勒泰
LERTHAI

勒泰集團有限公司
LERTHAI GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 112)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**" and each a "**Director**") of Lerthai Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	4	**536,679**	549,522
Cost of sales		**(162,318)**	(137,990)
Gross profit		**374,361**	411,532
Interest revenue		**12,899**	32,214
Other income and gains, net		**9,311**	28,998
Gain on disposal of a subsidiary		**8,460**	–
Increase in fair value of investment properties		**168,017**	962,942
Selling and marketing expenses		**(2,871)**	(9,915)
Administrative expenses		**(89,954)**	(106,984)
Profit from operations		**480,223**	1,318,787
Finance costs		**(340,540)**	(468,954)
Profit before tax		**139,683**	849,833
Income tax expense	5	**(79,408)**	(272,106)
Profit for the period	6	**60,275**	577,727

	Notes	Six months ended 30 June	
		2019	2018
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Equity holders of the Company		**14,277**	577,727
Perpetual capital instruments holders		**45,998**	–
		60,275	577,727
Earnings per share (HK cents)	7		
Basic		**1.99**	170.54
Diluted		**1.42**	77.47

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**60,275**	577,727
Other comprehensive (expense) income:		
Item that will not be reclassified to profit or loss:		
Fair value gain on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	**(10,298)**	940
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(1,339)**	(151,232)
Other comprehensive expense for the period	**(11,637)**	(150,292)
Total comprehensive income for the period	**48,638**	427,435
Total comprehensive income for the period attributable to:		
Equity holders of the Company	**2,640**	427,435
Perpetual capital instruments holders	**45,998**	–
	48,638	427,435

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Non-current assets			
Investment properties		**20,603,917**	20,658,520
Property, plant and equipment		**20,733**	20,270
Right-of-use assets		**4,067**	–
Deposit		**125,032**	125,246
Interest receivables		**46,765**	41,561
Pledged bank deposits		**1,663,473**	1,736,463
Deferred tax assets		**6,167**	6,199
Other non-current assets		**3,300**	3,300
		22,473,454	22,591,559
Current assets			
Properties under development for sales		**2,499,146**	2,655,213
Properties held for sales		**297,349**	406,968
Equity investment at fair value through profit or loss		**3,867**	4,075
Trade and other receivables, deposits and prepayments	9	**718,063**	441,955
Restricted bank deposits		**69,062**	11,135
Pledged bank deposits		**6,632**	6,872
Cash and bank balances		**144,228**	184,107
		3,738,347	3,710,325
Non-current assets held for sale		**373,186**	373,461
		4,111,533	4,083,786
Current liabilities			
Trade and other payables and accruals	10	**3,252,649**	3,255,464
Contract liabilities		**1,952,176**	1,922,370
Tax payable		**27,078**	27,000
Bank and other borrowings		**5,202,164**	1,915,517
Convertible bonds		**390,519**	380,363
Senior notes		**102,639**	100,226
Bonds		**40,727**	39,062
		10,967,952	7,640,002
Net current liabilities		**(6,856,419)**	(3,556,216)
Total assets less current liabilities		**15,617,035**	19,035,343

	Notes	**30 June 2019** *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Non-current liabilities			
Bank and other borrowings		**6,363,934**	9,892,573
Convertible securities		**54,362**	56,444
Lease liabilities		**1,273**	–
Deferred tax liabilities		**3,051,096**	2,994,089
		9,470,665	12,943,106
Net assets		**6,146,370**	6,092,237
Capital and reserves			
Share capital	11	**2,448,192**	2,086,958
Reserves		**2,501,709**	2,854,808
Equity attributable to owners of the Company		**4,949,901**	4,941,766
Perpetual capital instruments	12	**1,196,469**	1,150,471
Total equity		**6,146,370**	6,092,237

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. CORPORATE INFORMATION

Lerthai Group Limited was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance. The address of its registered office and principal place of business is Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

The financial information relating to the year ended 31 December 2018 that is included in these unaudited condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements is as follow:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of the Hong Kong Company Ordinance (Cap. 622).

