratio will increase from 1.6:1 from our prior facilities to 6:1 for Phase II of Nam Tai Inno City. This results in a large increase in the floor area ratio in the Nam Tai Inno City project compared to the floor area ratio granted to us previously for our prior facilities. According to the regulations and policy direction, further limitations, including a requirement that certain portion of a renewal project of old industrial districts, especially ones with a large increase in floor area ratio, may also be subject to usage limitations or required to be self-owned and not sold to third parties, which could further limit our ability to sell our units.

On December 22, 2017, the Economic, Trade and Information Commission and Urban Planning, Land and Resources Commission of Shenzhen Municipality jointly promulgated Measures on Administration for Industrial Block Line of Shenzhen Municipality (the draft for public comments), which, among other things, provides:

¶ If Industrial land which falls into block line is used for research and development buildings, the proportion reserved for self-ownership should be no less than 60%.

¶ The authority shall strictly control the transformation from M-1 into M-0 within the block line and the whole proportion of such transformation should be no more than 20% within the block line in each district. The transformation should be finally approved by municipal government after district government's collection of suggestions of Urban Planning, Land and Resources Commission and Industry Management Department.

¶ If the transferor transfers industrial land within the first-tier industrial line or partially transfers an industrial building, the transferee must be an industrial enterprise above state designated scale or an enterprise that has been engaged in manufacturing for more than 3 years and has paid all legal tax and the transferee cannot change the usage of buildings. The minimum transfer area of factory building for M-1 or M-0 shall be no less than 1,000 square meters and the minimum transfer area of research and development building for M-0 shall be no less than 500 square meters.

¶ Buildings in the M-0 zone shall be mainly used for construction of the factory buildings (pollution-free production) and research and development buildings. The floor area of factory buildings and research and development buildings shall be no less than 70% of the total floor area. If factory buildings and research and development buildings coexist in a project, the floor area of factory building (including comprehensive buildings combining factory buildings with research and development buildings) shall be no less than 30% of the total floor area.

¶ Factory buildings within both M-1 and M-0 zones shall not be changed to apartments. Research and development buildings and auxiliary facilities shall not adopt apartment-like design. The floor area of one set of offices shall be no more than 50% of the floor area of that floor. The floor area of one set of offices for M-1 shall be no less than 1,000 square meters and 500 square meters for M-0.

¶ The site of Nam Tai Inno City is on an industrial land within the first-tier line of industrial block line where the government strictly controls the proportion of transformation from M-1 into M-0 on this type of land. Phase I of Nam Tai Inno City has obtained the government approval to rezone into M-0, while we plan to apply for M-0 zone on Phase II of Nam Tai Inno City upon the maturity of the building age requirement around June 2020, or earlier

through discussions with the relevant authorities. We may confront difficulty in acquiring such an approval from the government owing to certain proportion requirements within the City Renewal Measures, so that not all M-1 zones can be rezoned as M-0. The requirement that a proportion of industrial land must be dedicated as factory buildings or research buildings also restricts us from developing other types of auxiliary facilities. In addition, the restriction that ownership of industrial buildings must be held by enterprises and the minimum size of subdivision may also affect the sale of our units. We cannot assure you that we will obtain the M-0 zoning for Phase II of our Nam Tai Inno City. If we failed to obtain the M-0 zoning

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approval, we will have to develop Phase II of Nam Tai Inno City under the M-1 zoning approval. Our business, financial condition, and results of operations could be adversely affected as a result.

#### Regulations on Development of a Real Estate Project

The following is a summary of the relevant permits and certificates we must obtain to complete our projects, together with the applicable regulations. Please see “ITEM 4. Information on the Company – Our Land Development Projects – Estimated Timetable for the Two Projects” for the estimated timetable of when we expect to obtain each of the following permits and certificates: (a) Land Use Permit, (b) Land Use Rights Certificates (c) Construction Planning Permit, (d) Construction Permit, (e) Construction Acceptance Certificate, and (f) Property Ownership Certificate.

#### Regulations on Land

The Law of the PRC on Land Administration, promulgated on June 25, 1986 and amended on August 28, 2004 by the Standing Committee of National People’s Congress, distinguishes between the ownership of land and the right to use land. All land in the PRC is either state-owned or collectively-owned, depending on location. Generally, land in urban areas within a city or town is state-owned, and all land in the rural areas of a city or town and all rural land, unless otherwise specified by law, are collectively-owned.

#### Land Use Permit

The Law of the PRC on Urban and Rural Planning, promulgated by the National People’s Congress on October 28, 2007 and effective as of January 1, 2008, as amended on April 24, 2015, replacing the previous City Planning Law of the PRC, and the Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land promulgated by the Ministry of Construction in December 1992 and amended in January 2011, provides that a developer who has obtained land use rights by grant must, after obtaining approval for a construction project and signing a land use rights grant contract, apply to the city planning authority for the Land Use Permit before applying for the land use rights certificate as more fully described below.

Amendment 3 to the land use right grant dated July 8, 2015 for the site underlying our Nam Tai Inno Park project requires us to complete certain building structures by July 7, 2018. If we failed to do so we may be subject to certain penalty.

#### Land Use Rights Certificate

Although all land in the PRC is owned by the governments or by the collectives, private individuals and businesses are permitted to hold, lease and develop land for a specified term without ever owning the land, the duration of which depends on the use purpose of the land. These rights to use land are termed “Land Use Rights”. Under the Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Land in Urban Areas, promulgated on and effective as of May 19, 1990 by the State Council, a system of assignment and transfer of the right to use state-owned land is adopted. Enterprises, companies and other organizations who intend to hold, lease and develop the land, or the “Land Users”, pay a land premium to the government as consideration for the grant of the Land Use Rights on terms of use prescribed by the government, and a Land User may transfer, lease and mortgage or otherwise commercially exploit the land use rights within such terms of use. The land administration authority enters into a contract with the Land User for grant of the land use rights. The Land User pays the land premium as stipulated in the grant contract. After paying the land premium in full, the Land User registers with the land administration authority and obtains a “Land Use Rights Certificate”. The certificate evidences the acquisition of the Land Use Rights. The maximum term with respect to the assigned Land Use Rights are determined respectively in the light of the purposes listed below: (a) 70 years for residential purposes; (b) 50 years for industrial purposes; (c) 50 years for the purposes of education, science, culture, public health and physical education; (d) 40 years for commercial, tourist and recreational

purposes; and (e) 50 years for comprehensive utilization or other purposes.

The Property Law of the PRC, or the Property Law, promulgated on March 16, 2007 and effective as of October 1, 2007, further clarified Land Use Rights in the PRC with the following rules:

- the Land Use Rights for residences will be automatically renewed upon expiry;
- the car parks and garages within the building area planned for vehicle parks must be used to meet the needs of the owners who live in the building first;
- the construction of buildings must abide by relevant laws and regulations with regard to the construction planning and may not affect the ventilation of or lighting to the neighboring buildings; and
- where the Land Use Rights for construction use are transferred, exchanged, used as a capital contribution, donated to others or mortgaged, an application for modification registration must be filed with the registration department.

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### Construction Planning Permit

The Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land promulgated by the Ministry of Construction in December 1992 and amended in January 2011 provides that a developer who has a proposed construction project within the planning area of a city or town must, after obtaining a Land Use Permit, prepare the necessary planning and design work, and submit the detailed planning and design report, together with the Land Use Rights Certificate, to the city planning authority or the town government designated by the provincial government, and apply for the Permit for Construction Works Planning.

Construction Planning Permit is different from Land Use Permit. Land Use Permit is a certificate proving that the land use act such as the location, scope and development intensity of the project corresponds with the requirement of urban planning, while Construction Planning Permit is a certificate proving that the design of construction engineering satisfy the requirement of urban planning.

The Law of the People's Republic of China on Urban and Rural Planning also provides regulations with respect to the formulation, implementation, modification, control, supervision and related legal liability of measures aimed at curbing problems that may arise as a result of conflicts between city and rural construction developments. The scope of the measures includes the planning, layout and construction of cities, towns with administrative status, market towns and villages. In order to effectively prevent construction that is in breach of rules and regulations, the Urban and Rural Planning Law stipulates that where any construction project is commenced without obtaining a Construction Planning Permit, or where a Construction Planning Permit has been obtained but construction has proceeded not in accordance with that permit, the Urban and Rural Planning Department at the county level or above may issue an order to cease construction. In the case that the construction can be remedied to conform to the relevant planning rules, an order can be made to rectify the construction in a prescribed period of time and a fine totaling between 5% to 10% of the total construction cost may be imposed. Where the construction cannot conform to relevant planning rules, an order for its demolition will be issued or, where demolition is not possible, the property and/or illegal income derived from the property will be confiscated and a fine totaling 10% or less of the construction cost will be imposed.

### Construction Permit

On June 25, 2014, the MOHURD promulgated the Measures for the Administration of Construction Permits for Construction Projects, superseding its 1999 version. When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a Construction Permit from the construction authorities at or above the county level according to the Measures for Administration of Granting Permission for Commencement of Construction Works promulgated by the MOHURD in June 2014. According to the Notice Regarding Strengthening and Regulating the Administration of Newly-commenced Projects issued by the General Office of the State Council on November 17, 2007, before commencement of construction, all projects shall fulfill certain conditions, including, among other things, compliance with national industrial policy, development plan, land supply policy and market access standard, completion of all approval and filing procedures, compliance with zoning plan in terms of site and planning, completion of proper land use procedures and obtaining proper environmental valuation approvals and construction permit or report.

Construction Permit is a prerequisite to start the main construction. In addition, Construction Permit is a statutory requirement of engineering acceptance examination, pre-sale and sale of commodity house and registration of property rights. If we fail to obtain the Construction Permit, in a timely manner, or at all, the commencement of engineering construction may be delayed. In such circumstances, we may not be able to complete our engineering construction on time according to the land use contract so that we may need to pay for the liquidated damages and our land may be taken back by the government. Our business, results of operations and financial condition may be

materially and adversely affected.

#### Construction Acceptance Certificate

According to the Development Regulations and the Regulation on the Quality Management of Construction Projects promulgated by State Council on January 30, 2000, as amended on October 7, 2017, and the Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure promulgated by MOHURD in December 2013, after the completion of construction of a project, the property must undergo inspection and receive relevant approvals from local authorities including planning bureaus, fire safety authorities and environmental protection authorities. Thereafter, the property development enterprise shall apply for a certificate of completion at the property development authority under the people's government at the county level or above. Once the examination has been completed, a Construction Acceptance Certificate will be issued. A real estate development project may only be delivered after passing the inspection and acceptance examination. Failure to obtain Construction Acceptance Certificate may affect our ability to delivery commodity houses, if we chose to sell residences as our business model. If we fail to deliver commodity houses on time according to the contract, purchasers may demand us to take the responsibility of breach of contract.

### Property Ownership Certificate

Under the Measures for Administration of Sale of Commodity Properties, developers must submit the documents relating to the application for Property Ownership Certificates to the local real estate administration authorities within 60 days after the delivery of property to customers. The developers are required to assist customers in applying for amendments in the procedures for land use rights and registration procedures for property ownership.

In accordance with the Measures for Administration of Pre-sale of Commodity Properties promulgated by ministry of construction on November 15, 2004 and amended on August 15, 2001 and July 20, 2004, the purchasers must apply for the individual Property Ownership Certificates to the local real estate administration authorities within 90 days after the delivery of pre-sale property to purchasers. The developers are required to assist and provide the purchasers with necessary verifying documents. Where the purchasers fail to obtain the individual Property Ownership Certificates within 90 days thereafter due to the developer's fault, unless otherwise provided between the developers and the purchasers, the developers will be liable for the breach of contract.

Pursuant to Interpretations on Certain Issues Concerning the Application of Law in Trying Cases Involving Disputes over Contracts on Purchase and Sale of Commodity Premises by Supreme People's Court passed on March 24, 2003 and enforced on June 1, 2003, property developers are required to deliver to purchasers then relevant individual Property Ownership Certificates within 90 days after delivery of a presold property or 90 days after execution of sale agreement of a ready-built property or, within a time frame set out in the relevant sale agreement, unless the agreement provides otherwise. Property developers, including us, generally elect to specify a deadline for the delivery of the individual Property Ownership Certificates in the sale agreements to allow sufficient time for the application and approval processes.

Under current regulations, we are required to submit the requisite governmental approvals in connection with our property developments, including Land Use Permit, Land Use Rights Certificates, Construction Planning Permits, Construction Permits, Construction Acceptance Certificates, to the local bureau of land resources and housing administration for the relevant properties and apply for the general Property Ownership Certificate in respect of these properties. According to Administrative Measures for the Sale of Commodity Houses issued by the MOHURD on April 4, 2001, we are required to submit related documents to the bureau for purchaser's application of individual Property Ownership Certificate subdivided from the general Property Ownership Certificate within 60 days after the delivery of property. We are required to assist property purchasers to go through related land use right alteration and house ownership registration procedures. Nevertheless, delays by the various administrative authorities in reviewing the application and granting approval and certain other factors may affect timely delivery of the general and individual Real Property Certificates. Therefore, we may not be able to deliver individual Real Property Certificates to purchasers on time as a result of delays in the administrative approval processes or for any other reason beyond its control, which may result in it having to pay default payments and, in the case of a prolonged delay, the purchaser terminating the sales agreement. If we become liable to a significant number of purchasers for late delivery of the individual Real Property Certificates, our business, financial condition and results of operations may be adversely affected.

### Regulation on Transfer of Property Interest

According to Urban Real Estate Administration Law promulgated by the National People's Congress on July 5, 1994, as amended on August 30, 2007 and on August 27, 2009, transfer of real estate means moving the ownership of a real estate from the original owner to another person through sale, donation or other lawful means. When transferring a building, the ownership of the building and the Land Use Rights to the site on which the building is situated are transferred together.

Where the Land Use Rights were originally obtained by assignment, the real property may only be transferred on the condition that: (a) the assignment price has been paid in full for the assignment of the land use rights as provided by the contract for the assignment of the land and a land use rights certificate has been obtained; (b) development has been carried out according to the contract for the assignment of the land and, in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed.

The Provisional Industrial Building Transfer Measures and Detailed Implementation Rules on Industrial Building Transfer Measures promulgated by the People's Government of Shenzhen City on January 7, 2013 and December 6, 2013, respectively, provide legally built industrial buildings and public facilities on industrial land obtained legally by administrative allocation or through purchasing within administrative jurisdiction of the Shenzhen city may be wholly transferred in units of the parcel of land, unless otherwise stipulated by the laws, regulations, the present rules, the approval documents and the land use right granting contract. Industrial buildings can be divided and transferred as long as agreed upon the approval documents on land use or land use right granting contract.

The industrial buildings built through urban renewal projects may be subdivided and transferred. As industrial facilities in urban renewal projects, offices, dormitories for the single, and small business services facilities may be divided and transferred, but its floor



area shall not exceed 30% of the total floor area of the project. The rebuild industrial buildings formed through urban renewal projects may also sold through a pre-sale process prior to the completion of the construction.

The transferee of such industrial buildings must be enterprises registered in accordance with the law. If the approval documents of land use, contracts of granting land use right or the municipal government regulations confines the assignee for purchasing the industrial buildings, the transferee must comply with the confining conditions and pass the qualification examination conducted by industry departments of district government.

Industrial buildings must be transferred and mortgaged after the registration of real property rights and the acquisition of real property rights certificates. In accordance with the provisions of these regulations, the industrial buildings that may be divided and transferred shall be registered with the real property right and be issued the corresponding certificates by the basic units of one room on certain level of each building.

In the transfer of industrial buildings, the transferor shall submit a certain proportion of the value-added income to the government, which shall be brought into the special management of a state-owned land income fund established by the government. The specific collection of regulations shall be separately formulated by the municipal land administration department. Value added income refers to the balance between the transaction price of the industrial building and the registered price plus relevant taxes paid by the transferor in the case of the industrial building. When the transfer of industrial buildings has been made in accordance with the provisions of these measures, and the land price has been paid, then this part of the price should also be deducted.

Our Nam Tai Inno City project is a city renewal project and thus the property of Nam Tai Inno City project can be subdivided and transferred in part under the regulations. However, we are limited to selling our units in Nam Tai Inno City to enterprises, as opposed to individuals, as the buildings are still considered as industrial buildings. Our Nam Tai Inno Park project is neither a city renewal project nor stipulated in the land use contract for subdivision and partial transfer of less than the whole complex. So unless we re-execute land use rights contract for further rights that would allow us to subdivide and transfer in parts, we are not permitted to sell the subdivided units in Nam Tai Inno Park. As re-execution of the land use rights contract with rights of further subdivision will require us to pay additional land premium, our current plan is to conduct commercial leases or long-term leases for the remainder of the land use rights period with respect to the properties in our Nam Tai Inno Park.

Under the current PRC regulations, there are certain restrictions placed on individuals purchasing residential units in a residential building. On October 4, 2016, the people's government of Shenzhen city promulgated the Measures Concerning Tightening Up Stable and Healthy Development of Real Estate Market, which provides, among other things, that each family with a Shenzhen registered residence may purchase no more than two residential units in a residential building within the Shenzhen city and the amount of the mortgage loan permitted also varies according to the specific circumstances. However, since our two projects are industrial buildings and the purchasers of units in our two projects are required to be enterprises as described above, the aforementioned restrictions do not apply, and our target enterprise purchasers may purchase any number of units.

Nevertheless, as each successive owner of units in an industrial building must be enterprises, not individuals, this may affect the transferability of both our commercial and residential units. Furthermore, other restrictions placed on enterprises to obtain loans generally may also impose further financial pressure on any potential enterprise purchasers, as it may adversely affect their willingness to purchase our units or ability to source funding.

#### Regulations on Leases

The Measures for Administration of Lease of Commodity Housing promulgated by the MOHURD on December 1, 2010 and implemented on February 1, 2011, requires parties to a leasehold arrangement of a property shall register the

leasing agreement with property administrative authorities within 30 days after entering into such leasing agreement under local government at the municipal or county level where the property is situated. In addition, enterprise may be imposed a fine of RMB1,000 to RMB10,000 and individuals of RMB1,000 or less if they do not register leasing agreement within time limit required by competent authorities.

#### Regulations on Establishment of a Real Estate Development Enterprise

Pursuant to the Law of the PRC on Administration of Urban Real Estate, or Urban Real Estate Administration Law, promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and amended on August 30, 2007 and on August 27, 2009, a Real Estate Development Enterprise is defined as "an enterprise that engages in the development and sale of real estate for the purposes of making profits."

Under the Regulations on Administration of Development and Operation of Urban Real Estate, or Development Regulation, promulgated by the State Council on July 20, 1998 and amended on January 8, 2011, a real estate development enterprise must satisfy the following requirements:

has a registered capital of not less than RMB1 million; and

has four or more full time professional real estate/construction technicians and two or more full time accounting officers, each of whom must hold the relevant qualifications

To establish a Real Estate Development Enterprise, the developer is required to apply for registration with the department of administration of industry and commerce. The developer must also report its establishment to the real estate administration authority in the location of the registration authority within 30 days upon receipt of its business license.

Our PRC subsidiaries may apply for the qualification as a Real Estate Development Enterprise in due course, which would allow such subsidiaries to conduct pre-sale of the constructed real estate units, if they choose to. To do so, besides meeting the requirements above, we will also need to comply with other laws and administrative regulations on foreign-invested enterprise (please see Regulations on Foreign-Invested Real Estate Enterprise for further details).

#### Regulations on Foreign-Invested Real Estate Enterprise

Under Catalogue of Guidance on Industries for Foreign Investment (Revised in 2017), real estate development falls within the category of industries in which foreign investment is permitted and certain of our PRC subsidiaries may apply for the Real Estate Development Enterprise qualification in due course.

Opinions on Regulating Foreign Investment Access and Management of Real Estate Market jointly issued by MOHURD, MOFCOM, NDRC, PBOC, SAIC, and SAFE on July 11, 2006, as amended on August 19, 2015, stipulates that for Real Estate Enterprises established by foreign investment, their registered capital should be more than 50% of the total investment if the total investment is equal to or over US\$10 million. Their registered capital should be no less than 50% of the total investment if the total investment is US\$3 – US\$10 million. Their registered capital should be no less than 70% of the total investment if the total investment is less than US\$3 million. The current registered capital of our project subsidiary, Nam Tai Investment, is US\$170 million, which we believe would allow it to meet the required registered capital under the regulation.

On May 23, 2007, MOFCOM and SAFE promulgated Notice on Further Strengthening and Regulating the Approval and Supervision on Direct Foreign Investment on Real Estate, as amended on October 28, 2015, which provides:

to apply to establish a Real Estate Development Enterprise, one must obtain the Land Use Rights or ownership of the building first, or must sign assignment or purchase contracts with local land authorities or developer and owner of the building; only upon meeting the above requirements will the authorities approve the application; and

after properly established, if a foreign-invested enterprise intends to broaden its business scope for land development and operation, or to operate or develop new real estate business, one must apply relevant approval according to laws and regulations on foreign investment.

#### Qualification of a Real Estate Developer

Under the Rules on the Administration of Qualifications of Real Estate Developers promulgated on March 29, 2000 by MOHURD and effective on the same day (amended on May 4, 2015) a developer must apply for registration of its qualifications. An enterprise may not engage in the pre-sales of real estate units without a qualification classification certificate for real estate development.

In accordance with the above rules, developers are classified into four classes: class I, class II, class III and class IV. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the relevant construction authority.

Under the Development Regulations, real estate administration authorities examine all applications for the registration of the qualifications of a developer when it reports its establishment, by considering its assets, professional personnel and business results. A developer may only undertake real estate development projects in compliance with the approved qualification registration.

After a newly established developer reports its establishment to the real estate administration authority, the latter will issue a provisional qualification certificate to the eligible developer within 30 days of its qualification of the above report. The provisional qualification certificate will be effective for one year from its date of issue and may be extended for not more than two additional years with the approval of the real estate development authority. The developer must apply for the qualification classification by the real estate administration authority within one month before expiry of the provisional qualification certificate.

#### Regulations on Pre-sale of Units

According to Urban Real Estate Administration Law promulgated by the National People's Congress on July 5, 1994, as amended on August 30, 2007 and on August 27, 2009, a commodity building may be sold before completion if: (a) the assignment price has been paid in full for the grant of the land use rights involved and a Land Use Rights Certificate has been obtained; (b) Construction Planning Permit and Construction Permit have been obtained; (c) the funds invested in the development of the commodity buildings put to pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained; and (d) the pre-sale has been registered and a Pre-sale Permit has been obtained. The pre-sale seller shall, in accordance with the relevant state provisions, report the pre-sale contracts for record-filing to real estate administration and land administration departments of the people's government above the county level. The pre-sale proceeds of commodity buildings must be used to develop the relevant project so pre-sold.

According to the Development Regulations and the Measures for Administration of Pre-sale of Commodity Buildings promulgated by Ministry of Construction on November 15, 1994 and as amended on August 15, 2001 and July 20, 2004, the term "pre-sale of commodity houses" refers to the act that the real estate development enterprises sell the houses under construction to purchasers and the purchasers pay the earnest money or the prices of houses. The pre-sale of commodity houses shall be subject to the licensing system. Where a real estate development enterprise intends to sell commodity houses in advance, it shall apply to the real estate administrative department for pre-sale approval so as to obtain the Pre-Sale Permit. Real estate development enterprise must register contracts of pre-sale of commercial housing with the competent real estate authority and the relevant land administration of the people's government at the city or county level within 30 days after the date of execution of the contract and the purchasers shall go through the procedure of change in registration of land use right and registration of individual property ownership within 90 days after delivery of a presold property to obtain the individual property ownership certificates in respect of the properties purchased by the purchasers.

While our current plan for Phase I of Nam Tai Inno City does not involve pre-sale, we may pre-sale certain units in Phase II of Nam Tai Inno City. We may do so after we have obtained the Real Estate Development Enterprise qualification certificate and satisfy the above pre-sale conditions. If we fail to obtain the certificate in a timely manner, or at all, we would not be permitted to pre-sell our units, which may result in a delay in our profit making. Our business, results of operations and financial condition may be materially and adversely affected.

#### Measures on Property Price

According to Measures on Pre-sale Price Filing of Commodity Buildings of Shenzhen City promulgated by Market and Quality Supervision Commission of Shenzhen Municipality on June 25, 2011, as amended in May 2017, pre-sale price filing of Commodity Buildings refers to real estate enterprises' liability to inform competent department the sale price of the commodity buildings when a real estate enterprise intends to pre-sell a unit or the price adjustment is beyond the certain range of the recent filing price. A real estate enterprise should file the pre-sale price to the sub bureau of Quality Supervision Commission Shenzhen Municipality.

The government sets the ceiling price of commodity buildings. The pre-sale price of a certain property may not exceed the ceiling price. If a Real Estate Development Enterprise doesn't file pre-sale price to competent department or fails to file in a timely manner, then the enterprise would not be able to obtain the pre-sale permit to pre-sell commodity buildings.

