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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2022 was approximately RMB207.8 million, representing an increase of approximately 19.5% as compared to the corresponding period of approximately RMB173.9 million in 2021.
- Gross profit for the six months ended 30 June 2022 was approximately RMB67.9 million, representing an increase of approximately 13.1% as compared to the corresponding period of approximately RMB60.0 million in 2021.
- Gross profit margin for the six months ended 30 June 2022 was approximately 32.7% compared with that of approximately 34.5% in the corresponding period in 2021.
- Net profit of the Group for the six months ended 30 June 2022 was approximately RMB18.2 million, representing an increase of approximately 5.2% as compared to the corresponding period of approximately RMB17.3 million in 2021.

- For the six months ended 30 June 2022, the total contracted GFA of the Group was approximately 26.9 million sq.m., representing an increase of approximately 22.3% as compared to approximately 22.0 million sq.m. in the corresponding period in 2021.
- For the six months ended 30 June 2022, the GFA under management of the Group was approximately 18.9 million sq.m., representing an increase of approximately 36.0% as compared to approximately 13.9 million sq.m. in the corresponding period in 2021.
- The Board has resolved not to declare any payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Redco Healthy Living Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022 with comparative figures for the corresponding period of the preceding financial year as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Note	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Revenue	4	207,812	173,944
Cost of sales	6	(139,958)	(113,943)
Gross profit		67,854	60,001
Other gains, net	5	1,296	3,127
Selling and marketing expenses	6	(2,280)	(1,962)
Administrative expenses	6	(37,705)	(30,329)
Provision for impairment losses of financial assets		(2,991)	(2,402)
Operating profit		26,174	28,435
Finance income		202	166
Finance costs		(631)	(292)
Finance income/(costs), net		(429)	(126)
Share of profits of investments accounted for using the equity method		572	421
Profit before income tax		26,317	28,730
Income tax expense	7	(8,125)	(11,430)
Profit for the period		18,192	17,300
Profit for the period attributable to:			
Owners of the Company		12,446	14,024
Non-controlling interests		5,746	3,276
		18,192	17,300
Earnings per share attributable to owners of the Company			
Basic and diluted (expressed in RMB cents per share)	8	7.11	9.35

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Profit for the period	18,192	17,300
Other comprehensive income		
Item that may be reclassified to profit or loss		
– Currency translation differences	<u>7,287</u>	<u>159</u>
Total comprehensive income for the period	<u>25,479</u>	<u>17,459</u>
Total comprehensive income attributable to:		
Owners of the Company	19,733	14,183
Non-controlling interests	<u>5,746</u>	<u>3,276</u>
Total comprehensive income for the period	<u>25,479</u>	<u>17,459</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2021 <i>RMB'000</i> <i>(Audited)</i>
	<i>Note</i>		
Assets			
Non-current assets			
Intangible assets	10	45,251	48,388
Property, plant and equipment	11	56,077	56,158
Investments accounted for using the equity method		3,634	3,408
Deferred income tax assets		7,836	6,938
		112,798	114,892
Current assets			
Trade and other receivables and prepayments	12	189,146	150,797
Cash and cash equivalents		227,653	123,652
		416,799	274,449
Total assets		529,597	389,341
Equity			
Equity attributable to owners of the Company			
Share capital	13	16,220	—
Reserves		288,169	129,827
		304,389	129,827
Non-controlling interests		38,153	32,407
Total equity		342,542	162,234

	<i>Note</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Borrowings	14	314	—
Lease liabilities		3,398	3,569
Other payables	15	2,270	2,155
Deferred income tax liabilities		6,381	7,212
		<u>12,363</u>	<u>12,936</u>
Current liabilities			
Trade payables	15	18,081	18,513
Accruals and other payables	15	51,920	54,895
Contract liabilities		66,242	76,327
Borrowings	14	14,011	10,231
Lease liabilities		425	366
Amounts due to related parties		1,865	33,695
Current income tax liabilities		22,148	20,144
		<u>174,692</u>	<u>214,171</u>
Total liabilities		<u>187,055</u>	<u>227,107</u>
Total equity and liabilities		<u>529,597</u>	<u>389,341</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1 General information and basis of preparation

1.1 General Information

Redco Healthy Living Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 10 February 2021 as an exempted company with limited liability under laws of the Cayman Islands. The address of the Company’s registered office is at the office of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. On 31 March 2022, the Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) by way of initial public offering (the “**Listing**”).

