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Ever Reach Group (Holdings) Company Limited

恒達集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3616)

RESIGNATION OF AUDITOR; AND CONTINUED SUSPENSION OF TRADING

This announcement is made by Ever Reach Group (Holdings) Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a) and 13.51(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 28 March 2024, 12 April 2024, 14 May 2024 and 28 June 2024 in relation to, among others, the delay in publication of the 2023 Annual Results (collectively, the “**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

RESIGNATION OF AUDITOR

The board of directors (the “**Board**”) of the Company announces that PricewaterhouseCoopers (“**PwC**”) has resigned as the auditor of the Company with effect from 9 August 2024.

With reference to PwC’s resignation letter dated 9 August 2024 (the “**Resignation Letter**”), the reasons for the resignation of PwC as the auditor of the Company, and the issues they believe should be brought to the attention of the shareholders of the Company (the “**Relevant Matters**”) are summarized as follows:

1. Issue 1: Real Estate Development Loans and prepayments made to suppliers

In 2023 and January 2024, the Group has obtained real estate development loans from certain banks (the “**Banks**”) to fund its real estate projects (the “**Loans**”). The respective loan agreements specified that the Loans were to be used exclusively for real estate projects.

As required by the Banks, the Group submitted certain documents, including drawdown applications, construction contracts, documents in relation to construction progress to draw down the Loans for the purpose of paying construction fees. Upon obtaining the Banks’ approval, the Group has made payment to supplier A (“**Supplier A**”) using the Loans.

As of 31 December 2023, the balance of prepayment made by the Group to Supplier A using the Loans and the Group’s own funds amounted to approximately RMB150.7 million and RMB32.1 million, respectively.

Further details in respect of the Loans are set out below:

(a) Real estate development loan and payment to supplier A in relation to project A (Phase 1, Section 1)

In 2023, the Group drew down a real estate development loan in the amount of approximately RMB110.9 million (“**Section 1 Funds**”) from one of the Banks for the purpose of Project A (phase 1, section 1). The Section 1 Funds were then transferred to Supplier A.

In the drawdown application documents submitted by the Group, Supplier A was stated as the main contractor of Project A (phase 1, section 1). However, another supplier (“**Supplier B**”) was stated as the main contractor in the construction permit registered with the local authority.

The Group and Supplier B entered into a construction contract in July 2023. The construction project was carried out by Supplier B instead of Supplier A. During 2023, the Group had paid construction fees to Supplier B using the Group's own funds. Since Supplier A did not provide any construction services for Project A (phase 1, section 1), there is an inconsistency between the main contractor stated in the drawdown application documents submitted to the bank and the actual main contractor who performed the work, which was Supplier B.

Furthermore, at the time when the Group applied to the bank for the drawdown of the Section 1 Funds and as of 31 December 2023, Supplier B had yet to achieve the construction progress for Project A (Phase 1 Section 1) as stated in the relevant drawdown application documents.

As of 31 December 2023, the remaining balance of the loan granted for Project A (Phase 1, Section 1) was RMB104.5 million and the Group had made prepayment in the amount of approximately RMB110.9 million to Supplier A, and this amount was booked in the balance sheet of the Group under "trade and other receivables and prepayments".

(b) *Real estate development loan and payment to supplier A in relation to Project A (Phase 1, Section 2)*

In January 2024, the Group drew down a real estate development loan in the amount of RMB106.0 million from one of the Banks for the purpose of Project A (Phase 1, Section 2) ("**Section 2 Constructions**"), which was then transferred to Supplier A, the main contractor of Section 2 Constructions. Such amount was booked as "trade and other receivables and prepayments" on the Group's balance sheet.

It was noted that the progress of Section 2 Constructions stated in the drawdown application documents submitted to the bank was inconsistent with the actual construction progress at the material time.