#### Major Taxes Applicable to Property Developers

##### Land Appreciation Tax

Under the PRC Interim Regulation on Land Appreciation Tax of 1994 and its implementation rules of 1995, as amended in 2011, Land Appreciation Tax ("LAT") applies to both domestic and foreign investors in real properties in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the "deductible items" that include the following:

- payments made to acquire land use rights;
- costs and charges incurred in connection with the land development;

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- construction costs and charges in the case of newly constructed buildings and facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of the land use rights, buildings or other facilities on such land; and
- other items allowed by the Ministry of Finance.

The tax rate is progressive and ranges from 30% to 60% of the appreciation value as compared to the “deductible items” as follows:

Appreciation value	LAT rate
Portion not exceeding 50% of deductible items	30%
Portion over 50% but not more than 100% of deductible items	40%
Portion over 100% but not more than 200% of deductible items	50%
Portion over 200% of deductible items	60%

After the enactment of the LAT regulations and the implementation rules in 1994 and 1995, respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership certificates.

We will be subject to LAT if we choose to sell, instead of lease, our units.

## Tax

The PRC Interim Regulation on Business Tax of 1994, as amended in December 2008, provided that business tax for PRC enterprises would be officially abolished by November 2017. The Detailed Implementation Rules of the Interim Regulation of the PRC on Business Tax issued and implemented by Ministry of Finance on December 25, 1993, and as amended on December 15, 2008 and October 28, 2011, although not officially abolished, are now deemed as no longer in effect.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value Added Tax which was promulgated by the Ministry of Finance and the State Administration of Taxation on March 23, 2016 and became effective on May 1, 2016, and further revised by The Notice on the Policy of Replacing Business Tax with Value Added Tax in Construction Services, which was implemented on July 1, 2017, the government will levy Valued Added Tax in lieu of business tax on a trial basis within the territory of the PRC, and any taxable activities of taxpayers shall be subject to a tax rate of 6% except for the taxpayer providing transportation, postal, telecom, construction, real estate leasing service, selling real estate, transferring land use right, leasing services of tangible personal property, and any cross-border taxable activity conducted by an entity or individual within the territory.

To provide services related to transportation, postal, telecom, construction, real estate leasing service, selling real estate and transferring land use right, the tax rate is 11%. To provide leasing services of tangible personal property, the tax rate is 17%. For any cross-border taxable activity conducted by an entity or individual within the territory, the tax rate is zero.

For the general taxpayers of real estate developers who sell the real estate projects (excluding the old real estate projects to which the simple tax calculation method is applicable) developed by them, the sales amount shall be the balance of the total price and other charges gained after the deduction of the land price paid to the government departments at the time of acceptance of the transferred land.

Pursuant to the Interim Measures on the Management of Value Added Tax of Self-developed Real Estate Project by the Sale of Real Estate Developers issued on March 31, 2016 and implemented on May 1, 2016 by State Administration of Taxation, in the event that a real estate developer recognized as an ordinary taxpayer sells a self-developed real estate project, the general tax calculation method shall be adopted, and the obtained total consideration and other charges after the deduction of the corresponding land price of the real estate project sold for the current period shall be the sales amount.



#### Corporate income tax

In 2007, the PRC government adopted the PRC Corporate Income Tax Law and the related implementation rules, which became effective on January 1, 2008 and was amended on February 24, 2017. Under the PRC Corporate Income Tax Law, a unified income tax rate of 25% is applied to all PRC enterprises, including foreign-invested enterprises. In addition, according to the Enterprise Income Tax Laws, dividends from PRC subsidiaries to their foreign corporate shareholders are subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable.

#### Urban Land Use Tax and Buildings Tax

Pursuant to the PRC Interim Regulations on Land Use Tax in respect of Urban Land promulgated by the State Council in September 1988, amended on December 31, 2006, January 8, 2011 and in December 2013, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on urban land was between RMB0.6 and RMB30 per square meter.

#### Property Tax.

Under the PRC Interim Regulations on Property Tax promulgated by the State Council in September 1986, and amended on January 8, 2011, property tax applicable to domestic enterprises is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the rental. On January 27, 2011, the governments of Shanghai and Chongqing respectively issued measures for implementing pilot individual property tax schemes which became effective on January 28, 2011.

According to the Notice on Issues Relating to Assessment of Buildings Tax against Foreign-invested Enterprises and Foreign Individuals issued by the Ministry of Finance and SAT in January 2009, the foreign-invested enterprises, foreign enterprises and foreign individuals are to be levied the same as domestic enterprise.

#### Stamp Duty

Under the PRC Interim Regulations on Stamp Duty promulgated by the State Council in August 1988, and amended on January 8, 2011, for property transfer instruments, including those in respect of property ownership transfers, the duty rate is 0.05% of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land use rights certificates, stamp duty is levied on an item-by-item basis of RMB5 per item.

#### Municipal Maintenance Tax

Under the PRC Interim Regulations on Municipal Maintenance Tax promulgated by the State Council in 1985, and amended on January 8, 2011, any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax is required to pay municipal maintenance tax calculated on the basis of product tax, value-added tax and business tax. The tax rate is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals issued by State Council on October 18, 2010, the municipal maintenance tax is applicable to foreign invested enterprises, foreign enterprises and foreign individuals

from December 1, 2010.

#### Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge promulgated by the State Council in April 1986 and amended on June 7, 1990, August 20, 2005 and January 8, 2011, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas. The Education Surcharge rate is 3% calculated on the basis of consumption tax, value-added tax and business tax. According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals issued by State Council on October 18, 2010, the education surcharge is applicable to foreign invested enterprises, foreign enterprises and foreign individuals from December 1, 2010.

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## Regulations on Property Management

The Property Management Rules, amended by the State Council on August 26, 2007 and effective as of October 1, 2007, as amended on February 6, 2016, provide that property owners have the right to appoint and dismiss property service enterprises. The rules also establish a regulatory system for property service enterprises, which encompasses the following regulations:

• The Measures for the Administration of Qualifications of Property Service Enterprises amended by the MOHURD and effective as of November 26, 2007, provide that property service enterprises must apply to the local branch of the MOHURD and undertake a qualification examination to obtain a Property Service Qualification Certificate. A property service enterprise must pass the Property Service Qualification, or PSQ examination, in order to engage in property management. Property service enterprises are classified as Class I, II or III. Different classes of service enterprises have different establishment requirements and may manage different types of premises.

• The Provisional Measures on the Administration of Initial Property Management Bid-inviting and Bidding, promulgated on June 26, 2003 by the MOHURD, provide that prior to the selection of the Property Owners' Committee, or the POC, the property developer must select a property service enterprise to provide property management services.

• The NDRC and the MOHURD jointly promulgated the Rules on Property Management Service Fees on November 13, 2003, which provide that property management fees shall be determined by mutual consent between the POC and the property service enterprise, and set forth in writing in the property management service contract.

## Regulations on Construction Safety

Under relevant laws and regulations such as the Laws for Safe Production in the PRC promulgated by the Standing Committee of the National People's Congress in November 2002 and as amended on August 31, 2014, the property development enterprise should apply to the supervisory department on safety for the registration of supervision for work safety in construction before the commencement of construction. Constructions without such registration will not be granted a construction works commencement permit by the supervisory body. Contractors for the construction should establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme should also be set up to carry out the work safety job responsibility system. At the same time, contractors should adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labor safety and hygiene standards of the State.

Under the Construction Law of the People's Republic of China, the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the site, and the subcontractors are required to comply with the protective measures adopted by the main contractor.

## Regulations on Environmental Protection in Construction Projects

Under the Regulations on the Administration of Environmental Protection in Construction Project, or Environmental Regulations, promulgated by the State Council on November 29, 1998 and effective as of the same date, as amended on July 16, 2017, each construction project is subject to an environmental impact assessment by the relevant authorities.

According to the Environmental Regulations, a developer is required to submit an environmental impact report, or an environmental impact report form, or an environmental impact registration form (as the case may be) to the relevant environmental protection administration for approval during the project's feasibility analysis stage. In the meantime, if any ancillary environmental protection facilities are necessary in the construction project, such facilities are required to be designed, constructed and used in conjunction with the main project. After completion of the project, the

developers are required to apply to the relevant environmental protection administrations for final acceptance examination in respect of any ancillary environmental protection facilities. Construction projects are approved for use after passing the said acceptance examination.

The Environmental Impact Assessment Law, promulgated by the National People's Congress on October 28, 2002 and effective as of September 1, 2003, as amended on July 2, 2016, provides that if the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, the authority in charge of examination and approval of the project may not approve construction on the project, and the construction work unit may not commence work.

On July 6, 2006, the State Environmental Protection Administration issued its Circular on Strengthening the Environmental Protection Examination and Approval and Strictly Controlling New Construction Project, which provides for stringent examination and approval procedures for various real estate development projects. It also stipulates that no approvals may be issued for new

residential projects or extensions in industry development zones, areas impacted by industrial enterprises or areas where such development poses potential harm to residents' health

Pursuant to the requirements of relevant laws and regulations such as the Appraisal Measures for the Impact on the Environment of the PRC implemented by the Standing Committee of the National People's Congress in September 2003 and amended on July 2, 2016, and the Regulations Governing Environmental Protection of Construction Projects amended by the State Council in July, 2017, property development enterprises and construction enterprises must carry out an appraisal of the impact the construction project will have on the environment. The relevant project shall not commence until approval is obtained from the supervisory body for environmental protection. While the project is in progress, the developer should also comply with the appraisal documents relating to the impact on the environment and implement the environmental protection measures set out in the opinion of the supervisory body for environmental protection. Such measures must be incorporated into the design, construction and operation of the general construction. Upon completion of the project, the developer should apply to the supervisory body for environmental protection for the inspection and acceptance of the completed environmental protection facilities. Only those projects that have been inspected and accepted may go into operation or be available for use.

#### Insurance

There is no mandatory provision under the PRC laws, regulations and government rules which require a property developer to take out insurance policies for its real estate developments. According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

#### The Process of PRC Real Estate Development Projects

The following flow chart summaries the technical process of typical real estate developing projects in the PRC:

#### Planning and Design

Our project planning and design process includes concept and architectural design, construction and engineering design, budgeting, financial analysis and projections as well as arranging for financing. We believe careful planning is essential to control costs, quality and timing of our projects.

We outsource our design work to reputable third-party design firms. For Nam Tai Inno Park, we will appoint a renowned professional architectural firm to complete the design. Our planning and development team works closely with project managers as well as our external designers and architects to ensure that our designs comply with PRC laws and regulations, and meet our design and other project objectives as a part of our design management process. Our senior management is also actively involved in the process, especially in the master planning and architectural design of our projects. We conduct preliminary planning and scheduling for each stage of the development project, including planning our outsourcing requirements for the project construction stage.

We seek to integrate technology in our projects by incorporating various sensors to our building automation systems with designs that focus on the comfort and convenience of the tenants. In determining the architectural designs of our projects, we consider the proposed type of products to be developed in light of the surrounding environment and neighborhood.

In selecting external design firms, we consider, among other things, their reputation for reliability and quality, their track record in the market, the design proposed and the price quoted. Design firms can participate in the tender process by our invitation only. Our planning and design team monitors the progress and quality of the design firms to ensure that they meet our requirements.

#### Construction and Management

We outsource all of our construction work to independent construction companies which are selected mainly through our invitation to tender bids for the project. We generally hire one or more main contractors for each of our projects with a number of subcontractors. The main contractors are responsible for a designated portion of the project. We have established a selection procedure in order to ensure compliance with our quality and workmanship standards. We take into account the construction companies' professional qualifications, reputation, track record and financial condition and resources when inviting candidates to bid. We also review the qualifications and performance of our construction contractors periodically. We closely supervise and manage the entire project construction process, to monitor and analyze information regarding quality of the construction and material purchased on a real-time basis. We collect information throughout the development cycle on the entire project, including information from our third-party contractors, to avoid unanticipated delays and cost overruns.

Our construction contracts typically provide for limited flexible payments, which provide for adjustments for some types of excess, such as design changes during construction or changes in government-suggested steel and cement prices, as well as labor costs. The contractors are typically responsible for procuring the necessary raw materials, as well as providing engineering and construction services. We procure certain ancillary fixtures for installation, such as elevators, windows and entrance doors. For our purchases of such fixtures, we use a centralized procurement process to help increase our negotiating power and lower our unit costs. We maintain good relationships with our suppliers and have not encountered any significant supply shortages or disruptions in the past.

#### Marketing, Sales and Leasing

We maintain an internal marketing team for our development projects and will build up a sales force and operating team during 2018. We may also use outside agencies on our projects when appropriate. Our marketing teams had surveyed the demographics of each project area to determine the appropriate unit sizes and design features. They will work also work with the sales force and outside agencies to prepare the advertising, promotion, and selling plans for each project. The sales force at each project will be responsible for following through on the entire sales and leasing process including setting monthly sales or leasing targets, controlling prices, implementing special promotions, monitoring external agency performance, and processing customer feedback.

To fully utilize the large amount of research and development space that may be released to the market upon the completion of our Nam Tai Inno Park and Nam Tai Inno City projects, we plan to establish our own sales force and operating team, which will work in conjunction with other external agents, consultants and advisers to make further detailed plans of our operation and tenancy requirements. We plan to leverage our geographical advantages of locating within the Greater Bay Area at the mouth of the Pearl River Delta and being on the corridor between Qianhai free-trade-zone and Shenzhen International Airport and Convention Center. By taking advantage of the scale of our building complexes and the services it may provide as a technology research and development platform, we intend to roll out attractive and differentiated products.

#### Delivery, After-Sale Services and Property Management Operation

We assist customers in arranging for and providing information relating to financing. We also assist our customers in various title registration procedures relating to their properties, and we have set up an ownership certificate team to

assist purchasers in obtaining their property ownership certificates. We offer various communication channels to customers to provide their feedback about our products or services. We also cooperate with property management companies that manage our properties and ancillary facilities, such as schools and clubhouses, to handle customer feedback.

We endeavor to deliver the units to our customers on a timely basis. We closely monitor the progress of construction of our property projects and conduct pre-delivery property inspections to ensure timely delivery. Once a property development has been completed, has passed the requisite government inspections and is ready for delivery, we notify our customers and hand over keys and possession of the properties.

To ensure smooth operation of our building complexes and quality property management, we may also provide property management for each research and development centers. It is envisioned that our property management services will include security, landscaping, building management and management of public facilities and equipment, and additional services, such as cultural activities, housekeeping and repair.



#### ITEM 4. INFORMATION ON THE COMPANY

##### Corporate Information

We are a real estate developer. We hold two parcels of land located in Guangming and Gushu, Shenzhen, China. We are converting these two parcels of land that formerly housed the manufacturing facilities of our prior businesses into high-tech research and development centers, Nam Tai Inno Park and Nam Tai Inno City, respectively. We expect our principal income in the future will be derived from rental income from these research and development centers. Nam Tai Property Inc. is a corporation registered in the British Virgin Islands and listed on the New York Stock Exchange (Symbol: "NTP").

Formerly known as Nam Tai Electronics, Inc., we were founded in 1975 and moved our electronics manufacturing facilities to China in 1980 to take advantage of lower overhead costs, lower material costs and competitive labor rates available. We relocated to Shenzhen, China in order to capitalize on the significant opportunities offered in southern China. We were reincorporated as a limited liability International Business Company under the laws of the British Virgin Islands in August 1987 (which was amended in 2004 as The British Virgin Islands Business Companies Act, 2004). Our PRC headquarters and the location of our former manufacturing and design facilities are currently based in Shenzhen, China, approximately 30 miles from Hong Kong. Certain of our subsidiaries' offices are located in Hong Kong, which provide us access to Hong Kong's infrastructure of communication and banking facilities. Our corporate administrative matters are conducted in the British Virgin Islands through our registered agent, McNamara Corporate Services Limited, of McNamara Chambers, 2<sup>nd</sup> Floor, 116 Main Street, P.O. Box 3342, Road Town, Tortola, British Virgin Islands.

In April 2014, we ceased our LCM manufacturing business and re-focused on the development of two parcels of land in Gushu and Guangming, Shenzhen, China, into high-end commercial complexes. We believe that we will derive our principal income in the future from rental income to be generated from these commercial complexes.

##### Major Events during 2018 to Date

We have two projects in the PRC under development: (i) Nam Tai Inno Park located in Guangming, Shenzhen, and (ii) Nam Tai Inno City located in Gushu, Shenzhen. During early 2018, the development of Nam Tai Inno Park in Guangming, Shenzhen, and Nam Tai Inno City in Gushu, Shenzhen, continues to proceed smoothly.

We have begun certain strategic cooperation with Kaisa, including hiring a number of engineers and real estate professionals from Kaisa to join the Company as officers and employees, as well as appointed one of Kaisa's founders, Mr. Ying Chi Kwok, as our Executive Director and Chief Executive Officer, together with Ms. Yu Zhang, who had also worked in Kaisa previously, as our Chief Financial Officer. Based on the most recent filing by Kaisa, following its purchase of shares from our chairman, Mr. Koo, and from the public market, Kaisa currently holds approximately 24.5% of our outstanding share capital. With the injection of the new project team and the support from Kaisa, we believe that the Company has significantly increased its execution ability and has become less reliant on external consultants. It is expected that the Company will continue to consult with Kaisa from time to time, leveraging Kaisa's knowledge and experience in the areas of construction and real estate development

##### Nam Tai Inno Park

The construction of Nam Tai Inno Park continued with the excavation of its foundation and pile driving in early 2018. We have been conducting a thorough review of our construction and marketing plans and decided to make certain changes, including realigning the unit sizes with the projected market demand, installing more advanced building

automation systems, air conditioning system and fire proofing. We have also been fine tuning certain schematic designs to increase construction efficiency, foot and vehicle traffic safety and achieve higher aesthetic value. Due to the size of the project and the resources required, we have also divided the site into eastern and western sections and will engage two separate main construction contractors, each of which will only be responsible for its own section, to ensure construction quality and safety. The two sections will commence construction simultaneously, in lieu of separate phases, to ensure no further delay with our construction plan. We expect to select the two main construction contractors in the first half of 2018.

#### Nam Tai Inno City

For Nam Tai Inno City, we have also afforded its new project team the opportunity to conduct a thorough review of its former construction and marketing plans. Similar to Nam Tai Inno Park, Nam Tai Inno City will be constructed by sections, with Phase I, the eastern section being constructed first, followed by Phase II, the western section. Building in phases would help us avoid over flooding the market upon completion and better align the roll out of our units with Shenzhen's urban development plan. We plan to select the architectural design firm for Nam Tai Inno City during the first quarter of 2018, after the new project team has completed its review. In line with the previously announced schedule, we have begun to demolish our old factory buildings located on the Inno City

site in the fourth quarter of 2017. The first stage of this process, the eastern section, is expected to be completed in the first half of 2018. After completing the demolishing of the existing headquarters on the eastern section of the Inno City site, the Company will move its headquarters to another location in the Baoan, Shenzhen, purchased in April 2017.

#### Sale of our Hong Kong Office Property

On February 12, 2018, we sold our Hong Kong office property to our Chairman, Mr. Koo, for \$9.7 million after our Audit Committee reviewed two valuation reports prepared by two independent appraisers and our Board of Directors approved the transaction price.

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## Organizational Structure

The charts below describe the organizational structure of our principal subsidiaries as of December 31, 2017.

Nam Tai Property Inc., or NTP, was founded in 1975, and reincorporated as a limited liability International Business Company under the laws of the British Virgin Islands in August 1987, and listed on the NYSE under the symbol “NTP”, and is a holding company for the subsidiaries shown in the chart above and discussed below.

100%

Nam Tai Electronic & Electrical Product Limited, or NTEEP, was incorporated in June 2003 in the Cayman Islands. Shares of NTEEP were listed on the Hong Kong Stock Exchange from April 28, 2004 until November 12, 2009, when NTP completed the privatization of NTEEP by tendering for, and acquiring, the 25.12% of NTEEP that NTP did not previously own. After completing the privatization of NTEEP in 2009, NTEEP was a wholly-owned subsidiary of Nam Tai Property Inc.

100%

Nam Tai Investment (Shenzhen) Co., Ltd., or NTISZ, was originally established as Baoan (Nam Tai) Electronic Co., Ltd. in June 1989 as a contractual joint venture company with limited liability pursuant to the laws of China. Through September 2010, it engaged in the manufacture and sale

of consumer electronics and telecommunications products. With effect from October 1, 2010, the businesses and operations of NTISZ were transferred to Zastron Electronic (Shenzhen) Co., Ltd. (“Zastron Shenzhen”). NTISZ was transformed into an investment holding company in the PRC in April 2011. NTISZ now serves as the holding company for our land in Gushu, Shenzhen, China, designated for the development of Nam Tai Inno City.

100%                      100%

Zastron Electronic (Shenzhen) Co., Ltd., or Zastron Shenzhen, was established in the PRC in 1992 as a company with limited liability. It manufactured telecommunication components and assemblies such as LCD modules and FPC assemblies. Zastron Shenzhen’s sister company, Jetup Electronic	Wuxi Zastron Precision-Flex Co., Ltd., or Wuxi Zastron Flex, was established in November 2006 as a wholly owned foreign investment enterprise with limited liability and pursuant to relevant laws of the PRC. Wuxi Zastron Flex began manufacturing and selling FPC boards and FPC subassemblies during 2010. Wuxi Zastron Flex’s sister company, Wuxi Zastron
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(Shenzhen) Precision-Tech  
 Co., Ltd. Co. Ltd, or  
 (Jetup), also Wuxi Zastron  
 wholly-owned Tech, also  
 by NTISZ wholly-owned  
 and engaged by Nam Tai  
 in the Investment  
 manufacture Limited, was  
 of LCD merged into  
 panels and Wuxi Zastron  
 LCD Flex in April  
 modules, was 2010. Upon  
 merged into completion of  
 Zastron that merger,  
 Shenzhen Wuxi Zastron  
 effective on Tech ceased to  
 April 1, exist, and its  
 2010. Upon assets,  
 completion liabilities and  
 of that operations were  
 merger, Jetup transferred to  
 ceased to Wuxi Zastron  
 exist, and its Flex.  
 assets,  
 liabilities and  
 operations  
 were Upon the  
 transferred to cessation of our  
 Zastron original core  
 Shenzhen. In LCM  
 October production  
 2010, the business in  
 businesses April 2014,  
 and Wuxi Zastron  
 operations of Flex now  
 NTISZ were serves as the  
 transferred to holding  
 Zastron company for  
 Shenzhen. In our parcels of  
 August 2011, land in Wuxi,  
 Zastron Jiangsu, China.  
 Shenzhen  
 became a  
 wholly  
 owned  
 foreign  
 enterprise.

Upon the cessation of our original core LCM production business in April 2014, Zastron Shenzhen now serves as the holding company for our land in Guangming, Shenzhen, China, designated for the development of Nam Tai Inno Park.

## Historical Business Overview

We are a British Virgin Islands holding company and conduct substantially all of our business through our principal operating subsidiaries in Shenzhen, China. Upon the cessation of our original core LCM production business in April 2014, we changed our company name from Nam Tai Electronics, Inc. to Nam Tai Property Inc. and turned our focus to the redevelopment of two parcels of land in Guangming and Gushu, Shenzhen, respectively, into high-end commercial complexes. We believe that we will derive our principal income in the future from rental income generated by these commercial complexes.

We have named our property development project in Guangming, Shenzhen, “Nam Tai Inno Park”. For Nam Tai Inno Park, we obtained the Early Construction Permit for Pile Foundation in May 2017, which allowed us to begin the excavation of foundation and pile driving work. We plan to engage main contractors in early 2018 and begin the construction of the main structure by May 2018.

We have named our property development project in Gushu, Shenzhen, “Nam Tai Inno City”. We have obtained the project initiation approval for the development of Phase I of Nam Tai Inno City from the land department of the local government and we will continue to apply for all other necessary permits and approvals in due course. Phase I covers approximately half of our Gushu site. We expect to obtain all permits and approvals to commence construction of Phase I by January 2019. After completion of the Phase I construction, which is expected to take approximately three years, we intend to apply for the necessary permits and approvals for the construction of Phase II of Nam Tai Inno City. However, this timetable has not been finalized. The buildings that house our former production plant located on the site of our Phase II development had been rented to a third party lessee until October 2017. Based on the current timetable, we do not foresee any immediate difficulties in the permit application process.

As for our Wuxi plant, the factory buildings are listed primarily for rent while we would also consider offers by potential purchasers.

## Our Customers/Tenants

Upon the cessation of our LCM manufacturing business in April 2014, we formally transformed our core business from the EMS industry to property development, operation and management. After April 2014, we had two principal tenants: (i) our Guangming tenant who leased our land and building in Guangming, Shenzhen; and (ii) our Gushu tenant who leased the land and buildings that comprised our prior manufacturing facilities in Gushu, Shenzhen. The lease with our Guangming tenant expired in May 2015. The lease with our Gushu tenant expired in October 2017.

