

# REALORD GROUP HOLDINGS LIMITED(1196)

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2019 REALORD : Second clarification announcement  
2019 REALORD : 2019 interim results announcement

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## Realord : SECOND CLARIFICATION ANNOUNCEMENT



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(Incorporated in Bermuda with limited liability)

(Stock code: 1196)

### SECOND CLARIFICATION ANNOUNCEMENT

Reference is made to the clarification announcement of Realord Group Holdings Limited (the "Company") published on 26 August 2019 (the "Clarification response to the article issued by Emerson Analytics Co., Ltd ("Emerson") on 21 August 2019, and the interim results announcement of the Company ended 30 June 2019 (the "2019 Interim Results Announcement") published on 29 August 2019. Capitalised terms used herein shall have the same the Clarification Announcement unless the context requires otherwise.

On 28 August 2019, Emerson put out another article (the "Second Article"), which contained some further remarks after the Clarification Announcement that such further remarks were feeble and random and made for the sake of making. The Board would like to inform the Shareholders and the market

### ALLEGATIONS OF EMERSON RELATING TO THE EP SEGMENT

#### Revenue contribution

Again, the allegations made by Emerson in the Second Article are absurd and groundless. Emerson used a "credit report" alleged to be on Weilu a allegation that Weilu had zero revenue in 2017 and 2018. The Directors were not aware of the existence of the so-called "credit report", nor the source of the Second Article by Emerson. The Company had entered into the link provided on Emerson's website to review the so-called "credit report" and the issuer of the said report were not stated; (ii) although it was not specifically stated in the said report which financial years it referred to, the Company "previous year" in the said report was meant to be for the financial year ended 31 December 2017 and the "current year" was for FY2018, of Weilu revenue

1. no numbers under the profit and loss column of the "current year" were shown in the said report. The Directors categorically deny Emerson's allegation of no revenue for FY2018. The Directors represent that sales of non-ferrous metals and

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scrap copper have been included into the scope of business of Weilu since September 2018. The expanded business scope and activities had been adopted in Weilu's articles of association and filed with the relevant government authorities in Shenzhen. The Directors confirm that the revenue generated from scrap materials by Weilu of HK\$88.2 million (i.e. RMB74.5 million) in FY2018 had been reported to the local tax authority department for filing purposes. It is noted that while certain balance sheet information of Weilu had been included in the so-called "credit report" for both financial years of 2017 and 2018, the profit and loss information had been included for the financial year ended 31 December 2017, the so-called "credit report" had zeroed all the profit and loss information. The reason that is peculiar to the Company. It is obvious that Emerson had used the zero numbers in the profit and loss column of the so-called "credit report". Weilu had no revenue for FY2018. The Directors find the way Emerson had selectively and discriminately dealt with the analysis on Weilu's financial information totally unacceptable.

Emerson kept citing the disclosures made by the Company in its acquisition announcement dated 5 September 2016 that the EP Company was at the time mainly acted as an agent for sourcing scrap materials for its customers, which were recyclers and scrap materials processors in Guangxi province, against their repeated allegation that the EP Company could not have maintained a steady revenue trend under the tightened regulations by the Chinese government.

scrap materials (the "Amended Regulation"). Apparently Emerson had deliberately ignored the facts already disclosed in the FY2018 Annual Report Announcement. The Company refers the Shareholders to the Clarification Announcement in which it had clearly stated the change of business model to mitigate the impact of the Amended Regulation. The Company wishes to point out that not only the EP Group has changed its business model, its PRC has done so in face of the Amended Regulation and relocated their processing arms offshore from Guangxi Province to southeast Asia. As part of the : customers, the EP Group has shifted the scrap material sourcing and processing operations of Tong Bao in Guangxi to Malaysia. The EP Group engaged Malaysia to dismantle and process scrap materials, similar to Tong Bao's processing operation in the PRC. The processed scrap materials are then sent offshore arms of its PRC customers in Malaysia for the latter to further process them into materials such as copper and ingots for export or for local use. Despite the goods are delivered in Malaysia, the relevant revenue was accounted for as sales to PRC market for the purpose of the geographical breakdown respect of FY2018, as "markets" are classified in accordance with the locations of the customers (see note 6(a) to the notes to the consolidated financial statements contained in the FY2018 Annual Report).

The Company rebuts Emerson's allegation in the Second Article against the EP Segment's revenue as completely misleading and irresponsible.

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Shareholders are referred the 2019 Interim Results Announcement for the results of the EP Segment, which recorded revenue of HK\$292.1 million for the period ended 30 June 2019 (representing period-on-period increase of 156.7%).

#### Accounting treatment

Emerson had asked in the Second Article what the accounting policy adopted by the Group in accounting for the amount due to the EP Company by the EP Company (the "Amount") was. The Directors confirm that the Amount was accounted for as net cash used in investing activities of the EP Company in accordance with "Hong Kong Accounting Standard 7 - Statement of Cash Flows" published by the Hong Kong Institute of Certified Public Accountants, which stipulates that cash flows that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flow investing activities are... cash advances and loans made to other parties (other than advances and loans made by a financial institution)". The Directors confirm that the accounting policy adopted by the Group in respect of the Amount is appropriate and is in accordance to Hong Kong Financial Reporting Standards.