2. BASIS OF PREPARATION – GOING CONCERN

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange. These unaudited condensed consolidated financial statements was reviewed by the audit committee of Board. The Board has approved these unaudited condensed consolidated financial statements on 30 August 2019.

As at 30 June 2019, the Group had net current liabilities of HK$6.9 billion. The cash and bank balances is decreased from HK$184.1 million to HK$144.2 million. In addition, the Group has capital commitments of HK$519.0 million and other commitments of HK$423.4 million as at 30 June 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

As at 30 June 2019, bank borrowings whose principal repayment and interest payable with the aggregate amounts of HK$393.3 million, relating to borrowings with a total principal and interest amounts of HK$4.6 billion were overdue. The lenders have demanded immediate repayment and the entire principal amounts and outstanding interests of HK$4.6 billion are all due for repayment within one year as at 30 June 2019. As a result, such bank borrowings was reclassified to current liabilities as at 30 June 2019.

As stipulated in the relevant loan and financing agreements in respect of certain bank borrowings of the Group other than mentioned above, any default of the Group's borrowings may result in cross default of these borrowings. As a result of the above default events, the aggregate amounts of a bank borrowing and bond of HK$132.9 million have been reclassified as current liabilities as at 30 June 2019.

As at the date of approval of these unaudited condensed consolidated financial statements, the Group has not obtained waivers from the relevant lenders/trustees in respect of these default and cross-default borrowings.

The Group is in active negotiation with the lenders for renewal and extension of the remaining principal and interest that were overdue as at 30 June 2019, and the Directors are confident that agreements will be reached in due course.

All of the above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the Directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but are not limited to, the following:

(i) The Group has been actively negotiating with a number of commercial banks for renewal and extension of bank loans and credit facilities and substantial progress has been made which includes reaching a consensus with a new lender who was assigned with a HK$3.3 billion borrowing and will through the disposal of the pledged assets gradually to arrange repayment over a period of two to three years ("**Debt Restructuring Plan**");

(ii) The Group is also negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future;

(iii) The Group has accelerated the sales of its properties under development, completed properties and investment properties to solve the liquidity problem;

(iv) The Group has accelerated the issuance of the asset-backed securities on the Shenzhen Stock Exchange; and

(v) The Group will continue to take active measures to control administrative costs and containment of capital expenditures.

Should the Debt Restructuring Plan mentioned in (i) above be materialize, certain bank borrowings with the amounts of HK$3.0 billion included in the current liabilities of HK$5.2 billion as at 30 June 2019 will be expected to reclassify from current liabilities to non-current liabilities and the net current liabilities will be reduced from HK$6.9 billion to HK$3.9 billion.

Taking into account the above-mentioned plans and measures, the Directors are therefore of the opinion that it is appropriate to prepare the unaudited condensed consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the unaudited condensed consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared on historical cost basis except for investment properties and certain financial instruments which are carried at their fair values/fair values less costs to sell.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements 2015 – 2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and position for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies and application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

Upon the adoption of HKFRS 16, at the commencement date of the lease, the lessee recognises a "Lease liability" and a corresponding "Right-of-use" asset. After initial recognition of this asset and liability, the lessee recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses continue to be recognised on a systematic basis over the lease term.

HKFRS 16 primarily affect the Group's accounting as a lessee of premises which are classified as operating leases in previous year. The application of the new accounting model leads to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit or loss over the period of the lease.

HKFRS 16 has been applied through a modified retrospective approach, with the cumulative effect of initial application recognised as an adjustment to the opening balances of accumulated losses as at 1 January 2019. Comparative information has not been restated. In addition, the Group elected the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group has used the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

Upon the initial application of HKFRS 16, the Group measured the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets has been adjusted as at 1 January 2019.