## Our Land Development Projects

We have two real estate projects in the PRC under development: (i) Nam Tai Inno Park located in Guangming, Shenzhen, and (ii) Nam Tai Inno City located in Gushu, Shenzhen. During 2017, the various license and permit application processes for each of these projects proceeded on schedule and within our expectations. The tables below indicate the gross floor areas and budgetary estimate for these two projects.



Summary of updated gross floor areas for the two projects:

	Nam Tai Inno City			
	Nam Tai Inno Park		Phase I + Phase II	
	(Approved)		(Planned)	
Land Area in sqm	103,739		52,625	
Floor Area Ratio (FAR)	2.59		6.00	
Gross Floor Area (GFA) in sqm	Office	175,406	Office + SOHO	187,880
	Apartment	61,000	Apartment	48,300
	Commercial	28,594	Commercial	25,000
	Other	4,159	Other	7,200
		269,159		268,380
Underground Floor Area				
in sqm	62,673		80,000	
Total Construction Floor Area				
(CFA) in sqm	331,832		348,380	
Remarks	The above figures are subject to adjustment upon the final approval of the relevant authorities in China.			

Updated Budgetary Estimate for the Two Projects:

	Nam Tai Inno		Nam Tai Inno City	
Budgeted Costs <sup>(1)</sup>	Park	Phase I + Phase II	(in millions)	
Construction Costs	312	415		
Operation Costs	69	43		
Total (Estimated)	381	458		

Note:

(1)

The \$839 million Schematic Design Estimation was prepared based on a schematic design originally prepared by our architectural design firm. This estimate is used by us for cost control purposes to monitor the costs of design, construction, and other operations. This estimation does not include the costs of marketing and interior furnishing and makes no adjustment for inflation or financing costs. If the developed properties are offered for sale, the costs would also have to add on land appreciation tax.

Location of the two projects:

The map below indicates the locations of Nam Tai Inno Park and Nam Tai Inno City in Shenzhen city, together with major landmarks such as the Qianhai Pilot Free Trade Zone and Shenzhen Baoan International Airport.

Notes:

(1)Traffic  
plan is based  
on  
Shenzhen's  
13th  
Five-Year  
Plan

(2)Metro  
Lines 1, 5,  
11 are in  
operation.

(3)Metro  
Lines 6, 12  
and 13 are  
scheduled to  
open in  
2020, 2022  
and 2021,  
respectively.

Growth of Shenzhen City:

The charts below indicate certain historical growth trend of Shenzhen city.

Source: Shenzhen Statistics Bureau

Source: Shenzhen Statistics Bureau

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Source: Shenzhen Statistics Bureau Source: Shenzhen Statistics Bureau

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Estimated timetable for the two projects:

Estimated Timetable for Project Completion

Main Permits & Certificates	Inno Park	Inno City – Phase I	Inno City – Phase II	2017	2018	2019	2020	2021	2022	2023
A Land Use Permit	Obtained in June 2015	Apr. 2018	Oct. 2019							
B Land Use Right Certificate	Obtained in Sep. 2015	June 2018	Dec. 2019							
C Construction Planning Permit	Obtained in Aug. 2017	Dec. 2018	June 2020							
D1 Early Construction Permit for Pile Foundation	Obtained in May 2017	N/A	N/A							
D2 Construction Permit for the Main Structure	May 2018	Jan. 2019	July 2020							
D3 Construction Acceptance Certificate for the Main Structure	Oct. 2019	Oct. 2020	Feb. 2022							
D4 Construction Completion	Oct. 2020	Nov. 2021	May 2023							
E Property Ownership Certificate	Oct. 2020	Nov. 2021	May 2023							

Notes:

1. is for “Nam Tai Inno Park”; while is for “Nam Tai Inno City – Phase I” and “Nam Tai Inno City – Phase II”.
2. Please see ITEM 3 Key Information under the heading “Regulation on Development of a Real Estate Project” for explanations of each permit and certificate.
3. The construction of “Nam Tai Inno Park” had begun since May 2017 with excavation and pile driving for its foundation; construction of the main structure is expected to commence in May 2018.
4. The construction of “Nam Tai Inno City - Phase I” is expected to commence around early 2019; while “Nam Tai Inno City - Phase II” is expected to commence around July 2020.
5. Furnishing of common areas and public utilities is expected to be completed before the scheduled Construction Completion.
6. We will begin generating income after Construction Completion and new Property Ownership Certificate has been awarded based on the completed complexes.

Design of Nam Tai Inno Park

The blueprint below shows the current design of Nam Tai Inno Park and planned usage of this complex:

Below is an artistic rendition of the current design of Nam Tai Inno Park.

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## Property, Plant and Equipment

Our registered office in the British Virgin Islands is located at McNamara Chambers, 2<sup>nd</sup> Floor, 116 Main Street, Road Town, Tortola, British Virgin Islands. Corporate administrative matters in the British Virgin Islands are conducted at this office through our registered agent, McNamara Corporate Services Limited.

The table below lists the locations, square meters, principal use and the expiration dates of land use rights on the facilities used in our principal operations as of December 31, 2017:

Location	Approximate	Principal or Presently Contemplated Use	Owned <sup>(1)</sup> or lease expiration date
	Square Meters		
<b>Principal Facilities</b>			
Hong Kong, SAR	204	Administrative Office	Owned
Guangming, Shenzhen, China	103,739	Nam Tai Inno Park	2057 <sup>(2)</sup>
Gushu, Shenzhen, China	26,314	Nam Tai Inno City – Phase I	2043 <sup>(3)</sup>
	26,311	Nam Tai Inno Park – Phase II	2049 <sup>(3)</sup>
Baoan, Shenzhen, China	1,207	Corporate Headquarters	2054 <sup>(4)</sup>
Wuxi, Jiangsu Province, China	43,698	To be leased or sold	2056 <sup>(5)</sup>

## Notes:

- (1) Only the PRC government and collectives may own land in China. We have entered into a land lease agreement with the PRC government that gives us the land use rights for 50 years for each of our land located in Guangming, Shenzhen; Gushu, Shenzhen; and Wuxi, Jiangsu. Our understanding of the practice as it exists today is that at the expiration of the land lease, we may be given the right to renew the lease.
- (2) We acquired 50-year land leases in 2007. We plan to develop and convert this parcel of land into a high-end research and development park, i.e. Nam Tai Inno Park.
- (3) We acquired 50-year land leases in 1993 and 1999, respectively for the adjacent plots. We plan to develop and convert these two parcels of land totaling 52,625 square meters into high-end research and development park, i.e. Nam Tai Inno City.
- (4) In April 2017, we purchased a new office for a total amount of \$13.4 million in PRC. The new office is primarily held for use as our corporate headquarters. The land use right of new office will expire in 2054.
- (5) We acquired 50-year land leases in 2006. Construction for our Wuxi facility was completed in 2009, mass production at this facility began in 2010 but ceased in June 2013. As of January 31, 2018, our Wuxi facility is listed for sale and long-term lease by real estate agents.

## Hong Kong

In October 2005, Nam Tai restructured its subsidiaries to focus its operations in China. As of January 31, 2018, we only maintain a minimal workforce in Hong Kong. On February 12, 2018, we sold our Hong Kong office property to our Chairman, Mr. Koo, for \$9.7 million after our Audit Committee reviewed two valuation reports prepared by two independent appraisers and our Board of Directors approved the transaction price.



Guangming, Shenzhen, China

Nam Tai Inno Park

In June 2007, we entered into an official land use transfer agreement and a supplemental agreement with Shenzhen Municipal Bureau of State Land and Resources, pursuant to our commitment specified in the official project investment agreement we signed with the Guangming Hi-Tech Industrial Park in 2006. Consequently, we acquired approximately 103,739 square meters of land zoned as M-1 with 50 years of land use rights starting from 2007 in Guangming District, Shenzhen. We paid a land price of approximately \$9.1 million, whereas relocation allowances to the local residents and other related costs were funded by internal resources. We plan to develop this property under the name “Nam Tai Inno Park” as a middle or high-end research and development complex with units available for long-term leases. As of January 31, 2018, we have substantially completed the excavation and pile driving for Nam Tai Inno Park.

Gushu, Shenzhen, China

Nam Tai Inno City

We once housed our principal manufacturing facilities in Gushu, Shenzhen. We ceased our core LCM production business by the end of April 2014 and sold all of our machinery and production lines at our Gushu manufacturing facilities. We plan to develop and convert the parcel of land of approximately 52,625 square meters into high-end research and development complexes under the name “Nam Tai Inno City” primarily for self-ownership and rental, with certain units for sale.

Phase I of Nam Tai Inno City, the eastern section, an area of approximately 26,311 sqm, is zoned as M-0 with 50 years of land use rights starting from 1993. We intent to complete the demolition of our existing facilities on the eastern section in early 2018. Upon which, we plan to re-execute the land use rights contract with urban planning, land and resource department in the second quarter of 2018, which would restart the 50 years land use rights from the date of re-execution.

Phase II of Nam Tai Inno City, the western section, an area of approximately 26,314 sqm, is currently zoned as M-1 with 50 years of land use rights starting from 1999. We plan to apply for the M-0 zoning approval on June 2020, after our existing facilities on the western section have aged for 15 years, or earlier based on our development plan and the proposed usage of Nam Tai Inno City. We plan to re-execute the land use rights contract at the same time, which would also restart the 50 years land use rights from the date of re-execution.

Baoan, Shenzhen, China

#### Corporate Headquarters

In April 2017, we purchased a new office for a total amount of \$13.4 million. The new office is primarily held for use as our corporate headquarters. The land use right of new office will expire in 2054. We recorded the amount of the new company under property, plant, and equipment on balance sheet.

Wuxi, China

#### Former Manufacturing Facilities

In January 2008, we began construction of our Wuxi manufacturing facilities on approximately 43,698 square meters of land we acquired in December 2006, i.e. Wuxi. We completed construction in 2009, and by the end of 2009, we had installed machinery and equipment to manufacture FPC boards and FPC subassemblies, with approximately 14,000 square meters of space for our manufacturing operations. We commenced manufacturing operations at this factory in 2010. However, following final evaluation on the viability of our FPC and LCM production business and considering the lack of customer orders, we discontinued our manufacturing of FPC and LCMs for tablets in our Wuxi facilities at the end of March 2013 and June 2013, respectively. The production operations at our Wuxi manufacturing facilities ceased entirely by June 2013. We sold all of our machinery and production lines in September 2014. Currently, our land and factory buildings are listed primarily for rent while we would also consider offers by potential purchasers.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved Staff comments.

#### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Except for statements of historical facts, this section contains forward-looking statements involving risks and uncertainties particularly statements found under the heading entitled “Trend Information”. You can identify these

forward-looking statements by words such as “aim”, “anticipate”, “believe”, “consider”, “continue”, “estimate”, “expect”, “for”, “going forward”, “intend”, “plan”, “potential”, “predict”, “project”, “propose”, “seek”, “can”, “could”, “may”, “might”, “will”, “should” and the negative forms of these words and other similar expressions. Forward-looking statements are not guarantees of our future performance or results and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in Regarding Use of Forward Looking Statements under the section of this Report entitled ITEM 3. Key Information – Risk Factors. This section should be read in conjunction with our consolidated financial statements included as ITEM 18. Financial Statements in this Report.

## Impact of Foreign Currency Fluctuations

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by numerous factors, including among other things, changes in political and economic conditions in China and the U.S. The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. Currently, the RMB is permitted to fluctuate within a band managed by the PRC government. The trading band has been widened since early 2014, and the PRC government may adopt a more flexible currency policy in the future, which could result in increased exchange rate volatility and significant appreciation or depreciation of the RMB against the U.S. dollar.

Effective from April 1, 2015, the Company's subsidiaries in China changed their functional currency from the U.S. dollar to the RMB. This change was made upon the progress of the property development projects in China causing the Company's subsidiaries primary operating activities to be denominated in RMB and making the RMB the currency of the economic environment in which the entities primarily generate and expend cash. As of December 31, 2017, we recorded \$5.9 million of net foreign currency translation loss in accumulated other comprehensive loss as a component of shareholders' equity.

For the Company and subsidiaries outside of China, the functional currencies are U.S. dollars and Hong Kong dollars, as expense transactions are generally denominated in U.S. dollars and Hong Kong dollars. The Company had a significant portion of cash and cash equivalent, short term investment, and long term investment denominated in RMB. The fluctuation of foreign exchange primarily relates to our need to convert RMB to U.S. dollars and Hong Kong dollars for our operations, and the depreciation of the RMB against the U.S. dollar and/ or Hong Kong dollar reduces the U.S. dollar amount and Hong Kong dollar amounts we receive from the conversion.

The following table shows the percentage fluctuation in the exchange rate of the RMB to the U.S. dollar during each of the past three years ending December 31:

RMB Exchange Rate to US\$1.00 at December 31 <sup>(1)</sup>								
2015			2016			2017		
			Exchange			Exchange		
			Rate			Rate		
Exchange Rate	Percent		Percent		Percent	Percent		
to US\$1.00	change <sup>(2)</sup>		to	US\$1.00	change <sup>(2)</sup>	to	US\$1.00	change <sup>(2)</sup>
6.50	(4.84 %)		6.94	(6.77 %)		6.52	6.05	%

## Notes:

(1) RMB to U.S. dollar data presented in this table was derived from the published exchange rates from bank in China.

(2) From exchange rate at preceding December 31.

In mid-2008, the PRC government halted the appreciation of the RMB against the U.S. dollar as it did prior to July 21, 2005 because of concerns that a stronger RMB made PRC exports less competitive during a global recession. Accordingly, as shown in the above table, there was virtually no change in the exchange ratio of the RMB to the U.S. dollar during 2009. However, on June 19, 2010 China's central bank announced that it planned to introduce more flexibility in the management of its currency and since then the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in recent years the RMB has depreciated significantly against the U.S. dollar, which decreasing approximately 4.84% and 6.77% during 2015 and 2016, but RMB has appreciated against U.S.

dollar and increase by approximately 6.05% in 2017. It is difficult to predict how market forces or PRC or U.S. government policies may impact the exchange rate between the RMB and the U.S. dollar in the future.

#### Income Taxes

Under current BVI law, our income is not subject to taxation. Subsidiaries operating in Hong Kong and China are subject to income taxes as described below.

Under current Cayman Islands law, NTEEP is not subject to any profit tax in the Cayman Islands because it has no business operations in the Cayman Islands. However, it may be subject to Hong Kong income taxes as described below since it is registered in Hong Kong before May 2014. Since May 2014, NTEEP was not registered in Hong Kong and not subject to any profit tax in Hong Kong.

Under current BVI law, NTHL is not subject to any profit tax in the BVI because it has no business operations in the BVI. However, it may be subject to Hong Kong income taxes as described below since it is registered in Hong Kong in November 2012.

Our subsidiaries operating in Hong Kong are subject to an income tax rate of 16.5% for the years ended 2015, 2016 and 2017. We calculate income tax provision by applying the income tax rate to our estimated taxable income earned in or derived from Hong Kong during the applicable period.

Efforts by the PRC government to increase tax revenues could result in decisions or interpretations of the tax laws by China's tax authorities that are unfavorable to us and which increase our future tax liabilities, or deny us expected refunds. Changes in PRC tax laws or their interpretation or application may subject us to additional PRC taxation in the future. For example, following the implementation of the EIT Law effective January 1, 2008, the State Council announced the transition rules for preferential tax policies (Guofa [2007] No.39) of January 2, 2008, for eligible enterprises previously subject to a 15% tax rate or 24% tax rate. During the year of 2013 to 2017, the new enterprise income tax rate is 25%.

Our effective tax rate was nil since there were net losses for each of the three years ended December 31, 2015, 2016 and 2017, respectively. The significant factors that caused our effective tax rates to differ from the applicable statutory rates were as follows:

	Year Ended December 31,		
	2015	2016	2017
Applicable statutory tax rates	25 %	25 %	25 %
Effect of difference between Hong Kong and PRC tax rates applied to Hong Kong income	(4 )%	(1 )%	5 %
Change in valuation allowance	26 %	15 %	44 %
Reversal of tax loss cannot be recoverable in future	—	(18 )%	24 %
Tax benefit (expense) arising from items which are not assessable (deductible) for tax purpose: Non-deductible and non-taxable items:	(48)%	(30 )%	(79 )%
Loss from discontinued operations and others	1 %	9 %	(19 )%
Effective tax rates	—	—	—

### Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

For more information on our significant accounting policies, refer to Note 2 "Summary of Significant Accounting Policies" of our consolidated financial statements.

### Provision for bad debts

Our accounts receivable balance is recorded net of provision for amounts not expected to be collected from customers in 2014. Because our accounts receivable are typically unsecured, we periodically evaluate the collectability of

accounts based on a combination of factors, including a particular customer's ability to pay as well as the age of the receivables. To evaluate a specific customer's ability to pay, we analyze financial statements, payment history, third-party credit analysis reports and various information or disclosures by the customer or other publicly available information. In cases where the evidence suggests a customer may not be able to satisfy its obligation to us, we create a specific allowance that is determined to be appropriate for the perceived risk. If the financial condition of a customer deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

No allowance was made against our accounts receivable at December 31, 2015, 2016 and 2017, respectively.

#### Impairment of Long-lived Assets

Long-lived assets. We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

We assess the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and

liabilities (the asset group). Next, we estimate the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. We estimate the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, we record an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. We determine fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology or obtaining external appraisals from independent valuation firms. The undiscounted and discounted cash flow analyses are based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate. The discount rate used in determining each project's fair value depends on the stage of development, location and other specific factors that increase or decrease the risk associated with the estimated cash flows. In accordance with our accounting policies, we consider on a quarterly basis whether indicators of impairment of long-lived assets are present.

Due to the reclassification of the long-lived assets at our Wuxi and Shenzhen manufacturing facility as assets held for sale following the cessation of our Wuxi manufacturing facilities, a loss of \$19.0 million was recognized to write down the assets held for sale to their fair values in 2014.

For the years ended December 31, 2016 and 2017, we did not recognize any impairment for our active projects, consisting of projects under construction or planning or assets held for sale.

Our assessments of impairment of long-lived assets and our periodic review of the remaining useful lives of our long-lived assets are an integral part of our ongoing strategic review of its business and operations. Therefore, future changes in our strategy and other changes (including the discount rate and expected long-term growth rate) in our operations could impact the projected future operating results that are inherent in our estimates of fair value, resulting in impairments in the future.

#### Accruals and Provisions for Loss Contingencies

We make provisions for all loss contingencies when information available prior to the issuance of the consolidated financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and the amount of loss can be reasonably estimated.

For provisions or accruals related to litigation, we make provisions based on information from legal counsel and management's best estimation. We assess the potential liability for the significant legal proceedings in accordance with FASB ASC 450 "Contingencies". FASB ASC 450 requires a liability to be recorded if the contingency loss is probable and the amount of loss can be reasonably estimated. The actual resolution of the contingency may differ from the estimates. If the contingency was settled for an amount greater than the estimate, a future charge to income would result. Likewise, if the contingency was settled for an amount that is less than our estimate, a future credit to income would result.

#### Summary of Results

With the discontinuation of our LCM production in April 2014, we ceased our LCM manufacturing business and turned our focus to redeveloping two parcels of land in Gushu and Guangming, Shenzhen. We plan to convert these two parcels of land that formally housed our manufacturing facilities into high-end commercial complexes. Subsequently, we believe that we will derive our principal income in the future from the rental income to be generated by these commercial complexes.



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We recorded a decrease in rental income of 15.8% for 2016 when compared to 2015 and a decrease of 26.2% for 2017 compared to 2016.

The following table sets forth key operating results (in thousands, except per share data) for the years ended December 31, 2015, 2016 and 2017:

	Year Ended December 31,			% increase/(decrease)	
	2015	2016	2017	2016 vs 2015	2017 vs 2016
Operation income	\$2,978	\$2,508	\$1,851	(15.8 %)	(26.2 %)
Net operation income	\$1,029	\$1,768	\$1,851	71.8 %	4.7 %
Operating loss	\$(12,833)	\$(6,591)	\$(7,599)	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Loss before income tax	\$(13,158)	\$(9,534)	\$3,944	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Consolidated net loss	\$(13,158)	\$(9,534)	\$3,944	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Basic loss per share	\$(0.32 )	\$(0.26 )	\$0.11	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Diluted loss per share	\$(0.32 )	\$(0.26 )	\$0.11	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>

Note:

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(1)Percentage change is presented as “n/a” if either of the two periods contains a loss.

The following table sets forth other (expense) income, net (in thousands) for the years ended December 31, 2015, 2016 and 2017:

	Year Ended December 31,			% increase/(decrease)	
	2015	2016	2017	2016 vs 2015	2017 vs 2016
Foreign exchange (loss) gain, net	\$(8,678)	\$(8,294)	\$8,582	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Interest income from finance lease receivable	\$303	\$16	\$—	(94.7 %)	(100 %)
Gain on disposal of idle property, plant and equipment	\$106	\$8	\$—	(92.5 %)	(100 %)
Loss from discontinued operations	\$(630 )	\$(634 )	\$(693 )	0.63 %	9.31 %
Income from selling residual scraps from demolished buildings	\$—	\$—	\$529	n/a	n/a
Others	\$880	\$407	\$77	(53.8 %)	(81.1 %)
	\$(8,019)	\$(8,497)	\$8,495	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>

Note:

(1)Percentage change is presented as “n/a” if either of the two periods contains a loss.

Foreign exchange loss, net is primarily attributable to the depreciation of RMB against U.S. dollar. RMB depreciated to RMB6.20 to US\$1.00 as of December 31, 2014, RMB6.50 to US\$1.00 as of December 31, 2015 and RMB6.94 to US\$1.00 as of December 31, 2016 and appreciated to RMB6.52 to US\$1.00 as of December 31, 2017.

Interest income from finance lease receivable in 2015, 2016 and 2017 was sourced from the leasing of property, plant and equipment to a third party with a period from April 1, 2012 to March 31, 2016.

We had a gain on disposal of idle property, plant and equipment in 2015, 2016 and 2017 primarily in relation to the disposal of property and equipment as we started to cease our production operations in 2013.

Other income in 2015, 2016 and 2017 primarily related to reversal of a provision of professional fee of \$0.5 million and government allowance of \$0.2 million received in 2015 and reversal of a provision of professional fee of \$0.1 million and final award of \$0.2 million from a legal case in 2016, and sales proceed of \$0.5 from material of our old factory buildings located on the eastern section of the Nam Tai Inno City site after their demolition in 2017, respectively.

## Results of Operations

The following table presents selected consolidated financial information stated as a percentage of operation income for the years ended December 31, 2015, 2016 and 2017.

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	Year Ended December 31,		
	2015	2016	2017
Operation income	100.0 %	100.0 %	100.0 %
Operation expenses	(65.4 )%	(29.5 )%	100.0 %
Net operation income	34.6 %	70.5 %	100.0 %
General and administrative expenses <sup>(1)</sup>	(465.5)%	(333.3)%	(510.5)%
Operating loss	(430.9)%	(262.8)%	(410.5)%
Other (expenses) income, net	(269.2)%	(338.8)%	458.9 %
Interest income	270.4 %	221.5 %	411.7 %
Interest expense	(12.1 )%	—	—
Write off of demolished building	—	—	(247.1)%
(Loss) income before income tax	(441.8)%	(380.1)%	213.0 %
Income tax	—	—	—
Consolidated comprehensive (loss) income	(441.8)%	(380.1)%	213.0 %

Note:

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(1) General and administrative expenses include employee severance benefits of nil, nil and \$0.2 million for the years ended December 31, 2015, 2016 and 2017, respectively.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

**Operation Income.** Our operation income decreased to \$1.9 million in 2017 from \$2.5 million in 2016. This decrease was mainly related to the expiration in October 2017 of the lease agreement that rented out a portion of our land and building located in Gushu, Shenzhen.

**General and Administrative Expenses.** Our general and administrative expenses increased to \$9.5 million in 2017 from \$8.4 million in 2016. The \$1.1 million increase was mainly attributable to an increase of \$0.7 million for Nam Tai Inno Park's ground breaking ceremony and an increase of \$0.4 million in salaries and benefits.

**Other Income (expense), Net.** During 2017, our other income was \$8.5 million compared to other expenses \$8.5 million in 2016. The increase was mainly attributable to the gain on currency exchange due to appreciation of RMB against U.S. dollar from 6.94 in January 2017 to 6.52 in December 2017, and depreciation of RMB against U.S. dollar from 6.50 in January 2016 to 6.94 in December 2016.

**Interest Income.** Our interest income was \$7.6 million, which increased by \$2.0 million from \$5.6 million in 2016. The increase primarily resulted from the deposit interest rates in Hong Kong and the PRC being higher than in 2016 although the cash and cash equivalents and short term investments decreased from \$184.2 million in 2016 to \$165.2 million in 2017.

