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勒泰集團有限公司
LERTHAI GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 112)

**FINAL RESULTS FOR
THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

The board of directors (the “**Board**”) of Lerthai Group Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	4	1,106,288	909,919
Cost of sales		<u>(513,696)</u>	<u>(295,639)</u>
Gross profit		592,592	614,280
Gain on voluntary surrender of properties	6	189,711	–
Interest revenue		73,972	26,326
Other income and gains, net	7	45,938	73,551
Gain on disposal of a subsidiary		8,460	–
Increase in fair value of investment properties		227,593	1,387,700
Selling and marketing expenses		(6,831)	(17,417)
Administrative expenses		<u>(152,722)</u>	<u>(175,307)</u>
Profit from operations		978,713	1,909,133
Finance costs	8	<u>(736,879)</u>	<u>(791,973)</u>
Profit before tax		241,834	1,117,160
Income tax expense	9	<u>(105,128)</u>	<u>(407,483)</u>
Profit for the year attributable to equity holders of the Company	10	<u>136,706</u>	<u>709,677</u>
Earnings per share (HK dollars)	12		
– Basic		<u>0.18</u>	<u>1.56</u>
– Diluted		<u>0.12</u>	<u>0.74</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year	<u>136,706</u>	<u>709,677</u>
Other comprehensive income/(expense) after tax:		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value gain on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	26,918	29,236
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(6,668)	(424,081)
Release of exchange reserve upon disposal of a subsidiary	<u>(1,949)</u>	<u>–</u>
Other comprehensive income/(expense) for the year, net of tax	<u>18,301</u>	<u>(394,845)</u>
Total comprehensive income for the year attributable to equity holders of the Company	<u><u>155,007</u></u>	<u><u>314,832</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Non-current assets			
Investment properties		19,977,883	20,658,520
Property, plant and equipment		19,954	20,270
Right-of-use assets		2,712	–
Deposit and prepayment		202,342	125,246
Interest receivables		–	41,561
Pledged bank deposits		21,960	1,736,463
Deferred tax asset		6,167	6,199
Other non-current assets		3,300	3,300
		<u>20,234,318</u>	<u>22,591,559</u>
Current assets			
Properties under development for sales		3,023,091	2,655,213
Properties held for sales		314,199	406,968
Investment at fair value through profit or loss		2,409	4,075
Trade and other receivables, deposits and prepayments	<i>13</i>	386,384	441,955
Restricted bank balances		4	11,135
Pledged bank deposits		6,523	6,872
Cash and bank balances		127,828	184,107
		<u>3,860,438</u>	<u>3,710,325</u>
Non-current assets held for sale		<u>–</u>	<u>373,461</u>
		<u>3,860,438</u>	<u>4,083,786</u>

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Current liabilities			
Trade and other payables and accruals	<i>14</i>	3,238,209	3,255,464
Contract liabilities	<i>15</i>	1,685,661	1,922,370
Tax payable		92,743	27,000
Bank and other borrowings		5,236,123	1,915,517
Convertible bonds		386,117	380,363
Senior notes		109,327	100,226
Bonds		42,485	39,062
Lease liabilities		2,997	–
		<u>10,793,662</u>	<u>7,640,002</u>
Net current liabilities		<u>(6,933,224)</u>	<u>(3,556,216)</u>
Total assets less current liabilities		<u>13,301,094</u>	<u>19,035,343</u>
Non-current liabilities			
Bank and other borrowings		4,708,209	9,892,573
Convertible securities		56,667	56,444
Deferred tax liabilities		2,986,009	2,994,089
		<u>7,750,885</u>	<u>12,943,106</u>
Net assets		<u>5,550,209</u>	<u>6,092,237</u>
Capital and reserves			
Share capital	<i>16</i>	1,548,192	2,086,958
Reserves		3,554,079	2,854,808
Equity attributable to equity holders of the Company			
Perpetual capital instruments	<i>17</i>	5,102,271	4,941,766
		<u>447,938</u>	<u>1,150,471</u>
Total equity		<u>5,550,209</u>	<u>6,092,237</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Lerthai Group Limited (the “**Company**”) 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**”).

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “**Group**”). The Company is an investment holding company.