The following table summarises the impact, net of tax, of transition to HKFRS 16 on the opening balance of retained profits:

	HK$'000
Retained earnings	
Recognition of interest of lease liabilities and depreciation of right-of-use assets	231
Impact at 1 January 2019	231

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

New and amended standards and interpretations have been published but are not yet effective for the period ended 30 June 2019

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the income from property development, property leasing and provision of comprehensive property management services, net of business tax and other sales related taxes and after deduction of any trade discounts.

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of properties	**211,308**	24,360
Revenue from property management services	**127,920**	108,458
Revenue from contracts with customers	**339,228**	132,818
Rental income	**197,451**	416,704
Total revenue	**536,679**	549,522

Disaggregation of revenue from contracts with customers:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
At a point in time	**211,308**	24,360
Over time	**127,920**	108,458
Total	**339,228**	132,818

Segment revenue and results

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

	Segment revenue Six months ended 30 June		Segment profit (loss) Six months ended 30 June	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Real estate business in				
Tangshan, the People's Republic of China (the "**PRC**")	**105,698**	279,590	**109,347**	1,242,716
Handan, the PRC	**–**	–	**226,568**	(2,703)
Shijiazhuang, the PRC	**429,229**	262,357	**143,170**	49,246
West Covina, the United States of America (the "**USA**")	**1,752**	7,575	**1,010**	20,725
Anaheim, the USA	**–**	–	**–**	(129)
	536,679	549,522	**480,095**	1,309,855
Unallocated items				
Interest revenue			**12,899**	32,214
Other income and gains, net			**9,311**	28,998
Gain on disposal of a subsidiary			**8,460**	–
Finance costs			**(340,540)**	(468,954)
Unallocated corporate expenses, net			**(30,542)**	(52,280)
Profit before tax			**139,683**	849,833

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
– PRC Enterprise Income Tax	**81**	6,006
– Land Appreciation Tax	**10,565**	2,458
	10,646	8,464
Deferred tax		
– Arising from fair value changes	**42,004**	247,205
– Arising from deductible depreciation of investment properties in the PRC	**25,444**	16,437
– Others	**1,314**	–
	68,762	263,642
	79,408	272,106

6. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging (crediting) the following:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Employee benefits expenses		
Directors' emoluments		
– Fees	**540**	990
– Salaries, bonuses and allowances	**4,627**	2,528
– Retirement benefits cost	**18**	72
	5,185	3,590
Other staff costs		
– Salaries, bonuses and allowances	**26,375**	31,353
– Retirement benefits cost	**3,271**	4,437
	29,646	35,790
Total employee benefits expenses	**34,831**	39,380
Less: Amount capitalised to investment properties under construction and properties under development for sales	**(3,263)**	(5,047)
	31,568	34,333

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**2,787**	3,357
Depreciation of right-of-use assets	**1,356**	–
Cost of properties sold (included in cost of sales)	**86,612**	9,691
Operating lease payments	**–**	6,909
Gross rental and management fee income from investment properties	**(325,371)**	(525,162)
Less: Direct operating expenses incurred for investment properties that generated rental and management fee income	**48,806**	95,856
	(276,565)	(429,306)

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**14,277**	577,727
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	**–**	12,106
Interest on convertible securities	**3,253**	2,050
Change in fair value of convertible bonds designated at fair value through profit or loss	**–**	(6,054)
Earnings for the purpose of diluted earnings per share	**17,530**	585,829
Number of shares *('000 shares)*		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**716,527**	338,766
Effect on conversion of convertible bonds	**–**	30,000
Effect of conversion of convertible securities	**511,128**	353,591
Effect of share options	**7,574**	33,877
Number of ordinary shares for the purpose of diluted earnings per share	**1,235,229**	756,234

8. DIVIDENDS

No dividends were paid, declared or proposed for ordinary shareholders of the Company during the six months ended 30 June 2019 and 2018. The Directors of the Company have determined that no dividend will be paid in respect of the six months ended 30 June 2019 and 2018.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Trade receivables	**113,396**	71,296
Amount due from a related company	**50,000**	–
Promissory note receivable	**194,150**	–
Prepayment of business taxes and other PRC taxes	**158,039**	145,329
Prepayment for purchase of construction materials	**99**	180
Prepayment for construction costs	**24,195**	30,277
Prepaid expense under ABS scheme	**80,778**	80,917
Other receivables, deposits and prepayments	**97,406**	113,956
	718,063	441,955