**Consolidated comprehensive income (loss).** Consolidated comprehensive income increased to \$10.3 million in 2017 from loss of \$17.3 million in 2016. The increase was mainly attributable to an exchange gain of \$8.6 million and a foreign currency translation gain of \$6.3 million as a result of the appreciation of Renminbi against the US dollar during the twelve months ended December 31, 2017, partly offset by the loss of \$4.6 million related to the write down of our old factory buildings located on the site of Phase I of Nam Tai Inno City after their demolition, an exchange loss of \$8.3 million and a foreign currency translation loss of \$7.7 million as a result of the depreciation of Renminbi against the US dollar during the twelve months ended December 31, 2016;

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

**Operation Income.** Our operation income decreased to \$2.5 million in 2016 from \$3.0 million in 2015. This decrease was mainly related to the expiration in June 2015 of the lease agreement that rented out a portion of our land located in Guangming, Shenzhen., which impacted 2016 results for the full period versus six months in 2015.

**General and Administrative Expenses.** Our general and administrative expenses decreased to \$8.4 million in 2016 from \$13.9 million in 2015. The \$5.5 million decrease was mainly attributable to a decrease of \$4.0 million for the partial legal fees relating to our Directors' and Officers' Liability Insurer award against us and \$1.2 million for depreciation expenses in 2016.

**Other Expense, Net.** During 2016, our other expense was \$8.5 million compared to \$8.0 million in 2015. The increase was mainly attributable to the loss on currency exchange due to depreciation of RMB against U.S. dollar from 6.50 in January 2016 to 6.94 in December 2016, and from 6.20 in January 2015 to 6.50 in December 2015.

**Interest Income.** Our interest income was \$5.6 million in 2016, which decreased by \$2.5 million from \$8.1 million in 2015. The decrease was primarily the result of lower cash and cash equivalents and short term investments from

\$207.4 million in 2015 to \$184.2 million in 2016.

Consolidated comprehensive loss. Consolidated comprehensive loss decreased to \$17.3 million in 2016 from \$17.6 million in 2015.

## Liquidity and Capital Resources

### Liquidity

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In 2015, 2016 and 2017, we did not have any off-balance sheet financing arrangements, such as securitized receivables or access to assets through special purpose entities, which could act as sources of liquidity. During the year of 2015, 2016 and 2017, our primary uses of cash were payments relating to the development of our land parcels in Guangming and Gushu.

We had working capital of \$152.6 million as of December 31, 2017 compared to net working capital of \$194.7 million as of December 31, 2016. The principal components of our working capital as of December 31, 2016 consisted of cash and cash equivalents, short term investments and assets held for sale, and that as of December 31, 2017 consisted of cash and cash equivalents. The decreases in these components of \$42.1 million as of December 31, 2017 from levels as of December 31, 2016, primarily resulted from a decrease of \$89.6 million in short term investments and decrease of 19.0 million in assets held for sale, but partly offset by an increase by \$70.6 million in cash and cash equivalent.

### Historical Capital Expenditures

The table below shows our major capital expenditures for the years 2015, 2016 and 2017:

	Year Ended December 31,		
	2015	2016	2017
	(US\$ in thousands)		
Nam Tai Inno Park	\$1,993	\$6,177	\$16,269
Nam Tai Inno City	\$120	\$129	\$847
New Corporate Headquarters	\$—	\$—	\$13,376
Total	\$2,113	\$6,306	\$30,492

Our plans for capital expenditures are subject to change from time to time and could result from, among other things, our consummation of any significant acquisition or strategic investment opportunities, which we regularly explore, and prevailing economic conditions.

### Notes on Balance Sheet Reclassification

Our capital expenditures for Nam Tai Inno Park, Nam Tai Inno City are initially recorded as “real estate properties under development, net” on the assets side of our balance sheet, which also included write down of demolished buildings on the site of Phase I of Nam Tai Inno City of \$4.6 million in 2017. Our capital expenditures for our corporate headquarters are recorded as “property, plant and equipment”. For our property in Wuxi, when our management changed its intention with respect to the use of the property from assets held for sale to a potential rental property, we also reclassify it from “assets held for sale” to “property, plant and equipment” as of December 31, 2017.

### Planned Capital Expenditures

For 2018, our planned capital expenditures is estimated to be \$153.5 million for the two major real estate development projects, of which \$132.9 million has been allocated to Nam Tai Inno Park, and \$20.6 million has been allocated for Nam Tai Inno City, which the Board of Directors approved on October 27, 2017. We believe that our level of internal resources, which include cash and cash equivalents, long term investments, and available borrowings under our credit

facilities, and our working capital requirements are sufficient to maintain our business operations for at least the next twelve months. Should we desire to pursue acquisition opportunities or undertake additional significant expansion activities, our capital needs would increase and could possibly result in our need to increase available borrowings under our revolving credit facilities or access public or private debt and equity markets. We cannot assure you that we would be successful in raising additional debt or equity on terms that we would consider acceptable or at all.

The following table sets forth, for the years ended December 31, 2015, 2016 and 2017, selected consolidated cash flow information:

	Year Ended December 31,		
	2015	2016	2017
	(US\$ in thousands)		
Net cash (used in) provided by operating activities	\$(8,782 )	\$(5,210 )	\$2,259
Net cash provided by (used in) investing activities	\$38,011	\$(44,120)	\$62,615
Net cash used in financing activities	\$(75,938)	\$(5,906 )	\$(3,358 )
Net (decrease) increase in cash and cash equivalents	\$(46,709)	\$(55,236)	\$61,516

Net cash provided by operating activities for 2017 was \$2.3 million. This consisted primarily of a \$3.9 million consolidated net income, write off of demolished buildings on our Nam Tai Inno City – Phase I site of \$4.6 million, non-cash item share-based compensation expense of \$1.1 million, depreciation and amortization of \$0.3 million. Net cash provided by operating activities was partially offset by unrealized foreign exchange gain of \$6.7 million, and an increase in prepaid expense and other receivables of \$1.0 million.

Net cash provided by investing activities was \$62.6 million for 2017, consisted primarily of a decrease of \$89.7 million for short term investments, but partially offset by payment of real estate properties under development of \$11.9 million, purchase of property, plant and equipment of \$13.4 million, and an increase in long term investment \$2.3 million.

Net cash used in financing activities was \$3.4 million for 2017, represented \$10.3 million for cash dividend paid, but partially offset by \$6.9 million for proceeds from option exercise.

Net cash used in operating activities for 2016 was \$5.2 million. This consisted primarily of a \$9.5 million consolidated net loss, a decrease in accrued expenses and other payable of \$1.2 million and a decrease in prepaid expense and other receivables of \$0.6 million. Net cash used in operating activities was partially offset by unrealized foreign exchange loss of \$3.4 million, non-cash item depreciation and amortization of \$1.8 million and share-based compensation expense of \$1.0 million.

Net cash used by investing activities was \$44.1 million for 2016, consisting primarily of an increase of \$39.7 million for short term investments.

Net cash used in financing activities was \$5.9 million for 2016, representing \$6.3 million for our share repurchase program and \$2.9 million for cash dividend paid. Net cash used in financing activities was partially offset by \$3.3 million for proceeds from option exercise.

Net cash used in operating activities for 2015 was \$8.8 million. This consisted primarily of a \$13.2 million consolidated net loss and a decrease in accrued expenses and other payable of \$4.5 million, which consisted of compensation obligation payment to the CFO of \$3.0 million and incentive bonus of \$1.1 million in 2015. Net cash used in operating activities was partially offset by non-cash item depreciation and amortization of \$4.2 million, share-based compensation expense of \$1.7 million, a decrease in prepaid expense and other receivables of \$1.7 million and unrealized foreign exchange loss of \$1.5 million.

Net cash provided by investing activities was \$38.0 million for 2015, consisting primarily of a decrease of \$35.2 million for short term investments.

Net cash used in financing activities was \$75.9 million for 2015, representing \$132.4 million for repayment of short term bank borrowing including the repayment of \$40.0 million borrowed in 2014 and \$92.4 million borrowed in 2015, \$36.7 million for share repurchase program and \$3.2 million for cash dividends paid. Net cash used in financing activities was partially offset by \$92.4 million for proceeds from short term bank borrowings and \$4.0 million for proceeds from option exercise.

For the years ended December 31, 2015, 2016 and 2017, we had no guaranteed loans. In 2015, NTISZ and Zastron Shenzhen acted as guarantors of banking facilities amounting to \$90.0 million including default interest and other costs and expenses.



We had no material transactions, arrangements or relationships with unconsolidated affiliated entities that are reasonably likely to affect our liquidity.

#### Capital Resources

As of December 31, 2017, we had \$165.2 million in cash and cash equivalents and \$2.3 million of long term investments, compared with \$94.6 million in cash and cash equivalents and \$89.6 million of short term investments, as of December 31, 2016

As of December 31 2017, we had no bank loans.

Our contractual obligations, including purchase obligations as of December 31, 2017 are summarized below. We do not participate in, or secure financing for, any unconsolidated limited purpose entities.

	Payments (in thousands) due by period			
	Total	2018	2018 to 2020	After 2021
Contractual Obligations				
Capital commitments	7,224	4,862	2,362	—
Total	\$7,224	\$4,862	\$2,362	\$ —

Except for a requirement that PRC subsidiaries have to reserve about 11% of profits after tax for future developments and staff welfare, there are no restrictions on the payment of dividends from the PRC once all taxes are paid and assessed, and losses, if any, from previous years have been made good.

#### Impact of Inflation

Prior to the complete cessation of our EMS business around April 2014, inflation in China, where virtually all of our assets and employees are located, has had little impact on our business because we were able to increase the price of our services and products to keep pace with inflation.

Continuing inflation and material increases in the cost of labor could diminish our competitive advantage. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products and services, our profitability and results of operations could be materially and adversely affected.

In April 2014, we ceased our LCM manufacturing business and turned our focus to the redevelopment of two parcels of land in Gushu and Guangming, Shenzhen into high-end commercial complexes. Inflation has not had a significant effect on our business during the past two years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 1.4%, 2.0% and 1.6% in 2015, 2016 and 2017, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. As of the date of this Report, we have not been materially affected by any inflation or deflation.

#### Recent Changes in Accounting Standards

In January 2017, the FASB issued No.2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This update provides a more robust framework to use in determining when a set of assets and activities is a business and provides more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. For public business entities, this update is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The adoption of ASU 2017-01 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In January 2017, the FASB issued No.2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This update states an entity no longer will determine goodwill impairment by calculating the

implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, where Step 2 from the goodwill impairment test is eliminated. In addition, any reporting unit with a zero or negative carrying amount is no longer required to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. For public entity, this update is effective for annual or any interim periods beginning after December 15, 2019. We are evaluating the new pronouncement to determine the impact it may have to our consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, Other income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This update includes guidance on the accounting for partial sales of nonfinancial assets, which are common in the real estate industry, and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. This update indicates income-producing real estate is considered in substance real estate and, therefore, is derecognized in accordance with industry-specific guidance. It also simplifies GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses and requires an entity to initially measure a retained noncontrolling interest in a nonfinancial asset at fair value consistent with a how a retained noncontrolling interest in a business is measured. For public business

entities, this update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The adoption of ASU 2017-05 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In March 2017, the FASB issued No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost by adding a standard-setting project to provide additional guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets and requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. This Update requires additional disclosures, including amount of net benefit cost recognized for each period for which a statement of income is presented. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of ASU 2017-07 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In May 2017, the FASB issued ASU No. 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting in this update. This update is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financial statements have not yet been issued. The adoption of ASU 2017-09 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In May 2017, the FASB issued ASU No. 2017-10, Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services. This update clarifies the grantor is the customer of the operation services in all cases for those arrangements and enable more consistent application of other aspects of the revenue guidance. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2017-10 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In September 2017, the FASB issued No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606): Amendments to SEC paragraphs pursuant to the staff announcement at the July 20, 2017 EITF meeting and rescission of prior SEC staff announcements and observer comments. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of ASU 2017-13 is not expected to have a material impact on the Company's consolidated financial statements in 2018..

In February 2016, the FASB issued ASU 2016-02, Lease (Subtopic 842): This Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In January 2018, the FASB issued No. 2018-01, Land Easement Practical Expedient for Transition (Topic 842): Amendments of new leases guidance allows entities the option to apply the provisions of the new leases guidance at the effective date, without adjusting the comparative periods presented. This Update also simplifies the reporting and disclosures for lessors for certain leases in which they also provide related services. This Update allows lessors to not separate the nonlease components from the lease. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2018. The Company is evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

Trend Information

In 2014, due to a major customer's repeated and continuous changes to its formal purchasing orders without the ability to provide a firm commitment, we evaluated the viability of our core LCM production business and eventually decided to formally cease our operations at Gushu manufacturing facilities by the end of April 2014 and subsequently, sold all of our machinery and production lines.

Following the cessation of our LCM business in April 2014, we have focused on the redevelopment of the two land parcels in Gushu and Guangming, Shenzhen, into middle or high-end commercial complexes under the names "Nam Tai Inno Park" and "Nam Tai Inno City", respectively. Upon the completion of development of these two parcels of land, we will become the landlord and manager of the commercial complexes.

## Off-balance Sheet Arrangements

For 2017, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## ITEM 6. DIRECTORS AND SENIOR MANAGEMENT

## Directors and Senior Managers

Our current directors and senior management, and their ages as of January 31, 2018, are as follows:

Name	Age	Position with Nam Tai or its Subsidiaries
Ming Kown Koo	74	Executive Chairman of the Board
Ying Chi Kwok	50	Member of the Board of Directors
Peter R. Kellogg	76	Member of the Board of Directors
Mark Waslen	58	Member of the Board of Directors
Lorne Waldman	51	Member of the Board of Directors
Dr. Wing Yan (William) Lo	58	Member of the Board of Directors
Julian Lin	47	Member of the Board of Directors
Yu Zhang	38	Senior Management
Xiaoxia (Shirley) Yin	41	Senior Management

Ming Kown Koo. (Year of Birth: 1944). Mr. Koo, a founder of the Nam Tai Group, currently serves as executive Chairman. He has served in various senior executive and management positions of Nam Tai Group from our inception, including responsibilities for corporate strategy, finance and administration. Mr. Koo received his Bachelor of Laws degree from National Taiwan University in 1970. Mr. Koo also received the Honorary Degree of Doctor of Social Science from the City University of Hong Kong in November 2013.

Ying Chi Kwok. (Year of Birth: 1967). Mr. Kwok has served on our Board of Directors since October 2017 and as our Chief Executive Officer since February 2018. Mr. Kwok was born in Guangdong, China. Mr. Kwok was the co-founder of Kaisa and Fulbright Financial Group. Kaisa was established in 1999, where Mr. Kwok served as one of its directors. Kaisa was listed on the Hong Kong Stock Exchange in 2009 (1638.HK) and Mr. Kwok served as Kaisa's vice-chairman and a director from 2009 to 2014. Since 2015, Mr. Kwok has been serving as its senior adviser.

Peter R. Kellogg. (Year of Birth: 1942). Mr. Kellogg has served on our Board of Directors since June 2000. Mr. Kellogg was a Senior Managing Director of Spear, Leeds & Kellogg, a registered broker-dealer in the United States and a specialist firm on the NYSE until the firm merged with Goldman Sachs in 2000. Mr. Kellogg serves on our Compensation Committee and Nominating/Corporate Governance Committee. Mr. Kellogg is also a member of the board of the Ziegler Companies.

Mark Waslen. (Year of Birth: 1960). Mr. Waslen has served on our Board of Directors since July 2003 and serves as Chairman of our Audit Committee. From 1990 to 1995 and from June 1998 to October 1999, Mr. Waslen was employed by Nam Tai in various capacities, including Financial Controller, Secretary and Treasurer. Since June 1, 2010, Mr. Waslen is employed as a Partner with MNP LLP, a Canadian Chartered Accountant and business advisory

firm. From 2001 to 2010, Mr. Waslen was employed by Berris Mangan Chartered Accountants, an accounting firm located in Vancouver, BC. Prior to joining Berris Mangan, Mr. Waslen has been employed by various other accounting firms, including Peat Marwick Thorne and Deloitte & Touche. Mr. Waslen is a CFA, CA and a CPA and received a Bachelor's of Commerce (Accounting Major) from University of Saskatchewan in 1982.

Lorne Waldman. (Year of Birth: 1966). Mr. Waldman has served on our Board of Directors since March 2015 and serves as Chairman of our Compensation Committee. Mr. Waldman is currently the Senior Vice President and in-house legal counsel of Silvercorp Metals Inc, the largest primary silver producer in China with mines in Henan and Guangdong Provinces of China, which is listed on Toronto Stock Exchange (TSX: SVM) and NYSE American Exchange. Prior to that, Mr Waldman served as in-house legal counsel and corporate secretary within Nam Tai group from 1996 to 2007. Mr. Waldman earned a Master of Business Administration and a law degree from the University of British Columbia and a Bachelor of Commerce degree from the University of Calgary, Canada.

Dr. Wing Yan (William) Lo. (Year of Birth: 1961). Dr. Lo has served on our Board of Directors since July 2003 and serves as Chairman of our Nominating/Corporate Governance Committee. Dr. Lo is an experienced executive in the TMT (technology, media and telecommunications) and consumer sectors. He has held senior positions in the past in China Unicom, Hongkong Telecom, Citibank HK, I.T Limited and South China Media Group. He is currently the Vice Chairman of Kidsland International Holdings Limited (SEHK:2122) which owns one of the largest toys and children products distribution networks in the PRC and is the exclusive operator of LEGO certified stores in Hong Kong. Dr. Lo graduated from Cambridge University with a M.Phil. degree in

Pharmacology and a Ph.D. degree in Molecular Neuroscience in the 80's. Dr. Lo currently serves as an independent non-executive director of a number of publicly listed companies in Hong Kong, including Television Broadcasts Ltd (SEHK: 511), CSI Properties Ltd (SEHK: 497), SITC International Limited (SEHK: 1308), and Jing Rui Holdings Limited (SEHK:1862) and Ronshine China Holdings Limited (SEHK:3301). Dr. Lo is also the Founding Governor of the Charles K. Kao Foundation for Alzheimer's Disease and the ISF Academy as well as the present Chairman of Junior Achievement HK. Dr. Lo is currently a member of the Cyberport Advisory Panel and a member of the Hospital Governing Committee of the Hong Kong Red Cross Blood Transfusion Service. In 1998, Dr. Lo was appointed as a Hong Kong Justice of the Peace. From 2003 to 2006, he was appointed as a Committee Member of Shantou People's Political Consultative Conference.

Julian Lin. (Year of Birth: 1970). Mr. Lin has served as our President and General Counsel since February 2018 and as a member of our Board of Directors since October 2017. Previously, Mr. Lin served as our Chief Executive Officer from May 2017 to January 2018 Prior to joining us, Mr. Lin has worked for more than five years as our chief external counsel where he gained familiarity with our business, operations and finance. Mr. Lin has been practicing as an attorney for more than 15 years and was previously a partner in one of the largest U.S. law firms in Hong Kong. His legal practice encompasses a broad range of capital markets, private equity, mergers and acquisitions.

Yu Zhang. (Year of Birth: 1980). Ms. Zhang has served as our Chief Financial Officer since February 2018. Previously, she served as the Chief Financial Officer of our PRC subsidiaries from September 2017 to January 2018. Ms Zhang is a qualified CPA in the PRC. Prior to joining us, Ms. Zhang worked as a financial manager in Kaisa and was primary in charge of audit for Kaisa's resumption of trading and for its various bond issuances. Ms. Zhang had also practiced as a senior auditor and tax consultant for many years in Jonten Certified Public Accountants (LLP). Her audit practices encompass a wide range of matters, including initial public offerings, due diligence investigation, mergers and acquisitions. Ms. Zhang has extensive work experience in the areas of real estate development in China, including financial management, internal control, tax planning, investment and fund raising.

Xiaoxia (Shirley) Yin. (Year of Birth: 1977). Ms. Yin has served as our Project Director since September 2017. She has nearly 20 years of work experience in large-scale real estate design and development institutes and companies, during which she has served in Kaisa for ten years. Ms. Yin is familiar with laws and regulations in the domestic real estate industry, and has rich experience in real estate design and development, construction, investment attraction and project operation. During the two years prior to joining us, Ms. Yin has served in Kaisa Technology Group, and was directly responsible and involved with International Technology Innovation Valley Project in Central China, Kaisa Science and Technology Square Project, Shangxu Niuguling Network of Things Industrial Park Project, Jingbei International Health Valley Project.

No family relationship exists among any of our directors or members of our senior management and no arrangement or understanding exists between any of our major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management. Directors are elected each year at our annual meeting of shareholders or serve until their respective successors take office or until their death, resignation or removal. Members of senior management serve at the pleasure of the Board of Directors.

Compensation of Directors and Management



### Compensation on an Aggregate Basis

The aggregate compensation, including benefits in kind granted, during the year ended December 31, 2017 that we or any of our subsidiaries paid to all directors and senior management as a group for their services in all capacities to the Company or any subsidiary was approximately \$3.4 million.

In May 2017, we granted to a member of our senior management stock options to purchase 400,000 shares of the Company exercisable at \$7.95 per share and 400,000 shares of the Company exercisable at \$15.00 per share. According to the option certificates, these options will vest per annum in four equal portions. The first portion vested on May 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively.

In March 2017, we granted to a member of our senior management stock options to purchase 75,000 shares of the Company. These options granted are exercisable at \$7.10 per share, and according to the option certificates, the options will vest per annum in five equal portions. The first portion vested on March 3, 2017 and expired on December 31, 2017. The remaining four portions shall vest on January 1 and expire on December 31 in 2018, 2019, 2020 and 2021, respectively.

In July 2016, we granted to our directors stock options to purchase an aggregate of 1,550,000 of our common shares at an exercise price of \$6.22 per share, 15% above the closing price of our common stock on the date of the grant. We also granted to our management and employees stock options to purchase an aggregate of 1,060,000 of our common shares at an exercise price of \$5.41 per share equal to the closing price of our common stock on the date of the grant. According to the option certificates, the options granted to directors, management and employees vested per annum in five equal portions. The first portion vested on July 29, 2016

and expired on July 28, 2017. The remaining four portions shall vest on January 1 and expire on December 31 in 2017, 2018, 2019 and 2020, respectively.

In the fourth quarter of 2015, we granted to one director and certain management and employees stock options to purchase an aggregate of 726,869 of our common shares with an exercise price of \$8.00 per share, significantly above the closing price of our common stock on the date of the grant. The options will expire on the fifth anniversary of their grant date in 2020.

In June 2015, we granted to our directors, under our stock option plan, options to purchase an aggregate of 75,000 of our common shares at an exercise price of \$5.33 per share. The exercise price of the shares covered by the options granted during 2015 was equal to the fair market value of our shares on the date of grant. The closing price of our common stock on the date of grant, June 5, 2015, was \$5.33, as reported on the NYSE. The options granted during 2015 will expire on the third anniversary of their grant date in 2018.

In April 2015, we granted to our management options to purchase 50,000 of our common shares at an exercise price of \$3.97 per share. The exercise price of the shares is the closing price of our common stock on the date of granted. The options were exercised in 7 July 2016.

During the year ended December 31, 2014, we granted to our directors, under our stock option plan, options to purchase an aggregate of 60,000 of our common shares at an exercise price of \$8.05 per share. The exercise price of the shares covered by the options granted during 2014 was equal to the fair market value of our shares on the date of grant. The closing price of our common stock on the date of grant, June 6, 2014, was \$8.05, as reported on the NYSE. The options granted during 2014 expired on the third anniversary of their grant date in 2017.

Members of our senior management were eligible for annual cash bonuses based on their performance and that of the subsidiaries in which they are assigned for the relevant period. Senior management is entitled to share up to 15% of the operating income, after tax, from the subsidiary in which they are employed for the year. In addition, members of our senior management are eligible to elect to receive stock options from our Stock Option Plans instead of receiving cash incentives. During 2012, our management were granted options to purchase 831,000 shares of the Company and 50% of such options became exercisable in 2013 and 40% became exercisable in 2014. Members of our senior management elected to receive the options granted to them in January 2013 and June 2014 and forfeited the cash incentives for the years 2012 and 2013, respectively. On January 30, 2015, the Board of Directors approved the extension of options previously granted to management for a period of two years from April 26, 2015.

We pay our directors, except for Mr. Koo, \$5,000 per month for their services as directors, and \$1,200 per meeting attended in person and \$800 per meeting attended by telephone. In addition, we reimburse our directors for all reasonable expenses incurred in connection with their services as a director and member of a board committee.

According to the local laws and regulations of Shenzhen, China, we were required to contribute 13% to 14% of the stipulated salaries of our staff that worked in Shenzhen to retirement benefit schemes to fund retirement benefits for our employees. In Wuxi, we are required to contribute 19% of our staff's salaries to help fund retirement benefits for our employees. Our principal obligation with respect to these retirement benefit schemes is to make the required contributions under the scheme. No forfeited contributions may be used by us to reduce the existing level of contributions.

