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**REDCO PROPERTIES GROUP LIMITED**

**力高地產集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1622)**

**CHANGE OF AUDITORS  
AND  
CONTINUED SUSPENSION OF TRADING**

This announcement is made by Redco Properties Group Limited (the “**Company**”) pursuant to Rule 13.51(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Reference is made to the announcement of the Company dated 31 March 2023 in relation to, among others, the delay in publication of annual results for the year ended 31 December 2022 (the “**Announcement**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless otherwise specified.

**(1) RESIGNATION OF AUDITOR**

The Board announces that PricewaterhouseCoopers (“**PwC**”) has tendered its resignation as the auditor of the Company with effect from 30 June 2023.

**AUDIT ISSUES IDENTIFIED BY PWC**

In its resignation letter dated 30 June 2023, PwC summarised the reasons for its resignation and significant matters including Audit Issue I, Audit Issue II, Audit Issue III which are related to a listed subsidiary of the Company, Redco Healthy Living Company Limited (“**Redco Healthy**”), and Audit Issue IV (collectively the “**Audit Issues**”) that PwC considered ought to be brought to the attention of the Shareholders and the Company’s creditors. The Audit Issues were summarised as follows:

*(1) Audit Issue I: Fund movements regarding certain cooperation arrangements*

During the year ended 31 December 2022, Redco Healthy entered into a cooperation agreement (the “**Cooperation Agreement**”) with an entity (“**Party**”)

A”) in connection with the potential acquisitions of 17 target companies. Under the Cooperation Agreement, Party A will assist Redco Healthy to complete acquisitions of the target companies in return for a service fee of 3% on the consideration price of such acquisition upon each successful acquisition.

Pursuant to the notification letters received from the sellers of the target companies as identified in the Cooperation Agreement (all of which being authorised by company chops without signature and certain of which were undated), in order to demonstrate that Redco Healthy and its subsidiaries (“**Redco Healthy Group**”) have sufficient resources to proceed with the acquisitions under the Cooperation Agreement, Redco Healthy Group was requested to transfer, and had transferred, RMB100 million to Party A as refundable earnest money (the “**Earnest Money**”). It was noted by PwC that, at the request of Redco Healthy, the Earnest Money was refunded to Redco Healthy Group by a related entity of Party A (together with Party A, called the “**Party A Group**”) through the entering into of a debt assignment agreement between Redco Healthy Group and the Party A Group on 29 June 2022. Subsequently, the Earnest Money was transferred from Redco Healthy Group to the Party A Group on 1 July 2022 and was fully refunded to Redco Healthy Group before 31 December 2022.

On 1 January 2023, Redco Healthy Group entered into a supplemental agreement to the Cooperation Agreement with Party A to extend the cooperation period to 31 December 2023 for the acquisition of 7 target companies identified by Party A. Redco Healthy Group transferred a total of approximately RMB40.6 million to the Party A Group as refundable earnest money. Such amount remained outstanding as at 27 March 2023 and has been fully repaid as at the date of this announcement.

The Cooperation Agreement, the supplemental agreement, the debt assignment agreement and all other arrangements made in relation to the potential acquisitions are referred to as the “**Cooperation Arrangements**”.

(2) *Audit Issue II: Refundable Deposits*

During the year ended 31 December 2022, Redco Healthy Group identified 9 target companies (the “**Target Companies**”) for potential acquisitions through the Cooperation Arrangements. Redco Healthy Group entered into 9 framework agreements in relation to the acquisitions of the Target Companies and paid a total of RMB30.8 million to certain parties as refundable and interest-free deposits. The acquisitions of the Target Companies were subject to due diligence work to be performed by Redco Healthy Group which were delayed as a result of the COVID-19 pandemic in the PRC in 2022. Redco Healthy Group had paid a total of RMB43.7 million to Party A in order to demonstrate that it has sufficient resources to proceed with the acquisitions of the Target Companies.

