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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)

KEY FINDINGS OF THE INDEPENDENT INQUIRY

INTRODUCTION

References are made to (i) the announcement of Redco Healthy Living Company 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 31 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 the Audit Issues, assess their impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions.

This announcement sets out the key findings of the Independent Inquiry.

BACKGROUND

The Independent Committee, comprising the independent non-executive Directors, has been formed to conduct the Independent Inquiry on Audit Issues I-III (details of which are set out in the Company's announcement dated 30 June 2023). The Independent Committee has engaged the Independent Professional Adviser to assist with the Independent Inquiry and a report of its findings dated 18 January 2024 (the "**Independent Inquiry Report**") was provided to the Independent Committee.

SCOPE OF THE INDEPENDENT INQUIRY

The Independent Professional Adviser was engaged by the Independent Committee to conduct an independent forensic investigation into, among other things, Audit Issues I-III:

- (i) **Audit Issue I:** the rationale for the fund movements in the respective amounts of approximately RMB100 million and approximately RMB40.6 million regarding certain cooperation arrangements entered into by the Group relating to the potential acquisitions of certain target companies;
- (ii) **Audit Issue II:** (a) the rationale for the Group's payment of the refundable deposits in the amount of approximately RMB30.8 million in relation to the potential acquisitions of certain target companies and the Company's assessment of the recoverability; and (b) the rationale for the Group's receipt of funds in the amount of RMB30 million each from two independent third parties which were transferred back to such parties on the same date; and
- (iii) **Audit Issue III:** the rationale for the fund movements between the Group and Redco Group during the year ended 31 December 2022.

SUMMARY OF KEY FINDINGS OF THE INDEPENDENT INQUIRY AND THE BOARD'S VIEW

A summary of the key findings of the Independent Inquiry with respect to Audit Issues I-III and the Board's view is set out below.

Audit Issue I

Key findings

There were fund movements between the Group and the Party A Group, including (i) the refundable earnest money in the amount of approximately RMB100 million (equivalent to approximately HK\$118 million) (the “**Earnest Money A**”) during the year ended 31 December 2022; and (ii) the refundable earnest money in the amount of RMB40.6 million (the “**Earnest Money B**”, together with the Earnest Money A, the “**Earnest Money**”) in January 2023. The Earnest Money has been fully refunded to the Group. The details of such fund movements are summarised below.

The Group entered into a cooperation agreement (the “**Cooperation Agreement**”) with Party A in March 2022. Under the Cooperation Agreement, Party A would identify potential target companies for the Group’s consideration and assist the Group to complete the acquisition of the target companies that the Group decided to pursue in return for a service fee representing 3% of the purchase price upon each successful acquisition. At the time of entering into the Cooperation Agreement, the Group had not identified any potential target company which it had decided to pursue and had not commenced negotiation with any of the sellers of the relevant potential target companies.

In April 2022, in response to the request of the 17 potential target companies identified by Party A (the “**17 Target Companies**”) for proof of the Group’s financial resources with respect to the potential acquisitions, the Group paid the Earnest Money A to the Party A Group. Under the Cooperation Agreement, Party A shall refund the Earnest Money A to the Group upon the request of the Group. In June 2022, at the request of the Group, the Earnest Money A was fully refunded to the Group.

Having been satisfied with the recoverability of the Earnest Money A, and as Party A could provide further information and negotiate for better commercial terms regarding the potential target companies with a target date to complete the acquisitions by 31 December 2022, the Group entered into a supplemental agreement to the Cooperation Agreement (the “**Supplemental Agreement**”) with Party A in July 2022. Under the Supplemental Agreement, the Earnest Money A was paid by the Group to the Party A Group as continuing proof of the Group’s financial resources.

Between October and December 2022, the Group entered into the Framework Agreements (as defined in the section headed “Audit Issue II” below) for the acquisition of nine companies of the 17 Target Companies (i.e. the Nine Target Companies as defined in the section headed “Audit Issue II” below) and determined not to consider the opportunities regarding the remaining eight companies. At the Group’s request, the Earnest Money A was fully refunded to the Group by 31 December 2022.