Since December 2000, we have enrolled all of our eligible employees located in Hong Kong into the Mandatory Provident Fund, or MPF, scheme, a formal system of retirement protection that is mandated by the government of

Hong Kong and provides the framework for the establishment of a system of privately managed, employment-related MPF schemes to accrue financial benefits for members of the Hong Kong workforce when they retire. The MPF is available to all employees aged 18 to 64 and with at least 60 days of service at Nam Tai in Hong Kong. We contribute 5% of the employee's income. The maximum income for contribution purposes per employee is \$3,836 per month. Staff members are entitled to 100% of the Company's contributions, together with accrued returns, irrespective of their length of service with us, but the benefits are required by law to be preserved until the retirement age of 65 for employees in Hong Kong at the end of employment contracts.

The cost of our contributions to the staff retirement plans in Hong Kong and China amounted to approximately \$0.1 million, \$0.2 million and \$0.2 million for the years ended December 31, 2015, 2016 and 2017, respectively.

## Compensation on an Individual Basis\*

## Directors Compensation

The following table presents the total compensation paid to each of our non-management directors during 2017:

Name	Fees Earned or	Option	All Other	Total
	Paid in Cash	Awards	Compensation	
	(\$) <sup>(1)</sup>	(\$) <sup>(2)</sup>	(\$)	(\$)
Peter R. Kellogg	64,800	52,171	—	116,971
Charles Chu	35,600	(55,298)	—	(19,698)
Mark Waslen	68,800	52,171	—	120,971
Lorne Waldman	68,800	52,171	—	120,971
Dr. Wing Yang (William) Lo	65,600	52,171	—	117,771

## Notes:

(1) Consists of the aggregate dollar amount of all fees earned or paid in cash for services as a director, including annual retainer fees and meeting fees.

(2) Consists of the US\$ amount of option grants that Nam Tai recognized for financial statement reporting purposes in accordance with FASB ASC 718.

\*Under the rules of the SEC, foreign private issuers like us are not required to disclose compensation paid to our directors or senior managers on an individual basis unless individual disclosure is required in the foreign private issuer's home country and is not otherwise publicly disclosed by the company. Although we are not required by our home country (the British Virgin Islands, the jurisdiction in which we are organized), we are voluntarily providing disclosure of compensation we paid to our directors and senior managers on an individual basis in this Report and plan to do so in our proxy statement for our 2018 Annual Meeting of Shareholders (even though we are not subject to the sections of the Securities Exchange Act of 1934 regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Securities Exchange Act of 1934 or disclosures required in a proxy statement in accordance with rules therefore promulgated under the Securities Exchange Act of 1934). See ITEM 3. Key Information of this Report under the heading "Risk Factors – Our status as a foreign private issuer in the United States exempts us from certain of the reporting requirements under the Securities Exchange Act of 1934 and corporate governance standards of the New York Stock Exchange, or NYSE, limiting the protections and information afforded to investors". By providing disclosures of compensation we pay to our directors and senior managers on an individual basis in this Report or in our proxy statement, we are not undertaking any duty, and investors and others reviewing this Report should not expect, that we will continue to make such disclosures in any future Reports or in our proxy statements as long as we are exempt from doing so under the Securities Exchange Act of 1934. We reserve the right to discontinue doing so at any time without prior notice. Further, although the disclosures of compensation we paid to our directors and senior managers on an individual basis that we have provided in this Report may, in certain respects, appear comparable to similar disclosures made by companies organized in the U.S. that are required to file Annual Reports on Form 10-K or proxy statements under Regulation 14A under the Securities Exchange Act of 1934, such disclosures that we have made in this Report do not

necessarily comply with the applicable requirements therefore under Form 10-K or Regulation 14A and this Report does not contain all disclosures required by ITEM 11 of Form 10-K or ITEM 8 of Schedule 14A of Regulation 14A. (3) During the course of an internal inquiry with respect to Charles Chu's historical beneficial shareholding of the Company, Mr. Chu tendered his resignation from the Board, and the Company agreed to terminate Mr. Chu's position on the Board effective September 22, 2017. As a result of his departure, Mr. Chu's options were cancelled for 150,000 common shares of the Company at an exercise price of \$6.22 and 15,000 common shares of the Company at an exercise price of \$5.33.

Options Granted During the Year and Held by Directors, at December 31, 2017

Prior to 2016, our policy was to grant to non-employee directors on an annual basis, upon their election to the Board of Director at the annual shareholders' meeting, options to purchase 15,000 shares at an exercise price equal to 100% of the fair market value of the common shares on the date of grant. In July 2016, we granted to our non-employees directors stock options to purchase an aggregate of 750,000 of our common shares at an exercise price of \$6.22 per share, 15% above the closing price of our common stock on the date of the grant. According to the option certificates, the options vest per annum in five equal portions. The first portion vested on July 29, 2016 and expired on July 28, 2017. The second portion vested on January 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively.

## Compensation on an Individual Basis — Executive Officers of the Group

The following table sets forth a summary of the compensation which we (including our subsidiaries) paid to Mr. Koo and our highest paid executive officers (still in service as of December 31, 2017) during 2017.

## Summary Compensation Table

Name and Principal Position	2015	2016	2017
<b>Ming Kown Koo, Nam Tai's Executive Chairman, Chief</b>			
Financial Officer			
Salary <sup>(1)</sup>	1,279,367 <sup>(3)</sup>	1,248,723 <sup>(3)</sup>	1,243,791 <sup>(3)</sup>
Other compensation and benefits <sup>(2)</sup>	497,286 <sup>(4)</sup>	311,240 <sup>(4)</sup>	294,764 <sup>(4)</sup>
Total	1,776,653	1,559,963	1,538,555
<b>Julian Lin, Chief Executive Officer of Nam Tai</b>			
Salary <sup>(1)</sup>	—	—	592,000 <sup>(3)</sup>
Other compensation and benefits <sup>(2)</sup>	—	—	511,466 <sup>(4)</sup>
Total	—	—	1,103,466
<b>Yu Zhang, Senior Management</b>			
Salary	—	—	21,091 <sup>(3)</sup>
Other compensation and benefits <sup>(2)</sup>	—	—	13,752
Total	—	—	34,843
<b>Xiaoxia (Shirley) Yin, Senior Management</b>			
Salary	—	—	125,010 <sup>(3)</sup>
Other compensation and benefits <sup>(2)</sup>	—	—	58,959
Total	—	—	183,969
<b>Pi Hao Liu, Administrative Consultant , Former Chief</b>			
Executive Officer of Nam Tai			
Salary <sup>(1)</sup>	211,200	199,095	64,925 <sup>(3)</sup>
Other compensation and benefits <sup>(2)</sup>	62,641	102,639	23,272
Total	273,841	301,734	88,197

## Notes:

- (1) Consists of the basic salary earned by the named executive officers during the year indicated. Cash compensation included in the table was paid to Nam Tai's senior executives in HK\$ and RMB, respectively and for purposes of the presentation in the above table have been converted into US\$ at a conversion rate \$1.00: HK\$7.79, \$1.00:RMB6.78 for 2017, \$1.00: HK\$7.76, \$1.00:RMB6.63 for 2016, \$1.00: HK\$7.75, \$1.00:RMB6.25 for 2015, respectively.
- (2) To the extent applicable to the named individual, consists of amounts paid for housing, golf club membership fees, mandatory provident fund, life, medical, travel, social security, unemployment compensation, welfare and accident

insurance premiums, bonus and fees for annual physical examination.

- (3) Mr. Koo was appointed as Nam Tai's Chief Financial Officer effective March 1, 2009, resigned on April 30, 2015 and reappointed again on May 17, 2016. Mr. Koo's salary for serving as Nam Tai's Chief Financial Officer during 2015, 2016 and 2017 was \$1.00 per month. In 2015, 2016 and 2017, Mr. Koo's salary for serving as President of NTHL or ICCL was approximately \$1.3 million, \$1.2 million, and \$1.2 million respectively. Mr. Lin was appointed as Nam Tai's Chief Executive Officer effective May 1, 2017. Mr. Liu was changed from Nam Tai's CEO to consultant effective May 1, 2017.
- (4) "Other compensation and benefits" for 2017 includes fees for medical insurance, annual physical examination, \$0.3 million share options for Mr. Koo to purchase an aggregate of 480,000 of our common shares at an exercise price of \$6.22 per share, which were granted in 2016; \$0.4 million share option for Mr. Julian Lin to purchase an aggregate of 400,000 of our common shares at an exercise price of \$7.95 per share and 400,000 at an exercise price of \$15.00 per share, which were granted in 2017 and vest per annum in four equal portions. The first portion vested on May 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively. "Other compensation and benefits" for 2016 includes fees for medical insurance, annual physical examination, \$0.3 million share options to purchase an aggregate of 800,000 of our common shares at an exercise price of \$6.22 per share, which vested per annum in five equal portions. The first and second portions vested on July 29, 2016 and January 1, 2017, and have expired on July 28, 2017 and December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in

2017, 2018, 2019 and 2020, respectively “Other compensation and benefits” for 2015 includes fees for medical insurance, annual physical examination, \$0.5 million share options to purchase an aggregate of 261,869 of our common shares at an exercise price of \$8.00 per share, which vested in October 2015.

Retirement Benefits

(1) Since December 2000, we have enrolled all of our eligible employees located in Hong Kong into the Mandatory Provident Fund. The following table provides amount of contributions that the Company has made for the Mandatory Provident Retirement Funds to the individuals named in the Summary Compensation Table above in accordance with Hong Kong law.

Name	Service	Value at	
		Number of years of credited	December 31, 2017 of Accumulated
Ming Kown Koo	43.0	(a)N/A	2017 (\$) N/A

Note:

(a)Prior to October 2010, Mr. Koo’s services as our employee were for Nam Tai Property Inc., the ultimate parent, and as such he was not eligible for Hong Kong’s Mandatory Provident Retirement Fund. Accordingly, no contributions have been made for Mr. Koo. Although he was appointed President of our subsidiary, NTEEP, effective October 1, 2010, contributions are not required for Mr. Koo under Hong Kong’s Mandatory Provident Retirement Fund because he is over 65 years old.

(2)Regulations in the PRC require the Group to contribute to a defined contribution retirement plan for all permanent employees. Pursuant to the mandatory requirement from the local authority in the PRC, the retirement pension insurance was established for the employees during the term they are employed.

Name	Service	Value at	
		Number of years of credited	December 31, 2017 of Accumulated
Julian Lin	0.7	4,030	4,030
Pi Hao Liu	18.1	22,542	—
Yu Zhang	0.4	2,114	2,114
Xiaoxia (Shirley)Yin	0.4	2,114	2,114





## Options Held by Executive Officers at January 31, 2018

## Stock Options of Directors and Management

The following table provides information concerning the options owned by our current management and directors as of January 31, 2018.

Name	Number of common shares subject to option	Exercise price (\$)	Expiration Date
Ming Kown Koo	160,000	(1) 6.22	December 31, 2018
Ming Kown Koo	160,000	6.22	December 31, 2019
Ming Kown Koo	160,000	6.22	December 31, 2020
Ying Chi Kwok	300,000	13.30	December 31, 2018
Ying Chi Kwok	300,000	13.30	December 31, 2019
Julian Lin	100,000	7.95	December 31, 2018
Julian Lin	100,000	15.00	December 31, 2018
Julian Lin	100,000	7.95	December 31, 2019
Julian Lin	100,000	15.00	December 31, 2019
Julian Lin	100,000	7.95	December 31, 2020
Julian Lin	100,000	15.00	December 31, 2020
Yu Zhang	70,000	13.30	December 31, 2018
Yu Zhang	70,000	13.30	December 31, 2019
Xiaoxia (Shirley) Yin	150,000	13.30	December 31, 2018
Xiaoxia (Shirley) Yin	150,000	13.30	December 31, 2019

Note:

(1) In January 19, 2018, Mr. Koo exercised his options to purchase 160,000 shares vested on January 1, 2018 and received the shares on February 12, 2018.

## Board Practices

All directors hold office until our next annual meeting of shareholders, which generally is in the summer of each calendar year, or until their respective successors are duly elected and qualified or their positions are earlier vacated by resignation or otherwise. The full board committee appoints members and the chairman of the board committees, who serve at the pleasure of the Board. Nam Tai does not have any director service contracts providing for benefits upon termination of service as a director or employee (if employed).

## Corporate Governance Guidelines

We have adopted a set of corporate governance guidelines which are available on our website at [http://www.NamTai.com/investors#investors/corporate\\_governance](http://www.NamTai.com/investors#investors/corporate_governance). The contents of this website address, other than the corporate governance guidelines, the code of ethics and committee charters, are not a part of this Form 20-F. Stockholders also may request a free copy of our corporate governance guidelines in print form by making a request to:

Mr. Kevin McGrath, Managing Partner of Cameron Associates

Telephone: 212.245.4577

e-mail: [kevin@cameronassoc.com](mailto:kevin@cameronassoc.com)

#### NYSE Listed Company Manual Disclosure

As a foreign private issuer with shares listed on the NYSE, we are required by Section 303A.11 of the Listed Company Manual of the NYSE to disclose any significant ways in which its corporate governance practices differ from those followed by U.S. domestic companies under NYSE listing standards. Management believes that there are no significant ways in which our corporate governance standards differ from those followed by U.S. domestic companies under NYSE listing standards.

## Committee Charters and Independence

The charters for our Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee are available on our website at <http://www.Nam Tai.com/investors#investors/committee>. The contents of this website address, other than the corporate governance guidelines, the code of ethics and committee charters, are not a part of this Report. Stockholders may request a copy of each of these charters from the address and phone number set forth above under “Corporate Governance Guideline”.

Each of the members of our Board of Directors serving on our Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee are “independent” as that term is defined in Corporate Governance Rules of the NYSE.

We have adopted the directors’ independence criteria as established by NYSE Corporate Governance Rules Section 303A.02.

An Independent Non-Executive Director (“INED”) is an individual:

- who has no material relationship with the Company as affirmatively determined by the Board;
  - who is not nor has been within the last three years immediately prior to the date of his appointment as an INED an employee of the Company, provided, however, employment as an interim Chairman of the Board or Chief Executive Officer or other executive officer of the Company shall not disqualify a director from being considered independent following that employment;
  - whose immediate family members<sup>(1)</sup> are not, nor have been within the last three years immediately prior to the date of his appointment as an INED, an executive officer of the Company;
- who, or whose immediate family members<sup>(1)</sup>, have not received greater than \$0.1 million in direct compensation from the Company, other than directors’ and committees’ fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continuous service), during any twelve-month period within the last three years immediately prior to the date of his appointment as an INED;
- who is neither a partner nor an employee of the internal or external audit firm of the Company and within the last three years immediately prior to the date of his appointment as an INED was neither a partner nor an employee of such firm and personally worked on the Company’s audit during that time;
- none of whose immediate family members<sup>(1)</sup> is (a) a current partner of the internal or external audit firm of the Company or (b) a current employee of the internal or external audit firm of the Company and personally works on the Company’s audit;
- none of whose immediate family members<sup>(1)</sup> have been, within the last three years immediately prior to the date of his appointment as an INED, partners or employees of the internal or external audit firm and personally worked on the Company’s audit during that time; and
- who, or whose immediate family members<sup>(1)</sup>, are not, nor within the last three years immediately prior to the date of his appointment as an INED, employed as an executive officer of another company in which any of the Company’s present executives at the same time serves or served on that company’s compensation committee; and
- who is not an employee of, or whose immediate family members<sup>(1)</sup> are not executive officers of, a company that has made payments to, or received payments from, the Company for property or services in an amount which in any of the three fiscal years prior to his appointment as an INED, exceeds the greater of \$1 million or 2% of such other company’s consolidated gross revenues.

Note:

(1)

An “immediate family member” includes a person’s spouse, parents, children, siblings, mothers- and father-in-law, sons-and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person’s home.

Audit Committee

The primary duties of our Audit Committee are reviewing, acting on and reporting to the Board of Directors with respect to various auditing and accounting matters, including the selection of independent registered public accounting firm, the scope of annual audits, the fees to be paid to the independent registered public accounting firm and the performance of the independent registered public accounting firm and accounting practices.

Our Audit Committee consists of three independent non-executive directors: Messrs. Waslen, Dr. Lo and Waldman. Mr. Waslen serves as the Chairman of the Audit Committee as a “financial expert”.

#### Compensation Committee

The primary duties of our Compensation Committee are to recommend (1) the compensation of the our Board of Directors; (2) compensation of any directors who are executives of the Company and the chief executive officer with reference to achievement of corporate goals and objectives established in the previous year; (3) compensation of other senior management if required by the Board; and (4) equity-based and incentive compensation programs of the Company.

Our Compensation Committee consists of four independent non-executive directors: Messrs. Waslen, Kellogg, Dr. Lo and Waldman. Mr. Waldman serves as the Chairman of the Compensation Committee.

#### Nominating/Corporate Governance Committee

The primary duties of our Nominating/Corporate Governance Committee consist of (1) assisting the Board by actively identifying individuals qualified to become Board members consistent with criteria approved by the Board; (2) recommending to the Board the director nominees for election at the next annual meeting of stockholders, the member nominees for the Audit Committee, Compensation Committee and the Nominating/Corporate Governance Committee on an annual basis; (3) reviewing and recommending to the Board whether it is appropriate for such director to continue to be a member of the Board in the event that there is a significant change in the circumstance of any director that would be considered detrimental to the Company’s business or his/her ability to serve as a director or his/her independence; (4) reviewing the composition of the Board on an annual basis; (5) recommending to the Board a succession plan for the chief executive officer and directors, if necessary; (6) monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies; (7) establishing criteria to be used in connection with the annual self-evaluation of the Nominating/Corporate Governance Committee; and (8) developing and recommending to the Board and administering the corporate governance guidelines of the Company.

Our Nominating/Corporate Governance Committee consists of four independent non-executive directors: Messrs. Waslen, Kellogg, Dr. Lo and Lorne Waldman. Dr. Lo serves as the Chairman of the Nominating/Corporate Governance Committee.

#### Stock Options of Directors and Management

During 2016, our non-employee directors were each granted options to purchase 150,000 shares of the Company. A remaining balance of 360,000 options plus an aggregate of remaining balance of 30,000 options granted in 2015 but not yet exercised by our directors (a total of 135,000) were outstanding and held by our directors as of January 31, 2018. With the exception of Mr. Koo’s options, the options granted in 2016 are exercisable at \$6.22 per share, according to the option certificates, the options vested per annum in five equal portions. The first portion vested on July 29, 2016 and expired on July 28, 2017. The second portion vested on January 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively.

The options granted in 2015 are exercisable at \$5.33 per share, and will lapse on June 4, 2018.

The options granted in 2014 are exercisable at \$8.05 per share, and lapsed on June 5, 2017.

During 2016, a director (Mr. Koo) and our management were granted options to purchase 800,000 and 140,000 shares of the Company, respectively. These options granted are exercisable at \$6.22 and \$5.41 per share, respectively, and according to the option certificates, the options will vest per annum in five equal portions. The first portion vested on July 29, 2016 and expired on July 28, 2017. The second portion vested on January 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively.

During 2017, a member of our senior management was granted options to purchase 400,000 shares of the Company exercisable at \$7.95 per share and 400,000 shares of the Company exercisable at \$15.00 per share. According to the option certificates, these options will vest per annum in four equal portions. The first portion vested on May 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively.

## Share Ownership of Directors and Management

For information regarding the numbers and percentage ownership of our shares, see ITEM 7. Major Shareholders and Related Party Transactions – Shares and Options Ownership of Directors, Management and Principal Shareholders.

## Employee Stock Option Plans

We have four stock option plans - our amended 2001 stock option plan, our 2006 stock option plan, our 2016 stock option plan and 2017 stock option plan. The 2006 stock option plan was approved by the Board on February 10, 2006 and approved by shareholders at our 2006 Annual Meeting of Shareholders. In April 2016, the Board of Directors approved our 2016 stock option plan, which was subsequently approved by the shareholders at the 2016 Annual General Meeting of Shareholders. The 2016 stock option plan had the same terms and conditions as the 2006 stock option plan, except that the maximum number of shares to be issued pursuant to exercise of options granted under the 2016 stock option plan was 3,500,000 shares. In April 2017, the Board of Directors approved our stock option plan, which was subsequently approved by the shareholders at the 2017 annual general meeting of shareholders, with the same terms and conditions. However, the maximum number of shares to be issued pursuant to exercise of options granted was 1,500,000 shares.

Under either the amended 2001 stock option plan or the 2006 stock option plan, the terms and conditions of individual grants may vary subject to the following: (1) the exercise price of incentive stock options may not normally be less than market value on the date of grant; (2) the term of incentive stock options may not exceed ten years from the date of grant; (3) the exercise price of an option cannot be altered once granted unless such action is approved by shareholders in a general meeting or results from adjustments to our share capital and necessary to preserve the intrinsic value of the granted options; and (4) every non-employee director automatically receives on an annual basis upon their election to the Board of Directors at the annual shareholders' meeting, options to purchase 15,000 common shares at an exercise price equal to 100% of the fair market value of the common shares on the date of grant. Under the 2016 stock option plan, the terms and conditions of individual grants may vary subject to the above item (1) to item (3) of the amended 2001 stock option plan or the 2006 stock option plan.

As of January 31, 2018, we had outstanding options to purchase 390,000 shares under the 2006 and 2016 stock option plans held by four non-employee directors and 3,128,000 shares under the 2016 and 2017 stock option plans held by three executive directors, management and staff, respectively. Under our existing stock option plans, options to purchase 1,481,000 shares are available for future grants. The full text of our amended 2001 stock option plan, amended on July 30, 2004, was filed with the SEC as Exhibit 4.18 to our Annual Report on Form 20-F for the year ended December 31, 2004. The full text of our 2006 stock option plan was included as Exhibit 99.1 to our Form 6-K furnished to the SEC on June 12, 2006. Amendments to our 2006 stock option plan were included with our form 6-K furnished to the SEC on November 13, 2006. The full text of our 2016 stock option plan was incorporated by reference to Annex A of our Form 6-K furnished to the SEC on May 5, 2016. The full text of our 2017 stock option plan was incorporated by reference to our Form S-8 furnished to the SEC on July 28, 2017

## Employees

The following table provides information concerning the number of Nam Tai's employees, their geographic location and their main category of activity during the years ended December 31, 2015, 2016 and 2017.



Geographic Location	Main Activity	At December 31,		
		2015	2016	2017
<b>Shenzhen, PRC</b>				
	Project development	11	6	8
	Supervision & checking committee member	3	—	—
	Administration	43	49	45
	<b>Total Shenzhen</b>	<b>57</b>	<b>55</b>	<b>53</b>
<b>Wuxi, PRC</b>				
	Administration	4	4	4
	<b>Total Wuxi</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Hong Kong</b>				
	Administration	9	8	6
	<b>Total Hong Kong</b>	<b>9</b>	<b>8</b>	<b>6</b>
<b>Total Employees</b>		<b>70</b>	<b>67</b>	<b>63</b>

## ITEM 7.MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## Shares and Options Ownership of Directors, Senior Management and Principal Shareholders

The following table sets forth certain information known to us regarding the beneficial ownership of our common shares as of January 31, 2018, by each person (or group within the meaning of Section 13(d)(3) of the Exchange Act) known by us to own beneficially 5% or more of our common shares; and each of our current directors and senior management:

Name	Shares beneficially owned <sup>(1)</sup>	
	Number	Percent
Kaisa Group Holdings Ltd.	9,191,050 <sup>(2)</sup>	24.5 %
Peter R. Kellogg	7,333,094 <sup>(3)</sup>	19.5 %
M.K. Koo	160,000 <sup>(4)</sup>	*
Ying Chi Kwok	300,000 <sup>(5)</sup>	*
Julian Lin	200,000 <sup>(6)</sup>	*
Wing Yan (William) Lo	45,000 <sup>(7)</sup>	*
Mark Waslen	85,000 <sup>(8)</sup>	*
Lorne Waldman	45,000 <sup>(9)</sup>	*
Yu Zhang	70,000 <sup>(10)</sup>	*
Xiaoxia (Shirley) Yin	150,000 <sup>(11)</sup>	*

## Notes:

\*Less than 1%.

- (1) Percentage of ownership is based on 37,575,991 common shares outstanding as of January 31, 2018. In accordance with Rule 13d-3(d) (1) under the Exchange Act, options which are exercisable within 60 days of January 31, 2018 have been considered outstanding for the purpose of computing the percentage of Nam Tai's outstanding shares owned by the listed person holding such options, but are not considered outstanding for the purpose of computing the percentage of shares owned by any of the other listed persons.
- (2) Kaisa beneficially holds 9,191,050 common shares, which are held indirectly through Greater Sail Limited. Greater Sail Limited is a British Virgin Islands company of which Kaisa indirectly holds 100% outstanding stock.
- (3) Mr. Kellogg beneficially holds 7,288,094 common shares, including 5,774,800 common shares held indirectly through I.A.T. Reinsurance Syndicate Ltd. I.A.T. Reinsurance Syndicate Ltd. is a Bermuda corporation of which Mr. Kellogg is the sole holder of its voting stock. Mr. Kellogg disclaims beneficial ownership of the shares held by I.A.T. Reinsurance Syndicate Ltd. Mr. Kellogg also holds options to purchase 45,000 shares, which he has received as of January 31, 2018, as a director of Nam Tai.
- (4) Mr. Koo holds options to purchase 160,000 shares, which he has received as of January 31, 2018, as a director of Nam Tai. In January 19, 2018, Mr. Koo exercised his options to purchase 160,000 shares vested on January 1, 2018 and received the shares on February 12, 2018.
- (5) Represents options to purchase 300,000 shares, which he has received as of January 31, 2018, as a director of Nam Tai.
- (6) Represents options to purchase 100,000 shares at \$7.95 and 100,000 shares at \$15.00 vested on January 1, 2018 and expired on December 31, 2018, which he received as the former Chief Executive Officer of Nam Tai.