The Company is an investment holding company. The Company and its subsidiaries (the “**Group**”) are principally engaged in the provision of property management services, value-added services to non-property owners, community value-added services, development and maintenance services to the information technology (“**IT**”) systems, healthcare management services and property agency services in the People’s Republic of China (the “**PRC**”).

The ultimate holding company of the Company is Redco Properties Group Limited (“**Redco Properties**”) whose shares are listed on the Main Board of the Stock Exchange. The Company’s immediate holding company is Top Glory International Holdings Ltd. whose equity interests are wholly held by Redco Properties. The ultimate controlling parties of the Group are Mr. Wong Yeuk Hung and Mr. Huang Ruoqing, who are parties acting in concert and have been collectively controlling the Group.

This interim financial information for the six months ended 30 June 2022 (“**Interim Financial Information**”) is presented in Renminbi (“**RMB**”), unless otherwise stated, and has been approved for issue by the Board of Directors on 26 August 2022.

1.2 Basis of preparation

This Interim Financial Information has been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim Financial Reporting’. This Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2021 (“2021 Financial Statements”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2 Summary of significant accounting policies

The accounting policies applied to this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2021, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs and annual improvement effective for the financial year beginning on or after 1 January 2022.

- (a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2022 and currently relevant to the Group:

Amendments to HKFRS 16	Covid-19 – Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The Group has adopted these amendments of standards and the adoption of these amendments of standards do not have significant impacts on the Group’s condensed consolidated interim financial information.

- (b) The following new standards, amendments to existing standards and annual improvement have been issued but are not effective for the financial year beginning 1 January 2021 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Update Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts - Costs of Fulfilling a Contract	1 January 2022
Annual Improvements Project	Annual Improvements 2018-2020 Cycle	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture	To be determined

The directors of the Group are in the process of assessing the financial impact of the adoption of the above new standards, amendments to existing standards and annual improvements. The Group will adopt the new standards, amendments to existing standards and annual improvements when they become effective.

3 Segment information

Management has determined the operating segments based on the reports reviewed by chief operating decisionmaker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company.

The CODM has identified three reportable operating segments, namely property management, healthcare services and others, as follows:

Property management – Provision of property management services, provision of value-added services to non-property owners and provision of community value-added services

Healthcare services – Provision of healthcare management services

Others – Development and maintenance of IT systems for property developers, provision of other IT-related services and other miscellaneous services

CODM reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one segment which is used to make strategic decisions.

The Group's customers include property owners, property developers, residents and tenants. The major operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the periods.

Except for certain properties located in Hong Kong, all of the non-current assets of the Group were located in the PRC as at 30 June 2022 and 31 December 2021.

4 Revenue

Revenue represents income from property management services, value-added services to non-property owners, community value-added services, community healthcare services and IT services and intelligent construction services.

An analysis of the Group's revenue as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Revenue from customer and recognised over time:		
Property management services	121,446	94,714
Value-added services to non-property owners	39,652	39,602
Community value-added services	26,327	19,141
Community healthcare services	9,347	8,546
IT services and intelligent construction services	9,726	10,523
	206,498	172,526
Revenue from customer and recognised at a point in time:		
Valued-added services to non-property owners	1,314	1,418
	1,314	1,418
	207,812	173,944

For the six months ended 30 June 2022, revenue from Redco Properties, its subsidiaries, associates and joint ventures contributed 32.6% (six months ended 30 June 2021: 36.6%) of the Group's revenue, Other than Redco Properties, its subsidiaries, associates and joint ventures, the Group has a large number of customers, none of whom contributed 10% or more of the Group's revenue during the six months ended 30 June 2022 and 2021 respectively.

5 Other gains, net

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Gain on disposal of subsidiaries	—	415
Government grant (Note a)	1,105	2,752
Sundry income/(losses), net	191	(40)
	<u>1,296</u>	<u>3,127</u>

Note a: The government grants mainly represent financial subsidies granted by local government. There are no unfulfilled conditions or other contingencies attached to these grants.