The aging analysis of trade receivables, based on the date of revenue recognition or invoice date of rental and services, is as follows:

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Within 30 days	**92,918**	63,761
Over 30 days but within 1 year	**10,947**	521
Over 1 year	**9,531**	7,014
	113,396	71,296

10. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Construction cost payables	**1,013,385**	1,131,595
Accrued construction costs	**1,643,858**	1,303,791
Advanced receipts from tenants	**12,877**	38,386
Deposits received from suppliers/contractors on contracts tendering	**23,700**	11,174
Interest payables	**89,510**	118,211
Lease liabilities	**3,084**	–
Other tax payables	**7,423**	23,680
Penalties payable	**50,124**	50,251
Rental deposits	**120,442**	86,034
Other payables and accruals	**288,246**	492,342
	3,252,649	3,255,464

The aging analysis of construction cost payables, based on the invoice date, is as follows:

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Within 1 year	**185,237**	635,482
Over 1 year but within 3 years	**638,255**	491,293
Over 3 years	**189,893**	4,820
	1,013,385	1,131,595

11. SHARE CAPITAL

	Number of shares	*HK$'000*
Issued and fully paid ordinary shares		
At 1 January 2018	**338,765,987**	498,548
Issue of shares upon conversion of convertible securities	**349,111,097**	1,588,410
At 31 December 2018 (Audited)	**687,877,084**	2,086,958
Issue of shares upon conversion of convertible securities *(Note)*	**79,777,777**	361,234
At 30 June 2019 (Unaudited)	**767,654,861**	2,448,192

Note: On 26 April 2019, the Company received the conversion notices from 2 securities holders to exercise the conversion rights attached to the convertible securities for the aggregate principal amount of HK$359,000,000. An aggregate of 79,777,777 conversion shares at the price of HK$4.5 per conversion share were allotted and issued on 26 April 2019.

12. PERPETUAL CAPITAL INSTRUMENTS

Pursuant to the perpetual loan agreements entered on 30 June 2018 between certain wholly-owned subsidiaries of the Company (the "**Perpetual Loan Agreements**") and the related companies controlled by Mr. Yang, the loans bear interest at 8%-10% per annum. Interest payments on the loans are paid annually on or before 31 December and can be deferred at the discretion of the Group. The related companies could not request for repayment of the principal and accrued interest save and except for when the Group elects to repay the principal and accrued interest at its sole discretion, or in the event of liquidation.

Under the Perpetual Loan Agreements, no guarantee of any kind is required to be given by any member of the Group to either the related companies for the loans.

13. CONTINGENT LIABILITIES

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Guarantees given to banks in favour of its customers in respect of mortgage loans provided by the banks	**863,498**	853,178
Financial guarantees given to banks in favour of its related companies and third parties	**953,476**	707,504
	1,816,974	1,560,682

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

The guarantees are secured by the Group's pledged bank deposits amounting to HK$33,924,000 (31 December 2018: HK$33,936,000).

The Group issued financial guarantees to banks in respect of banking facilities granted to related companies and third parties. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. In the opinion of the Directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant related parties is remote. Accordingly, no provision has been made in these unaudited condensed consolidated financial statements for these guarantees.

14. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with related parties:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest revenue on promissory note from a Director	**4,581**	–
Interest expense on loans from related companies	**–**	71,247
Interest distribution to perpetual capital instruments holders	**45,998**	–
Property management fee expense paid to a related company	**15,438**	–

15. OTHER MATTERS

As at 30 June 2019, the Group had disputes with some of the suppliers, as a result the Group received court orders with freezing the bank deposit or sealing up the properties with equivalent amount. As at the date of this announcement, the Group is still in the course of negotiation with the suppliers for settlement.

