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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)

INSIDE INFORMATION

SUPPLEMENTAL ANNOUNCEMENT

RESTATEMENT OF THE INTERIM RESULTS AND THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. Introduction

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

Reference is made to the interim report (the “**Interim Report**”) and interim results announcement (the “**Announcement**”) both dated 29 August 2019 of the Company. Capitalised terms used herein have the same meanings as those defined in the Announcement.

2. The Interim Report

In the preparation of the financial information for inclusion into the Interim Report and the Announcement, three companies, namely Jiangxi Lirui Real Estate Development Co., Ltd* (江西力瑞地產開發有限公司) (the “**First Company**”) and Jiangxi Redco Guocheng Real Estate Development Co., Ltd* (江西力高國城地產開發有限公司) (the “**Second Company**”) and Jiangxi Chenggao Real Estate Development Co., Ltd* (江西城高房地產開發有限公司) (the “**Third Company**”, together with the First Company and the Second Company, the “**Relevant**

Companies”), should have been but were not accounted for as subsidiaries of the Company for the six months ended 30 June 2019. The condensed consolidated financial information in the Interim Report was not reviewed by the Company’s auditors.

As at 31 December 2018 and 30 June 2019 and the date of this announcement, the Group owned 51% of the shares of the First Company in issue and 20% of the shares of the Second Company in issue. The Third Company was owned as to 80% by the Second Company. Each of the First Company and the Third Company is a holding company for a property development project. As at 30 June 2019 and as at the date of this announcement, each of the projects are under development.

As the Group was able to control more than one half of the voting right by virtue of the fact that more than half of the directors of each of the Relevant Companies were elected by the Group and the board of directors of each of the Relevant Companies were able to direct the activities which significantly affect the returns, and the decisions at the board of directors level were made by simple majority. It followed that the Group accounted for each of the Relevant Companies as subsidiaries in the Group’s financial statements for the year ended 31 December 2018.

In January 2019, the Company entered into separate agreements (the “**Concert Party Agreements**”) with the remaining shareholders of each of the Relevant Companies. Under the terms of the Concert Party Agreements, all resolutions to be proposed at the board meetings of the Relevant Companies shall require unanimous consent of all the directors and shareholders of that company for a period stipulated in the Concert Party Agreements, respectively. Notwithstanding the Company has the majority of the Board seats of each of the Relevant Companies, the Company would no longer be able to pass resolutions at the board of directors level without obtaining consent from all board members. As such, the board of directors of the Company (the “**Board**”) considered that the Company no longer controlled the Relevant Companies with effective from the date of the Concert Party Agreements and the Relevant Companies were not treated as subsidiaries of the Company but instead were accounted for as joint ventures using equity method in the original interim financial information for the six months ended 30 June 2019.

3. Restatement

The directors of the Company revisited the classification of investment in the Relevant Companies with further analysing the interpretations and application of HKFRS 10 “Consolidated Financial Statements” based on the totality of the relevant factors surrounding the operations of the Relevant Companies and the terms of the Concert Party Agreement.

Notwithstanding the existence of the Concert Party Agreements, as all the key relevant activities of the projects undertaken by the Relevant Companies, including but not limited to the project design, selection of the qualified third-party general construction contractors and formulation of the pre-sales, sales and pricing plans, were determined and approved prior to the date of the Concert Party Agreements, the directors of the Company are of the opinion that the Concert Party Agreements do not have any significant impact on how the Group exercises its power to direct relevant activities of the Relevant Companies during that certain period so as to affect the variable returns from its involvement. Moreover, the Group also provides full guarantees to all the bank loans of the Relevant Companies irrespective of the proportion of its entitlement to the return from the Relevant Companies. The Board has therefore concluded that the Relevant Companies should have been continued to be accounted for as subsidiaries of the Company during the six months ended 30 June 2019.

In view of the foregoing, the interim condensed consolidated financial information announced on 29 August 2019 (the “**Previously Reported Financial Information**”) requires restatements. The detailed effects of the restatement are set out in the paragraph headed “**4. Effects of the restatement**” and Appendix 1 of this announcement. A revised Interim Report containing the restated financial information and an updated discussion of the results are attached to this announcement. The revised Interim Report will also be dispatched to those Shareholders who had received the Interim Report as soon as practicable.

4. Effects of the restatement

Set out below is a summary of the effects of the restatement.

- (i) Consolidating the Relevant Companies, which had previously been accounted for as joint ventures as at 30 June 2019 and for the six months ended 30 June 2019 in the Previously Reported Financial Information.

Profit attributable to owners of the Company for the six months ended 30 June 2019 decreased by 40.7% to RMB283.7 million. Profit for the six months ended 30 June 2019 decreased by 34.6% to RMB376.5 million. The decreases in profit and profit attributable to the owners of the Company are mainly attributable to the elimination of the management fees of approximately RMB284 million received by the Group from the Relevant Companies upon consolidation. Further details of the restatement adjustments deriving from the consolidation of the Relevant Companies are set out in the column marked (i) of the financial statements shown in Appendix I.