(c) *Real estate development loan and payment to supplier A in relation to Project B (Phase 2)*

In April and July 2023, the Group obtained a real estate development loan from one of the Banks in the amount of RMB69.6 million for the purpose of Project B (Phase 2) ("**Phase 2 Loan**"). The entire amount of the Phase 2 Loan was transferred to Supplier A, the main contractor of Project B (Phase 2). It was noted that the construction progress declared by the Group at the time of application for drawdown was inconsistent with the actual construction progress.

As of November 2023, the Group had recovered RMB27.1 million from Supplier A and repaid RMB23.2 million to the relevant bank.

As of 31 December 2023, the outstanding balance of Phase 2 Loan was RMB46.4 million. The net amount paid by the Group to Supplier A was RMB42.5 million, which has exceeded the construction fee corresponding to the actual project progress as of 31 December 2023. The excess amount of approximately RMB39.9 million was booked as “trade and other receivables and prepayments” on the Group’s balance sheet.

As of 31 December 2023 and 31 January 2024, the amount funded by real estate development loans that are retained by Supplier A in respect of Project A (Phase 1, Section 1), Section 2 Constructions and Project B (Phase 2) mentioned above were RMB150.7 million and RMB251.7 million, respectively.

(d) Real estate development loan and payment to supplier in relation to project B (Phase 1)

In 2022, the Group obtained a real estate development loan in the amount of RMB155.0 million from one of the Banks for Project B (Phase 1) (the “**Phase 1 Loan**”). The entire amount of Phase 1 Loan was transferred to Supplier A, which is the main contractor of Project B (Phase 1).

However, due to the impact of the pandemic in 2022, the actual construction progress of the project was inconsistent with the project progress declared at the time of the loan drawdown. In this connection, the Group has obtained a legal opinion confirming that the discrepancy between the construction progress declared and the actual progress does not constitute a breach of the relevant terms of the Phase 1 Loan.

In 2023, the project progress has reached the level that was originally declared at the time of the loan drawdown. It is noted that as of 31 December 2023, the outstanding balance of the Phase 1 Loan amounted to RMB61.0 million. The total amount paid by the Group to Supplier A did not exceed the payable amount corresponding to the actual construction work that had been completed.

2. Issue 2: Withdrawal, actual usage and bank balance of pre-sale proceeds under supervision

It was noted that during 2023, there were instances where the Group utilized pre-sale proceeds in supervised accounts to make payments to suppliers, who then refunded the payments to the Group’s non-supervised bank accounts shortly thereafter.

As indicated in relevant records provided by the Company, during 2023, 13 project companies of the Group had used pre-sale proceeds in supervised accounts to make payments to various suppliers in the total amount of RMB977.19 million, and that a total of RMB932.34 million was refunded by those suppliers to the Group's non-supervised bank accounts within a short period of time.

3. Issue 3: Loan collateral

In May 2023, the Group borrowed RMB50.0 million from a bank, with a term of 24 months. The collateral for the loan comprised 146 sets of properties, which the Group had already sold and recognized as revenue in previous years. In December 2023, the Group repaid the loan and the collateral was released.

In July 2023, the Group borrowed RMB45.0 million from a bank, for the purpose of funding a construction project. The collateral for this loan included 93 sets of properties that the Group had already sold and recognized as revenue in previous years. As of the end of 2023, the outstanding balance of the loan was RMB30.0 million. In March 2024, the Group replaced the aforesaid collateral with its own properties.

4. Issue 4: Certain prepayments made to suppliers

As of 31 December 2023, the outstanding balance of the prepayment made by the Group to supplier C ("**Supplier C**") was RMB15.0 million (such prepayment was made in 2022), and the outstanding balance of prepayment made by the Group to another supplier ("**Supplier D**") was RMB20.0 million. Both of these prepayments were funded by bank loan obtained by the Group.

As confirmed by the Group, other than the purchase of steel materials in the amount of RMB1.24 million from Supplier C in March 2023, there were no other transactions with Supplier C or Supplier D during 2023 and up to 24 July 2024.