In the opinion of the directors of the Company (the “**Directors**”), as at 31 December 2019, China Lerthai Commercial Real Estate Holdings Limited (“**China Lerthai**”), a company incorporated in the British Virgin Islands, is the immediate holding company; and Mr. Yang Longfei (“**Mr. Yang**”), is the ultimate controlling party of the Company.

The financial information relating to the years ended 31 December 2019 and 2018 included in this preliminary announcement of annual results for the year ended 31 December 2019 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory consolidated financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2019 in due course.

ZHONGHUI ANDA CPA Limited has reported on those consolidated financial statements of the Group for the year ended 31 December 2018. The auditor’s report dated 29 March 2019 was unqualified; include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; did not contain a statement under section 406(2) and 407(2) or 407(3) of the Hong Kong Companies Ordinance.

ZHONGHUI ANDA CPA Limited has reported on those consolidated financial statements of the Group for the year ended 31 December 2019. The auditor’s report dated 19 June 2020 was disclaimed and contained a statement under section 407(3) of the Hong Kong Companies Ordinance.

2. GOING CONCERN BASIS

As at 31 December 2019, the Group had net current liabilities of HK\$6,933,224,000. The cash and bank balances decreased from HK\$184,107,000 to HK\$127,828,000. In addition, the Group has capital commitment of HK\$367,223,000 and other commitment of HK\$241,438,000 as at 31 December 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.

The Group's ability to continue as a going concern is dependent on the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group's bankers. If these finance supports were not available, the Group may be unable to meet its financial obligations as and when they fall due. These conditions, indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years except as stated below.

Application of new and amendments to HKFRSs

HKFRS 16	<i>Leases</i>
HK(IFRIC) – Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
<i>Annual Improvements 2015–2017 Cycle</i>	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 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 period. HKFRS 16 superseded HKAS 17 Leases, 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 years. 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 right-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:

	<i>HK\$'000</i>
Retained earnings	
Impact at 1 January 2019	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100px;">231</div>

The operating lease commitments disclosed as at 31 December 2018 were HK\$10,982,000. The lease liabilities recognised as at 1 January 2019 were HK\$5,655,000, of which HK\$2,658,000 were current lease liabilities and HK\$2,997,000 were non-current lease liabilities.

The differences between the operating lease commitments discounted using the lessee's incremental borrowing rate of 10% and the total lease liabilities recognised in the consolidated statement of financial position at the date of initial application of HKFRS 16 comprised the exclusion of short-term leases recognised on a straight-line basis as expenses and the inclusion of adjustments as a result of a different treatment of extension options.

The change in accounting policy increase right-of-use assets by HK\$5,424,000 on 1 January 2019.

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 consolidated financial statements from 2019 onwards.

New and amended standards and interpretations have been published but are not yet effective for the year ended 31 December 2019

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

4. REVENUE

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

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

	2019	2018
	HK\$'000	HK\$'000
Sales of properties	438,380	174,131
Revenue from property management service	271,034	335,267
Revenue from contracts with customers	709,414	509,398
Rental income	396,874	400,521
Total revenue	1,106,288	909,919

Disaggregation of revenue from contracts with customers:

Timing of revenue recognition

At a point in time	438,380	174,131
Over time	271,034	335,267
Total	709,414	509,398

5. SEGMENT INFORMATION

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

Specifically, the Group’s reportable and operating segment based on information reported to the CODM are as follows: (i) Real estate business in Tangshan, the People’s Republic of China (the “PRC”); (ii) Real estate business in Shijiazhuang, the PRC; (iii) Real estate business in Handan, the PRC; (iv) Real estate business in West Covina, the United States of America (the “USA”); and (v) Real estate business in Anaheim, the USA.