- (ii) Reclassification of non-current bank borrowings of RMB3,054,173,000 to current bank borrowings

As a result of the recognition of the Relevant Companies from joint ventures to subsidiaries, based on the restated interim condensed consolidated financial results for the six months ended 30 June 2019, the Group has failed to comply with a financial covenant ratio requirement set out in the loan agreements of certain bank borrowings of the Group amounting to US\$377,000,000 (equivalent to approximately RMB2,577,920,000) as at 30 June 2019 (the “**Relevant Borrowings**”) which include US\$316,400,000 (equivalent to approximately RMB2,154,619,000) with scheduled repayment dates beyond 12 months from 30 June 2019. Such non-compliance constituted an event of default under the relevant loan agreements and the lenders would have the rights to demand for immediate repayment if the non-compliance is not waived or rectified. In addition, pursuant to the bank loan agreements of the Group’s short-term bank borrowings of approximately RMB825,393,000 and long-term bank borrowings with scheduled repayment dates beyond 12 months after 30 June 2019 of approximately RMB899,554,000 (the “**Bank Borrowings with Cross-default Clauses**”), the lenders have the rights to demand for immediate repayment should there be any default events happened in respect of other borrowings of the Group.

On 25 and 26 November 2019, the Company successfully negotiated with the relevant banks in relation to the Relevant Borrowings and obtained written agreements to revise the financial covenant ratio requirement for the period ended 30 June 2019 and for the year ending 31 December 2019 and to waive their rights arising from the non-compliance under the original clauses (the “**Waivers**”). The Group is able to comply with the revised financial covenant ratio requirement for the period ended 30 June 2019 under the revised terms of the loan agreements. Based on the communications with the banks related to the Bank Borrowings with Cross-default Clauses and email confirmations obtained, the directors considered that the banks will not exercise their rights under the relevant cross-default clauses given the Group has successfully obtained waivers and revision of the financial covenant ratio requirement of the Relevant Borrowings as mentioned above. The Board considers that the non-compliance of the financial covenant ratio requirement would not have any material impact on the Group’s operations or business.

Nevertheless, since the Waivers were not obtained as of 30 June 2019, the Group has reclassified non-current bank borrowings totaling RMB3,054,173,000 as at 30 June 2019 to current bank borrowings in accordance with paragraph 74 of Hong Kong Accounting Standard 1 (Revised) “Presentation of Financial Statements”. Further details of the re-classification are set out in the column marked (ii) of the financial statements shown in Appendix I

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

Hong Kong, 29 November 2019

As at the date of this announcement, the executive directors of the Company are Mr. Wong Yeuk Hung, Mr. Huang Ruoqing, Mr. Tang Chengyong and Mr. Wang Weifeng; and the independent non-executive directors of the Company are Dr. Wong Yau Kar, David GBS, BBS, JP, Mr. Chau On Ta Yuen SBS, BBS, and Mr. Yip Tai Him.

** For identification purpose only*

Appendix I

The effects of the restatement adjustments on the interim condensed consolidated financial information as at 30 June 2019 and for the six months ended 30 June 2019 are as follows:

a) Condensed Consolidated Statement of Profit or Loss

	As previously reported	(i)	(ii)	Restated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	1,787,344	(283,962)	—	1,503,382
Cost of sales	<u>(875,096)</u>	<u>—</u>	<u>—</u>	<u>(875,096)</u>
Gross profit	912,248	(283,962)	—	628,286
Other gains, net	247,556	60	—	247,616
Selling and marketing expenses	(170,737)	(2,915)	—	(173,652)
General and administrative expenses	(238,755)	(8,184)	—	(246,939)
Fair value gain on investment properties	<u>110,105</u>	<u>—</u>	<u>—</u>	<u>110,105</u>
Operating profit	860,417	(295,001)	—	565,416
Finance income	63,526	387	—	63,913
Finance costs	<u>(9,088)</u>	<u>—</u>	<u>—</u>	<u>(9,088)</u>
Finance income, net	<u>54,438</u>	<u>387</u>	<u>—</u>	<u>54,825</u>
Share of (loss)/profit of investments accounted for using the equity method, net	<u>(47,069)</u>	<u>21,080</u>	<u>—</u>	<u>(25,989)</u>
Profit before income tax	867,786	(273,534)	—	594,252
Income tax expense	<u>(291,982)</u>	<u>74,214</u>	<u>—</u>	<u>(217,768)</u>
Profit for the period	<u><u>575,804</u></u>	<u><u>(199,320)</u></u>	<u><u>—</u></u>	<u><u>376,484</u></u>