6 Expenses by nature

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Employee benefits expense	90,513	77,112
Greening and cleaning expenses	19,859	17,158
Maintenance expenses	8,728	9,028
Utility	9,772	7,679
Security charges	12,380	3,576
Community activities expenses	1,595	598
Uniform expenses	310	242
Consumable goods	3,413	1,184
Information technology service fee	2,682	1,865
Entertainment expenses	542	606
Legal and professional fees	238	586
Amortisation of intangible assets	3,137	2,903
Depreciation of property, plant and equipment	3,318	1,751
Auditor's remuneration	16	18
Listing expenses	11,210	11,247
Office expenses	6,419	5,544
Travelling expenses	769	907
Other tax and surcharges	713	948
Others	4,329	3,282
	<hr/>	<hr/>
Total cost of sales, selling and marketing expenses and administrative expenses	179,943	146,234
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7 Income tax expense

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and, accordingly, is exempted from Cayman Islands income tax.

Subsidiaries established and operating in the PRC are generally subject to the PRC enterprise income tax at the rate of 25% for the six months ended 30 June 2022 and 2021 respectively. For certain subsidiaries qualified as micro and small enterprises, the PRC enterprise income tax was charged at a preferential rate of 20% for the periods in which they were qualified.

Subsidiaries established in other jurisdictions are for the purpose of investment holding and therefore have no assessable profits for the six months ended 30 June 2022 and 2021 respectively.

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Current income tax		
– PRC corporate income tax	10,365	13,156
Deferred income tax	(2,240)	(1,726)
Income tax expense	<u>8,125</u>	<u>11,430</u>

8 Earnings per share

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the respective periods. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issuance of 3 shares of the Company in connection with the reorganisation completed on 2 June 2021 and the capitalisation issue of 149,999,996 shares completed on 31 March 2022, which were deemed to have been in issue since 1 January 2021.

On 31 March 2022, the Company issued 50,000,000 shares through initial public offering of shares.

	Six months ended 30 June	
	2022 <i>(Unaudited)</i>	2021 <i>(Audited)</i>
Profit attributable to owner of the Company (RMB'000)	12,446	14,024
Weighted average number of share in issue	<u>175,138,000</u>	<u>150,000,000</u>
Basic earnings per share (RMB cents)	<u>7.11</u>	<u>9.35</u>

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 30 June 2022 and 30 June 2021.

9 Dividends

The Board has resolved not to declare any payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

10 Intangible assets

	Customer relationship	Property management contracts	Service contracts	Goodwill	Computer software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2022						
Opening net book amount	14,539	5,019	604	24,232	3,994	48,388
Amortisation	(1,220)	(1,281)	(302)	—	(334)	(3,137)
Closing net book amount	<u>13,319</u>	<u>3,738</u>	<u>302</u>	<u>24,232</u>	<u>3,660</u>	<u>45,251</u>
As at 30 June 2022						
Cost	17,080	7,689	1,299	24,232	4,348	54,648
Accumulated amortisation	(3,761)	(3,951)	(997)	—	(688)	(9,397)
Net book amount	<u>13,319</u>	<u>3,738</u>	<u>302</u>	<u>24,232</u>	<u>3,660</u>	<u>45,251</u>
Year ended 31 December 2021						
Opening net book amount	16,978	7,582	1,295	24,232	—	50,087
Additions	—	—	—	—	4,348	4,348
Amortisation	(2,439)	(2,563)	(691)	—	(354)	(6,047)
Closing net book amount	<u>14,539</u>	<u>5,019</u>	<u>604</u>	<u>24,232</u>	<u>3,994</u>	<u>48,388</u>
As at 31 December 2021						
Cost	17,080	7,689	1,299	24,232	4,348	54,648
Accumulated amortisation	(2,541)	(2,670)	(695)	—	(354)	(6,260)
Net book amount	<u>14,539</u>	<u>5,019</u>	<u>604</u>	<u>24,232</u>	<u>3,994</u>	<u>48,388</u>