In January 2023, the Group and Party A entered into a second supplemental agreement to the Cooperation Agreement (together with the Cooperation Agreement and the Supplemental Agreement, the “**Party A Cooperation Agreements**”), pursuant to which seven additional target companies (the “**Seven Additional Target Companies**”) were identified by Party A. As proof of the Group’s financial resources with respect to the potential acquisitions of the Seven Additional Target Companies, the Group paid the Earnest Money B to the Party A Group in January 2023.

Considering the uncertain business environment of the property management industry caused by the downturn of the property market in the PRC at the relevant time, the Group decided not to pursue further the potential acquisition of the companies identified by Party A and the Group and Party A entered into a termination agreement, pursuant to which the Party A Cooperation Agreements were terminated with effect from 31 May 2023, and the Earnest Money B was fully refunded to the Group by the Party A Group.

Based on the information available to the Independent Professional Adviser, save for the Party A Cooperation Agreements and an unsecured loan in the amount of US\$5.8 million provided by the Party A Group to the Group which was fully repaid by the Group, the Party A Group has no other relationships or transactions with the Group.

The Independent Professional Adviser noted that part of the net proceeds from the global offering of the Company in March 2022 (the “**IPO Proceeds**”) was probably applied towards partial payment of the Earnest Money A, and such amount was subsequently fully refunded to the Group. The Independent Professional Adviser also noted the Company’s clarification that as the Earnest Money A was refundable upon the Group’s request, was paid only for the purpose of proving the capital sufficiency of the Group, and was fully refunded to the Group, the Company considered that the IPO Proceeds had not been utilised.

The Board’s view

The purpose of the Earnest Money was to demonstrate to the potential sellers of the relevant target companies the Group’s financial resources and good faith regarding the potential acquisitions of the relevant target companies. The Earnest Money was paid by the Group to Party A Group instead of the potential sellers of the relevant target companies given that (i) Party A was the representative of the Group to conduct the negotiation with such counterparties; (ii) there was a lower risk of recoverability of such sum from Party A from the Company’s perspective in light of its strong financial background and reputation; and (iii) the potential sellers acquiesced to this arrangement. The Group also considered at the relevant time that such arrangement could make its identity less discernible to the potential sellers of the relevant target companies thereby preventing the potential sellers from asking for an inflated purchase price during the negotiation process in the event that they

became aware that the potential purchaser was a listed company. It was also an industry practice for transactions of similar nature that earnest money is paid to a third party as proof of the potential purchaser's financial resources with respect to the potential acquisitions.

In June 2022, the Group requested refund of the Earnest Money A for the purpose of (i) demonstrating the recoverability, which is also consistent with the Group's internal policy that all accounts receivable shall be reviewed every two months and repayment shall be requested where necessary, and (ii) reducing the costs and workload of the financial reporting work with respect to the Group's consolidated balance sheet as at 30 June 2022.

For the reasons set out above, the Group entered into the Supplemental Agreement and paid the Earnest Money A as continuing proof of the Group's financial resources in July 2022. As the Group entered into the Framework Agreements for the acquisition of the Nine Target Companies (out of the 17 Target Companies) between October and December 2022 and determined not to further consider the opportunities regarding the remaining eight companies, there was no further need for the Group to pay the Earnest Money A. The Earnest Money A was fully refunded to the Group by 31 December 2022 at the Group's request.

In light of the above, the Board takes the view that the fund movements considered under Audit Issue I had commercial substance and business rationale.