Segment revenue and results

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

	Segment revenue		Segment profit/(loss)	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Real estate business in				
Tangshan, the PRC	219,949	428,749	153,803	501,101
Shijiazhuang, the PRC	596,599	465,472	376,374	1,072,082
Handan, the PRC	287,988	–	251,698	366,678
West Covina, the USA	1,752	15,698	1,010	(15,994)
Anaheim, the USA	–	–	–	(1,648)
	<u>1,106,288</u>	<u>909,919</u>	<u>782,885</u>	<u>1,922,219</u>
Unallocated amounts:				
Gain on voluntary surrender of properties			189,711	–
Other income and gains, net			45,938	73,551
Gain on disposal of a subsidiary			8,460	–
Finance costs			(736,879)	(791,973)
Unallocated corporate expenses, net			<u>(48,281)</u>	<u>(86,637)</u>
Profit before tax			<u>241,834</u>	<u>1,117,160</u>

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong	–	–	3,092	2,254
The PRC	1,104,536	894,221	20,199,799	20,620,074
The USA	<u>1,752</u>	<u>15,698</u>	<u>–</u>	<u>223,269</u>
	<u>1,106,288</u>	<u>909,919</u>	<u>20,202,891</u>	<u>20,845,597</u>

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

No revenue is derived from a single customer of the Group which amounted for over 10% of the Group's total revenue (2018: Nil).

6. GAIN ON VOLUNTARY SURRENDER OF PROPERTIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Income received from voluntary surrender of properties	580,875	–
Less: Cost of voluntary surrender of properties	<u>(391,164)</u>	<u>–</u>
	<u>189,711</u>	<u>–</u>

During the year, Shijiazhuang Lerthai Real Estate Development Company Limited (“**SJZ Property Development**”), a wholly-owned subsidiary of the Company, voluntarily surrendered certain investment properties held by it to creditors, to offset the construction fees and accumulated interests payable.

7. OTHER INCOME AND GAINS, NET

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Decrease in fair value of convertible bonds designated at fair value through profit or loss (“ FVTPL ”)	(3,224)	(35,943)
(Decrease)/increase in fair value of investment at FVTPL	(1,543)	350
Exchange (loss)/gain, net	(3,661)	120,275
Loss on disposal of property, plant and equipment	(246)	(12,652)
Penalties for deferred settlement (<i>Note</i>)	–	(53,270)
Reversal of penalties for deferred settlement	4,105	–
Others	<u>50,507</u>	<u>54,791</u>
	<u>45,938</u>	<u>73,551</u>

Note: These represent the penalties required by certain suppliers as the Group failed to make payment according to the agreed settlement schedule for certain construction cost payables.

8. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest on:		
– bank and other borrowings	702,453	694,438
– convertible bonds	35,113	42,856
– senior notes	13,564	13,929
– bonds	3,423	3,391
– lease liabilities	427	–
– convertible securities	6,461	6,148
– amount due to a former shareholder of a subsidiary	–	3,025
– loans from related companies	–	45,358
	<u>761,441</u>	<u>809,145</u>
Management fee to asset-backed security (“ABS”) scheme manager (<i>Note</i>)	<u>49,480</u>	<u>49,522</u>
	810,921	858,667
Less: Amount capitalised to investment properties under construction and properties under development for sales	<u>(74,042)</u>	<u>(66,694)</u>
	<u>736,879</u>	<u>791,973</u>

Note: Management fee to ABS scheme manager is charged at 1.3% (2018: 1.3%) of ABS in issue per annum.

9. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
– Overprovision in prior years	<u>(579)</u>	–
Current tax – PRC		
– PRC Enterprise Income Tax (“EIT”)	185	24,958
– LAT	<u>50,572</u>	<u>2,746</u>
	50,757	27,704
Deferred tax	<u>54,950</u>	<u>379,779</u>
	<u>105,128</u>	<u>407,483</u>

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profit of the companies incorporated in Hong Kong. No provision for income tax has been made as the Company and subsidiaries in Hong Kong incurred tax losses.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Group’s PRC subsidiaries is 25% (2018: 25%).

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

The subsidiaries in the USA are subject to Federal Income Tax of 21% (2018: 21%) and State Tax of 8.8% (2018: 8.8%) on the taxable income. Certain subsidiaries are limited liability companies which are by default disregarded entities (i.e. viewed as divisions of the holding company) and taxed as part of their holding company for federal and state tax purposes.

