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**Redco Healthy Living Company Limited**

**力高健康生活有限公司**

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

**(Stock Code: 2370)**

## **(1) CHANGE OF AUDITORS**

**AND**

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

This announcement is made by Redco Healthy Living Company 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 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, the Group 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 the Group 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 the Group has sufficient resources to proceed with the acquisitions under the Cooperation Agreement, the 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 the Company, the Earnest Money was refunded to the 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 the Group and the Party A Group on 29 June 2022. Subsequently, the Earnest Money was transferred from the Group to the Party A Group on 1 July 2022 and was fully refunded to the Group before 31 December 2022.

On 1 January 2023, the 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. The 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**”.

In light of the amount and the close proximity of the timing of the aforementioned fund movements, as well as the slow progress in the proposed acquisition of the target companies by the Group, PwC had requested the Company to provide, among others, (i) a full explanation of the commercial substance and business rationales of the aforesaid transactions and balances with the Party A Group; and (ii) the background of the Party A Group and their relationships with the Group, together with all related supporting documents.

## *(2) Audit Issue II: Refundable Deposits*

During the year ended 31 December 2022, the Group identified 9 target companies (the “**Target Companies**”) for potential acquisitions through the Cooperation Arrangements. The 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 the Group which were delayed as a result of the COVID-19 pandemic in the PRC in 2022. The 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 the Group received RMB30 million each from 2 entities which are independent third parties (the “**Parties**”) and such fundings were used to demonstrate that the Group will have sufficient financial resources to pursue potential business ventures. Upon receiving the fundings from the Parties, the Group transferred such fundings back to the Parties on the same date.

Given the significant amount of the refundable deposits, the slow progress of the proposed acquisition of the Target Companies and the close proximity of the timing of the aforementioned fund movements, PwC had requested the Company to provide, among others, (i) a full explanation of the commercial substance and business rationales in relation to the aforementioned potential acquisitions, deposits paid and fund movements; (ii) the background of the Target Companies, the Parties and their relationships with the Group; (iii) the supporting documents in relation to these movements; and (iv) the Company’s assessment of the expected credit losses of the refundable deposits.

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

During the year ended 31 December 2022, there were numerous fund movements between the Group and Redco Group ranging from RMB200 to RMB61.5 million. As at 31 December 2022, the amount due from Redco Group to the Group was approximately RMB73.8 million, which included the deposit of RMB73 million for the grant of exclusive carpark sales agency rights by Redco Group to the Group under the arrangement as disclosed in the Company’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 Group were of identical amount and occurred in a short period of time, which ranged from approximately RMB10.2 million to RMB61.5 million.

PwC had requested the Company to provide: (i) a full explanation and the business rationales in respect of the fund movements between the Group and Redco Group; (ii) all related supporting documents in relation the aforementioned fund movements; and (iii) the Company’s assessment of the recoverability and expected credit loss of the amount due from Redco Group.

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

As at 31 December 2022, the Group's bank and other borrowings of approximately RMB8.1 million are subject to certain cross default clauses under which the lenders would have the right to demand for immediate repayment should there be any default events happened in respect of any related parties, shareholders and ultimate beneficial owner of the Group. As a result of the suspension payment of offshore debts from Redco Properties, the controlling shareholder of the Company, since December 2022, the cross default clauses of certain of the Group's bank and other borrowings were triggered.

PwC had requested the Company to provide its going concern assessment and related cashflow projection.

### **ACTIONS TAKEN BY THE GROUP**

Regarding the Audit Issues I-III, the Board formed an independent committee (the “**Independent Committee**”) on 6 April 2023 which only comprises independent Directors to conduct an independent inquiry (the “**Independent Inquiry**”) on the Audit Issues I-III. The Independent Committee has engaged an independent professional adviser (the “**Independent Professional Adviser**”) to assist with the Independent Inquiry. As PwC 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 the Independent Inquiry, an initial meeting was held among PwC, the Independent Committee and the Independent Professional Adviser to discuss, among others, the proposed scope of the Independent Inquiry.

While the Independent Inquiry is still ongoing and thus the Company is unable to provide any further information to PwC in respect of the same, 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 the 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 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 the Board, at the request of PwC, has formed the Independent Committee to conduct the 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 the Independent Inquiry. In respect of the Audit Issues I-III, the Group has not completed the provision of the requested information and explanations to PwC up to the date of PwC's resignation.

The Audit Committee and the Board informed PwC on 8 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 27 June 2022.

Given that the Independent Inquiry is still ongoing and such findings are yet available to PwC, PwC considered that without all information and satisfactory explanation in respect of the Audit Issues nor obtain the relevant information about the scope and progress of the 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 had considered the Board's recommendation and agreed to resign its role as the Company's auditor 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, 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 and the Independent Committee, Yongtuo Fuson estimated that it would take about 3 months to complete the 2022 Audit taking into account the result of the Independent Inquiry. Subject to completion of the 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 suspend until the Company fulfils the resumption guidance as given by the Stock Exchange.

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

By order of the Board  
**Redco Healthy Living Company Limited**  
**Huang Ruoqing**  
*Chairman*

Hong Kong, 30 June 2023

*As at the date of this announcement, the executive Directors are Mr. Tang Chengyong, Ms. Wong Yin Man and Ms. Huang Yanqi, the non-executive Director is Mr. Huang Ruoqing, and the independent non-executive Directors are Mr. Lau Yu Leung, Mr. Sze Irons BBS, JP, and Mr. Chow Ming Sang.*