In addition, in December 2022, Redco Healthy Group received RMB30 million each from 2 entities which are independent third parties (the “**Parties**”) and such funds were used to demonstrate that Redco Healthy Group will have sufficient financial resources to pursue potential business ventures. Upon receiving the funds from the Parties, Redco Healthy Group transferred such funds back to the Parties on the same date.

*(3) Audit Issue III: Fund movements between Redco Healthy Group and the Group*

During the year ended 31 December 2022, there were numerous fund movements between Redco Healthy Group and the Group ranging from RMB200 to RMB 61.5 million. As at 31 December 2022, the amount due from the Group to Redco Healthy Group was approximately RMB73.8 million, which included the deposit of RMB73 million for the grant of exclusive carpark sales agency rights by the Group to Redco Healthy Group under the arrangement as disclosed in Redco Healthy’s announcement of 25 November 2022 and circular of 14 December 2022.

It was noted by PwC that certain receipts from and payments to Redco Healthy Group were of identical amount and occurred in a short period of time, which ranged from approximately RMB10.2 million to RMB61.5 million.

In relation to the Audit Issues I-III, PwC had requested Redco Healthy to form an independent committee (“**Redco Healthy’s Independent Committee**”) which only comprises independent directors of Redco Healthy to conduct an independent inquiry (“**Redco Healthy’s Independent Inquiry**”) on the Audit Issues I-III and to provide, among others, (i) a full explanation of the commercial substance and business rationales of the aforesaid fund movements and balances; (ii) the background of the parties involved in the transactions and their relationship with Redco Healthy Group; and (iii) all related supporting documents. PwC also requested the Group to assess the potential impact of the aforesaid matters to the consolidated financial statements of the Group and provide explanations as to whether any adjustments to the consolidated financial statements of the Group are needed.

*(4) Audit Issue IV: Going concern assessment of the Group*

Based on the management account of the Group, the Group incurred a gross loss, net loss and operating cash outflow for the year ended 31 December 2022. As at 31 December 2022, the Group’s current borrowings exceeded the cash and cash equivalents it held. Moreover, there were various defaults, cross-default and non-compliance with certain undertakings in relation to the Group’s borrowings during the year ended 31 December 2022 and as at 31 December 2022.

PwC had requested the Company to provide information and documents for the assessment of the going concern basis in relation to the preparation of the financial statements of the Group for the year ended 31 December 2022. Such information including, among others, a detailed and complete list of the Group's indebtedness as at 31 December 2022 (including the status of defaults and the Group's ability of complying with relevant terms or covenants both before and after 31 December 2022) and detailed and complete lists of guarantees and assets pledged as collateral or securities.

## **ACTIONS TAKEN BY REDCO HEALTHY GROUP AND THE GROUP**

In view of the Audit Issues I-III, the board of directors of Redco Healthy ("**Redco Healthy Board**") has formed Redco Healthy's Independent Committee which only comprises independent directors of Redco Healthy to conduct Redco Healthy's Independent Inquiry on the Audit Issues I-III. Redco Healthy's Independent Committee has engaged an independent professional adviser (the "**Independent Professional Adviser**") to assist with Redco Healthy's Independent Inquiry. While Redco Healthy's Independent Inquiry is still ongoing, the Company has been working closely with PwC with an aim to reaching an agreement on an estimated audit timetable in completing the audit of the Company's financial statements for the year ended 31 December 2022 (the "**2022 Audit**").

However, given that Redco Healthy's Independent Inquiry is still ongoing and such findings are yet available to PwC, which the Board understood that PwC would require all information and satisfactory explanation in respect of the Audit Issues in order to assess the implication of the Audit Issues on the financial statements of the Company for the year ended 31 December 2022 and determine whether any additional audit procedures are further required. As such, PwC was unable to commit a definite timetable on the completion of the 2022 Audit.