- (7) Represents options to purchase 45,000 shares, which he has received as of January 31, 2018, as a director of Nam Tai.
- (8) Includes 55,000 common shares and options to purchase 30,000 shares, which he has received as of January 31, 2018, as a director of Nam Tai.
- (9) Includes 15,000 common shares and options to purchase 30,000 shares, which he has received as of January 31, 2018, as a director of Nam Tai.
- (10) Represents options to purchase 70,000 shares, which she has received as of January 31, 2018, as our Chief Financial Officer.
  
- (11) Represents options to purchase 150,000 shares, which she has received as of January 31, 2018, as our Project Director.

To our knowledge, the Company is not directly or indirectly owned or controlled by another corporation or corporations, by any foreign government or by any other natural or legal person severally or jointly through January 31, 2018.

All of the holders of our common shares have equal voting rights with respect to the number of common shares held. As of January 31, 2018, there were approximately 464 holders of record of our common shares. According to information provided to us by our transfer agent, 97.6% holders of record with addresses in the United States held 31,040,009 of our common shares as of January 31, 2018.

The following table reflects the percentage ownership of our common shares during the last three years ended January 31, 2016, January 31, 2017 and January 31, 2018 by shareholders who beneficially owned 5% or more of our common shares during that period:

	Percentage Ownership <sup>(1)</sup>		
	2016	2017	2018
Kaisa Group Holdings Ltd. <sup>(2)</sup>	—	—	24.5%
Peter R. Kellogg <sup>(3)</sup>	18.8%	19.1%	19.5%
Kahn Brothers LLC <sup>(4)</sup>	9.9%	5.3%	4.9%
Ming Kown Koo <sup>(5)</sup>	16.7%	17.8%	—

## Notes:

- (1) Based on 36,699,572, 36,446,691 and 37,575,991 common shares outstanding on January 31, 2016, 2017 and 2018, respectively. In accordance with Rule 13d-3(d)(1) under the Exchange Act, options which are exercisable within 60 days as of January 31, 2016, January 31, 2017 and January 31, 2018 have been considered outstanding for the purpose of computing the percentage of our outstanding shares owned by the listed person holding such options, but are not considered outstanding for the purpose of computing the percentage of shares owned by any of the other listed persons.
- (2) Based on a Schedule 13G filed with the SEC jointly by Kaisa and Greater Sail Limited on December 15, 2017, Kaisa beneficially holds 9,191,050 common shares, which are held indirectly through Greater Sail Limited. Greater Sail Limited is a British Virgin Islands company of which Kaisa indirectly holds 100% of its outstanding stock.
- (3) Mr. Kellogg beneficially owned 6,871,000, 6,871,000 and 7,288,094 common shares, as of January 31, 2016, January 31, 2017 and January 31, 2018 including shares registered in the name of I.A.T. Reinsurance Syndicate Ltd., of which Mr. Kellogg is the sole holder of its voting stock but does not admit to its beneficial ownership and, as compensation granted to him for being a director of Nam Tai, options to purchase 45,000, 90,000 and 45,000 common shares, on each of the respective date. Based on a Schedule 13G/A filed with the SEC by I.A.T. Reinsurance Company Ltd. on February 17, 2015, 5,774,800 common shares were held by I.A.T. Reinsurance Company Ltd. as of December 21, 2014.
- (4) Based on a Schedule 13G/A filed with the SEC by Kahn Brothers LLC on February 10, 2016 of 3,645,209 common shares and on February 2, 2017 of 1,920,660 common shares, and on January 25, 2018 of 1,855,255 common shares.
- (5) Mr. Koo, jointly with Ms. Cho Sui Sin, Mr. Koo's wife, beneficially owned 5,922,486, 6,344,355 and nil common shares as of January 31, 2016, and January 31, 2017, and January 31, 2018, including, as compensation granted to him for being CFO of Nam Tai, options to purchase 261,869, 160,000 and 160,000 common shares, on each of the respective dates. In January 19, 2018, Mr. Koo exercised his options to purchase 160,000 shares vested on January 1, 2018 and received the shares on February 12, 2018.

The Company is not aware of any arrangements that may, at a subsequent date, result in a change of control of the Company.

## Certain Relationships and Related Party Transactions

On February 12, 2018, we sold our Hong Kong office property to our Chairman, Mr. Koo, for \$9.7 million after our Audit

Committee reviewed two valuation reports prepared by two independent appraisers and our Board of Directors approved the transaction price.

During 2017, Julian Lin was granted options to purchase 400,000 shares of the Company at an exercise price of \$7.95 per share and 400,000 shares of the Company at an exercise price of \$15.00 per share. According to the option certificates, the options granted to Julian Lin shall vest per annum in four equal portions. The first portion of 100,000 shares at \$7.95 per share and 100,000 shares at \$15.00 vested on May 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively. Julian Lin exercised his options to purchase 100,000 shares at the exercise price of \$7.95 per share in November 2017.

During 2016, Mr. Koo was granted options to purchase 800,000 shares of the Company at an exercise price of \$6.22 per share. According to the option certificates, the options granted to Mr. Koo shall vest per annum in five equal portions. The first portion of 160,000 shares vested on July 29, 2016 and expired on July 28, 2017. The second portion of 160,000 shares vested on January 1, 2017 and expired on December 31, 2017. The remaining three portions shall vest on January 1 and expire on December 31 in 2018, 2019 and 2020, respectively. Mr. Koo exercised his options to purchase 160,000 shares at the exercise price of \$6.22 per share on August 16, 2016, 261,869 shares at the exercise price of \$8.00 per share on August 18, 2016 and 160,000 shares at the exercise price of \$6.22 per share on July 11, 2017. In January 19, 2018, Mr. Koo exercised his options to purchase 160,000 shares vested on January 1, 2018 and received the shares on February 12, 2018.

During 2015, Mr. Koo was granted options to purchase 261,869 shares of the Company at an exercise price of \$8.00 per share. According to the option certificates, the options granted to Mr. Koo during 2015 will expire on October 29, 2020. Mr. Koo exercised his options to purchase 600,000 shares at the exercise price of \$6.66 per share on September 15, 2015.

During the year ended December 31, 2013, we paid tax of \$2.3 million on behalf of a director of the Company and a former director of a subsidiary. The amount was recorded as other receivables. For more information, please refer to ITEM 8. Financial Information – Legal Proceedings – Notices of Alleged Personal Liability for Additional Taxes Against Former Directors and Officers for Signing NTTC’s Tax Returns”.

## ITEM 8. FINANCIAL INFORMATION

### Financial Statements

Our consolidated financial statements are included this Form 20-F in the F pages following page 76.

### Legal Proceedings

#### Tax Disputes with Hong Kong Inland Revenue Department.

Since the fourth quarter of 2007, several of our inactive subsidiaries have been involved in tax disputes relating to tax years 1996 and later years with the Inland Revenue Department of Hong Kong, (the “HKIRD”), the income tax authority of the Hong Kong Government. These inactive subsidiaries include three Hong Kong entities, Nam Tai Group Management Limited (“NTGM”), Nam Tai Trading Company Limited (“NTTC”) and Nam Tai Telecom (Hong Kong) Company Limited (“NTT”). The disputes concern the appropriateness of expensing certain intra-group service fees under the transfer pricing context. NTGM is the parent company of NTT and NTTC. NTTC is the title holder of certain land in Hong Kong and is being liquidated. The particulars of these disputes are discussed below.

#### NTTC

(a) Starting from October 2007, the HKIRD issued assessments and writs against NTTC claiming taxes and interests on unpaid taxes for the taxable years 1996/1997 to 2003/2004, for matters related to intra-group service fees.

(b) Judgments were entered against NTTC and on June 4, 2012 a winding-up order was issued by the High Court of Hong Kong against NTTC.

(c) NTTC is currently in liquidation. The total tax claims against NTTC are \$6.6 million plus interest. The financial statements of NTTC have not been included in our consolidated financial statements subsequent to our annual report for 2012.

#### NTT

(a) The HKIRD also issued assessments and writs against NTT for matters related to intra-group service fees in taxable years 2002/2003. During the years 2009 and 2011, two judgments were entered against NTT, our dormant subsidiary. The total tax claims against NTT are \$0.4 million plus interest.

(b) NTT had a net deficit position as of December 31, 2017 and we have no funding obligation towards NTT. As a result, the liability from the HKIRD demand letter has no impact on us. Therefore, the amount claimed by HKIRD was not recorded as a liability in our consolidated financial statements.

#### NTGM

(a) The HKIRD had also issued assessments and writs against NTGM for matters related to intra-group service fee. During the years 2009 to 2011, two judgments were also entered against NTGM, a subsidiary that had been inactive since 2005. Since then, NTGM has received a number of demand letters from the HKIRD, demanding total payments of judgment debts for an aggregate amount of \$1.1 million plus interest.

(b) NTGM has a net deficit position as of December 31, 2017 and we have no funding obligation towards NTGM. As a result, the claims from the HKIRD demand letters have no impact on us. Therefore, the amount claimed by HKIRD was not recorded as a liability in our consolidated financial statements.

#### Notices of Alleged Personal Liability for Additional Taxes against Former Directors and Officers for Signing NTTC's Tax Returns

(a) The HKIRD had also separately commenced legal proceedings against two former directors and officers of NTTC personally for taxable years 1996/1997, 1997/1998 and 1999/2000, in the total amount of approximately \$2.3 million for additional tax by way of

penalty for signing the tax return of the Hong Kong subsidiaries in relation to the disputed intra-group service fees. Both directors have been indemnified under the Company's indemnity policy.

(b) The hearing for the appeal application is scheduled for April 18, 2018 at the Hong Kong Court of First Instance.

#### Matter Concerning a Former Director

We are plaintiff in an action against a former director, Charles Chu, in the California Superior Court in San Francisco for breach of duty in connection with his failure to cooperate with the Board's inquiry on his historical beneficial shareholding in our Company. We are seeking damages from Mr. Chu arising from his conduct. Litigation is inherently uncertain, and the ultimate outcome of this action is unknown at this time.

#### Dividends

Under our dividend policy, our Board of Directors determines and declares the amount of Nam Tai's dividend payable based on our operating income, current and estimated future cash, cash flow and capital expenditure requirements at the time of the yearly declaration and such other factors as Nam Tai's Board believes reasonable and appropriate to consider in the determination and plans to announce the declared amount of that dividend.

As announced on November 4, 2013, the Company set payment of quarterly dividends for 2014 of \$0.02 per quarter. All quarterly dividends scheduled for payment in 2014 were paid as scheduled.

As announced on November 3, 2014, the Company set payment of quarterly dividends for 2015 of \$0.02 per quarter. All quarterly dividends scheduled for payment in 2015 were paid as scheduled.

As announced on October 30, 2015, the Company set payment of quarterly dividends for 2016 of \$0.02 per quarter. All quarterly dividends scheduled for payment in 2016 were paid as scheduled.

As announced on October 31, 2016, the Company set payment of quarterly dividends for 2017 of \$0.07 per quarter. All quarterly dividends scheduled for payment in 2017 were paid as scheduled.

On October 31, 2017, following its review of our financial results for the first nine months of 2017, our Board of Directors assessed our operating income, current and estimated future cash, cash flow and capital expenditure requirements, and decided to pay quarterly dividends in 2018 according to the Schedule set forth below:

#### Dividends declared for 2018

		Scheduled	Dividend
Quarterly Payment	Record Date	Payment Date	per share
Q1 2018	December 31, 2017	January 19, 2018	\$ 0.07
Q2 2018	March 31, 2018	April 20, 2018	0.07
Q3 2018	June 30, 2018	July 20, 2018	0.07
Q4 2018	September 30, 2018	October 19, 2019	0.07
Total for full year 2018			\$ 0.28



Although the Company has resumed paying dividends, it does not necessarily mean that dividend payments will continue thereafter. Whether future dividends will be declared will depend upon Nam Tai's future growth and earnings, of which there can be no assurance, and the Company's cash flow needs for future expansion, which growth, earning or cash flow needs may be adversely affected by one or more of the factors discussed in ITEM 3. Key Information — Risk Factors in this Report. There can be no assurance that future cash dividends will be declared, what the amounts of such dividends will be or whether such dividends, once declared for a specific period, will continue for any future period, or at all.

The following table sets forth the total cash dividends and dividends per share we have declared during each of the five years ended December 31:

	Year ended December 31,				
	2013	2014	2015	2016	2017
Total dividends declared (in thousands)	\$3,622	\$3,409	\$2,936	\$10,205	\$10,514
Regular dividends per share	\$0.08	\$0.08	\$0.08	\$0.28	\$0.28
Total dividends per share	\$0.08	\$0.08	\$0.08	\$0.28	\$0.28

## ITEM 9. THE LISTING

Our shares are traded in the United States and have been listed on the New York Stock Exchange since January 2003 under the ticker symbol “NTE” until April 22, 2014 when the ticker symbol changed to “NTP”.

The following table sets forth the highest and lowest closing sales prices for our shares for each of the quarters in the year period ended December 31:

	2015			2016			2017		
	High	Low	Volume <sup>(1)</sup>	High	Low	Volume <sup>(1)</sup>	High	Low	Volume <sup>(1)</sup>
1 <sup>st</sup> Quarter	\$5.16	\$3.51	154,839	\$6.25	\$4.80	83,507	\$7.95	\$6.79	36,715
2 <sup>nd</sup> Quarter	5.40	3.86	179,730	6.18	5.26	41,823	8.85	6.90	43,036
3 <sup>rd</sup> Quarter	6.59	4.20	140,952	9.59	5.19	138,388	11.23	7.95	105,313
4 <sup>th</sup> Quarter	6.63	4.70	60,853	8.63	7.10	100,784	13.30	10.80	127,632

Notes:

(1) Determined by dividing the sum of the reported daily volume for the quarter by the number of trading days in the quarter.

The following table sets forth the highest and lowest closing sale prices of our shares for the five years ended December 31:

Year ended December 31,	Average Daily Trading		
	High	Low	Volume <sup>(1)</sup>
2013	\$16.01	\$5.55	626,068
2014	8.11	4.12	225,267
2015	6.63	3.51	133,665
2016	9.59	4.80	91,178
2017	13.30	6.79	78,339

Note:

(1) Determined by dividing the sum of the reported daily volume for the year by the number of trading days in the year.

The following table sets forth the highest and lowest closing sale prices of our shares during each of the most recent six months in the period ending February 28, 2018:

			Average Daily Trading
Month ended	High	Low	Volume <sup>(1)</sup>
September 30, 2017	11.10	10.15	77,195
October 31, 2017	12.55	10.80	87,777
November 30, 2017	13.30	11.78	204,038
December 31, 2017	12.85	11.80	91,247
January 31, 2018	13.40	12.25	90,581
February 28, 2018	13.75	11.95	159,732

Note:

(1) Determined by dividing the sum of the reported daily volume for the month by the number of trading days in the month.

#### ITEM 10. ADDITIONAL INFORMATION

##### Share Capital

Our authorized capital consists of 200,000,000 common shares, \$0.01 par value per share. As of January 31, 2018, we had 37,575,991 common shares outstanding.

## Memorandum and Articles of Association

On December 5, 2007, we filed with the Registrar of Corporate Affairs of the British Virgin Islands, our jurisdiction of organization, an amended Memorandum and Articles of Associations (collectively our “Charter”), the instruments governing a company organized under the law of the British Virgin Islands, which are comparable in purpose and effect to certificates or articles of incorporation and bylaws of corporations organized in a state of the United States. Our Charter, which became effective on December 5, 2007, amended and restated our Memorandum and Articles of Association. The purpose of amending our Charter was to:

- Make our shares eligible for a direct registration system operated by a securities depository in accordance with Section 501.00 (B) of the rules of the New York Stock Exchange that became effective on January 1, 2008 as to companies, like us, having equity securities listed on the New York Stock Exchange prior to January 1, 2007;
- Make various consequential amendments to our Memorandum and Articles of Association so as to make them consistent with the BVI Business Company’s Act, 2004, as amended (the “Act”), which we became subject to on January 1, 2007;
- Eliminate our authority to issue bearer shares that would otherwise be permitted under BVI law, which our directors believed to be inappropriate for a company with shares publicly traded in the United States;
- Authorize our Chief Executive Officer, Chief Financial Officer and our other officers designated by the Chairman of the Board of Directors (or the directors in the absence of designation by the Chairman of the Board of Directors), to serve as the Chairman of all meetings of shareholders in the absence of the Chairman of the Board of Directors; and
- Make certain other changes as are indicated in our Memorandum and Articles of Association.

Under our Charter, holders of our shares:

- are entitled to one vote for each whole share a holder owns on all matters to be voted upon by shareholders, including the election of directors;
- do not have cumulative voting rights in the election of directors;
- are entitled to receive dividends if and when declared by our Board of Directors out of funds legally available under British Virgin Islands law; and
- do not have preemptive rights to purchase any additional, unissued common shares.

Under our Charter or applicable BVI law:

- all of common shares are equal to each other with respect to voting and dividend rights; and
  - in the event of our liquidation, all assets available for distribution to the holders of our common shares are distributable among them according to their respective holdings.

Pursuant to our Charter and pursuant to the laws of the British Virgin Islands, our Board of Directors without shareholder approval, may amend our Memorandum and Articles of Association except:

- to restrict the rights or powers of our shareholders to amend the Memorandum or the Articles;
- to change the percentage of shareholders required to pass a resolution of shareholders to amend our Charter;
- in circumstances where our Charter cannot be amended by the Shareholders;
- to authorize the Company to issue, or authorize the issuance of, bearer shares of capital stock; or
- The power of our Board of Directors to amend our Memorandum and Articles of Association continues to include amendments to increase or reduce our authorized capital stock. Our ability to amend our Memorandum and Articles of Association without shareholder approval in this fashion could have the effect of delaying, deterring or preventing our change in control, including one involving a tender offer to purchase our common shares or to engage in a business combination at a premium over the then current market price of our shares.

We have never had any class of stock outstanding other than our common shares nor have we ever changed the voting rights with respect to our common shares.

Our registered office is at P.O. Box 3342, Road Town, Tortola, British Virgin Islands and we have been assigned company number 3805.

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As set forth in Clause 4 of our Memorandum of Association included in our Charter, our object or purpose is to engage in any act or activity that is not prohibited under British Virgin Islands law.

The following summarizes certain of the Regulations from our Articles of Association, included in our Charter:

- Regulation 53 provides that a director may be counted as part of the quorum with respect to any contract or arrangement in which the director is materially interested or makes with the Company;
- Regulation 46 allows the directors to vote on their compensation for their service as directors;
- Regulation 62 provides that the directors may by resolution exercise all of the Company's powers to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever we borrow money or as security for any of our debts, liabilities or obligations or those of any third party. These borrowing powers can be altered by an amendment to the Articles;
- Regulation 78 allows us to deduct from any shareholder's dividends amounts owed to us by that shareholder;
- Regulation 8(b) provides that we can redeem shares at fair market value from any shareholder against whom we have a judgment debt;
- Regulation 5(a) provides that the Company's registered shares may be certificated or uncertificated and shall be entered in the register of members of the Company and registered as they are issued;
- Regulation 7 provides that without prejudice to any special rights previously conferred on the holders of any existing shares, any of our shares may be issued with such preferred, deferred or other special rights or such restrictions, with respect to dividends, voting, return of capital or otherwise as the directors may from time to time determine;
- Regulation 9 provides that if at any time our capital stock is divided into different classes or series of shares, the rights attached to any class or series may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of any other class or series of shares which may be affected by such variation;
- Regulations 22 through 26 and under applicable BVI law provide that directors may convene meetings of our shareholders at such times and in such manner and places as the directors consider necessary or desirable, and they shall convene such a meeting upon the written request of shareholders holding more than 30% of the votes of our outstanding voting shares. Other than providing, if requested, reasonable proof of a holder's status as a holder of our shares as of the applicable record date, there is no condition to the admission of a shareholder or his or her proxy holder to our meetings of shareholders.

There is no provision in our Charter for the mandatory retirement of directors. Directors are not required to own our shares in order to serve as directors.

British Virgin Islands law and our Charter impose no limitations on the right of nonresident or foreign owners to hold or vote our securities.

There are no provisions in our Charter governing the ownership threshold above which shareholder ownership must be disclosed.

We filed our Charter with the SEC as Exhibit 1.1 to Amendment No. 1 to Form 8-A on December 13, 2007 and the provisions of our Charter may be reviewed by examining that filing.

#### Transfer Agent

Computershare, 480 Washington Blvd. Jersey City, NJ 07310, U.S.A., serves as transfer agent and registrar for our shares in the United States.

#### Material Contracts

We have not entered into any material contracts other than in the ordinary course of business or elsewhere in this annual report on Form 20-F.

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## Exchange Controls

There are no exchange control restrictions on payments of dividends, interest, or other payments to nonresident holders of Nam Tai's securities or on the conduct of our operations in Hong Kong, Cayman Islands or the British Virgin Islands, where Nam Tai is incorporated. Other jurisdictions in which we conduct operations may have various exchange controls. With respect to our subsidiaries in China, with the exception of a requirement that 11% of profits be reserved for future developments and staff welfare, there are no restrictions on the payment of dividends and the removal of dividends from China once all taxes are paid and assessed and losses, if any, from previous years have been made good. We believe such restrictions will not have a material effect on our liquidity or cash flows.

## United States Federal Income Tax Consequences

The discussion below is for general information only and is not, and should not be interpreted to be, tax advice to any holder of our common shares. Each holder or a prospective holder of our common shares is urged to consult his, her or its own tax advisor.

## General

This section is a general summary of the material United States federal income tax consequences of the ownership and disposition of our common shares as of the date of this report. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated and proposed thereunder, judicial decisions and current administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis. This summary applies to you only if you hold our common shares as a capital asset within the meaning of Section 1221 of the Code. The United States Internal Revenue Service, or the IRS, may challenge the tax consequences described below, and we have not requested, nor will we request, a ruling from the IRS or an opinion of counsel with respect to the United States federal income tax consequences of acquiring, holding or disposing of our common shares. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of our common shares. In particular, the discussion below does not cover tax consequences that depend upon your particular tax circumstances nor does it cover any state, local or foreign law, or the possible application of the United States federal estate or gift tax. You are urged to consult your own tax advisors regarding the application of the United States federal income tax laws to your particular situation as well as any state, local, foreign and United States federal estate and gift tax consequences of the ownership and disposition of our common shares. In addition, this summary does not take into account any special United States federal income tax rules that apply to a particular holder of our common shares, including, without limitation, the following:

- broker;
- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings;
- a financial institution or a bank;
- an insurance company;
- a tax-exempt organization;
- a person that holds our common shares in a hedging transaction or as part of a straddle or conversion transaction;
- a U.S. Holder (as defined below) whose functional currency for United States federal income tax purposes is not the U.S. dollar;
- a person liable for alternative minimum tax;
- a person that owns, or is treated as owning, 10% or more, by voting power or value, of our common shares;
- certain former U.S. citizens and residents who have expatriated;



persons holding shares through partnerships or other pass-through entities; or  
a person who receives our shares pursuant to the exercise of employee stock options or otherwise as compensation. Investors should consult their tax advisors regarding the application of the U.S. federal tax rules to their particular circumstances as well as the state, local, non-U.S. and other tax consequences to them of the purchase, ownership and disposition of our common shares.

The United States federal income tax treatment of a partner in a partnership (or other entity treated as a partnership for United States federal income tax purposes) that holds our common shares will generally depend on the status of the partner and the activities

of the partnership. Partners in a partnership investing in our common shares should consult their tax advisors regarding the specific United States federal income tax consequences to them of the acquisition, ownership and disposition of our common shares.

