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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)

**FURTHER KEY FINDINGS OF THE INDEPENDENT INQUIRY
AND
RESULTS OF THE INTERNAL CONTROL REVIEW**

This announcement is made by Redco Properties Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

References are made to (i) the announcements of the Company dated 31 March 2023, 31 August 2023 and 28 March 2024 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, the unaudited interim results of the Group for the six months ended 30 June 2023, and the audited annual results of the Group for the year ended 31 December 2023, respectively; (ii) the announcements of the Company dated 31 May 2023 and 3 May 2024 setting out the resumption guidance and additional resumption guidance for the resumption of trading in the shares of the Company on the Stock Exchange; (iii) the announcements of the Company dated 30 June 2023 and 25 July 2023 in relation to the change of auditors of the Company; (iv) the announcements of the audited annual results of the Group for the year ended 31 December 2022, the unaudited interim results of the Group for the six months ended 30 June 2023 and the audited annual results of the Group for the year ended 31 December 2023 all dated 24 April 2024, and the announcement of the unaudited interim results of the Group for the six months ended 30 June 2024 dated 28 August 2024; (v) the quarterly update announcements of the Company dated 30 June 2023, 28 September 2023, 29 December 2023, 28 March 2024, 28 June 2024 and 27 September 2024 in relation to

the Company's resumption progress; and (vi) the announcement of the Company dated 31 January 2024 in relation to the key findings of the independent inquiry conducted by the independent professional adviser ((i) to (vi) collectively, the "**Announcements**"). Unless otherwise defined herein, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

FURTHER KEY FINDINGS OF THE INDEPENDENT INQUIRY

The Redco Healthy's Independent Inquiry on Audit Issues I, II and III has been completed. The Independent Professional Adviser issued the Redco Healthy's Independent Inquiry Report on 18 January 2024, and further issued a supplemental independent inquiry report (the "**Redco Healthy's Supplemental Independent Inquiry Report**") on 17 September 2024 with respect to the additional work performed for the Redco Healthy's Independent Inquiry in relation to Audit Issues I, II and III to address the Stock Exchange's queries and observations. The key findings on the Redco Healthy's Independent Inquiry have been disclosed in the announcements of Redco Healthy dated 31 January 2024 and 24 October 2024.

The Redco Properties' Independent Inquiry on Audit Issues I, II and III has also been completed. The Independent Professional Adviser issued the Redco Properties' Independent Inquiry Report on 25 January 2024, and further issued a supplemental independent inquiry report (the "**Redco Properties' Supplemental Independent Inquiry Report**") on 25 September 2024 with respect to the additional work performed for the Redco Properties' Independent Inquiry in relation to Audit Issues I, II and III to address the Stock Exchange's queries and observations. The key findings of the Redco Properties' Independent Inquiry on Audit Issue III from the Company's perspective were disclosed in the announcement of the Company dated 31 January 2024 (the "**January Announcement**").

With respect to the Redco Properties' Supplemental Independent Inquiry Report, the Independent Professional Adviser had reviewed, among other things, the relevant agreements, internal policies and records of the Group, and the confirmations received from the relevant employees of the Company and all the executive Directors, and concluded that there are no new material findings with respect to Audit Issues I and II from the Company's perspective. The Independent Professional Adviser noted that Mr. Tang Chengyong ("**Mr. Tang**"), an executive Director, was involved in the approval and decision-making process for the transactions and fund movements under Audit Issues I and II in his capacity as a director of Redco Healthy only (i.e. it was not related to his capacity as a Director of the Company), and no other Director was involved in Audit Issues I and II. In this regard, the Audit Committee takes the view, and the Board concurs, that Audit Issues I and II primarily relate to Redco Healthy Group and the issues have been properly addressed by way of the Redco Healthy's Independent Inquiry.

With respect to the earnest money paid by Redco Healthy on behalf of the Potential Investors in relation to the Tianjin Project, as disclosed under the section headed "**SUMMARY OF KEY FINDINGS OF THE REDCO PROPERTIES' INDEPENDENT**

INQUIRY AND THE BOARD'S VIEW - Key findings - (ii) Earnest money for property project - The Board's view" in the January Announcement, the Board explained that it was consistent with the Group's internal policy and industry practice to request earnest monies from potential investors in order to secure an exclusive right to further negotiate with the Group for possible investment in the Group's property project(s). Apart from the Potential Investors, the Company had also negotiated with other potential investors in respect of their potential investment in the Tianjin Project, and the Company had requested those potential investors to provide earnest monies to the Group if they were interested in the Tianjin Project. Given that Redco Healthy paid the earnest monies to the Company on behalf of the Potential Investors earlier than the other potential investors, the Group granted the Potential Investors the exclusive right to negotiate on the terms of the investment in the Tianjin Project. This is consistent with the practice adopted for other property projects of the Group and was in line with the market practice that project owners would request a potential investor for earnest money in relation to a potential participation in their projects. In this connection, the Independent Professional Adviser had sent confirmations to various potential investors of the Tianjin Project who had confirmed the above practice.