The Board is of the view that completion of the 2022 Audit as soon as possible is of utmost importance to the Group. Given PwC was unable to estimate an audit timetable for the completion of the 2022 Audit, the Board resolved to recommend PwC to resign as the auditor of the Company to enable the Company to engage another auditor to complete the 2022 Audit as soon as possible.

## **RESIGNATION OF PWC**

In view of the Audit Issues I-III, PwC noted that Redco Healthy, at the request of PwC, has formed the Redco Healthy's Independent Committee to conduct the Redco Healthy's Independent Inquiry on the Audit Issues I-III, with the assistance of the Independent Professional Adviser. PwC also requested to assess the competence, capabilities and objectivity of the Independent Professional Adviser and be satisfied with the adequacy of the scope and procedures of Redco Healthy's Independent

Inquiry. Other than certain information provided by the Group regarding the Audit Issue IV, the Group and Redco Healthy have not completed the provision of the requested information and explanation to PwC up to the date of PwC's resignation.

The Audit Committee and the Board informed PwC on 6 June 2023 that the Company would like PwC to consider resigning from the role as auditor of the Company in order to expedite the audit process as PwC were not able to commit to a timetable to complete the 2022 Audit. While respecting the view of the Company, PwC considered the recommendation for PwC to consider resigning made PwC decided not to continue to do the 2022 Audit though it had made its every effort to fulfill its role as the auditor of the Company pursuant to the appointment of PwC at the Company's last annual general meeting held on 24 June 2022.

Given that Redco Healthy's Independent Inquiry is still ongoing and such findings are yet available to PwC, PwC considered that without all information and satisfactory explanations in respect of the Audit Issues nor obtain the relevant information about the scope and progress of Redco Healthy's Independent Inquiry, it was unable to assess the implication of the Audit Issues and determine whether any additional audit procedures are further required, and thus PwC was unable to commit a definite timetable on the completion of the 2022 Audit.

Given the status and reasons as explained above and the recommendation of resignation as auditor by the Board, PwC agreed to resign as the auditor of the Company with effect from 30 June 2023.

Save as disclosed in this announcement, the Board is not aware of any other matter relevant to the resignation of PwC that needs to be brought to the attention of the Shareholders.

The Board would like to take this opportunity to express its gratitude to PwC for its professional services in the past.

## **(2) PROPOSED APPOINTMENT OF AUDITOR**

The Board further announces that, with the recommendation from the audit committee of the Company, the Board has resolved to appoint Yongtuo Fuson CPA Limited ("**Yongtuo Fuson**") as the new auditor of the Company to fill the casual vacancy following the resignation of PwC and to hold office until the conclusion of the next annual general meeting of the Company. The appointment of Yongtuo Fuson is subject to the completion of client acceptance procedures which are now being conducted by Yongtuo Fuson.

Based on the review of the information and documents provided to Yongtuo Fuson by the Board, Redco Healthy Board, Redco Healthy's Independent Committee, Yongtuo Fuson estimated that it would take about 3 months to complete the 2022 Audit. Subject to completion of Redco Healthy's Independent Inquiry which is currently estimated to be around end of August 2023, the 2022 Annual Results will be published by end of September 2023.

The Board would like to take this opportunity to welcome Yongtuo Fuson as the auditor of the Company.

### **(3) CONTINUED SUSPENSION OF TRADING**

Trading in the shares of the Company on the Stock Exchange has been suspended from 1:00 p.m. on 29 March 2023 and will remain suspended until the Company fulfils the resumption guidance as given by the Stock Exchange.

By order of the Board  
**Redco Properties Group Limited**  
**Wong Yeuk Hung**  
*Chairman*

Hong Kong, 30 June 2023

*As at the date of this announcement, the executive directors of the Company are Mr. Wong Yeuk Hung JP, Mr. Huang Ruoqing and Mr. Tang Chengyong; and the independent non-executive directors of the Company are Mr. Chau On Ta Yuen SBS,BBS, Dr. Tam Kam Kau GBS, SBS, JP and Mr. Yip Tai Him.*