16. EVENTS AFTER THE REPORTING PERIOD

(i) Pursuant to a special resolution passed by the shareholders on 26 June 2019, the issued share capital of the Company was reduced by HK$900,000,000 and transferred to a capital reduction reserve account. The capital reduction was completed on 12 August 2019.

(ii) On 16 August 2019, Lerthai Property Services Company Limited ("**LPSCL**") entered into a loan extension agreement with Agricultural Bank of China and a subsidiary of the Company, pursuant to which, the bank shall provide the banking facility of RMB59 million to LPSCL for extension of one year. The facility was secured by, among others, the corporate guarantee provided by a subsidiary of the Company. Details of which was disclosed in the announcement of the Company dated 28 August 2019.

(iii) On 27 August 2019, Hebei Dahe Logistics Co., Ltd., a company ultimately owned as to 64.3% by Mr. Yang Longfei ("**Dahe**") entered into a loan extension agreement with Bank of Beijing Co., Ltd. and two subsidiaries of the Company, pursuant to which, the bank shall provide the banking facility of RMB60 million to Dahe for extension of one year. The facility was secured by, among others, the corporate guarantees provided by two subsidiaries of the Company and the pledge of certain PRC properties by a subsidiary in favour of the bank as security. Details of which was disclosed in the announcement of the Company dated 28 August 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating Results

In the first half of 2019, the net profit of the Group amounted to HK$60.3 million, representing a decrease of 89.6% as compared to HK$577.7 million in the corresponding period of 2018. Earnings per share amounted to HK1.99 cents, representing a decrease of HK168.55 cents as compared to HK170.54 cents in the corresponding period of 2018.

Review by Segment

Real Estate Business in Tangshan, the PRC

Tangshan Lerthai City

Tangshan Lerthai City, a large-scale mixed use complex, situated in the western part of Tangshan which is adjacent to the Tangshan Highspeed Railway station and Beijing Tangshan Inter-city Railway station. This project has a gross floor area ("**GFA**") of approximately 8,988,000 sq. ft. comprised residential units, regional retail shopping mall, hotels, commercial offices, entertainment facilities and sports facilities within the mega complexes. Tangshan Lerthai City mainly comprises (i) the Lerthai Centre, a regional shopping mall with a total GFA of approximately 3,106,000 sq. ft.; and (ii) the residential area of a total GFA of approximately 2,022,000 sq. ft. with approximately 1,500 residential units. Revenue of HK$17.2 million was recorded in the six months ended 30 June 2019 (six month ended 30 June 2018: HK$162.7 million).

Tangshan Pelagic Mall

Tangshan Pelagic Mall is a commercial complex with a total GFA of approximately 1,167,000 sq. ft., of which a total GFA of approximately 33,000 sq. ft. have been sold, and the remaining approximately 1,134,000 sq. ft. are held by Tangshan Oceancity Real Estate Development Company Limited for leasing purpose, as well as for the office uses by the Group. Tangshan Pelagic Mall is located in a popular business and entertainment district of Tangshan, Hebei Province surrounded by high-end residential real estate projects of renowned property developers in the PRC. During the six months ended 30 June 2019, revenue of HK$88.5 million (six month ended 30 June 2018: HK$116.9 million) was generated from Tangshan Pelagic Mall.

Real Estate Business in Handan, the PRC

Lerthai Jiayuan

The residential project "Lerthai Jiayuan" obtained pre-sale permit in the forth quarter of 2016 and commenced the pre-sale in 2017. The Group received accumulated pre-sale deposits of HK$1.9 billion as at 30 June 2019. Deposits was recorded as "Contract liabilities" in the unaudited condensed consolidated financial statements of the Group. The Group expected that the project will be completed and delivered from second half of 2019.

Handan Lerthai City on Chuancheng Street

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

The regional shopping mall of the Handan Lerthai City is expected to have an official opening in the second half of 2019. Currently, most of the shops have been leased out as various quality tenants are attracted to place their retail presences in the shopping mall and Handan Lerthai City will be another key revenue driver to the Group in the future.