Based on the information provided by the Company, Redco Healthy, the Potential Investors, and certain potential investors of the Tianjin Project, and having considered that Redco Healthy could secure the investment opportunity for the Potential Investors with a view to securing the operation and management right of the Tianjin Project for itself by paying the earnest money to the Company on their behalf, the Independent Professional Adviser maintained its view that the payment of the earnest money by Redco Healthy on behalf of the Potential Investors had business rationale and commercial substance.

In the course of conducting the Redco Properties' Independent Inquiry, the Independent Professional Adviser noted that in March 2022, the Company obtained a syndicated loan of HK\$955,500,000 (the "**Syndicated Loan**"), among which HK\$132,600,000 (the "**Funds**") was contributed by Party A. The Company explained that at the material time, due to the downward trend of the PRC property market and increasingly tight liquidity of the PRC property developers, there was difficulty in meeting the target commitment amount for the Syndicated Loan. At the material time, Party A became aware of the Company's re-financing needs, and expressed an interest to utilize its then available funds to participate in a possible bank syndication with a view to earning interest income. As such, the Company introduced Party A to the facility agent to explore the possibility of participation in the Syndicated Loan. Party A determined to provide the Funds as part of the Syndicated Loan, among which US\$11,800,000 was borrowed from an overseas investment fund (the "**Party A Loan**"), which was guaranteed by the Company and the net interest expense in relation to the Party A Loan was borne by Mr. Wong Yeuk Hung, an executive Director, chairman of the Board and the controlling shareholder of the Company, given that the Party A Loan was drawn down for the purpose of meeting the shortfall of the target commitment amount of the Syndicated Loan as Party A's participation at the relevant time was essential to achieve a successful syndication. Based on the

additional work performed by the Independent Professional adviser including, among others, (i) reviewing the relevant documents relating to Audit Issues I and II, the Syndicated Loan and the Funds; (ii) conducting interviews with certain relevant employees of the Group; (iii) obtaining written confirmations from the relevant parties including but not limited to the investment manager of the overseas investment fund and Party A; and (iv) analysing the respective fund movements under Audit Issues I and II and in relation to the Funds, the Independent Professional Adviser did not find any evidence suggesting that the Funds were related to Audit Issues I and II.

Conclusion

The Redco Healthy's Independent Inquiry and the Redco Properties' Independent Inquiry are subject to limitations as set out in the Redco Healthy's Independent Inquiry Report, the Redco Healthy's Supplemental Independent Inquiry Report, the Redco Properties' Independent Inquiry Report and the Redco Properties' Supplemental Independent Inquiry Report, including the unavailability of written documents and records of Redco Healthy Group and the Group, as well as the contact information or unresponsiveness of certain parties which the Independent Professional Adviser had reached out to or attempted to reach out to, unavailability of computers of former employees of the Group which were damaged or lost, the inability to contact and/or refusal by third parties (including departed staff of the Group) to attend interviews with the Independent Professional Adviser and/or to provide documents and records, which are beyond the control of the Audit Committee and the Independent Professional Adviser.

Given the circumstances under the Audit Issues I, II and III and despite the limitations as mentioned above, and that the Independent Professional Adviser has performed additional and/or alternative procedures to the extent practicable, the Audit Committee considers that the independent inquiry on Audit Issues I, II and III is adequate given that (i) the business rationale and commercial substance of the relevant transactions and/or fund movements for Audit Issues I, II and III have been sufficiently clarified with reference to the findings of the Redco Healthy's Independent Inquiry and the Redco Properties' Independent Inquiry; and (ii) the findings were announced by the Company and Redco Healthy as mentioned above. Also, the Company's auditor did not issue any audit qualification in the consolidated financial statements of the Company for the two years ended 31 December 2023 in relation to Audit Issues I, II and III. The Board and the Audit Committee are of the view that Audit Issues I, II and III are adequately addressed and resolved.

