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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)**

### **KEY FINDINGS OF THE INDEPENDENT INQUIRY**

#### **INTRODUCTION**

References are made to (i) the announcement of Redco Properties Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2023 in relation to, among others, the delay in the publication of the audited annual results of the Group for the year ended 31 December 2022; (ii) the announcement of the Company dated 31 May 2023 (the “**31 May 2023 Announcement**”) setting out the guidance prescribed for the resumption of trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Resumption Guidance**”); (iii) the announcements of the Company dated 30 June 2023 and 25 July 2023 in relation to the change of auditor of the Company; and (iv) the quarterly update announcements of the Company dated 30 June 2023, 28 September 2023 and 29 December 2023 in relation to the Company’s resumption progress ((i) to (iv) collectively, the “**Announcements**”). Unless otherwise defined herein, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

As set out in the 31 May 2023 Announcement, one of the conditions under the Resumption Guidance is that the Company shall conduct an appropriate independent forensic investigation into Audit Issues I-III, assess their impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions. The independent inquiry on Audit Issues I-III has been completed.

#### **THE REDCO HEALTHY’S INDEPENDENT INQUIRY**

As disclosed in the Company’s announcement dated 30 June 2023, the Redco Healthy Board formed the Redco Healthy’s Independent Committee comprising only independent directors of Redco Healthy on 6 April 2023 to conduct the Redco Healthy’s Independent Inquiry on Audit Issues I-III. The Redco Healthy’s Independent Committee has engaged the Independent Professional Adviser to assist

with the Redco Health's Independent Inquiry and a report of its findings dated 18 January 2024 (the "**Redco Healthy's Independent Inquiry Report**") was provided to the Redco Healthy's Independent Committee, and a copy was made available to the Board and the audit committee of the Board (the "**Audit Committee**").

Upon a review of the Redco Healthy's Independent Inquiry Report and a discussion with the Redco Healthy's Independent Committee, the Audit Committee takes the view that Audit Issues I-III have been properly addressed in the Redco Healthy's Independent Inquiry Report. The Audit Committee agrees, and the Board concurs, with all the recommendations made by the Independent Professional Adviser in the Redco Healthy's Independent Inquiry Report and the Redco Healthy's Independent Committee. Please refer to the announcement of Redco Healthy dated 31 January 2024 for further details.

## **THE REDCO PROPERTIES' INDEPENDENT INQUIRY**

As Audit Issue I and Audit Issue II relate to Redco Healthy Group only and the issues have been properly addressed in the Redco Healthy's Independent Inquiry Report, the Audit Committee takes the view, and the Board concurs, that no further independent inquiry is required with respect to Audit Issue I and Audit Issue II from the Company's perspective.

Considering that Audit Issue III relates to the fund movements between Redco Healthy Group and the Group during the year ended 31 December 2022, the Audit Committee has engaged the Independent Professional Adviser to assist it to conduct an independent inquiry on Audit Issue III from the Group's perspective (the "**Redco Properties' Independent Inquiry**"). A report of its findings dated 26 January 2024 (the "**Redco Properties' Independent Inquiry Report**") was provided to the Audit Committee.

## **SUMMARY OF KEY FINDINGS OF THE REDCO PROPERTIES' INDEPENDENT INQUIRY AND THE BOARD'S VIEW**

A summary of the key findings of the Redco Properties' Independent Inquiry with respect to Audit Issue III and the Board's view is set out below.

### ***Key findings***

As at 31 December 2022, the amount due from the Group to Redco Healthy Group amounted to approximately RMB73.84 million.

During the year ended 31 December 2022, there were fund movements between the Group and Redco Healthy Group ranging from RMB200 to RMB61.5 million. During this period, the net fund movement from Redco Healthy Group to the Group amounted to approximately RMB107.5 million, primarily comprising (i) settlement of non-trade accounts payable by Redco Healthy Group to the Group; (ii) earnest money for the Tianjin Project (as defined in the section headed “(ii) Earnest money for property project” below); (iii) the Carpark Sales Refundable Deposits (as defined in the section headed “(iii) Carpark Sales Refundable Deposits” below); and (iv) the Bridging Loans (as defined in the section headed “(iv) Bridging loans between the Group and Redco Healthy Group” below). The details of these fund movements are set forth below.

*(i) Settlement of non-trade accounts payable by Redco Healthy Group*

Redco Healthy Group had fully settled the non-trade accounts payable owed to the Group of approximately RMB35 million prior to its listing on the Stock Exchange in March 2022. Such amount primarily comprised advance payments made by the Group in respect of the acquisition of headquarters and car parking spaces by Redco Healthy Group in Hong Kong of approximately HK\$20 million and for settlement of part of the listing expenses of Redco Healthy.