10. PROFIT FOR THE YEAR

The Group’s profit for the year is stated after charging/(crediting) the following:

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Employee benefits expenses including Directors’ and chief executive’s emoluments:		
– Salaries, bonuses and allowances	63,238	67,606
– Retirement benefits cost	<u>7,178</u>	<u>10,142</u>
Total employee benefits expenses	70,416	77,748
Less: Amount capitalised to investment properties under construction and properties under development for sales	<u>(7,360)</u>	<u>(12,077)</u>
	<u>63,056</u>	<u>65,671</u>
Auditor’s remuneration	2,250	1,600
Operating lease payments	–	9,193
Cost of properties held for sales recognised as an expense	289,925	77,004
Depreciation	6,997	10,719
Gross rental and management fee income from investment properties	(667,908)	(735,788)
Less: Direct operating expenses incurred for investment properties that generated rental and management fee income	<u>138,403</u>	<u>163,426</u>
	<u>(529,505)</u>	<u>(572,362)</u>

11. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

12. EARNINGS PER SHARE

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	136,706	709,677
Effect of diluted potential ordinary shares:		
Interest on convertible securities	<u>6,461</u>	<u>6,148</u>
Earnings for the purpose of diluted earnings per share	<u>143,167</u>	<u>715,825</u>
Number of shares ('000 shares)		
	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	742,519	455,942
Effect of share options	11,894	6,392
Effect of conversion of convertible securities	<u>485,135</u>	<u>506,264</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,239,548</u>	<u>968,598</u>

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	106,397	71,296
Prepayment of other PRC taxes	145,802	145,329
Prepayment for purchase of construction materials	2,820	180
Prepayment for construction costs	45,324	30,277
Prepayment under ABS scheme	–	80,917
Other receivables, deposits and prepayments	<u>86,041</u>	<u>113,956</u>
	<u>386,384</u>	<u>441,955</u>

Trade receivables include consideration in respect of properties sold and properties lease. Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Properties lease receivables represent rental receivables due from the tenants and property manager appointed by the Group. Rental and management fee from tenants are payable in accordance with the terms of relevant agreements. Pursuant to the agreement between the property manager and the Group, the property manager shall pay the rental collected on behalf of the Group to the Group within 30 days (2018: within 30 days).

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	18,313	63,761
Over 30 days but within 1 year	52,736	521
Over 1 year	<u>35,348</u>	<u>7,014</u>
	<u>106,397</u>	<u>71,296</u>

14. TRADE AND OTHER PAYABLES AND ACCRUALS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Construction cost payables	417,249	1,131,595
Accrued construction costs	2,107,601	1,303,791
Advanced receipts from tenants	113,435	38,386
Deposits received from suppliers/contractors on contracts tendering	104,919	11,174
Other tax payables	35,316	23,680
Penalties payable (<i>Note</i>)	45,599	50,251
Penalty interest payables	122,522	118,211
Rental deposits	50,440	86,034
Other payables and accruals	<u>241,128</u>	<u>492,342</u>
	<u>3,238,209</u>	<u>3,255,464</u>

Note: Tangshan Lerthai Properties Development Company Limited (“**TS Lerthai Development**”), Tangshan LT Shopping Mall Limited (“**TS Lerthai Shopping**”) and SJZ Property Development was accused by certain suppliers due to overdue construction payment. The balances as at 31 December 2019 and 31 December 2018 were HK\$45,599,000 and HK\$50,251,000, respectively, which include overdue interest claimed by the suppliers. TS Lerthai Development, TS Lerthai Shopping and SJZ Property Development received court orders which restricted it from selling or pledging certain designated units for a period of three years from date of the court order. As at the date of this announcement, TS Lerthai Development and TS Lerthai Shopping are still in the course of negotiation with the suppliers for settlement.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 year	90,054	635,482
Over 1 year but within 3 years	234,558	491,293
Over 3 years	<u>92,637</u>	<u>4,820</u>
	<u>417,249</u>	<u>1,131,595</u>

15. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	At 31 December 2019 HK\$'000	At 31 December 2018 HK\$'000	At 1 January 2018 HK\$'000
Contract liabilities	<u>1,685,661</u>	<u>1,922,370</u>	<u>1,825,999</u>
Contract receivables (included in trade receivables)	<u>11,879</u>	<u>6,231</u>	<u>6,252</u>
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
– 2019	N/A	1,922,370	
– 2020	<u>1,685,661</u>	<u>–</u>	
	<u>1,685,661</u>	<u>1,922,370</u>	
		Year ended 31 December	
		2019	2018
		HK\$'000	HK\$'000
Revenue recognised in the year that was included in contract liabilities at beginning of year		<u>359,979</u>	<u>81,960</u>
Significant changes in contract liabilities during the year:			
Increase due to operations in the year		146,119	212,472
Transfer of contract liabilities to revenue		<u>(382,828)</u>	<u>(116,101)</u>

A contract liability is deposits received from sales of properties. It represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Included in balance above is an amount of HK\$524,603,000 (2018: HK\$639,619,000) representing the deposit received from government on 11 April 2014. Handan LT Municipal Investment Real Estate Development Company Limited (“**Handan LT Municipal**”), a subsidiary of the Group entered into an agreement with local government, in which the local government committed to prepay Handan LT Municipal for construction cost of relocated residence, and in return, Handan LT Municipal will compensate certain residential properties to those originally resident who lived in the site which acquired by Handan LT Municipal for property development.

16. SHARE CAPITAL

	<i>Number of shares</i>	<i>HK\$'000</i>
Issued and fully paid ordinary shares:		
At 1 January 2018	338,765,987	498,548
Issue of shares upon conversion of convertible securities (<i>Note a</i>)	<u>349,111,097</u>	<u>1,588,410</u>
At 31 December 2018 and 1 January 2019	687,877,084	2,086,958
Issue of shares upon conversion of convertible securities (<i>Note b</i>)	79,777,777	361,234
Capital reduction (<i>Note c</i>)	<u>–</u>	<u>(900,000)</u>
At 31 December 2019	<u><u>767,654,861</u></u>	<u><u>1,548,192</u></u>

Notes:

- (a) On 26 July 2018, the Company received the conversion notices from 2 securities holders to exercise the conversion rights attached to the Convertible Securities for the principal amount of HK\$250,000,000 and HK\$730,000,000 respectively. An aggregate of 217,777,777 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued on 26 July 2018.

On 31 October 2018, the Company received the conversion notices from 25 securities holders to exercise the conversion rights attached to the Convertible Securities for the aggregate principal amount of HK\$591,000,000. An aggregate of 131,333,320 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued on 31 October 2018.

- (b) 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\$4.50 per conversion share were allotted and issued on 26 April 2019.
- (c) Pursuant to a resolution passed in the extraordinary general meeting held on 26 June 2019, regarding the reduction of the issued share capital of the Company by HK\$900,000,000 (the “**Capital Reduction**”), the credit arising from the Capital Reduction has been applied to a capital reduction reserve account of the Company and such reserve to be used to set off against the accumulated loss of HK\$766,560,000 of the Company as at the effective date (i.e. 12 August 2019).

17. PERPETUAL CAPITAL INSTRUMENTS

Pursuant to the perpetual loan agreements entered on 30 June 2018 between certain wholly-owned subsidiaries of the Company and the related companies controlled by Mr. Yang (the “**Perpetual Loan Agreements**”), 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 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.

As at 31 December 2019, the perpetual capital instruments holders were entitled to receive interest of HK\$86,340,000 but only payable when the Group elects to pay at its sole discretion or in the event of liquidation. In the opinion of the Directors, the perpetual capital instruments do not contain any contractual obligation to pay cash or other financial assets for the interest pursuant to the terms and conditions, accordingly, the recognition of the interest has been deferred until become payable in the future, if required.

18. LITIGATION

Reference is made to the Company’s announcement dated 6 September 2019 in respect of the writ of summons under action number HCA 1660 of 2019 was issued in the Court of First Instance of the High Court of The Hong Kong Special Administrative Region by a bank (“**Bank**”) against (i) LT Commercial Limited, a directly wholly-owned subsidiary of the Company as borrower of bank loans in the sum of HK\$1,500,000,000 (the “**Loans**”); and (ii) the Company and Mr. Yang (the chairman and an executive director of the Company), both as guarantors of the Loans. The writ claimed for, among other things, payment of the Loans and the interest in the aggregate amount of HK\$1,554,763,000 and all other costs and expenses in relation to the default of the Loans.