Given that (i) all the deposits and earnest monies involved in Audit Issues I, II and III in respect of potential transactions that were subsequently terminated or not further pursued by Redco Healthy Group had been fully refunded to Redco Healthy Group; (ii) all the fund movements considered under Audit Issue III were between the Group and Redco Healthy Group and were fully eliminated in the consolidated financial statements of the Group; and (iii) the Group did not incur any actual loss

as a result of the fund movements and/or terminated transactions, the Board takes the view, and the Audit Committee concurs, that the fund movements considered under Audit Issues I, II and III did not have any material adverse impact on the business operation and financial position of the Group.

One of the conditions set out in the Resumption Guidance is that the Company shall conduct an appropriate independent forensic investigation into the Audit Issues, assess their impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions.

The Board and the Audit Committee consider, and the Independent Professional Adviser concurs, that taking into account the following methodology of the Redco Healthy's Independent Inquiry and the Redco Properties' Independent Inquiry performed by the Independent Professional Adviser, the Redco Healthy's Independent Inquiry and the Redco Properties' Independent Inquiry are comparable to an independent forensic investigation:

- (a) review of Redco Healthy Group's and the Group's books and records, including but not limited to accounting records, bank statements, agreements, internal policies, approval records, meeting minutes, project progress reports, feasibility reports and due diligence reports;
- (b) interviews with and/or obtaining written confirmations from the management personnel and employees of Redco Healthy Group and the Group (including the directors of both companies), as well as representatives of third parties involved;
- (c) targeted background research, winding up/bankruptcy and company searches on certain third parties involved; and
- (d) tailored forensic technology data collection, review and analysis of electronic data stored in computer devices and email server archive.

In view of the above, the Board and the Audit Committee consider that the Company has fulfilled such resumption guidance upon the publication of the announcement by Redco Healthy and this announcement by the Company setting out the key findings of the Redco Healthy's Supplemental Independent Inquiry Report and the Redco Properties' Supplemental Independent Inquiry Report.

During the Redco Healthy's Independent Inquiry, Redco Properties' Independent Inquiry and the Internal Control Review, it was noted that there were certain internal control deficiencies of the Group in relation to Audit Issues I, II and III, and the Company has taken remedial actions in relation to these internal control deficiencies, details of which are set out in the section headed "RESULTS OF THE INTERNAL CONTROL REVIEW — 1. Internal control issues in relation to the Redco Properties' Independent Inquiry" in this announcement.

RESULTS OF THE INTERNAL CONTROL REVIEW

The Board has engaged the Internal Control Consultant to conduct the Internal Control Review which has been completed. A summary of the internal control issues identified and rectification recommendations made by the Internal Control Consultant, and the Board's responses, are set out below.

1. Internal control issues in relation to the Redco Properties' Independent Inquiry

1.1 Investment management (relating to Audit Issues I and II)

Findings

The Group has adopted a written policy governing the decision-making process with respect to investments in property projects, which includes the requirement for the performance of due diligence work on such projects. However, this policy did not specify the scope and execution requirement of the due diligence work with respect to the relevant target companies and counterparties for merger and acquisition projects.

Rectification recommendations

The Group should enhance its existing policy and procedures for the conduct of due diligence work on the target companies and counterparties with respect to merger and acquisition projects and public tender projects. The procedures should include verification of the due diligence work plan, assessment of the potential risks, and analysis on the future operations, operating income, profits and expenses, and market influence of the relevant target companies and projects. If the management team considers that no due diligence review is necessary, prior approval from the Board should be obtained.

In addition, the Group's policy and procedures should specify that proper records should be maintained with respect to the relevant information and documents of the acquisitions and cooperation arrangements (including in relation to any earnest monies involved) and the working papers for the due diligence review work performed by the Group or third-party consultants.

Furthermore, the Group shall conduct internal audit review regularly and report the findings to the Board regarding the implementation of the enhanced policies and proper and timely documentation of the relevant documents.

The Board's responses

The Board agrees with the rectification recommendations. The Group has adopted new guidelines to standardize the management of due diligence work regarding the potential acquisitions of the Group and facilitate the timely

identification of risks so that remedial actions can be taken. Also, the Group has amended its risk management policy to include procedures in relation to the assessment, handling, supervision and review of prepayments, earnest monies and deposits, as further elaborated under the section headed “2. *Risks identification, assessment and reporting procedures*” below.