	As previously reported	(i)	(ii)	Restated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit attributable to:				
Owners of the Company	478,314	(194,660)	—	283,654
Non-controlling interests	<u>97,490</u>	<u>(4,660)</u>	<u>—</u>	<u>92,830</u>
	<u>575,804</u>	<u>(199,320)</u>	<u>—</u>	<u>376,484</u>
Earnings per share for profit attributable to owners of the Company				
— Basic and diluted (expressed in RMB cents per share)	<u>13.47</u>			<u>7.99</u>

b) Condensed Consolidated Balance Sheet

	As previously reported	(i)	(ii)	Restated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
ASSETS				
Non-current assets				
Property, plant and equipment	238,299	621	—	238,920
Investment properties	1,007,857	—	—	1,007,857
Intangible assets	335,992	—	—	335,992
Investments accounted for using the equity method	970,070	(42,872)	—	927,198
Prepayments	4,000	—	—	4,000
Deferred income tax assets	<u>594,334</u>	<u>74,214</u>	<u>—</u>	<u>668,548</u>
	<u>3,150,552</u>	<u>31,963</u>	<u>—</u>	<u>3,182,515</u>

	As			
	previously			
	reported	(i)	(ii)	Restated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current assets				
Completed properties held for sale	1,728,696	—	—	1,728,696
Properties under development for sale	19,964,752	2,455,970	—	22,420,722
Contract assets	700,000	—	—	700,000
Trade and other receivables and deposits	3,448,104	(262,052)	—	3,186,052
Prepayments	1,194,435	4,730	—	1,199,165
Amounts due from joint ventures	411,676	(325,664)	—	86,012
Amounts due from associates	113,850	—	—	113,850
Amounts due from non-controlling interests	836,449	202,538	—	1,038,987
Income tax recoverable	468,341	—	—	468,341
Restricted cash	2,538,257	196,409	—	2,734,666
Cash and cash equivalents	<u>8,316,373</u>	<u>889,874</u>	<u>—</u>	<u>9,206,247</u>
	<u>39,720,933</u>	<u>3,161,805</u>	<u>—</u>	<u>42,882,738</u>
Total assets	<u>42,871,485</u>	<u>3,193,768</u>	<u>—</u>	<u>46,065,253</u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	139,632	—	—	139,632
Reserves	<u>4,596,351</u>	<u>(194,660)</u>	<u>—</u>	<u>4,401,691</u>
	4,735,983	(194,660)	—	4,541,323
Non-controlling interests	<u>2,457,775</u>	<u>142,448</u>	<u>—</u>	<u>2,600,223</u>
Total equity	<u>7,193,758</u>	<u>(52,212)</u>	<u>—</u>	<u>7,141,546</u>

	As			
	previously			
	reported	(i)	(ii)	Restated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
LIABILITIES				
Non-current liabilities				
Borrowings	8,166,256	900,000	(3,054,173)	6,012,083
Deferred income tax liabilities	310,349	—	—	310,349
	<u>8,476,605</u>	<u>900,000</u>	<u>(3,054,173)</u>	<u>6,322,432</u>
Current liabilities				
Trade and other payables	6,828,585	467,828	—	7,296,413
Borrowings	5,546,902	1,000,000	3,054,173	9,601,075
Amounts due to non-controlling interests	2,351,687	675,815	—	3,027,502
Amount due to an associate	198,067	6,667	—	204,734
Amounts due to joint ventures	265,827	(248,562)	—	17,265
Contract liabilities	10,595,534	444,232	—	11,039,766
Income tax liabilities	1,414,520	—	—	1,414,520
	<u>27,201,122</u>	<u>2,345,980</u>	<u>3,054,173</u>	<u>32,601,275</u>
Total liabilities	<u>35,677,727</u>	<u>3,245,980</u>	<u>—</u>	<u>38,923,707</u>
Total equity and liabilities	<u>42,871,485</u>	<u>3,193,768</u>	<u>—</u>	<u>46,065,253</u>

c) Condensed Consolidated Statement of Cash Flows

	As previously reported	(i)	(ii)	Restated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash used in operating activities	<u>(1,110,159)</u>	<u>(380,513)</u>	<u>—</u>	<u>(1,490,672)</u>
Net cash used in investing activities	<u>(387,532)</u>	<u>179,570</u>	<u>—</u>	<u>(207,962)</u>
Net cash generated from financing activities	<u>4,113,393</u>	<u>1,090,817</u>	<u>—</u>	<u>5,204,210</u>
Net increase in cash and cash equivalents	2,615,702	889,874	—	3,505,576
Cash and cash equivalents at end of period	<u><u>8,316,373</u></u>	<u><u>889,874</u></u>	<u><u>—</u></u>	<u><u>9,206,247</u></u>