The Loans were secured by the Group’s commercial properties located in the PRC as collateral. The above action was heard at the High Court in May 2020. The Company has received the judgment ordering issued by the Court on 19 May 2020 (the “**Judgment**”), adjudged that all three defendants do pay the Bank the outstanding principal sum of HK\$1,425,000,000; interest and default interest accrued in the total sum of HK\$129,763,000; and default interest from 3 October 2019 until payment in full and all other costs and expenses in relation to the default of the Loan.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2019.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2019 the Group had net current liabilities of HK\$6,933,224,000. The cash and bank balances decreased from HK\$184,107,000 to HK\$127,828,000. In addition, the Group has capital commitment of HK\$367,223,000 and other commitment of HK\$241,438,000 as at 31 December 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. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group's bankers. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the ongoing availability of finance supports. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

However, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity of the financial support from the immediate holding company, ultimate controlling party and the Group's bankers described above. There are no other satisfactory audit procedures that we could adopt to determine whether the immediate holding company, ultimate controlling party and the Group's bankers has the financial ability and/or willingness to honour the financial support to the Group.

REPORT ON OTHER MATTERS UNDER SECTION 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the matter described in the Basis for Disclaimer of Opinion section of our report, we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN

We draw attention to the consolidated financial statements which mentions that as at 31 December 2019, the Group had net current liabilities of HK\$6,933,224,000. The cash and bank balances decreased from HK\$184,107,000 to HK\$127,828,000. In addition, the Group has capital commitment of HK\$367,223,000 and other commitment of HK\$241,438,000 as at 31 December 2019.

The Group's ability to continue as a going concern is dependent on the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group's bankers. If these finance supports were not available, the Group may be unable to meet its financial obligations as and when they fall due. These conditions, indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The Group is in active negotiation with the banks and lenders for further arrangements, including the extension of repayment and renewal of the overdue borrowing. The Directors are optimistic that agreements will be reached in due course.

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 not limited to the following:

- (i) The Group has been actively negotiating with a number of commercial banks for renewal or extension of repayment of the loans;
- (ii) The Group is also negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments;
- (iii) The Group has accelerated the sales of its properties under development, completed properties and investment properties to solve the liquidity problem; and
- (iv) The Group will continue to take active measures to control administrative costs and containment of capital expenditures.

Taking into account the above-mentioned plans and measures, the Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the statement of financial position. Accordingly, the directors are satisfied that it is appropriate to prepare the 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The current property portfolio comprises five high quality properties, namely, Tangshan Lerthai City, Tangshan Pelagic Mall, Handan Lerthai City, Shijiazhuang Lerthai Centre, and Lerthai Jiayuan. All properties are located in the central business district of Hebei. The categories of the properties include retail business, offices, hotels, and residential units, etc.

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 Intercity 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 4,024,000 sq. ft.; and (ii) the residential area of a total GFA of approximately 2,510,000 sq. ft. with approximately 1,700 residential units. Revenue of HK\$41,508,000 was recorded for the year (2018: HK\$198,526,000).

Tangshan Pelagic Mall

Tangshan Pelagic Mall is a commercial complex with a total GFA of approximately 1,257,000 sq. ft., of which a total GFA of approximately 33,000 sq. ft. have been sold, and the remaining approximately 1,232,000 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 year, revenue of HK\$178,441,000 (2018: HK\$230,223,000) 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 fourth quarter of 2016 and commenced pre-sale in 2017. The Group received accumulated pre-sale deposits of HK\$1,352,456,000 as at 31 December 2019. Deposits were recorded as “Contract liabilities” in the consolidated financial statements. In the second half of 2019, Lerthai Jiayuan started delivering residential units to the buyers and generated revenue of HK\$287,988,000.

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 at the end of 2020. 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 6,425,000 sq. ft.. It comprises a tower phase of approximately 2,308,000 sq. ft. and a shopping mall phase of approximately 4,117,000 sq. ft.. The tower phase is served as both offices and hotel purpose while the shopping mall phase comprises shops and car parking lots. Thanks to the stable performance of the shopping mall and car parks, revenue increased 28.2% to HK\$596,599,000 in 2019.