Audit Issue II

Key findings

During the year ended 31 December 2022, after performing a preliminary business and financial review on the relevant target companies for potential acquisitions identified by Party A, the Group decided to further explore the acquisitions of nine target companies out of the 17 Target Companies (the "**Nine Target Companies**"). In order to secure the exclusive right to the potential acquisitions of the Nine Target Companies for nine months, the Group entered into nine framework agreements (the "**Framework Agreements**") between October and December 2022 and paid a total amount of approximately RMB30.8 million as refundable and interest-free deposits (the "**Refundable Deposits**") to the sellers of the Nine Target Companies. The Refundable Deposits would be repayable to the Group if the relevant Framework Agreement was terminated. Following completion of the due diligence review and considering the uncertain business environment of the property management industry caused by the downturn of the property market in the PRC at the relevant time, the Group decided to terminate the potential acquisitions. In May and June 2023, the Group entered into agreements to terminate the Framework Agreements. The Refundable Deposits were fully refunded to the Group.

The Group's financial and legal due diligence review on the Nine Target Companies was delayed due to the impact of the COVID-19 pandemic and the departure of the relevant staff of the Group, and was therefore only completed in May 2023.

In addition, the Group borrowed RMB30 million each from two independent third parties (the “**Lenders**”) as short-term bridging loans (the “**Lenders’ Bridging Loans**”) in December 2022, for the purpose of providing fund proof to the counterparties of two potential projects in relation to healthcare management services. The Lenders’ Bridging Loans had been fully repaid by the Group to the Lenders.

The Board’s view

As noted under “*Key findings*” above, the purpose of the Refundable Deposits was to secure the exclusive right to negotiate on the potential acquisitions of and conduct financial and legal due diligence review on the Nine Target Companies. For the reasons set out above, the Framework Agreements were terminated. The Group received full refund of the Refundable Deposits. The Company considered that the termination was made after due and careful consideration and is in the interest of the Company and its shareholders as a whole.

As to the Lenders’ Bridging Loans, the Board understood that it was a market practice for project owners to request a potential investor for fund proof in relation to a potential participation in their projects, and that it would be sufficient and was a market practice in the PRC to demonstrate capital sufficiency by securing a bridging loan that would be borrowed and repaid within a short period of time. The fund movements with respect to the Lenders’ Bridging Loans were consistent with this market practice.

In light of the above, the Board takes the view that the fund movements considered under Audit Issue II had commercial substance and business rationale.

Audit Issue III

Key findings

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

During the year ended 31 December 2022, there were fund movements between the Group and Redco Group ranging from RMB200 to RMB61.5 million. During this period, the net fund movement from the Group to Redco Group amounted to approximately RMB107.5 million, which primarily comprised (i) settlement of non-trade accounts payable; (ii) the 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 Redco Group’s Bridging Loans (as defined in the section headed “(iv) Bridging loans between the Group and Redco Group” below). The details of these fund movements are set forth below.

(i) Settlement of non-trade accounts payable

The Group had fully settled the non-trade accounts payable owed to Redco Group amounting to approximately RMB35 million prior to its listing on the Stock Exchange on 31 March 2022. Such accounts payable primarily comprised advance payments made by Redco Group in respect of the acquisition of headquarters and car parking spaces by the Group in Hong Kong of approximately HK\$20 million and for settlement of part of the listing expenses of the Company.

The Board’s view

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

(ii) Earnest money for property project

The Group entered into a strategic cooperation agreement with two independent third parties (“**Potential Investor A**” and “**Potential Investor B**”, together the “**Potential Investors**”) in February 2022 and July 2022, respectively, pursuant to which the Group would recommend health and tourism projects to the Potential Investors, in exchange for priority right to manage and operate such projects if they were secured by the Potential Investors.

The Group identified a property project of Redco Group in Tianjin (the “**Tianjin Project**”) in respect of which Redco Group was looking for potential investors and earnest money was required to be paid to Redco Group in exchange for an exclusive right to negotiate on the terms of such investment. As the Group intended to secure the Tianjin Project for the Potential Investors so that the Group could obtain the priority right of operation and management of the Tianjin Project, the Group (i) paid a total amount of approximately RMB61.48 million on behalf of Potential Investor A to Redco Group between March and May 2022 as earnest money to secure the Tianjin Project for Potential Investor A, and (ii) paid the same amount on behalf of Potential Investor B to Redco Group in July 2022 as earnest money to secure the Tianjin Project for Potential Investor B.

