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**偉祿集團控股有限公司**  
**REALORD GROUP HOLDINGS LIMITED**

*(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 Announcement**”) in response to the article issued by Emerson Analytics Co., Ltd (“**Emerson**”) on 21 August 2019, and the interim results announcement of the Company for the six months ended 30 June 2019 (the “**2019 Interim Results Announcement**”) published on 29 August 2019. Capitalised terms used herein shall have the same meanings as defined in 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. The Board considers 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 as follows:

### **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 as the “evidence” for the 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 it prior to the issue 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 found that (i) the source 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 takes it that the “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 respectively; (iii) 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 that Weilu made no revenue for FY2018. The Directors represent that sales of non-ferrous metals and

scrap copper have been included into the scope of business of Weilu since September 2018. The expanded business scope and activities had been duly approved and adopted in Weilu's articles of association and filed with the relevant government authorities in Shenzhen. The Directors confirm that the revenue generated from trading of 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 purpose. The Directors have 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, and certain 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 items for FY2018, for 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" and alleged that Weilu had no revenue for FY2018. The Directors find the way Emerson had selectively and discriminately dealt with the analysis on Weilu's financial data malicious and 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 of the acquisition mainly acted as an agent for sourcing scrap materials for its customers, which were recyclers and scrap materials processors in Guangxi province, and used it as a basis for their repeated allegation that the EP Company could not have maintained a steady revenue trend under the tightened regulations by the Chinese government for imports of scrap materials (the "**Amended Regulation**"). Apparently Emerson had deliberately ignored the facts already disclosed in the FY2018 Annual Report and the Clarification Announcement. The Company refers the Shareholders to the Clarification Announcement in which it had clearly stated the change of business model of the EP Group 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 customers have also done so in face of the Amended Regulation and relocated their processing arms offshore from Guangxi Province to southeast Asia. As part of the supply chain of its PRC customers, the EP Group has shifted the scrap material sourcing and processing operations of Tong Bao in Guangxi to Malaysia. The EP Group engages subcontractors in Malaysia to dismantle and process scrap materials, similar to Tong Bao's processing operation in the PRC. The processed scrap materials are then sold and delivered to the 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 markets of their own. 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 of revenue in 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.

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 six months 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 its immediate holding company (the “**Amount**”) was. The Directors confirm that the Amount was accounted for as net cash used in investing activities of the EP Company under paragraph 16 of “**Hong Kong Accounting Standard 7 – Statement of Cash Flows**” published by the Hong Kong Institute of Certified Public Accountants, which stipulates that “... *expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from 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 aforesaid 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 Directors are advised by the Valuer 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 market practice 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 up to 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 right of use to be a representative reference to the market value of car parking space. The Valuer had also acknowledged that the monthly rate for causal carparking space leasing is subject to government pricing regulation in Shenzhen and other cities of Guangdong Province as part of the price control administration regime. The Valuer had 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 willing buyer and willing seller. In the circumstances, the Valuer had adopted direct comparison approach taking reference to the lowest of the asking prices for the long-term right to use of 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 raised the questions why 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

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 in their valuation of the market value of the car parking spaces at the time of the acquisition of the Investment Properties and for subsequent valuations, whether the subject properties would 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 for possession and the valuation was for the market value of the properties, assuming “capable of being sold in the open market”. The Valuer further advises the Company that they had observed that the licensing of car parking spaces were mostly on a short term basis such as for hourly, daily and monthly parking. The Valuer were of the opinion that even if 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 investment 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 31 December 2017 was 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 projects (立項申請). 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 expense, and the development and management fee for one of the Investment Properties. The Company takes this opportunity to further clarify that the reasons for the higher actual costs 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 building specifications 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 costs of the residential units of Realord Villas comprised primarily the related construction costs but excluded other costs such as costs of land and construction costs for communal facilities, as stipulated by the government authorities; (iii) the building structure for the Guanlan Property was more complicated than the residential buildings of Realord Villas, with different construction materials used and different costings; and (iv) the car parking space commanded a relatively higher construction cost than the “bare shell” residential units delivered to the government, as the car parking spaces were mainly built underground and required excavation and reinforcement work, which is more costly to build than units above ground.

Emerson also quoted in the Second Article the “actual” investment costs of four projects (without identifying them by names) alleged to be in the neighbourhood of 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 Investment Properties had been overstated in the Acquisition Circular. The Company is clueless as to the actual place of the four neighbouring projects that Emerson referred to and where Emerson has extracted the information about the said “actual” investment costs of these neighbouring projects. Accordingly, the Directors are not in a position to comment on this.

## CONCLUSION

The Company considers the allegations and speculations made by Emerson in the articles are all groundless and misleading. **The Board urges Shareholders and potential 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-executive Directors are Mr. Yu Leung Fai, Mr. Fang Jixin and Dr. Li Jue.*