*The Board’s view*

Settlement of non-trade accounts payable prior to Redco Healthy’s listing on the Stock Exchange is consistent with Redco Healthy’s intention to settle all non-trade accounts payable owed to the Group before listing as stated in its prospectus dated 22 March 2022.

*(ii) Earnest money for property project*

Since the fourth quarter of 2021, the Group has been looking for potential investors for the Group’s property project in Tianjin (the “**Tianjin Project**”). Redco Healthy Group introduced two independent third parties (“**Potential Investor A**” and “**Potential Investor B**”, together the “**Potential Investors**”) to the Group as potential investors for the Tianjin Project in March 2022 and May 2022, respectively. To secure the exclusive right to negotiate on the terms of an investment in the Tianjin Project, the Group requested Redco Healthy Group to procure each of the Potential Investors to pay the required earnest money.

The Group received from Redco Healthy Group (i) a total amount of approximately RMB61.48 million between March and May 2022 as earnest money to secure the Tianjin Project for Potential Investor A; and (ii) the same amount as earnest money to secure the Tianjin Project in July 2022 for Potential Investor B.

The earnest money paid on behalf of Potential Investor A was fully refunded to Redco Healthy Group in June 2022 upon notification by Redco Healthy of the termination of the strategic cooperation agreement between Redco Healthy Group and Potential Investor A. The earnest money paid on behalf of Potential Investor B of approximately RMB43.97 million was refunded to Redco Healthy Group in November 2022 and December 2022 upon notification by Redco Healthy of the termination of the strategic cooperation agreement between Redco Healthy Group and Potential Investor B. The balance of approximately RMB17.51 million was set off against the accounts receivable of the Group owing from Redco Healthy Group as to an amount of approximately RMB9.38 million in relation to the Bridging Loans (as defined in the section headed “(iv) *Bridging loans between the Group and Redco Healthy Group*” below) and an amount of approximately RMB8.13 million in relation to the Carpark Sales Agency Services (as defined in the section headed “(iii) *Carpark Sales Refundable Deposits*” below).

### ***The Board’s view***

Payment of the earnest money in respect of the Tianjin Project was consistent with the Group’s internal policy and the industry practice for similar property investment projects. According to the Group’s internal policy, the Group will only enter into framework agreements with counterparties when agreement on all commercial terms and conditions have been reached, and a potential investor shall be entitled to an exclusive right to negotiate on the investment terms upon payment of earnest money to the Group. The Board takes the view that the fund movements considered had commercial substance and business rationale.

The Board notes that the earnest money in respect of the Tianjin Project should have been paid by Potential Investor A and Potential Investor B respectively to the Group instead of by Redco Healthy Group. Due to the miscommunication between different departments within the Group, the relevant personnels only confirmed the receipt of earnest money in respect of the Tianjin Project, and did not ascertain or clarify as to why the payor was Redco Healthy Group. In this regard, the Board acknowledges that the Group should enhance its internal guidelines in respect of inter-departmental communications. For details, please refer to the section headed “Recommendations by the Independent Professional Adviser” below.

### ***(iii) Carpark Sales Refundable Deposits***

As disclosed in Redco Healthy’s announcements dated 25 November 2022 and 30 December 2022 and Redco Healthy’s circular dated 14 December 2022, the Group and Redco Healthy Group entered into a supplemental carpark sales agency services framework agreement (the “**Carpark Supplemental Agreement**”). Under the Carpark Supplemental Agreement, the Group shall engage Redco Healthy Group to provide carpark sales agency services (the “**Carpark Sales Agency Services**”) on an exclusive basis and Redco Healthy

Group shall pay the Group certain refundable deposits (the “**Carpark Sales Refundable Deposits**”) in exchange for such exclusive right. The annual cap for the Carpark Sales Refundable Deposits for the year ended 31 December 2022 was RMB73 million.

The Carpark Sales Refundable Deposits were settled by Redco Healthy Group on 30 December 2022 as to approximately RMB64.87 million by cash. An amount of approximately RMB8.13 million was set off against the earnest money advanced by Redco Healthy Group to the Group for Potential Investor B as set out above.

*The Board’s view*

The payment of deposits to secure the exclusive right to provide carpark sales agency services was made in accordance with the Carpark Supplemental Agreement and was consistent with the industry practice. The Board takes the view that the fund movements considered had commercial substance and business rationale.