The Potential Investors terminated their respective strategic cooperation agreements with the Group in June 2022 and October 2022, respectively, primarily due to the estimated payback period of the Tianjin Project being longer than expected and the uncertain business environment caused by the downturn of the property market in the PRC.

The earnest money paid on behalf of Potential Investor A was fully refunded to the Group in June 2022. The earnest money paid on behalf of Potential Investor B of approximately RMB43.97 million was refunded to the Group in November 2022 and December 2022. The balance of approximately RMB17.51 million was set off against the accounts payable owed by the Group to Redco Group as to an amount of approximately RMB9.38 million in relation to the Redco Group's Bridging Loans (as defined in the section headed "(iv) Bridging loans between the Group and Redco 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

The payment of earnest money in respect of the Tianjin Project was consistent with the industry practice for similar property investment projects. The earnest money in respect of the Tianjin Project was not paid by Potential Investor A or Potential Investor B (as the case may be) to Redco Group as Potential Investor A and Potential Investor B are non-PRC companies, and could not timely arrange for funds to pay the earnest monies to Redco Group in the PRC. In order to secure the investment opportunity for Potential Investor A and Potential Investor B with a view to securing the operation and management right of the Tianjin Project for itself, the Group paid the earnest monies to Redco Group in respect of the Tianjin Project on their behalves. Prior to the payment of such earnest monies, the Group had considered the background of Potential Investor A and Potential Investor B and assessed their past investment records and financial background. It was also considered that the Group would not face material credit risks as the recipient, Redco Group, was the holding company of the Company and it would refund the earnest monies to the Group upon request if the proposed cooperation with the Potential Investors did not materialise. The Board takes the view that the fund movements considered had commercial substance and business rationale.

(iii) Carpark Sales Refundable Deposits

As disclosed in the Company's announcements dated 25 November 2022 and 30 December 2022 and the Company's circular dated 14 December 2022, the Group and Redco Group entered into a supplemental carpark sales agency services framework agreement (the "**Carpark Supplemental Agreement**"). Under the Carpark Supplemental Agreement, Redco Group shall engage the Group to provide carpark sales agency services (the "**Carpark Sales Agency Services**") on an exclusive basis and the Group shall pay to Redco Group certain refundable deposits (the "**Carpark Sales Refundable Deposits**") regarding the grant of 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 the Group on 30 December 2022 as to approximately RMB64.87 million by cash and approximately RMB8.13 million by way of set off against the earnest money advanced by the Group to Redco Group for Potential Investor B as set out above.

The Board's view

Payment of deposit to secure the exclusive right to provide carpark agency sales services was consistent with the industry practice. The deposit arrangement was in compliance with the relevant requirements under the Listing Rules (including disclosure requirements under Chapter 14A of the Listing Rules) in respect of the transactions contemplated under the Carpark Supplemental Agreement (including the payment of the Carpark Sales Refundable Deposits). The Board takes the view that the fund movements considered had commercial substance and business rationale.

(iv) Bridging loans between the Group and Redco Group

Between September and December 2022, the Group borrowed short-term bridging loans in the total amount of approximately RMB63.95 million and HK\$39 million from Redco Group (the "**Redco Group's Bridging Loans**") for the purpose of providing fund proofs to the counterparties with respect to five potential projects in relation to property management consultancy services, healthcare services and property management services. The Redco Group's Bridging Loans were fully repaid to Redco 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 the Group to Redco Group for Potential Investor B as set out above.

The Board's view

It was a market practice for project owners to request a potential investor for fund proof in relation to a potential participation in their investment projects, and that it would be sufficient and was a market practice in the PRC to demonstrate capital sufficiency by securing a bridging loan that would be borrowed and repaid within a short period of time. The Board takes the view that the fund movements with respect to the Redco Group's Bridging Loans had commercial substance and business rationale.