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\$247,369,000. 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\$8,460,000 for the year ended 31 December 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 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 Fund SP. LERTHAI Asset Management Limited was appointed as investment manager for China Handan Lerthai Commercial Real Estate Fund SP.

In May 2018, LERTHAI Asset Management Limited established Lerthai Equity Investment Fund Management (Shenzhen) Co., Limited (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 (合格境外普通合夥人) scheme. Lerthai Equity Investment Fund Management (Shenzhen) Co., Limited 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.

FINANCIAL REVIEW

During the year, total revenue of the Group was HK\$1,106,288,000 (2018: HK\$909,919,000). The increase in revenue for the year ended 31 December 2019 was mainly due to Lerthai Jiayuan started delivered residential units to the buyers from the second half of 2019.

Other income and gains decrease to net gain of HK\$45,938,000 for the year (2018: HK\$73,551,000). The decrease was primarily due to the increase in exchange loss and offset by change in the fair value of convertible bonds designated at fair value through profits or loss.

The gain on voluntary surrender of properties of the Group was HK\$189,711,000, mainly due to certain properties transferred to suppliers to offset its overdue construction payment during the year.

The Group recorded an increase of fair value of the investment properties of HK\$227,593,000 (2018: HK\$1,387,700,000), mainly contributed by the capital appreciation of Lerthai Jiayuan and Handan Lerthai City on Chuancheng Street during the year.

Selling and marketing expenses decreased to HK\$6,831,000 (2018: HK\$17,417,000). Since most of the pre-sale activities of Tangshan Lerthai City and Handan Projects were completed, the related promotion scale had been downsized.

Administrative expenses amounted to HK\$152,722,000 (2018: HK\$175,307,000) which mainly comprised of staff costs, rental and management fee for office premises and legal and professional fee. The decrease was primarily due to the reduction of professional fee incurred for the merger and acquisition during the year.

Finance costs recognised as expenses for the year were HK\$736,879,000 (2018: HK\$791,973,000). The decrease was mainly due to no interest was charged for loans from related companies for the year (2018: HK\$45,358,000).

As a result of the various factors outlined above, the profit for the year attributable to equity holders of the Company was HK\$136,706,000 (2018: HK\$709,677,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's cash and bank balances maintained at HK\$127,828,000 (2018: HK\$184,107,000). The current ratio was 0.36 times (2018: 0.53 times) as at 31 December 2019.

The Group's gearing ratio was 43.8% (2018: 46.4%), which is calculated based on the Group's total interest bearing borrowings of HK\$10,538,928,000 (2018: HK\$12,384,185,000) to total assets of HK\$24,094,756,000 (2018: HK\$26,675,345,000).

FOREIGN EXCHANGE EXPOSURE

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

CHARGE OF ASSETS

As at 31 December 2019, the Group's facilities and other loans of HK\$7,937,618,000 (2018: HK\$9,560,154,000) were pledged with investment properties, properties under development for sales and pledged bank deposits with an aggregate carrying amount of HK\$20,043,329,000 (2018: HK\$22,869,233,000).

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2019, the Group's contingent liabilities amounted to HK\$834,335,000 (2018: HK\$853,178,000) relating to guarantees given by the Group to financial institutions on behalf of our purchasers of our property units in the PRC in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2019 (and such guarantees will be released upon the issuance of the Building Ownership Certificate). The guarantees were secured by the Group's pledged bank deposits amounting to HK\$28,483,000 (2018: HK\$33,936,000).

As at 31 December 2019, the Group issued financial guarantees to banks in respect of banking facilities granted to related parties and third parties with an aggregate amount of HK\$722,332,000 (2018: HK\$707,504,000). The amount represents the aggregate amount that could be required to be paid if the guarantees were called upon in entirety.

As at 31 December 2019, the Group had contracted but not provided for commitments for development cost and capital expenditure in amount of HK\$608,661,000 (2018: HK\$1,381,875,000).