5. Issue 5: Assessment of Going Concern Assumption in 2023 Financial Statements

As of 31 December 2023, the Group had a bank deposit balance of RMB440.0 million, which included cash and cash equivalents in the amount of approximately RMB280.0 million. Such balance, as well as the proceeds from sale in 2023 were significantly lower than the initial forecast for 2023. Further, the net cash outflow from operating activities in 2023 was significantly higher than the net cash outflow in 2022, which was considerably lower than the forecasted net cash inflow from operating activities for 2023.

The above financial indicators may cast significant doubt on the Group's ability to continue as a going concern.

PwC has been communicating with the Company regarding the Relevant Matters. Further, PwC has reported to the Company's management and audit committee on the impact of the Relevant Matters on the Group's financial statements and audit work and requested the Company to provide further information in respect of the Relevant Matters. As of the date of the Resignation Letter, the Group had not provided all the required information to PwC.

As disclosed in the Announcements, the Board had resolved to establish the Special Investigation Committee comprising all independent non-executive Directors to undertake investigation on matters pertaining to the Prepayments Issue. In addition, the Company has engaged an independent third party professional institute to conduct an independent investigation into the Prepayments Issue.

On 26 June 2024, PwC held a meeting with the Company's management, the Special Investigation Committee, and the third party professional institute to understand the background, proposed scope and timeline, and investigation procedures of the third party professional institute. During the meeting, the third party professional institute informed PwC that it has not yet commenced the investigation into the Prepayments Issue.

As of the date of the Resignation Letter, neither the Company's management nor the Special Investigation Committee have provided PwC with any information on the progress, findings, investigation report, or results of the investigation into the Prepayment Issue.

On 19 July 2024, the executive Directors sent a letter to PwC, which required PwC to prepare a work schedule for the audit of financial statements of the Group for the year ended 31 December 2023 (the "**Audit Work**"), based on the then audit progress.

Given that the scope and procedures of the additional audit work required by PwC to address issue 1, issue 2 and issue 4 depend on the findings of the Special Investigation Committee, and that PwC had yet to obtain sufficient information in relation to the Relevant Matters, PwC was unable to determine the scope and procedures of the audit work to address the Relevant Matters. Further, it was difficult for PwC to reasonably estimate the time required to complete the Audit Work and to draw up a timetable for the Audit Work.

Given that PwC was unable to give an estimation for the time required for completion of the Audit Work, the Company was unable to agree with PwC on the timetable for completing the Audit Work, and the Board is of the view that completion of the audit as soon as practicable is of utmost importance to the Group, the Board suggested PwC to consider to resign as the Company's auditor so that the Company might engage another external auditor to complete the audit as soon as practicable. Subsequently, PwC agreed to resign as the auditor of the Company with effect from 9 August 2024.

Save as disclosed above, the Board is not aware of any matter in connection with PwC's resignation that needs to be brought to the attention of the Shareholders of the Company.

The Board would like to take this opportunity to express its sincere gratitude to PwC for its professional services rendered to the Group during the past years.

As of the date of this announcement, the independent investigation is still on-going. Further, the Company is currently in the process of identifying a suitable replacement to fill the casual vacancy following the resignation of PwC. Further announcement(s) relating to the appointment of new auditor will be made by the Company as and when appropriate in accordance with the Listing Rules.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 April 2024 pending the publication of the 2023 Annual Results and is currently expected to remain suspended until the Company fulfills the resumption guidance for the Company from the Stock Exchange dated 25 June 2024.

The Company will make further announcement(s) to keep its Shareholders and potential investors informed of any progress on the fulfilment of the Resumption Guidance as and when appropriate.

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

By Order of the Board
Ever Reach Group (Holdings) Company Limited
LI Xiaobing
Chairman and Executive Director

Hong Kong, 12 August 2024

As at the date of this announcement, the executive Directors are Mr. Li Xiaobing, Mr. Wang Zhenfeng, Ms. Qi Chunfeng and Mr. Wang Quan; and the independent non-executive Directors are Mr. Lee Kwok Lun, Mr. Wei Jian and Mr. Fang Cheng.