#### QUERIES RAISED BY EMERSON RELATING TO THE VALUATION OF THE INVESTMENT PROPERTIES

##### Bases and assumptions for the valuation

Emerson had questioned an assumption used in the valuation of the car parking spaces, which is "capable of being sold in the open market". The Valuer confirmed that in forming their view on the valuation of the car parking spaces of the Investment Properties, the Valuer had adopted the assumption that the car parking spaces were "capable of being sold in the open market", having taken into account the unique context of the PRC carpark market. In the PRC, it is common that the users of carpark spaces would pay for a long-term right to use of the car parking spaces (which are not subject to a separate land use right title) for a period of 20 years, renewable thereafter, at a lump sum amount. In view of such market practice, the Valuer considered that the lease consideration for such long-term lease to be a representative reference to the market value of car parking space. The Valuer had also acknowledged that the monthly rate for casual carparking subject to government pricing regulation in Shenzhen and other cities of Guangdong Province as part of the price control administration regime. The Valuer considered that the market rent or the yield derived therefrom may not be suitable for valuation purpose given it is in substance not a 'market' rent between a buyer and a seller. In the circumstances, the Valuer had adopted direct comparison approach taking reference to the lowest of the asking prices for the long-term car parking spaces readily and sufficiently available in the public domain for valuation purpose.

Emerson had commented in passing that all the residents at Realord Villas were to be tenants who might move away in a few years and therefore not all any of the residents would commit to a carpark for the long-term. The Directors wish to clarify that, so far as they are aware after having made reasonable enquiries, the residents of Realord Villas are not tenants but owners of the residential units.

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residential units have been/to be sold to qualified buyers under the relevant housing policy of the government. The Directors are advised by the Valuer that the market value of the car parking spaces at the time of the acquisition of the Investment Properties and for subsequent valuations, whether the spaces were to be leased out fully or at all was irrelevant for the purpose of the valuation, as it was acknowledged that the properties were at the material time vacant and the market value of the properties was for the market value of the properties, assuming "capable of being sold in the open market". The Valuer further advises the Company that the licensing of car parking spaces were mostly on a short term basis such as for hourly, daily and monthly parking. The Valuer considered that the expiry of the parking licences of car parking spaces, particularly those in the PRC, were terminated, there should not be any material effect in their market value.

##### Investment costs of the Investment Properties

Emerson continued to allege that the book value of the Investment Properties immediately before they were acquired by the Group was much higher than the amounts indicated in the reports obtained by them.

The Company asserts that the actual invested amount of the Investment Properties as disclosed in the Acquisition Circular of RMB2,291 million as at 30 June 2019 is correct. The investment amounts quoted by Emerson in the Report (i.e. the Emerson Alleged Actual Investment Amount as mentioned in the Clarification Announcement) were extracted from the respective Feasibility Reports submitted by the Group companies for the purpose of planning of and applying for the development of the Investment Properties (請). The Emerson Alleged Actual Investment Amount shown therein was preliminary and subject to the actual development of the projects. As disclosed in the Clarification Announcement, the actual invested amount of the Investment Properties mainly represented costs of land, main building construction cost, capitalised interest on the development and management fee for one of the Investment Properties. The Company takes this opportunity to further clarify that the reasons for the discrepancy between the Emerson Alleged Actual Investment Amount and the actual invested amount of the Investment Properties are as follows:

of the Guanlan Property as compared to that of the residential buildings of Realord Villas, including but not limited to: (i) the latter was built under the and construction cost index as pre-agreed with the government, as one of the conditions of land grant for the entire Realord Villas; (ii) development units of Realord Villas comprised primarily the related construction costs but excluded other costs such as costs of land and construction costs for stipulated by the government authorities; (iii) the building structure for the Guanlan Property was more complicated than the residential buildings different construction materials used and different costings; and (iv) the car parking space commanded a relatively higher construction cost than the units delivered to the government, as the car parking spaces were mainly built underground and required excavation and reinforcement work, which than units above ground.

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Emerson also quoted in the Second Article the "actual" investment costs of four projects (without identifying them by names) alleged to be in the Guangming Property, and said that the average unit cost of them was RMB1,843 per sqm to support their allegation that the investment costs of the had been overstated in the Acquisition Circular. The Company is clueless as to the actual place of the four neighbouring projects that Emerson Emerson has extracted the information about the said "actual" investment costs of these neighbouring projects. Accordingly, the Directors are not in a this.

#### CONCLUSION

The Company considers the allegations and speculations made by Emerson in the articles are all groundless and misleading. The Board urges Share investors to exercise extreme caution when using the information contained in the articles.

The Company reserves its right to take legal actions against Emerson for any damages or losses that it may suffer from the misleading allegations.

By order of the Board

Realord Group Holdings Limited

Lin Xiaohui

Chairman

Hong Kong, 11 September 2019

As at the date of this announcement, the executive Directors are Dr. Lin Xiaohui, Madam Su Jiaohua and Mr. Lin Xiaodong and the independent non-Mr. Yu Leung Fai, Mr. Fang Jixin and Dr. Li Jue.

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#### Attachments

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