Recommendations by the Independent Professional Adviser

The Independent Professional Adviser has made the following recommendations in the Independent Inquiry Report:

(i) Retention of proper written records

The Independent Professional Adviser noted that formal records in relation to the negotiations conducted with counterparties and due diligence work performed in respect of potential acquisitions of target companies 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) Timely consultation with professional advisers

The Independent Professional Adviser noted that the former auditor of the Company raised questions on whether the Company had fully complied with the Listing Rules in relation to the transactions conducted under Audit Issues I-III and whether the IPO Proceeds had been utilised in accordance with the disclosure made in the Prospectus. Given that the Company had not sought professional advice prior to the relevant transactions or actions, the Company was recommended to seek appropriate professional advice prior to entering into a proposed transaction and/or any possible change in use of the IPO Proceeds such that the Company could fully comply with the Listing Rules. It was also recommended that enhanced training shall be provided to the Board and the management of the Company in relation to Listing Rules compliance.

(iii) Payment of earnest money and due diligence work arrangement

It was noted that the amount of the Earnest Money and the Refundable Deposits was substantial. The Company was recommended to enhance its internal procedures in relation to the payment and recovery of earnest monies, deposits or prepayments, the risk assessment of such payment and the due diligence process for proposed acquisitions or transactions with a view to enabling the Company to execute and document its due diligence review on the relevant targets or counterparties in a more systematic and efficient manner.

(iv) Other recommendations and observations

The Independent Professional Adviser noted that certain unexecuted agreements have been signed and stamped with the Company's chop before going through the Group's internal approval procedures. It was recommended that the Group should strictly comply with its internal approval procedures for the signing and execution of agreements.

The Independent Professional Adviser also recommended the Group to improve its accounts management system and record keeping practices to give due regard to the nature and substance of the relevant transactions, and to review and strengthen its exchange rate policy.

THE INDEPENDENT COMMITTEE'S VIEW

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

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

Taking into account the recommendations made by the Independent Professional Adviser and in the circumstances of Audit Issues I-III, the Independent Committee has also recommended that:

- (i) the Board shall arrange professional parties to provide training of not less than 20 hours per year to the Directors and key management team members of the Group in relation to Listing Rules compliance;

- (ii) the Company should report all connected transactions (regardless of the transaction amount) and all transactions with an amount exceeding RMB1 million, which are not conducted in ordinary and usual course of business of the Group, to the independent non-executive Directors;
- (iii) the Company should engage an internal control consultant (the “**Internal Control Consultant**”) to review the internal control systems of the Group (the “**Internal Control Review**”) and to assess the results of all the remedial actions taken by the Group in response to the recommendations made by the Independent Professional Adviser, the Independent Committee and the Internal Control Consultant;
- (iv) the Company shall ensure that it has sufficient and stable manpower to deal with the Group’s affairs, in particular the staffing of the finance department and the internal control department; and
- (v) the Company should report its management accounts to the independent non-executive Directors on a monthly basis.

OPINION OF THE BOARD

The Board has reviewed the findings of the Independent Inquiry Report and concurs with the view of the Independent Committee set out above. The Board accepts the Independent Committee’s view to strengthen its internal controls and procedures as suggested by the Independent Committee and the Independent Professional Adviser and will take appropriate remedial actions in this connection and upon completion of the Internal Control Review based on the findings of such review and recommendations of the Internal Control Consultant.

Given that the payments by the Group under Audit Issues I-III in respect of potential transactions that were subsequently terminated or not further pursued by the Group had been refunded to the Group, and the Group did not incur any loss as a result of the fund movements and/or the terminated transactions, the Board takes the view that the fund movements considered under Audit Issues I-III did not have material adverse impact on the business operation and financial position of the Group.

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 is taking measures to improve its internal controls and procedures as recommended by the Independent Professional Adviser and the Independent Committee. 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 Healthy Living Company Limited
Huang Ruoqing
Chairman

Hong Kong, 31 January 2024

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.