The investment management center will assess whether the Group shall form a special committee comprising representatives from the business, finance, legal and internal audit departments, and/or engage external third-party agencies such as auditor or legal advisers to assist with the due diligence work in respect of the potential acquisitions. Where a third-party agency is engaged, a service agreement should be entered into setting out the rights and obligations of the relevant parties. The basic information, working papers and reports in relation to the due diligence work should be prepared and archived.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

1.2 Inter-departmental communications (relating to Audit Issue III)

Findings

As noted by the Redco Properties’ Independent Inquiry in respect of Audit Issue III, due to miscommunication between different departments within the Group, the relevant personnel only confirmed the receipt of earnest money in respect of the Tianjin Project, but did not ascertain or clarify as to why the payor of earnest money was Redco Healthy instead of the relevant Potential Investors.

Rectification recommendations

The Group should adopt clear guidelines and provide trainings to all relevant personnel of the finance department and other operational departments of the Group so that they would be aware of all material terms of the transactions including but not limited to the transaction date, nature of transaction, and the payor and payee of the money involved and take follow-up actions to verify such transactions where appropriate.

Furthermore, the Group shall conduct internal audit review regularly and report the findings to the Board regarding the implementation of the new guidelines and proper and timely documentation of the relevant documents.

The Board’s responses

The Board agrees with the rectification recommendations. Guidelines in relation to inter-departmental communications between the finance department and other operational departments and appropriate trainings were provided to the relevant

personnel on 19 February 2024 accordingly. According to the trainings, each of the finance department and other operational departments should be aware of all material terms of the transactions; the operations departments should inform the finance department of any expected or realised payment requests in a timely manner; upon the receipt or payment of funds, the finance department should timely inform the operations department; the operations departments should verify the relevant data and promptly raise any discrepancies or unidentified fund movements to the finance department for follow-up actions or verifications.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

1.3 Foreign currency conversion policy

Findings

As noted by the Redco Properties' Independent Inquiry, no standard exchange rate was adopted for the conversion of a sum denominated in a foreign currency into the presentation currency of the Group with respect to the transactions which were conducted by the Group in foreign currencies.

Rectification recommendations

The Group should review and strengthen its accounting management policy (including foreign currency conversion policy), including standardizing the applicable exchange rates for bookkeeping purpose and stipulating when it is necessary to convert the balance of each line item as at the end of the reporting period in accordance with the market exchange rate and recognize the differences as exchange gain or loss.

Furthermore, the Group shall conduct internal audit review regularly and report the findings to the Board regarding the implementation of the new guidelines and proper and timely documentation of the relevant documents.

The Board's responses

The Board agrees with the rectification recommendation. The Group has amended its accounting management policy to standardize the foreign exchange rates to be adopted for accounting purposes.

The amended policy stipulates that when there is a foreign exchange transaction in the course of business, the exchange rate adopted shall be the central parity rate published by The People's Bank of China for the relevant day. At the end

of each month, quarter or year, the ending balance of all line items of the balance sheet which are denominated in a foreign currency shall be converted to the reporting currency at the central parity rate published by The People's Bank of China, and any differences shall be recognized as exchange gains or losses.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

1.4 Archives policy (relating to Audit Issue III)

Findings

As noted by the Redco Properties' Independent Inquiry in respect of Audit Issue III, there is a lack of written or formal records of the communications, including (a) inter-departmental communications within the Group, and (b) communications between (i) the Group (other than Redco Healthy Group) and (ii) Redco Healthy Group and third parties such as the Potential Investors, with respect to the negotiation of cooperation terms and arrangement regarding the payment of earnest monies.

Rectification recommendations

The Group should review and strengthen its archives policy in relation to, among others, (i) the supporting documents regarding the refundable deposits paid by counterparties or related parties; (ii) the supporting documents for proving that the counterparties or related parties have satisfied the criteria for payment of refundable deposits; (iii) the details of the underlying project arrangements; and (iv) the commercial substance and business rationale for the fund movements with counterparties or related parties.

Furthermore, the Group shall conduct internal audit review regularly and report the findings to the Board regarding the implementation of the strengthened policy and timely documentation of the relevant documents.

The Board's responses

The Board agrees with the rectification recommendations. The Group has revised its existing management policy regarding the management of investment projects which mandates, among others, (i) the archiving of all relevant supporting documents after completion of the relevant due diligence report; and (ii) the use of the Group's email system or written correspondences for communications with the counterparties on material matters of each project and the relevant emails and written correspondences should be properly archived.