#### U.S. Holders

For purposes of the discussion below, you are a “U.S. Holder” if you are a beneficial owner of our common shares who or which is:

- an individual United States citizen or resident alien of the United States (as defined for United States federal income tax purposes);
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust (x) if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust or (y) if it was in existence on August 20, 1996, was treated as a United States person prior to that date and has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

#### Distributions on Our Common Shares

Subject to the discussion below under “PFIC Considerations,” the gross amount of any cash distribution or the fair market value of any property distributed that you receive with respect to our common shares generally will constitute dividends to the extent such distribution does not exceed our current and accumulated earnings and profits, or E&P, as calculated for United States federal income tax purposes. To the extent any distribution exceeds our current and accumulated E&P, such distribution will first be treated as a tax-free return of capital to the extent of your adjusted tax basis in our common shares and will be applied against and reduce such basis on a dollar-for-dollar basis (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of such shares). To the extent that such distribution exceeds your adjusted tax basis in our common shares, the distribution will be treated as capital gain. Notwithstanding the foregoing, we do not intend to maintain calculations of our E&P as determined for United States federal income tax purposes. Consequently, distributions generally will be reported as ordinary dividend income for United States information reporting purposes. Such income will be included in your gross income on the date of actual or constructive receipt. Subject to certain limitations, dividends paid to non-corporate U.S. Holders, including individuals, may be eligible for a reduced rate of taxation if we are a “qualified foreign corporation” for U.S. federal income tax purposes. A qualified foreign corporation includes (i) a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program, and (ii) a foreign corporation if its stock with respect to which a dividend is paid is readily tradable on an established securities market within the United States. We anticipate that requirement (ii) will be met here. A qualified foreign corporation for purposes of the reduced rate does not, however, include a passive foreign investment company, or PFIC. U.S. Holders should consult their tax advisors regarding the availability of the reduced rate of taxation applicable to any dividends the Company pays with respect to the shares. A dividends-received deduction generally will not be allowed to U.S. Holders that are corporations with respect to dividends paid by us.

We believe we were a PFIC for 2017 and, based on our current operations, assets and market conditions for our shares, we may be a PFIC for 2018—see “PFIC Considerations” below and the discussion of certain PFIC issues in “Risk Factors” above. Therefore, the reduced rate of taxation available to U.S. Holders of a “qualified foreign corporation” may not be available for 2017 or future taxable years.

For United States foreign tax credit limitation purposes, dividends received on our common shares will be treated as foreign source income and will generally be “passive category income”, or in the case of certain holders, “general category income”. You may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of foreign withholding taxes, if any, imposed on dividends paid on our common shares. The rules governing United States foreign tax credits are complex, and we recommend that you consult your tax advisor regarding the applicability of such rules to you.

## Sale, Exchange or Other Disposition of Our Common Shares

Subject to the discussion below under “PFIC Considerations,” in connection with the sale, exchange or other taxable disposition of our common shares, generally:

- you will recognize capital gain or loss equal to the difference (if any) between the amount realized on such sale, exchange or other taxable disposition and your tax basis in such common shares (your tax basis in the shares you hold generally will equal your U.S. dollar cost of such shares);
- such gain or loss will be long-term capital gain or loss if your holding period for our common shares is more than one year at the time of such sale or other disposition;
- such gain or loss will generally be treated as United States source for United States foreign tax credit purposes; and
- your ability to deduct capital losses is subject to limitations.

## Medicare Tax

Certain U.S. Holders that are individuals, estates or trusts are required to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock. U.S. Holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Company’s shares.

## Information with Respect to Foreign Financial Assets

A U.S. Holder that is an individual (and, to the extent provided in future regulations, an entity), may be subject to certain reporting obligations with respect to our common shares if the aggregate value of these and certain other “specified foreign financial assets” exceeds \$50,000. If required, this disclosure is made by filing IRS Form 8938 with the IRS. Significant penalties can apply if U.S. Holders are required to make this disclosure and fail to do so. In addition, a U.S. Holder should consider the possible obligation to file annually FinCEN Report 114 (Report of Foreign Bank and Financial Accounts) as a result of holding our common shares. U.S. Holders are thus encouraged to consult their U.S. tax advisors with respect to these and other reporting requirements that may apply to their acquisition of common shares.

## PFIC Considerations

The determination of whether a corporation is a PFIC in any taxable year is made on an annual basis after the close of that year and depends on the composition of its income and the nature and value of its assets including goodwill. Specifically, a corporation will be classified as a PFIC if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either (i) 75% or more of its gross income for such taxable year is passive income (the “PFIC income test”), or (ii) 50% or more of the value of its assets (based on an average of the quarterly values of the assets during such year) are passive to assets, which generally means that they either produce passive income or are held for the production of passive income (the “PFIC asset test”). For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income.

Based on the assumption that (i) cash and cash equivalents are passive assets and (ii) our market capitalization plus total liabilities may be considered a proxy for our total assets, a calculation based on a comparison of the average quarter-end book values of our cash and cash equivalents to our market capitalization plus total book liabilities indicates that we were a PFIC for 2017 under the PFIC asset test. As a result, although not free from doubt, we believe we were a PFIC for U.S. federal income tax purposes for 2017. However, the PFIC asset test requires a determination of the fair market value of each asset and a determination of whether such asset produces or is held for the production of passive income and involves complex legal issues. We have not made a determination of the fair market value of

our assets for 2017 or for 2018 to date, and we do not intend to make such a determination as we believe that our management and financial resources can be better deployed in other aspects of our business. We may have been a PFIC in 2017 and may be a PFIC in future taxable years under either the PFIC income test or the PFIC asset test, or both.

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If we are classified a PFIC, a special tax regime generally would apply to both (a) any “excess distribution” by us (generally, the U.S. Holder’s ratable share of distributions in any year that are greater than 125% of the average annual distributions received by such U.S. Holder in the three preceding years or its holding period, if shorter) and (b) any gain recognized on the sale or other disposition of your common shares. Under the PFIC regime, any excess distribution and recognized gain would be treated as ordinary income. The U.S. federal income tax on such ordinary income is determined under the following steps: (i) the amount of the excess distribution or gain is allocated ratably over the U.S. Holder’s holding period for our common shares; (ii) tax is determined for amounts allocated to the first year in the holding period in which we were classified as a PFIC and all subsequent years (except the year in which the excess distribution was received or the sale occurred) by applying the highest applicable tax rate in effect in the year to which the income was allocated; (iii) an interest charge is added to this tax calculated by applying the underpayment interest rate to the tax for each year determined under the preceding sentence from the due date of the income tax return for such year to the due date of the return for the year in which the excess distribution or sale occurs; and (iv) amounts allocated to a year prior to the first year in the U.S. Holder’s holding period in which we were classified as a PFIC or the year in which the excess distribution or the disposition occurred are taxed as ordinary income and no interest charge applies.

A U.S. Holder may generally avoid the PFIC regime by making a “qualified electing fund” election, or QEF election, effective beginning with the first taxable year in the holder’s holding period in which we are a PFIC, which generally provides that, in lieu of the foregoing treatment, our earnings, on a pro rata basis, would be currently included in the holder’s gross income. In general, a U.S. Holder makes a QEF election on a completed IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) attached to such holder’s U.S. federal income tax return for the year beginning with which the QEF election is to be effective. A QEF election can be revoked only with the consent of the IRS. In order for a U.S. Holder to make a valid QEF election, the Company must provide or make available to the holder certain information on an annual basis. The Company currently intends to provide U.S. Holders the information required to make a valid QEF election for the 2017 and possibly future taxable years. However, the Company provides no assurances that it will provide such information in any taxable year.

In addition, as an alternative to making a QEF election, U.S. Holders generally may avoid the PFIC regime by making the “mark-to-market” election with respect to our common shares if the shares meet certain minimum trading requirements. If a U.S. Holder makes a valid mark-to-market election for the first tax year in which such holder holds (or is deemed to hold) stock in a corporation and for which such corporation is determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above in respect of its stock. Instead, a U.S. Holder that makes a mark-to-market election will be required to include in income each year an amount equal to the excess of the fair market value of the shares that the holder owns as of the close of the taxable year over the holder’s adjusted tax basis in the shares. The U.S. Holder will be entitled to a deduction for the excess, if any, of the holder’s adjusted tax basis in the shares over the fair market value of the shares as of the close of the taxable year; provided, however, that the deduction will be limited to the extent of any net mark-to-market gains with respect to the shares included by the U.S. Holder under the election for prior taxable years. The U.S. Holder’s basis in the shares will be adjusted to reflect the amounts included or deducted pursuant to the election. Amounts included in income pursuant to a mark-to-market election, as well as gain on the sale, exchange or other disposition of the shares will be treated as ordinary income. The deductible portion of any mark-to-market loss, as well as loss on a sale, exchange or other disposition of shares to the extent that the amount of such loss does not exceed net mark-to-market gains previously included in income, will be treated as ordinary loss. It also is possible that one or more of our subsidiaries is or will become a PFIC. Such determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the amount and nature of a subsidiary’s income, as well as the market valuation and nature of a subsidiary’s assets. In such case, assuming a U.S. Holder does not receive from such subsidiary the information that the U.S. Holder needs to make a QEF election with respect such a subsidiary, if we are treated as a PFIC, a U.S. Holder generally will be deemed to own a portion of the shares of such lower-tier PFIC and

may incur liability for a deferred tax and interest charge if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. Holder otherwise is deemed to have disposed of an interest in, the lower-tier PFIC. There is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC, or that we will cause the lower-tier PFIC to provide the required information for a U.S. holder to make or maintain a QEF election with respect to the lower-tier PFIC. In addition, a mark-to-market election generally would not be available with respect to such a lower-tier PFIC. U.S. Holders are advised to consult with their tax advisors regarding the tax issues raised by lower-tier PFICs.

An actual determination of PFIC status is factual in nature. Given the complexity of the issues regarding our classification as a PFIC, U.S. Holders are urged to consult their own tax advisors for guidance as to our PFIC status.

If during any taxable year of a U.S. Holder ending on or after December 31, 2017 such U.S. Holder owns our common shares and we are a PFIC in such year, the U.S. Holder generally will be required to file an IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with respect to the Company (generally with the U.S. Holder's federal income tax return for that year), unless a de minimis exception applies. U.S. Holders are urged to consult their tax advisors regarding their annual filing requirements.

#### Non-U.S. Holders

If you are not a U.S. Holder and are not a partnership (or other entity treated as a partnership for United States federal income tax purposes), you are a "Non-U.S. Holder".

#### Distributions on Our Common Shares

Subject to the discussion below under "Backup Withholding and Information Reporting," you generally will not be subject to United States federal income tax, including withholding tax, on distributions made on our common shares unless:

- you conduct a trade or business in the United States and the distributions are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to United States federal income tax on a net income basis in respect of income from our common shares, such distributions are attributable to a permanent establishment or fixed base that you maintain in the United States).
- In such case, you generally will be subject to tax in respect of such distributions in the same manner as a U.S. Holder, as described above (other than with respect to the Medicare tax described above). In addition, any effectively connected dividends received by a non-U.S. corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

#### Sale, Exchange or Other Disposition of Our Common Shares

Subject to the discussion below under "Backup Withholding and Information Reporting," you generally will not be subject to United States federal income tax, including withholding tax, in respect of gain recognized on a sale or other taxable disposition of our common shares unless:

- your gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires as a condition for you to be subject to United States federal income tax on a net income basis in respect of gain from the sale or other disposition of our common shares, such gain is attributable to a permanent establishment or fixed base maintained by you in the United States); or
- you are an individual Non-U.S. Holder and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and certain other conditions exist.

In the first case, the Non-U.S. Holder will be taxed in the same manner as a U.S. Holder (other than with respect to the Medicare Tax described above). In the second case, the Non-U.S. Holder will be subject to U.S. federal income tax at a rate of 30% on the amount by which such Non-U.S. Holder's U.S.-source capital gains exceed its non-U.S.-source capital losses. Effectively connected gains realized by a non-U.S. corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

#### Backup Withholding and Information Reporting

Payments, including dividends and proceeds of sales, in respect of our common shares that are made in the United States or by a United States related financial intermediary may be subject to United States information reporting rules. In addition, such payments may be subject to United States federal backup withholding tax. You generally will not be



subject to backup withholding provided that:

- you are a corporation or other exempt recipient and comply with applicable certification requirements demonstrating such exemption; or
- you provide your correct United States federal taxpayer identification number and certify, under penalties of perjury, that you are not subject to backup withholding.

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Amounts withheld under the backup withholding rules may be credited against your United States federal income tax, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner.

A Non-U.S. Holder generally may establish an exemption from backup withholding by providing certification of its non-U.S. status to the payor, under penalties of perjury, on IRS Form W-8BEN or W-8BEN-E, as applicable. You should consult your own tax advisor as to the qualifications for exemption from backup withholding and the procedures for obtaining the exemption.

The discussion above is a general summary. It does not cover all tax matters that may be important to you. Investors should consult their tax advisors regarding the application of the United States federal tax rules, including the recently enacted legislation known as the Tax Cuts and Jobs Act, to their particular circumstances as well as the state, local, non-U.S. and other tax consequences to them of the purchase, ownership and disposition of our common shares.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands or between China and the British Virgin Islands.

#### Documents on Display

We are subject to the information requirements of the Exchange Act, and, in accordance with the Exchange Act, we file annual reports on Form 20-F within four months of our fiscal year end, and submits other reports and information under cover of Form 6-K with the SEC. You may read and copy this information at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Recent filings and reports are also available free of charge through the EDGAR electronic filing system at [www.sec.gov](http://www.sec.gov). You can also request copies of the documents, upon payment of a duplicating fee, by writing to the public reference section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room or accessing documents through EDGAR. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

#### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### Currency Fluctuations and Foreign Exchange Risk

Beginning on December 1, 1996, the RMB became fully convertible under the current accounts. There are no restrictions on trade-related foreign exchange receipts and disbursements in China. However, capital account foreign exchange receipts and disbursements are subject to control, and organizations in China are required to use designated banks for foreign currency transactions.

##### Chinese Renminbi

Effective from April 1, 2015, the Company's subsidiaries in China changed their functional currency from the U.S. dollar to the RMB. This change was made upon the progress of the property development projects in China causing the Company's subsidiaries primary operating activities to be in RMB and making the RMB the currency of the economic environment in which the entities primarily generate and expend cash. We do not hedge against currency risk for subsidiaries in China.

For the Company and subsidiaries outside of China, the function currencies are U.S. dollars and Hong Kong dollars, as expense transactions are generally denominated in U.S. dollars and Hong Kong dollars. Our exposure to foreign exchange risk primarily relates to a significant portion of the Company's cash and cash equivalent and short term investment denominated in RMB. We need to convert RMB to U.S. dollars and Hong Kong dollars for our operations,

depreciation of the RMB against the U.S. dollar would reduce the U.S. dollar amount and Hong Kong dollars amount we receive from the conversion.

As of December 31, 2017, the Company and subsidiaries outside of China had RMB-denominated cash and cash equivalents and short term investments of RMB723.1 million (equal to \$110.9 million). If the RMB had depreciated by 10% against the U.S. dollar and assuming we converted RMB723.1million into U.S. dollars, our U.S. dollar cash balance for the RMB723.1 million would have been \$100.8 million.

For more information on impact of foreign currency fluctuations, see ITEM 5. Operating And Financial Review And Prospects – Impact of Foreign Currency Fluctuations.

## Hong Kong Dollar

The exchange rate of Hong Kong dollars to U.S. dollars has been fixed by the Hong Kong government since 1983 at approximately HK\$7.80 to US\$1.00, through the currency-issuing banks in Hong Kong and, accordingly, has not in the past presented a currency exchange risk. This could change in the future.

## Currency Hedging

We may elect to hedge our currency exchange risk when we judge that such action is required. In an attempt to lower the costs of expenditures in foreign currencies, we may enter into forward contracts or option contracts to buy or sell foreign currency (ies) against the U.S. dollar through one of our banks. As a result, we may suffer losses resulting from the fluctuation between the buy forward exchange rate and the sell forward exchange rate, or from the price of the option premium.

## Currencies included in Cash and Cash Equivalents and Short term investments

The following table provides the U.S. dollar equivalent of amounts of currencies included in cash and cash equivalents and short term investments on our balance sheets at December 31, 2016 and 2017:

Currencies included in cash and cash equivalents and short term investments	As of December 31	
	2016	2017
	(In thousands)	
United States dollars	\$2,083	\$3,379
Chinese renminbi	181,843	161,569
Hong Kong dollars	256	225
Total US\$ equivalent	\$184,182	\$167,492

## Interest Rate Risk

Our interest expenses and income are sensitive to changes in interest rates. All of our cash reserves and long term investment are subject to interest rate changes. Cash on hand of \$165.2 million as of December 31, 2017 was invested in term deposits. As such, interest income will fluctuate with changes in interest rates. During 2017, we had \$7.6 million in interest income.

As of December 31, 2017, we had no long-term bank loan.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable to Nam Tai.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable to Nam Tai.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable to Nam Tai.

### ITEM 15. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

As of the end of the period covered by this report, our management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation pursuant to Rule 13a-15 promulgated under the Exchange Act, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and included controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Report of Management on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our management, including its Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on the assessment, our management, including its Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2017, our internal control over financial reporting was effective based on these criteria.

#### Attestation Report of Independent Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Moore Stephens CPA Limited, an independent registered public accounting firm. The related report to our shareholders and the Board of Directors appears on the next page of this Report.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of Nam Tai Property Inc.:

Opinion on Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Nam Tai Property Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). Our audits also included the financial statement schedules in Schedule 1. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedules listed in Schedule 1, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moore Stephens CPA Limited

Certified Public Accountants

We have served as the Company's auditor since 2009.

Hong Kong  
March 9, 2018

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the year ended December 31, 2017, the period covered by this Report on Form 20-F, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

#### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that one member of the Audit Committee, Mark Waslen, qualifies as an "audit committee financial expert" as defined by Item 407(d) (5) (ii) of Regulation S-K, adopted pursuant to the Exchange Act. For information concerning Mr. Waslen's education and experience by which he acquired the attributes qualifying him as an audit committee financial expert, please see the description of Mr. Waslen's background in ITEM 6. Directors and Senior Management— Directors and Senior Managers of this Report.

Mr. Waslen is "independent" as that term is defined in the Listed Company Manual of the NYSE.

#### ITEM 16B. CODE OF ETHICS

We have adopted a Code of Ethics for the Chief Executive Officer and Chief Financial Officer, which also applies to our principal executive officers and to its principal financial and accounting officers. The Code of Ethics has been revised to apply to all employees as well. A copy of the revised Code of Ethics is attached as Exhibit 11.1 to this



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Report on Form 20-F. This code has been posted on our website, which is located at [http://www.NamTai.com/investors#investors/corporate\\_governance](http://www.NamTai.com/investors#investors/corporate_governance). The contents of this website address, other than the corporate governance guidelines, the code of ethics and committee charters, are not a part of this Form 20-F. Stockholders may request a free copy in print form from:

Mr. Kevin McGrath, Managing Partner of Cameron Associates

Telephone: 212.245.4577

e-mail: [kevin@cameronassoc.com](mailto:kevin@cameronassoc.com)

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Moore Stephens has served as our independent registered public accounting firm for the years ended December 31, 2016 and 2017, for which audited consolidated financial statements appeared in this Report on Form 20-F. Each year our Audit Committee of the Board of Directors selects our independent registered public accounting firm and our Board of Directors annually directs us to

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submit the selection of our independent registered public accounting firm for ratification by shareholders at our annual meeting of shareholders. It is currently expected that the Audit Committee will select Moore Stephens as our independent registered public accounting firm for 2018 and that our Board of Directors will propose at the Annual Meeting of Shareholders to be held in 2018 that Moore Stephens be ratified as our independent registered public accounting firm for 2018.

The following table presents the aggregate fees for professional services and other services rendered by Moore Stephens to us in 2016 and 2017, respectively (U.S. dollars in thousands).

	Year ended	
	December	
	31,	
	2016	2017
Audit Fees <sup>(1)</sup>	\$ 129	\$ 128
Tax Fees <sup>(2)</sup>	1	2
Others <sup>(3)</sup>	2	2
Total	\$ 132	\$ 132

Notes:

- (1) Audit Fees consist of fees billed for the annual audit of our consolidated financial statements and the statutory financial statements of our subsidiaries. They also include fees billed for other audit services, which are those services that only the independent registered public accounting firm reasonably can provide, and include the provision of attestation services relating to the review of documents filed with the SEC.
- (2) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns.
- (3) Others mainly include fees billed for preparing tax advice from both Hong Kong and China tax perspective and the incorporation of ICCL.

#### Audit Committee Pre-approval Policies and Procedures

The Audit Committee of our Board of Directors is responsible, among other matters, for the oversight of the independent registered public accounting firm subject to the relevant regulations of the SEC and NYSE. The Audit Committee has adopted a policy, or the Policy, regarding pre-approval of audit and permissible non-audit services provided by our independent registered public accounting firm.

Under the Policy, the Chairman of the Audit Committee is delegated with the authority to grant pre-approvals in respect of all auditing services including non-audit service, but excluding those services stipulated in Section 201 “Service Outside the Scope of Practice of Auditors”. Moreover, if the Audit Committee approves an audit service within the scope of the engagement of the audit service, such audit service shall be deemed to have been pre-approved. The decisions of the Chairman of the Audit Committee made under delegated authority to pre-approve an activity shall be presented to the Audit Committee at each of its scheduled meetings.

Requests or applications to provide services that require specific approval by the Audit Committee are submitted to the Audit Committee by both the independent registered public accounting firm and the Chief Financial Officer.

During 2016 and 2017, 100% of the total audit fees, audit-related fees, tax fees and all other fees were approved by the Audit Committee pursuant to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable to Nam Tai.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On July 12, 2017, Kaisa Group Holdings Ltd., or Kaisa, in a private transaction, purchased 6,504,355 common shares of the Company from our Chairman, M.K. Koo and his wife, at a price of US\$17.00 per share. Subsequently, Kaisa continued to purchase common shares of the Company from the open market. Based on the Schedule 13D/A filed with the SEC on December 15, 2017, Kaisa beneficially owned 9,191,050 common shares of the Company, or 24.5% of our outstanding shares.

Our board of directors approved a stock repurchase program to buy back up to \$40 million of its common stocks in open market at prevailing market prices which was announced on May 7, 2014. The stock repurchase program was closed on November 28, 2014.

3,000,000 common shares had been bought back from the open market at a purchase price of \$5.50 under our cash tender offer announced on April 28, 2015 and expired on May 29, 2015.

3,518,750 common shares had been bought back from the open market at a purchase price of \$5.50 under our cash tender offer announced on August 3, 2015 and expired on September 4, 2015.

724,750 common shares had been bought back from the open market at prevailing market prices under our share repurchase program announced on August 22, 2016 and expired on September 30, 2016.

The following table provides a summary of our stock repurchases program for the year ended December 31, 2014, our two cash tender offers for the year ended December 31, 2015 and one stock repurchases program for the year ended December 31, 2016.

Period	Total Number of Shares Purchased as Part of Total Number of Shares	Average Price	Total Number of Shares Announced Publicly as Part of Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 2014	178,816	\$ 7.39	178,816	\$ 38,678,468
June 2014	348,363	7.82	348,363	35,957,421
July 2014	384,986	7.43	384,986	33,095,654
August 2014	376,835	7.16	376,835	30,396,327
September 2014	315,200	6.68	315,200	28,290,757
October 2014	594,800	5.63	594,800	24,943,222
November 2014	470,413	5.19	470,413	22,499,810
Total in 2014	2,669,413	\$ 6.56	2,669,413	\$ —
May 2015	3,000,000	\$ 5.50	3,000,000	\$ —
September 2015	3,518,750	5.50	3,518,750	—
Total in 2015	6,518,750	\$ 5.50	6,518,750	\$ —
September 2016	724,750	8.47	724,750	—
Total in 2016	724,750	\$ 8.47	724,750	\$ —

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable to Nam Tai.

ITEM 16G. CORPORATE GOVERNANCE

For information regarding whether our corporate governance standards differ from those applied to U.S. domestic issuers, see the discussion under “NYSE listed Company Manual Disclosure” in ITEM 6. Directors and Senior Management of this Report.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable to Nam Tai.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable to Nam Tai.

ITEM 18. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of Nam Tai Property Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Nam Tai Property Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). Our audits also included the financial statement schedules in Schedule 1. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedules listed in Schedule 1, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements and financial statement schedules based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moore Stephens CPA Limited

Certified Public Accountants

We have served as the Company's auditor since 2009.

Hong Kong  
March 9, 2018

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## NAM TAI PROPERTY INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars, except per share data)

		Year Ended December 31,		
	Notes	2015	2016	2017
Operation income		\$2,978	\$2,508	\$1,851
Operation expenses		(1,949 )	(740 )	—
Net operation income		1,029	1,768	1,851
Costs and expenses				
General and administrative expenses		(13,862)	(8,359 )	(9,450 )
		(13,862)	(8,359 )	(9,450 )
Operating loss		(12,833)	(6,591 )	(7,599 )
Other (expenses) income, net	13	(8,019 )	(8,497 )	8,495
Interest income		8,054	5,554	7,621
Interest expenses		(360 )	—	—
Write off of demolished building		—	—	(4,573 )
(Loss) income before income tax		(13,158)	(9,534 )	3,944
Income tax	14	—	—	—
Consolidated net (loss) income		(13,158)	(9,534 )	3,944
Foreign currency translation adjustment		(4,417 )	(7,736 )	6,311
Other comprehensive (loss) income		(4,417 )	(7,736 )	6,311
Consolidated comprehensive (loss) income		\$(17,575)	\$(17,270)	\$10,255
Basic (loss) income per share	11	\$(0.32 )	\$(0.26 )	\$0.11
Diluted (loss) income per share	11	\$(0.32 )	\$(0.26 )	\$0.11

See accompanying notes to consolidated financial statements.