Real Estate Business in Shijiazhuang, the PRC

Shijiazhuang Lerthai Centre is a commercial complex with a GFA of approximately 5,969,000 sq. ft.. It comprises a tower phase of approximately 2,144,000 sq. ft. and a shopping mall phase of approximately 3,824,000 sq. ft.. The tower phase is served as both offices and hotel purpose while the shopping mall phase comprise shops and car parking lots. During the six months ended 30 June 2019, revenue of HK$429.2 million (six month ended 30 June 2018: HK$262.4 million) was generated from Shijiazhuang Lerthai Centre.

Disposal of Real Estate Business in the US – South Hills Plaza and Lerthai Platinum Centre

In February 2019, we completed the disposal of LT International Investment Holdings Limited which holds two properties in the US and the sale loan for a total consideration of HK$247.4 million. Details of the disposal have been disclosed in the circular of the Company dated 14 January 2019.

The disposal is in line with the Group's strategy to improve operational efficiency and performance of the portfolio and create value to our shareholders. The Group will continue to review the mix and diversity, and enhance the performance of the portfolio.

The disposal has generated a gain on disposal amounted to HK$8.5 million for the six months ended 30 June 2019.

Financial Services Businesses

Through its wholly owned subsidiaries, LERTHAI Securities (Hong Kong) Limited which holds Type 1 and Type 2 licenses, and LERTHAI Asset Management Limited which, holds Type 4 and Type 9 licenses from the Securities and Futures Commission of Hong Kong, the Company has been developing a vibrant business in securities, futures and asset management.

In August 2017, Lerthai Global Commercial Real Estate Fund SPC, a segregated portfolio company, was incorporated in Cayman Islands. Since its setup, Lerthai Global Commercial Real Estate Fund SPC has established three segregated portfolios to invest in commercial real estates in the mainland China. These three segregated portfolios are: China Handan Lerthai Commercial Real Estate Fund SP, China Shijiazhuang Lerthai Commercial Real Estate Fund SP and China Tangshan Lerthai Oceancity Commercial Real Estate SP. LERTHAI Asset Management Limited was appointed as investment manager for China Handan Lerthai Commercial Real Estate Fund SP.

In 2018, LERTHAI Asset Management Limited has established Lerthai Equity Investment Fund Management (Shenzhen) Co., Ltd. (勒泰股權投資基金管理(深圳)有限公司) in Qianhai, Shenzhen, under the Qualified Foreign General Partner (合格境外普通合伙人) scheme. Lerthai Equity Investment Fund Management (Shenzhen) Co., Ltd. aims at providing an efficient channel for overseas investors to invest in commercial real estate assets that benefit from the prosperous new retail and trading-up consumption in mainland China.

OUTLOOK

The PRC economy has steered into a high-quality development stage from high-speed growth. The central government will persist to the keynote of seeking progress while maintaining stability and continue to deepen the supply-side structural reform. It is devoted to deepening the reforms in the fundamental and key areas and supporting the development of private enterprises. Meanwhile, it will adopt proactive fiscal policies and prudent and neutral monetary policies to promote the economic systemic reform and foster new drivers to economic growth. It is expected that China's macro-economy will maintain a steady growth in 2019. However, trade protectionism, US interest rate hikes, tightened monetary policies, geopolitical risks and other uncertainties will still bring challenges to global economic growth.

Leveraging our outstanding performance in shopping mall operation and management, we believe the shopping mall performance in our current investment portfolio will continue to drive our revenue growth. Due to our business flexibility and stability, Lerthai is well prepared to with stand the potential turmoil in the market. We will continue to seize the opportunities in economic growth, policy and other aspects, sustain in strengthening our core competitiveness, enhance our operation capacity and profitability and share the development results with the society to shoulder the responsibilities together in promoting the urban construction and people's happiness with business development.