The Group has also revised its existing archives management policy and expanded its scope to cover all documents in relation to the cooperation arrangements or negotiations with counterparties, including but not limited to the emails with counterparties, cooperation agreements, written correspondences, notices, and delivery and receipt records.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

1.5 Supervision of the Group's subsidiaries (relating to Audit Issues I, II and III)

Findings

The Internal Control Consultant noted that the Group has in place mechanisms to regularly monitor its subsidiaries (including Redco Healthy Group), including requiring Redco Healthy to report to the Board in respect of any proposed transactions which will constitute notifiable transactions for the Company under the Listing Rules. However, there was no written policy established to govern such reporting mechanisms to ensure its compliance with the applicable requirements of the Listing Rules.

Rectification recommendations

The Group should establish a written policy which requires (among other things) all its subsidiaries (including Redco Healthy Group) to conduct size tests calculations before entering into any transactions (as defined under the Listing Rules) and report to the Board and the company secretary of the Company (the “**Company Secretary**”) if it will constitute a notifiable transaction for the Company based on the results of the size tests calculation and/or if it may constitute inside information of the Company. Also, each subsidiary should be required to report to the Group on a monthly basis any material contracts entered into by it including any acquisitions and connected transactions.

Furthermore, the Group shall conduct internal audit review regularly and report the findings to the Board regarding the implementation of the written policy and timely documentation of the relevant documents.

The Board's responses

The Board agrees with the rectification recommendations. The Group has established a written policy based on the recommendations of the Internal Control Consultant and each subsidiary is required to report to the Group on a monthly basis any material contracts entered into by it including any acquisitions and connected transactions.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

2. Risks identification, assessment and reporting procedures

Findings

The Company has established a written policy regarding risk management for the purpose of fulfilling the requirements of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”). However, the policy did not cover the following aspects: (i) emergency plans and handling procedures (including management of and contingency plans in response to changes in business environment); (ii) risk management in respect of earnest monies, deposits or prepayments; and (iii) risk assessment in respect of investment management.

The Group also did not keep a register of risks to ensure that all the major risks faced by the Group would be effectively identified and reported to the Board periodically.

Rectification recommendations

The Company should adopt the following measures to establish risks identification, assessment and reporting procedures:

- (i) adopt written policies to govern the emergency plans and handling procedures (including management of, and contingency plans in response to, changes in business environment) and clearly specify the responsible persons, level of authorities, procedural guidelines and operational manual;
- (ii) optimize the Group’s existing risk management system by setting out the identification, assessment, handling, supervision and reporting of the relevant risks in relation to the payment of earnest monies, deposits and prepayments; and
- (iii) the management (including the internal audit function) shall establish a register of risks to keep track of the major risks and formulate and update the corresponding responsive plans from time to time, and report to the Board or the Audit Committee at least annually.

The Board’s responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. The Company has established appropriate written policies, enhanced its risk management system and maintained a register of risks in relation to risks identification, assessment and reporting in accordance with

the recommendations made by the Internal Control Consultant, which covers the risks in respect of earnest monies, deposits, and prepayments, in order to monitor the risks for further decision making by the management of the Company.

In addition, the Company has established a risk committee (the “**Risk Committee**”) comprising (i) Mr. Huang Ruoqing, an executive Director and the president of the Group, (ii) Mr. Liang Wei, the vice president of the Group, (iii) the Company Secretary, and (iv) the responsible persons of each of the financial management center, the human resources and administration center, the internal control and compliance center and the integrated management center.

The enhanced risk management policy and procedures of the Group covers the identification, assessment, handling, supervision and reporting of the relevant risks. In particular, it is stipulated that prepayments with significant amounts or prepayments made outside the Company’s ordinary course of business operations should be promptly reported to the Company Secretary and submitted to the Board for consideration. The financial management center is responsible for reviewing the prepayments of the Group regularly (at least every 2 months), and coordinating the business departments and legal department to conduct recoverability assessments. Any significant issues identified should be reported to the management promptly, and recovery plan and preservation strategy should be formulated and reported to the Board in a timely manner.

The Company’s management also completed an assessment of major risks and reported the findings to the Board on 23 February 2024.