*(iv) Bridging loans between the Group and Redco Healthy Group*

Between September and December 2022, the Group extended short-term bridging loans in the total amount of approximately RMB63.95 million and HK\$39 million to Redco Healthy Group (the “**Bridging Loans**”). The purpose of the Bridging Loans was to enable Redco Healthy Group to provide fund proofs to certain counterparties with respect to certain potential projects. The Bridging Loans were fully repaid by Redco Healthy Group without interest. An amount of HK\$10.5 million was set off against the earnest money in the amount of RMB9.38 million advanced by Redco Healthy Group to the Group for Potential Investor B as set out above.

*The Board’s view*

It is a market practice for project owners to request a potential investor for fund proof in relation to a potential participation in their projects. Given Redco Healthy is a subsidiary of the Group and that the term of the Bridging Loans was short, the Board considered that the relevant risks of providing the Bridging Loans to Redco Healthy Group was relatively low. The Board considers that the provision of the Bridging Loans to Redco Healthy Group is in the interest of the Company and its shareholders as a whole, given that the Bridging Loans could help Redco Healthy Group compete for potential investment projects which, if materialized may bring in additional revenue and profit to the Group. The Board takes the view that the fund movements considered had commercial substance and business rationale.

## **Recommendations by the Independent Professional Adviser**

The Independent Professional Adviser had made the following recommendations in the Redco Properties' Independent Inquiry Report:

(i) Retention of proper written records

The Independent Professional Adviser noted that formal records in relation to the negotiations conducted with the Potential Investors and Redco Healthy Group regarding payment of earnest monies were not properly kept. As the retention of proper written records could provide a reliable paper trail to support the decision-making process of the relevant transactions, it was recommended that the Company should improve the internal procedures in connection with any potential acquisitions or projects of the Group and keep proper documentation of all material discussions and all relevant work done.

(ii) Other recommendations

The Independent Professional Adviser recommended the Group to establish clear guidelines and provide trainings to all relevant personnels of the finance department and other operational departments of the Group, so that they would understand all material terms of the transactions including the transaction date, nature of transaction, payor and payee of money involved and take follow-up actions to verify such transactions where appropriate.

The Independent Professional Adviser also recommended the Group to review and strengthen its exchange rate policy.

## **THE AUDIT COMMITTEE'S VIEW**

The Audit Committee has reviewed and considered the Redco Properties' Independent Inquiry Report and noted the limitations (such as lack of formal documents and records) as described in the Redco Properties' Independent Inquiry Report. In the circumstances described in the Redco Properties' Independent Inquiry Report and after discussion with the Independent Professional Adviser, the Audit Committee considers that the Independent Professional Adviser has performed appropriate and reasonable procedures in respect of the Redco Properties' Independent Inquiry.

The Audit Committee agrees with the findings and the recommendations made by the Independent Professional Adviser, and has recommended the Board to enhance the Group's internal controls and procedures in accordance with the recommendations of the Independent Professional Adviser.

## **OPINION OF THE BOARD**

The Board has reviewed the findings of the Redco Properties' Independent Inquiry Report and the Redco Healthy's Independent Inquiry Report and concurs with the view of the Audit Committee set out above. The Board accepts the Audit Committee's view to strengthen the Group's internal controls and procedures as suggested by the Independent Professional Adviser, and the Board will take appropriate remedial actions in this connection and upon completion of the Internal Control Review (as defined in the section headed "INTERNAL CONTROL REVIEW" below) based on the findings of such review and recommendations of the internal control consultant.

In light that (i) all the deposits and earnest monies involved under Audit Issues I-III in respect of potential transactions that were subsequently terminated or not further pursued by the Group had been fully refunded to Redco Healthy Group; (ii) all the fund movements considered under Audit Issue III were between the Group and the Redco Healthy Group which would be fully eliminated for the purpose of the preparation of the consolidated financial statement of the Group; and (iii) the Group did not incur any loss as a result of the fund movements and/or terminated transactions, the Board takes the view that the fund movements considered under Audit Issues I-III did not have any material adverse impact on the business operation and financial position of the Group.

## **INTERNAL CONTROL REVIEW**

Following the issuance of the Redco Properties' Independent Inquiry Report, the internal control consultant engaged by the Company had also commenced a review of the Group's internal control system to confirm that the Group has in place adequate internal controls and procedures to meet its obligations under the Listing Rules (the "**Internal Control Review**"). The Company expects to publish the results of the Internal Control Review by the end of February 2024.

## **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.

The Company is currently working with Yongtuo Fuson in relation to the 2022 Audit and the 2023 Interim Results and the internal control consultant in relation to the Internal Control Review and taking measures to improve its internal controls and procedures as recommended by the Independent Professional Adviser. The Company will make further announcement(s) to further update the shareholders of the Company and potential investors as and when appropriate.

**Shareholders and potential investors should exercise caution when dealing in the securities of the Company.**

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

Hong Kong, 31 January 2024

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