## NAM TAI PROPERTY INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars, except share data)

	Notes	December 31,	
		2016	2017
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	2 (b)	\$94,558	\$165,173
Short term investments	2 (c)	89,624	—
Prepaid expenses and other receivables <sup>(1)</sup>		4,034	5,100
Assets held for sale	3	18,970	—
<b>Total current assets</b>		<b>207,186</b>	<b>170,273</b>
Long term investments	2 (g)	—	2,319
Real estate properties under development, net <sup>(1)</sup>	4	37,779	52,460
Property, plant and equipment, net <sup>(1)</sup>	5	3,735	36,976
Other assets <sup>(1)</sup>		101	49
<b>Total assets</b>		<b>\$248,801</b>	<b>\$262,077</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable <sup>(1)</sup>		\$845	\$5,705
Accrued expenses and other payables <sup>(1)</sup>	8	1,405	1,500
Dividend payable		10,205	10,514
<b>Total current liabilities</b>		<b>12,455</b>	<b>17,719</b>
Commitments and contingencies (Note 15)			
Equity:			
Common shares (\$0.01 par value—authorized 200,000,000 shares, issued			
and outstanding 36,446,691 and 37,551,191 shares as at December 31,			
2016 and 2017, respectively)			
	10	364	376
Additional paid-in capital		241,536	249,856
Retained earnings (Accumulated deficit)		6,607	(24 )
Accumulated other comprehensive loss		(12,161 )	(5,850 )
<b>Total shareholders' equity</b>		<b>236,346</b>	<b>244,358</b>
<b>Total liabilities and equity</b>		<b>\$248,801</b>	<b>\$262,077</b>

(1) Certain comparative amounts have been reclassified to conform with the current period's presentation and disclosure.

See accompanying notes to consolidated financial statements.

## NAM TAI PROPERTY INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except share and per share data)

	Common Shares Outstanding	Common Shares Amount	Additional Paid-in Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2015	42,618,322	\$ 426	\$ 274,276	\$ 42,258	\$ (8 )	\$ 316,952
Shares issued on exercise of options	600,000	6	3,990	—	—	3,996
Cancellation of shares	(6,518,750 )	(65 )	(36,671 )	—	—	(36,736 )
Stock-based compensation expenses	—	—	1,685	—	—	1,685
Net loss	—	—	—	(13,158 )	—	(13,158 )
Cash dividends declared (\$0.08 per share)	—	—	—	(2,936 )	—	(2,936 )
Cash dividends reversal	—	—	—	179	—	179
Foreign currency translation adjustments	—	—	—	—	(4,417 )	(4,417 )
Balance at December 31, 2015	36,699,572	\$ 367	\$ 243,280	\$ 26,343	\$ (4,425 )	\$ 265,565
Shares issued on exercise of options	471,869	4	3,284	—	—	3,288
Cancellation of shares	(724,750 )	(7 )	(6,251 )	—	—	(6,258 )
Stock-based compensation expenses	—	—	1,223	—	—	1,223
Net loss	—	—	—	(9,534 )	—	(9,534 )
Cash dividends declared (\$0.28 per share)	—	—	—	(10,205 )	—	(10,205 )
Cash dividends reversal	—	—	—	3	—	3
Foreign currency translation adjustments	—	—	—	—	(7,736 )	(7,736 )
Balance at December 31, 2016	36,446,691	\$ 364	\$ 241,536	\$ 6,607	\$ (12,161 )	\$ 236,346
Shares issued on exercise of options	1,104,500	12	6,896	—	—	6,908
Stock-based compensation expenses	—	—	1,424	—	—	1,424
Net income	—	—	—	3,944	—	3,944
Cash dividends declared (\$0.28 per share)	—	—	—	(10,514 )	—	(10,514 )
Cash dividends paid	—	—	—	(61 )	—	(61 )
Foreign currency translation adjustments	—	—	—	—	6,311	6,311
Balance at December 31, 2017	37,551,191	\$ 376	\$ 249,856	\$ (24 )	\$ (5,850 )	\$ 244,358

See accompanying notes to consolidated financial statements.

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## NAM TAI PROPERTY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

	Year ended December 31,		
	2015	2016	2017
<b>Cash flows from operating activities:</b>			
Consolidated net (loss) income	\$(13,158 )	\$(9,534 )	\$3,944
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:			
Depreciation and amortization	4,173	1,784	328
Gain on disposal of property, plant and equipment	(33 )	(14 )	(25 )
Gain on disposal of idle property, plant and equipment	(106 )	(8 )	—
Write off of demolished building	—	—	4,573
Impairment on other assets	—	—	57
Share-based compensation expenses	1,685	1,035	1,126
Unrealized exchange loss (gain)	1,470	3,370	(6,712 )
.Changes in current assets and liabilities:			
Decrease (increase) in prepaid expenses and other receivables <sup>(1)</sup>	1,723	(618 )	(1,035 )
(Decrease) increase in accrued expenses and other payables	(4,536 )	(1,225 )	3
Total adjustments	4,376	4,324	(1,685 )
Net cash (used in) provided by operating activities	\$(8,782 )	\$(5,210 )	\$2,259
<b>Cash flows from investing activities:</b>			
Payment of real estate properties under development <sup>(1)</sup>	\$(2,250 )	\$(5,577 )	\$(11,935 )
Purchase of property, plant and equipment <sup>(1)</sup>	(99 )	(525 )	(13,377 )
(Increase) decrease in deposits for real estate properties under development <sup>(1)</sup>			
Decrease in deposits for purchase of property, plant and equipment <sup>(1)</sup>	(469 )	304	(74 )
Proceeds from disposal of property, plant and equipment and other assets	1,716	14	67
Proceeds from disposal of idle property, plant and equipment	106	8	—
Proceeds from disposal of demolished building	—	—	550
Cash received from finance lease receivable	3,840	1,371	—
Decrease (increase) in short term investments	35,167	(39,719 )	89,703
(Increase) in long term investments	—	—	(2,319 )
Net cash provided by (used in) investing activities	\$38,011	\$(44,120 )	\$62,615
<b>Cash flows from financing activities:</b>			
Cash dividends paid	\$(3,230 )	\$(2,936 )	\$(10,266 )
Proceeds from shares issued on exercise of options	3,996	3,288	6,908
Share repurchase program	(36,704 )	(6,258 )	—
Proceeds from short term bank borrowing	92,432	—	—
Repayment of short term bank borrowing	(132,432)	—	—

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Net cash used in financing activities	\$(75,938 )	\$(5,906 )	\$(3,358 )
Net (decrease) increase in cash and cash equivalents	\$(46,709 )	\$(55,236 )	\$61,516
Cash and cash equivalents at beginning of year	212,760	157,371	94,558
Effect of exchange rate changes on cash and cash equivalents	(8,680 )	(7,577 )	9,099
Cash and cash equivalents at end of year	\$157,371	\$94,558	\$165,173
Supplemental schedule of cash flow information:			
Interest paid	\$413	\$—	\$—
Non-cash investing activities:			
Decrease in construction in progress funded through accrued expenses			
and other payables	\$(173 )	\$(611 )	\$—

(1) Certain comparative amounts have been reclassified to conform with the current period's presentation and disclosure.

See accompanying notes to consolidated financial statements.

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NAM TAI PROPERTY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of U.S. dollars, except share and per share data)

1. Company Information

Prior to complete cessation of its electronic manufacturing and design services business in April 2014, Nam Tai Property Inc. and subsidiaries (the “Company” or “Nam Tai”) was an electronics manufacturing and design services provider to a selected group of the world’s leading original equipment manufacturers, or OEMs, of telecommunication and consumer electronic products. Through its electronics manufacturing services operations, the Company manufactured electronic components and sub-assemblies, including Flexible Printed Circuit Board (“FPCB”), FPCB subassemblies, Thin Film Transistor display (TFT-LCD) modules, image sensors modules and printed circuit board assemblies. These components, modules and subassemblies were used in numerous electronic products including mobile phones, digital cameras, electronic toys, and automobile. The Company also manufactured finished products, including mobile phone accessories and home entertainment products.

The Company was founded in 1975 and moved its manufacturing facilities to the People’s Republic of China (“PRC”) in 1980 to take advantage of lower overhead costs, lower material costs and competitive labor rates available and subsequently relocated to Shenzhen, PRC in order to capitalize on opportunities offered in Southern PRC. The Company was reincorporated as a limited liability International Business Company under the laws of the British Virgin Islands (“BVI”) in August 1987 (which was amended in 2004 as The British Virgin Islands Business Companies Act, 2004). The Company’s principal manufacturing and design operations were based in Shenzhen, approximately 30 miles from Hong Kong. Its PRC headquarters were located in Shenzhen. Some of the subsidiaries’ offices were located in Hong Kong, which provide them access to Hong Kong’s infrastructure of communication and banking facilities. The Company’s principal manufacturing operations were conducted in the PRC. The PRC resumed sovereignty over Hong Kong effective July 1, 1997, and, politically, Hong Kong was an integral part of the PRC. However, for simplicity and as a matter of definition only, references to PRC in these consolidated financial statements mean the PRC and all of its territories excluding Hong Kong.

In April 2014, the Company ceased its liquid crystal display modules (“LCM”) manufacturing business and turned its focus to re-developing two parcels of land in Gushu and Guangming, Shenzhen, China, by converting these two parcels of land that formally housed its manufacturing facilities into high-end commercial complexes. The Company intends to earn its principal income in the future from rental services derived from its commercial complexes.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. The Company consolidates companies in which it has controlling interest over 50%. All significant intercompany accounts, transactions and cash flows have been eliminated on consolidation.

(b) Cash and cash equivalents

Cash and cash equivalents include all cash balances and certificates of deposit having a maturity date of three months or less upon acquisition.

(c) Short-term investments

Short-term investments as of December 31, 2017 consisted of time deposits of more than three months and not exceeding twelve months duration held in commercial banks of \$Nil (2016: \$89,624).

(d) Finance lease receivable

Finance lease receivable is derived from sales of property, plant and equipment and is comprised of the minimum lease payments due on the direct financial lease. From April 1, 2012 to March 31, 2016, monthly interest income has been recognized in other income (expenses), net in the consolidated statement of comprehensive income based on principal balance of \$14,000 at an annual interest rate of 10%. In 2017, there is no additional finance lease receivable.

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(e) Assets held for sale

Long-lived assets or asset groups that are part of a disposal group that meets the criteria to be classified as held for sale are not assessed for impairment but rather if fair value, less cost to sell, of the disposal group is less than its carrying value a loss is recorded against the disposal group.

No provision was recognized to write down assets held for sale to their fair values in 2015 and 2016.

(f) Provision for bad debts

No provision for bad debt was made in the years ended December 31, 2015, 2016 and 2017.

(g) Long term investments

Long term investments as of December 31, 2017 consisted of time deposits of exceeding twelve months duration held in commercial banks of \$2,319 (2016: \$Nil).

(h) Real estate properties under development, net

Real estate properties under development, net are stated at the lower of carrying amounts or fair value less selling costs.

In accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), real estate properties under development are subject to valuation adjustments when the carrying amount exceeds fair value. An impairment loss is recognized only if the carrying amount of the assets is not recoverable. An asset is not recoverable if the carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value.

All land in PRC is owned by the PRC government. The government in the PRC, according to PRC law, may sell the right to use the land for a specified period of time. Thus, all of the Company's land purchased in the PRC is considered to be leasehold land and is classified as real estate properties under development, net in the consolidated balance sheet. It is amortized on a straight-line basis over the respective term of the right to use the land.

The buildings and land use rights included in real estate properties under development have not been depreciated since June 1, 2016.

(i) Property, plant and equipment

Property, plant and equipment are recorded at cost and include interest on funds borrowed to finance construction, if applicable. The cost of major improvements and betterments is capitalized whereas the cost of maintenance and repairs is expensed in the year incurred. Gains and losses from the disposal of property, plant and equipment and land use rights are included in the consolidated statement of comprehensive income.

The majority of the land in Hong Kong is owned by the government of Hong Kong which leases the land at public auction to non-governmental entities. All of the Company's leasehold lands in Hong Kong have leases of not more than 50 years from the respective balance sheet dates. The cost of such leasehold land is amortized on a straight-line basis over the respective terms of the leases.

The Company computed depreciation expenses using the straight-line method over the following estimated useful lives:

Classification	Years
Buildings	20 years
Machinery and equipment	4 years
Leasehold improvements	shorter of lease term or 4 years
Furniture and fixtures	4 years
Motor vehicle	4 years

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(j) Impairment or disposal of long-lived assets

Long-lived assets other than goodwill are included in impairment evaluations when events and circumstances exist that indicate the carrying value of these assets may not be recoverable. In accordance with FASB ASC 360 “Property, Plant and Equipment”, the Company assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company recognizes an impairment loss to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology or obtains external appraisals from independent valuation firms. The undiscounted and discounted cash flow analyses are based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

Long-lived assets to be disposed of are stated at the lower of fair value and carrying value. Expected future operating losses from discontinued operations are recorded in the periods in which the losses are incurred.

In 2015, the Company assessed the impairment of its long-lived assets used in Shenzhen, by comparing external appraisals obtained from independent valuation firms with the carrying amounts of the assets. The results indicated the carrying amounts of the Company’s long-lived assets at December 31, 2015 were less than external appraisals obtained from independent valuation firms.

In 2016, the Company assessed the impairment of its long-lived assets used in Shenzhen and Wuxi, by comparing external appraisals obtained from independent valuation firms with the carrying amounts of the assets. The results indicated the carrying amounts of the Company’s long-lived assets at December 31, 2016 were less than external appraisals obtained from independent valuation firms.

In 2015 and 2016, no additional impairment loss was recognized to write down the long-lived assets to their fair values upon reclassification to assets held for sale.

However, in 2017, our management decided not to sell the long-lived assets in Wuxi that previously were classified as assets held for sale, thus the assets should be reclassified as property, plant, and equipment. According to FASB ASC 360-10-35-44 “a long-lived asset that is reclassified shall be measured individually at the lower of the following: a. its carrying amount before the asset was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as held and use, b. its fair value at the date of the subsequent decision not to sell.” Therefore, the assets in Wuxi is reclassified to the account of property, plant, and equipment and recorded at the amount of \$20,164.

(k) Accruals and provisions for loss contingencies

The Company makes provisions for all material loss contingencies when information available prior to the issuance of the consolidated financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and the amount of loss can be reasonably estimated.

For provisions or accruals related to litigation, the Company makes provisions based on information from legal counsels and the best estimation of management. The Company assesses the potential liability for the significant legal

proceedings in accordance with FASB ASC 450 "Contingencies". FASB ASC 450 requires a liability to be recorded if the contingency loss is probable and the amount of loss can be reasonably estimated. The actual resolution of the contingency may differ from the Company's estimates. If the contingency is settled for an amount greater than the estimate, a future charge to income would result. Likewise, if the contingency is settled for an amount that is less than the Company's estimate, a future credit to income would result

(1) Revenue recognition

The Company generates revenue from real-estate derived from its buildings held through its subsidiaries in Shenzhen.

Operation income includes minimum rents which are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Lease revenue recognition commences when the lessee is given possession of the leased space and there are no contingencies offsetting the lessee's obligation to pay rent.

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(m) Staff retirement plan costs

The Company's costs related to the staff retirement plans (see Note 12) are charged to the consolidated statement of comprehensive income as incurred.

(n) Income taxes

Deferred income taxes are provided using the asset and liability method in accordance with FASB ASC 740 "Income Taxes". Under this method, deferred income taxes are recognized for all significant temporary differences at enacted rates and classified as current or non-current based upon the classification of the related asset or liability in the consolidated financial statements or the expected date of reversal of the temporary differences. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all, the deferred tax asset will not be realized.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interest and penalties from tax assessments, if any, are included in income taxes in the consolidated statement of comprehensive income.

(o) Foreign currency transactions and translations

All transactions in currencies other than functional currencies during the year are translated at the exchange rates prevailing on the respective transaction dates. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than functional currencies are remeasured at the exchange rates existing on that date. Exchange differences are recorded in the consolidated statement of comprehensive income.

The functional currencies of the Company and its subsidiaries include the Renminbi, U.S. dollar and the Hong Kong dollar. Effective from April 1, 2015, the Company's subsidiaries in China changed their functional currency from U.S. dollar to Renminbi. This change was made upon the progress of the property development projects in China causing the Company's subsidiaries primary operating activities to be in Renminbi and making the Renminbi the currency of the economic environment in which the entities primarily generate and expend cash.

The financial statements of all subsidiaries are translated in accordance with FASB ASC 830 "Foreign Currency Matters".

The financial statements and other financial data of the Company included in this annual report are presented in U.S. dollars. The business and operations of the Company are primarily conducted in China through its PRC subsidiaries. The functional currency of its PRC subsidiaries is Renminbi. The financial statements of its PRC subsidiaries are translated into U.S. dollars, using published exchange rates from banks in China, based on (i) year-end exchange rates or the rates of exchange ruling at the balance sheet date for assets and liabilities and (ii) average yearly exchange rates for income and expense items. Capital accounts are translated at historical exchange rates when the transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) in shareholders' equity. The Company makes no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollar or Renminbi, as the case may be, at any particular rate or at all.

(p) Earnings per share

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the year. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

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(q) Stock options

The Company has three stock-based employee compensation plans, as more fully described in Note 10(b). The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models. If the award is modified after the grant date, incremental compensation cost is recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

(r) Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include provision for bad debts, valuation allowance for deferred income tax assets, share-based compensation, useful lives of property, plant and equipment and intangible assets, and recovery of the carrying amounts of long-lived assets, assets held for sale and intangible assets.

(s) Comprehensive (loss) income

Accumulated other comprehensive (loss) income represents principally foreign currency translation adjustments and is included in the consolidated statement of changes in equity.

(t) Fair value

The Company follows FASB ASC 820 “Fair Value Measurements and Disclosures” to measure its assets and liabilities.

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 — Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of cash and cash equivalents, short term investment, other receivables, assets held for sale, accrued expenses and other payables, accounts payable, and dividend payable approximate their fair values due to the short term nature of these instruments.

The fair value of the Company’s assets held for sale is detailed in Note 3.

As of December 31, 2015, 2016 and 2017, the Company did not have any non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements, at least annually, on a recurring basis.

(u) Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

When the Company is the lessor, minimum contractual rental from leases is recognized on a straight-line basis over the noncancelable term of the lease. With respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue commences when the customer assumes control of the leased premises. Accrued straight-line rents

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receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue is accrued when the contingency is removed.

(v) Concentration of risk

The Company's potential significant concentration of credit risk primarily consists of cash and cash equivalents and long term investments which are held by financial institutions in the PRC and international financial institutions outside of the PRC. As of December 31, 2017, the Company has \$165,173 in cash and cash equivalents which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively. PRC state-owned banks are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those faces a material credit crisis. The Company does not foresee substantial credit risk with respect to cash and cash equivalents and short term investments held at the PRC state-owned banks. Based on the order of the State Council of the PRC (No.660): Deposit Insurance Regulation effective on May 1, 2015, the maximum amount of coverage is \$76 (RMB 0.5 million) for deposits and foreign currency deposits in the same financial institutions. In the event of bankruptcy of one of the financial institutions in which the Company has deposits, deposits excess of \$76 (RMB 0.5 million) shall be compensated from liquidation of the financial institution. By far, the Company's cash is held as structured deposit or time deposits in financial institutions in the PRC and international financial institutions outside of the PRC.

Overall, the real estate market in China has shown signs of a continuous slow down. The Company's results of operations are affected by a wide variety of macro factors, including changing economic, political, industry, business and financial conditions and affect by micro factors, including lack of experience handling the real estate development projects; the process of applying for the redevelopment of Gushu land with the government bodies, the demand for the Company's real estate properties, and other risks associated with an enterprise operating mainly in the PRC.

Accordingly, the Company's business, financial condition and results of operations are primarily influenced by the political, economic, legal environments and foreign currency exchange in the PRC and by the general state of the PRC economy and may be adversely affected by changes in social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation. As a result, the Company may experience significant fluctuations in future operating results due to the factors mentioned above. These fluctuations may result in volatility in the share price of the Company.

All the Company's land development related applications are subject to government policies and regulations in the real estate market. However, the Company cannot provide assurance that it will obtain all the necessary approvals in accordance with its timetable. Furthermore, as this is the Company's first venture into land development projects after the cessation of the LCM business, the Company may encounter industry-specific difficulties that result in losses as it progresses with development projects in Shenzhen.

The Company currently derives a majority of its income from rental and interest income. Any future reductions in the official cash deposit interest rates in China and Hong Kong could adversely impact its income and the total cash on hand will gradually decrease as more funds are being used for land development related expenditures for the land in Gushu and Guangming, Shenzhen.

Certain transactions of the Company are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the Peoples Bank of China ("PBOC") or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

(w) Recent changes in accounting standards

In January 2017, the FASB issued ASU No.2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This Update provides a more robust framework to use in determining when a set of assets and activities is a business and provides more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. For public business entities, this Update is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The adoption of ASU 2017-01 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In January 2017, the FASB issued ASU No.2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Update states an entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that

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reporting unit had been acquired in a business combination. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, where Step 2 from the goodwill impairment test is eliminated. In addition, any reporting unit with a zero or negative carrying amount is no longer required to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. For public entity, this Update is effective for annual or any interim periods beginning after December 15, 2019. The Company is evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, other income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This Update includes guidance on the accounting for partial sales of nonfinancial assets, which are common in the real estate industry, and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. This Update indicates income-producing real estate is considered in substance real estate and, therefore, is derecognized in accordance with industry-specific guidance. It also simplifies GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses and requires an entity to initially measure a retained noncontrolling interest in a nonfinancial asset at fair value consistent with a how a retained noncontrolling interest in a business is measured. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The adoption of ASU 2017-05 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost by adding a standard-setting project to provide additional guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets and requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. This Update requires additional disclosures, including the amount of net benefit cost recognized for each period for which a statement of income is presented. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of ASU 2017-07 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In May 2017, the FASB issued ASU No. 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting. This Update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting in this Update. This Update is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financial statements have not yet been issued. The adoption of ASU 2017-09 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In May 2017, the FASB issued ASU No.2017-10, Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services. This Update clarifies the grantor is the customer of the operation services in all cases for those arrangements and enable more consistent application of other aspects of the revenue guidance. This Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2017-10 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In September 2017, the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606): Amendments to SEC paragraphs pursuant to the staff announcement at the July 20, 2017 EITF meeting and rescission of prior SEC staff announcements and observer comments. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of ASU 2017-13 is not expected to have a material impact on the Company's consolidated financial statements in 2018.

In February 2016, the FASB issued ASU 2016-02, Lease (Subtopic 842): This Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In January 2018, the FASB issued No. 2018-01, Land Easement Practical Expedient for Transition (Topic 842): Amendments of new leases guidance allows

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entities the option to apply the provisions of the new leases guidance at the effective date, without adjusting the comparative periods presented. This Update also simplifies the reporting and disclosures for lessors for certain leases in which they also provide related services. This Update allows lessors to not separate the nonlease components from the lease. For public business entities, this Update is effective for annual reporting periods beginning after December 15, 2018. The Company is evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

### 3. Assets Held for Sale

The Company fully discontinued its production in Wuxi by the end of June 2013 due to sustained losses generated from FPC production and a lack of customers for LCM for tablets. The Company was seeking a potential buyer for all its long-lived assets related to FPC production since June 2013, hence these assets were classified as assets held for sale in 2013. During 2014, \$16,316 of long-lived assets was reclassified to assets held for sale, and \$19,035 of additional impairment was recorded on the production machineries because management assessed that the market value was lower than the net book value. No additional impairment loss was made on the asset held for sale in 2015, 2016 and 2017.

However, in December of 2017, management decided not to sell the assets in Wuxi, instead, the assets held for sale were reclassified as property, plant, and equipment.

\$25 of assets held for sale was disposed of with the consideration of \$34 and a gain of \$9 which is included in other income, net in the year 2017.

Assets held for sale are comprised of the following:

At December 31,	2016	2017
At net book value:		
Land	\$341	\$ —
Buildings	16,496	—
Machinery and equipment	23	—
Leasehold improvements	2,097	—
Others	13	—
Total	\$18,970	\$ —

### 4. Real Estate Properties under Development, Net

The following summarizes the components of real estate properties under development as at December 31, 2016 and 2017:

At December 31,	2016	2017
Building at cost	\$58,109	\$34,498
Less: accumulated depreciation	(40,814)	(20,859)
	17,295	13,639

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Construction in progress	9,773	27,420
Land use right	10,711	11,401
Net book value	\$37,779	\$52,460

The Company previously entered into an operating lease contract with a third party with respect to certain buildings with the carrying amount as shown below:

At December 31,	2016	2017
Buildings at cost	\$29,825	\$ —
Less: accumulated depreciation	(17,163)	—
Buildings, net	\$12,662	\$ —