3. Financial information system management authority

Findings

The Company has adopted a set of written policies on financial information system management, which designates the functions of the financial information system administrator and the finance manager. The financial information system administrator has, among others, the authority to deal with the addition or deletion of users, setting of the users’ authorities, accounts activation and deactivation. The Internal Control Consultant noted that the role of the financial information system administrator and the finance manager was performed by the same employee in the finance department of certain subsidiaries of the Company, which might lead to possible conflict of interests.

Rectification recommendations

The functions of the financial information system administrator and finance manager should be segregated. The administrator’s right in relation to the financial information system should be assigned to the non-financial personnel of the Group, such as personnel of the information technology department of the Group.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. The administrator's right to the financial information system of the Group has been granted to the personnel of the information technology department of the Group.

4. Contract signing and approval process

Findings

The Group has adopted an electronic contract approval system to deal with the procedures for the signing and approval of contracts. However, there was no clear guideline regarding the procedures for the amendment of contract approval forms and related authorization requirements.

Rectification recommendations

Amendment of approval forms during the contract approval process should be strictly prohibited and where amendments are required, the original approval form should be retracted and the whole approval process should be relaunched with a new approval form, and all changes should be properly recorded.

The Company should ensure that only its authorized persons will have access right to the system and only for the permitted purposes.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. Guidelines have been established mandating the initiation of a new approval process if amendments need to be made to the original approval forms.

The Company has also made an arrangement with its system supplier so that only authorized personnel with proper authority could give instructions to the system supplier to access the system and amend records.

5. Bank accounts management

Findings

The Group has adopted a written manual on cash management which requires bank reconciliation statements to be prepared to reconcile the differences between the balance as shown in the bank statements and the management accounts of the Group, and the reconciliation statements shall be prepared with the bank account balance stated even if no discrepancy was found. During the

review, the Internal Control Consultant found that certain subsidiaries of the Company did not prepare bank reconciliation statements if no discrepancy was found between the balance as reflected in the bank statements and the management accounts of such subsidiaries.

Rectification recommendations

To ensure proper monitoring of the bank accounts of the Group, all companies within the Group should comply with the written manual on cash management of the Group and prepare bank reconciliation statements and keep relevant approval records regardless of whether discrepancy is found between the balance as reflected in the bank statement and the management accounts of any company within the Group.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. The Company and its relevant subsidiaries will prepare bank reconciliation statements with the record of the relevant approval being properly kept regardless of whether a discrepancy is found between the balance as reflected in their bank statements and management accounts of any company within the Group.

6. Management of the company chops

- (a) Record keeping of documents affixed with company chops

Findings

Under the Company's written policies on company chops management and archives management, an authorized person shall affix the relevant company chop on a document after verifying that the document is the same as the document being approved for affixing the company chop. The document to be affixed with the company chop should be scanned and uploaded to the system. However, no further verification was conducted to ensure that the documents affixed with company chop would be properly uploaded to the system for records.

Rectification recommendations

The Company should codify into its written policies the requirement to upload a copy of each document that has been affixed with company chop.

The Board's responses

The Board agrees with the rectification recommendations. The Group will conduct regular internal audit reviews as suggested by the Internal Control Consultant and such requirement has been codified into its written policies for archives management. A contract could only be viewed through the online system after being properly approved and with company's chop affixed.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

(b) Register of use of the company chops

Findings

The Group has adopted a set of written guidelines in relation to the approval and signing of commercial property sale and purchase agreements. It has also adopted a written policy on company chop management which requires the keeping of a register to keep track of all uses of company chops on agreements. The Internal Control Consultant found that although the said written guidelines in relation to the approval and signing of commercial property sale and purchase agreements had been complied with, the requirement of keeping track the use of company chops in a register pursuant to the said written policy on company chops management was not strictly followed.

Rectification recommendations

The Group should enhance its written guidelines in relation to the approval and signing of commercial property sale and purchase agreements by codifying the procedures and policy for the proper use of company chops on commercial property sale and purchase agreements.

Also, the Group should keep a register for the use of company chops on commercial property sale and purchase agreements which should set out a summary of the material terms of the relevant agreement including, without limitation, the contract number, the property number, the purchaser's name, the date of use of chop and the name of the authorized person.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. The requirement to maintain a register of use of the company chops has been codified into its written guidelines in relation to the approval and signing of commercial property sale and purchase agreements. In addition, the relevant department heads (such as the marketing and customer

services department and the mortgage department) are required to enter the relevant details of their use of company chops on each commercial property sales contract together with a summary of the material terms of such contract into the relevant register.