EMPLOYEE AND REMUNERATION POLICY

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

As at 31 December 2019, the Group had 169 employees (2018: 267 employees). Total staff costs for the year amounted to HK\$70,416,000 (2018: HK\$77,748,000), which comprised (i) Directors' remuneration of HK\$10,359,000 (2018: HK\$7,692,000) and (ii) staff costs (other than Directors' remuneration) of HK\$60,057,000 (2018: HK\$70,056,000).

PROSPECT

2020 is a year of challenge for the property industry in China. At the beginning of 2020, following the epidemic outbreak of Novel Coronavirus Pneumonia (“**COVID-19**”) has spread across the world and the World Health Organization has also alerted that the COVID-19 might become an epidemic, as a result the resumption of business was delayed for different industries which adversely affected the real economy and led to uncertainties to the global economic growth.

Subsequent to the outbreak of the COVID-19, Chinese government has adopted a series of prevention and control measures and implemented a series of measures to mitigate the negative impact to the real economy. Given the resilience and potential of China's economy in the long run, it is believed that stable growth would remain unchanged.

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 withstand 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.

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 maximizing the long-term value for stakeholders and shareholders.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) comprises all three independent non-executive Directors, namely Mr. Wong Tat Keung (chairman of the Audit Committee), Mr. Wong Hon Kit and Ms. Chan Lai Ping. The Company's annual results for the year have been reviewed by the Audit Committee.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

EVENTS AFTER THE REPORTING PERIOD

- i. On 20 January 2020, the Company was informed of the appointment of receivers over 254,055,888 shares and 162,222,222 shares in the Company respectively held by China Lerthai (a substantial shareholder of the Company) and Mr. Yang Longfei, a director and controlling shareholder of the Company which were charged to Peace Winner Limited and Fantastic Stargaze Limited by way of share charges dated 26 January 2017 and 30 March 2019 (the “**Charged Shares**”). The Charged Shares represent approximately 38.8% of the issued share capital of the Company as at the date of this announcement.
- ii. On 20 January 2020 and 21 January 2020, the Company received the conversion notices from 4 securities holders to exercise the conversion rights attached to the Convertible Securities for the principal amount of HK\$788,000,000 and HK\$582,000,000 respectively. An aggregate of 304,444,443 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued.
- iii. After the outbreak of the COVID-19 (“**COVID-19 Outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. With the extension of Chinese New Year holiday nationwide and travel restriction, the Group’s shopping malls have been temporarily closed after Chinese New Year. As at the date of this announcement, all shopping malls have resumed operations. The Group expects that the COVID-19 Outbreak may bring temporary interruption to the business but will not significantly alter the long term business growth. The Group will pay close attention to the development of the COVID-19 Outbreak and continue to evaluate its impact on the financial position and operating results of the Group.

CORPORATE GOVERNANCE

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

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

Under code provision A.1.1 of the CG Code, which requires that regular board meetings should be held at least four times a year. The Board met regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company as well as on an ad hoc basis, as required by business needs. During the year ended 31 December 2019, the Board did not have any material issues need to discuss and met three times of which two were regular Board meetings and make timely decision on corporate affairs from time to time via written resolutions signed by Directors. The Company will endeavour to hold at least four regular Board meetings, at approximately quarterly intervals, during the year ending 31 December 2020.

Under code provision A.1.8 of the Corporate Governance Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular, timely and effective communications among the directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the directors of the Company can be handled effectively, and the possibility of actual litigation against the directors of the Company is relatively low. The Company will review and consider to make such arrangement as and when it thinks necessary.

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.

Under Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee of every listed issuer must comprise a minimum of three members. After Mr. Wan Ka Ming's resignation on 27 December 2019 and before Ms. Chan Lai Ping's appointment on 27 March 2020, the Board and audit committee of the Company comprised only two independent non-executive Directors.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

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

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

PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the minimum requirement for public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

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

Hong Kong, 19 June 2020

As at the date of this announcement, the executive Directors are Mr. Yang Longfei and Ms. Zhang Yan and the non-executive Directors are Mr. Yang Shao Ming, Mr. Chan Ho Yin and Ms. Chi Lai Man Jocelyn and the independent non-executive Directors are Mr. Wong Hon Kit, Mr. Wong Tat Keung and Ms. Chan Lai Ping.

Website of the Company: <http://www.lerthai.com.hk>