Under the trend of new retail and intelligence empowerment, Lerthai will have in-depth connection with technologies, and strive to achieve stable development with leading commercial real estate operation models. In addition, we will continue to strengthen our current investment portfolio, continue to prudently explore acquisition opportunities. We will enhance our investment portfolio through the acquisition of quality assets or assets that are poorly managed but possess sufficient development potential, constantly review the diversified investment portfolio and closely monitor the performance of the investment portfolio. In addition to the commercial real estate projects in Hebei Province, the Group will also seek potential investment opportunities in tier-1 and tier-2 cities and overseas markets. We are cautiously optimistic about the upcoming macroeconomic environment and are committed to promoting the revenue growth on a solid foundation of our investment portfolio and maximising the long-term value for stakeholders and shareholders.

FINANCIAL REVIEW

During the period under review, total revenue of the Group was HK$536.7 million (six months ended 30 June 2018: HK$549.5 million). The decrease in revenue for the six months ended 30 June 2019 was mainly due to most of the residential units of Tangshan Lerthai City were delivered and recognised as revenue in the corresponding period last year and the remaining towers not yet delivered to the buyers during the period, offset by the growth in rental income during the period.

Other income and gains and losses decreased to net gain of HK$9.3 million for the period (six months ended 30 June 2018: net gain of HK$29.0 million). The decrease was primarily due to the exchange loss and, offset by change in fair value of convertible bonds designated at fair value through profit or loss.

The Group recorded an increase of fair value of the investment properties of HK$168.0 million (six months ended 30 June 2018: HK$962.9 million), mainly contributed by the capital appreciation of Lerthai Jiayuan and Handan Lerthai City on Chuancheng Street during the period.

Selling and marketing expenses decreased to HK$2.9 million (six months ended 30 June 2018: HK$9.9 million). Since most of the pre-sale activities for Tangshan Lerthai City and Handan projects were completed, the promotion scale had been downsized.

Administrative expenses amounted to HK$90.0 million (six months ended 30 June 2018: HK$107.0 million). The decrease was primarily due to the reduction of professional fee incurred for merger and acquisition during the period.

Finance costs recognised as expenses amounted to HK$340.5 million (six months ended 30 June 2018: HK$469.0 million). The decrease was mainly due to the interest charged for certain banking facilities, which was repaid in the second half of 2018 and during the period.

As a result of the various factors outlined above, the profit for the period attributable to owners of the Company was HK$14.3 million (six months ended 30 June 2018: HK$577.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's cash and bank balances maintained at HK$144.2 million (31 December 2018: HK$184.1 million). The current ratio was 0.37 times (31 December 2018: 0.53 times) as at 30 June 2019.

The Group's gearing ratio was 45.7% (31 December 2018: 46.4%), which is calculated based on the Group's total interest-bearing borrowings of HK$12.2 billion (31 December 2018: HK$12.4 billion) to total assets of HK$26.6 billion (31 December 2018: HK$26.7 billion).

CASH FLOW MANAGEMENT AND LIQUIDITY RISK

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

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

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

FOREIGN EXCHANGE EXPOSURE

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

CHARGE OF ASSETS

As at 30 June 2019, the Group's facilities and other loans of HK$9.5 billion (31 December 2018: HK$9.6 billion) were pledged with investment properties, property, plant and equipment, properties under development for sales and pledged bank deposits with an aggregate carrying amount of HK$22.8 billion (31 December 2018: HK$22.9 billion).

CORPORATE GOVERNANCE

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

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

Under the Code Provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company. The chairman of the Board was unable to attend the annual general meeting of the Company held on 26 June 2019 due to an unexpected engagement. Mr. Wong Tat Keung, an independent non-executive Director of the Company was appointed as the chairman of that meeting to answer and address questions raised by shareholders of the Company.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

REVIEW BY AUDIT COMMITTEE

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

APPRECIATION

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

By order of the Board
Lerthai Group Limited
Yang Longfei
Chairman and Chief Executive Officer

Hong Kong, 30 August 2019

As at the date of this announcement, the executive Directors are Mr. Yang Longfei and Ms. Zhang Yan and the non-executive Director is Mr. Yang Shao Ming and the independent non-executive Directors are Mr. Wan Kah Ming, Mr. Wong Hon Kit and Mr. Wong Tat Keung.