7. Cheque management system

Findings

Under the Company's cheque signing arrangement for the two bank accounts of the Company in Hong Kong, a single authorised signatory could authorise the issuance of cheques of the Company regardless of the amounts involved. This would increase the risk of misappropriation of funds.

Rectification recommendations

The Company should consider setting a threshold monetary amount for payment by cheques in Hong Kong, in excess of which the cheque to be issued by the Company shall be signed by two authorised persons in order to minimise the risks of misappropriation of funds.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. The Company has amended its cheque signing mandate in respect of its two chequebooks so that any single cheque payment for an amount in excess of HK\$10 million shall be signed by two authorized persons with effect from 13 March 2024.

8. Other observations and findings

a. Corporate Governance

(a) Gender diversity of the Board

Findings

Currently, the Company has a single gender Board. While the Board targets to commence the work on identifying suitable female candidate(s) for appointment to the Board in 2024, there was no record for the relevant Board discussions with respect to the numerical targets and timelines for achieving gender diversity at the Board level as required under Rule 13.92 of the Listing Rules.

Rectification recommendations

The Board should take appropriate steps so as to achieve the Board gender diversity by 31 December 2024 as required under Rule 13.92 of the Listing Rules and make relevant disclosure in the Company's annual report.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. It has convened a Board meeting to set appropriate numerical targets and a timetable for achieving the Board gender diversity by the end of 2024 in compliance with the Listing Rules.

(b) Annual confirmation by Directors

Findings

While the Directors have, prior to the publication of annual reports, confirmed any changes to their personal information as required under Rule 13.51(2) of the Listing Rules through an office management software, no written confirmations were signed by the Directors. Also, the latest confirmation records were in respect of the year ended 31 December 2021 and no further confirmations were made in respect of the year ended 31 December 2022 at the time of the initial review by the Internal Control Consultant.

Rectification recommendations

The Company should require all the Directors to sign written confirmations regarding any changes to their personal information as required under Rule 13.51(2) of the Listing Rules and such record should be updated to cover at least the year ended 31 December 2022.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant, and has obtained all the Directors' written confirmations for the year ended 31 December 2022 and subsequent periods.

(c) Continuous professional development of the Directors

Findings

The Company has kept written records of trainings of all the Directors and the Company Secretary. However, the Internal Control Consultant found that four out of the six Directors only participated in continuous professional development by reading materials/publications in relation to the Listing Rules and not by attending seminars or conferences during the year ended 31 December 2022.

Rectification recommendations

The Company should arrange for training sessions in relation to Listing Rules compliance to be provided to all the Directors and the Company Secretary and attendance records should be properly kept.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant, and relevant Listing Rules compliance training sessions were arranged for all the Directors and the Company Secretary on 20 February 2024 with proper attendance records kept.

b. Internal audit and supervision functions of the Group

Findings

The Company has established a set of written policies on audit and supervision management system to set out the procedures and policies in relation to the internal audit function of the Group. However, the effective date of the relevant procedures and policies could not be verified and there was no formal approval record for the adoption of such procedures and policies.

Rectification recommendations

The Company should formally adopt its written policies on audit and supervision management system as soon as possible, and distribute the final version to the Group's internal audit and supervision department to ensure that the internal audit and supervision workflow would be carried out consistently.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant and has formally adopted the written policies on audit and supervision management system and distributed such policies to the relevant department accordingly.

c. Document scanning and tracking

Findings

The Group has adopted a set of written policies on information safety management to govern the use of information systems by its employees. However, such policies did not contain procedures for the use of office scanners for the scanning of documents by the Group's employees. It was found that the employees did not have to use a staff card or enter an identification number to scan documents on the office scanners and could send the scanned document to any computer. As such, it was not possible to trace the scanned documents.

Rectification recommendations

The Company should adjust the settings of the scanners at the office such that documents could only be scanned after verification of the identity of the user, and employees should only be able to send the scanned documents to their own office computers to allow proper tracking.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant and the settings of the scanners at the Group's offices have been adjusted accordingly.

d. Policy for whistle-blowing and anti-corruption

Findings

The Group has adopted an employees' manual and various written policies setting out, among others, the whistleblowing procedures, the reporting channels and the investigation procedures. However, the employees' manual and the relevant written policies did not contain any arrangements to maintain the confidentiality of the identity of the whistle-blowers.

Rectification recommendations

The Company should modify its existing policies to clearly set out the arrangements to maintain the confidentiality of the identity of the whistle-blowers.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant and the employees' manual of the Group has been updated accordingly.

e. Monitoring and management of the collection of sales proceeds

Findings

Under the Group's existing measures on sales proceeds collection management, the sales proceeds collection team of each district should conduct weekly meetings to coordinate and arrange for the collection of sales proceeds of the project companies within the relevant district. However, there was no proper record showing the sales proceeds collection team of the North China region had conducted weekly meetings in accordance with the Group's policy and no proper meeting minutes were maintained for the meetings held.

Rectification recommendations

The Group should require the sales proceeds collection team of each district to maintain proper written minutes for the weekly meetings held to ensure the key matters discussed, the progress of sales proceeds collection, the issues raised at the relevant meetings and the remedial actions discussed would be properly recorded.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant and has implemented these measures accordingly.

f. Aging analysis of accounts payable

Findings

The Internal Control Consultant noted that certain accounts payable which were non-prepayment, non-advancement or non-earnest money in nature had been in arrears for more than one year. It was also noted that the Group did not have standardized procedures for the approval processes relating to accounts payable and the follow-up actions on the outstanding accounts payable. If overdue arrears of payments to suppliers were not handled in a timely manner, the relationship between the Group and its suppliers could be adversely affected.

Rectification recommendations

The Company should establish a written policy to standardize the management and approval process of accounts payable for employees to follow.

In addition, the Company should consider to properly deal with the long-term accounts payable in arrears as soon as possible.

The Board's responses

The Board agrees with the rectification recommendations suggested by the Internal Control Consultant. The Company has established such written policy accordingly.

g. Capital financing of the Group (relating to Audit Issue III)

Findings

The Group has adopted a written policy for capital financing management. However, the Internal Control Consultant noted that this policy did not govern the management of bridging loans.

Rectification recommendations

The Company should establish a management policy in relation to bridging loans. Where bridging loans are required for fund proof purpose, the assessment, monitoring and reporting of such bridging loans shall comply with the applicable internal policies.

Furthermore, the Group shall conduct internal audit review regularly and report the findings to the Board regarding the implementation of the new policies and proper and timely documentation of the relevant documents.

The Board's responses

The Board agrees with the rectification recommendations. The capital management policy and other relevant policies of the Group have been amended which requires that the Group's bridging loans application should be approved by the management team and the finance and financing centre (財融中心) shall be responsible for the coordination of the relevant work (including assessment on necessity and review of expenditures). The bridging loans must be used exclusively for the intended purpose and shall be repaid as soon as practicable. Unless otherwise approved by the Board, the use of bridging loans for payment of consideration for acquisition of equity interests or capital injection shall be prohibited.

Where the Group provides bridging loans to other parties, the finance and financing centre shall be responsible for the coordination of the relevant work (including performing necessity and recoverability assessments). Written agreements shall be entered into setting out the terms. Interests shall be charged and such loans shall be repaid to the Group upon maturity.

In addition, the management shall assess the implications under the Listing Rules in relation to the relevant bridging loans.

The Company will engage an independent professional consultant to conduct a review on the internal control system of the Group for the year ending 31 December 2024 in this regard.

Follow-up review

Following the initial review by the Internal Control Consultant in respect of the period from 1 August 2022 to 31 July 2023 (both days inclusive), the Company has enhanced its internal control systems based on the rectification recommendations of the Internal Control Consultant set out above. Thereafter, the Internal Control Consultant has conducted a follow-up review on the internal control systems of the Group in respect of the period from 1 August 2023 to 24 September 2024 (both days inclusive), including reviewing the enhanced or new policies of the Group and the available supporting documents regarding their execution, obtaining the written record of the monthly reports made by Redco Healthy Group to the Group's management, and sample-checking the Company's bank statements and accounting books and records. The Internal Control Consultant considers that all identified internal control deficiencies have been rectified by the Group and all the internal

control rectification recommendations made by it have been properly addressed by the Group and no significant internal control issues are identified. Based on the foregoing, the Internal Control Consultant takes the view that the Company has in place adequate internal control and procedures to comply with the Listing Rules.

Conclusion

Based on the findings of the follow-up review by the Internal Control Consultant, the Board and the Audit Committee are satisfied that the Company has in place adequate internal controls and procedures to meet obligations under the Listing Rules.

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.

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, 24 October 2024

As at the date of this announcement, the executive Directors are Mr. Wong Yeuk Hung JP, Mr. Huang Ruqing 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.