11 Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Buildings <i>RMB'000</i>	Right-of- use assets <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2022						
Opening net book amount	6,330	7,382	1,300	26,772	14,374	56,158
Additions	1,909	1,328	—	—	—	3,237
Depreciation	(1,090)	(1,205)	(202)	(504)	(317)	(3,318)
Closing net book amount	<u>7,149</u>	<u>7,505</u>	<u>1,098</u>	<u>26,268</u>	<u>14,057</u>	<u>56,077</u>
As at 30 June 2022						
Cost	9,042	15,832	3,328	26,772	15,009	69,983
Accumulated depreciation	(1,893)	(8,327)	(2,230)	(504)	(952)	(13,906)
Net book amount	<u>7,149</u>	<u>7,505</u>	<u>1,098</u>	<u>26,268</u>	<u>14,057</u>	<u>56,077</u>
Year ended 31 December 2021						
Opening net book amount	6,727	6,307	976	—	11,183	25,193
Additions	406	3,253	1,285	26,772	1,247	32,963
Modification	—	—	—	—	2,579	2,579
Disposals	—	(46)	(1)	—	—	(47)
Depreciation	(803)	(2,132)	(960)	—	(635)	(4,530)
Closing net book amount	<u>6,330</u>	<u>7,382</u>	<u>1,300</u>	<u>26,772</u>	<u>14,374</u>	<u>56,158</u>
As at 31 December 2021						
Cost	7,133	14,504	3,328	26,772	15,009	66,746
Accumulated depreciation	(803)	(7,122)	(2,028)	—	(635)	(10,588)
Net book amount	<u>6,330</u>	<u>7,382</u>	<u>1,300</u>	<u>26,772</u>	<u>14,374</u>	<u>56,158</u>

12 Trade and other receivables and prepayments

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables (Note (a))		
– Related parties	77,662	60,820
– Third parties	105,706	76,020
	183,368	136,840
Less: Loss allowance	(10,356)	(7,448)
	173,012	129,392
Deposits (Note (b))	3,293	3,358
Receivables due from property owners (Note (c))	6,784	6,111
Other receivables (Note (b))		
– Advance to employees	815	467
– Others	1,028	3,087
Less: allowance for impairment of other receivables	(175)	(92)
	11,745	12,931
Prepaid listing expenses	—	5,792
Other prepayments	4,389	2,682
	4,389	8,474
Total trade and other receivables and prepayments	189,146	150,797

Notes:

- (a) Trade receivables mainly arise from property management service income, value-added services as provided to non-property owners, community healthcare services and IT services and intelligent construction services.

Property management services income are received in accordance with the terms of the relevant services agreements. Service income from property management service is due for payment by the residents upon the issuance of demand note.

- (b) The carrying amounts of other receivables and deposits approximate their fair values and are unsecured, interest-free and repayable on demand. The carrying amounts of the Group's trade and other receivables and deposits are denominated in RMB.

- (c) It mainly represented utilities costs of properties paid on behalf of property owners.

As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade receivables based on invoice date were as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
0 – 30 days	70,411	67,181
31 – 60 days	21,370	10,618
61 – 90 days	14,944	7,208
91 – 180 days	40,910	24,480
181 – 365 days	26,324	22,773
Over 365 days	9,409	4,580
	183,368	136,840

13 Share capital

	Number of share	Nominal value of share <i>HK\$'000</i>	Equivalent nominal value of share <i>RMB'000</i>
Authorised:			
At 10 February 2021 (date of incorporation of the Company) and 31 December 2021	3,800,000	380	316
Increase in authorised share capital	<u>996,200,000</u>	<u>99,620</u>	<u>80,792</u>
At 30 June 2022	<u>1,000,000,000</u>	<u>100,000</u>	<u>81,108</u>
Issued and fully paid:			
At 10 February 2021 (date of incorporation of the Company)	1	—	—
Issuance of shares upon reorganisation	<u>3</u>	<u>—</u>	<u>—</u>
At 30 June 2021	<u>4</u>	<u>—</u>	<u>—</u>
At 1 January 2022	4	—	—
Increase in issued and fully paid share capital	<u>199,999,996</u>	<u>20,000</u>	<u>16,220</u>
At 30 June 2022	<u>200,000,000</u>	<u>20,000</u>	<u>16,220</u>

Note:

Pursuant to the resolutions of the shareholder of the Company passed on 14 March 2022, subject to the share premium account of the Company being credited as a result of the issue of the offer shares under the Global Offering, the directors are authorised to allot and issue a total of 149,999,996 shares credited as fully paid at par to Top Glory International Holdings Ltd. by way of capitalisation of HK\$14,999,999 standing to the credit of the share premium account of the Company.

On 31 March 2022, the Company issued 50,000,000 shares at HK\$4.1 each through an initial public offering of shares and raised gross cash proceeds of approximately HK\$205,000,000 (before listing expenses).

14 Borrowings

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total bank and other borrowings	14,325	10,231
Portion due for repayment within one year or contain a repayment on demand clause	<u>(14,011)</u>	<u>(10,231)</u>
Non-current portion	<u>314</u>	<u>—</u>

As at 30 June 2022, the Group's bank borrowing denominated in HKD was charged with interest rate of 1-month HIBOR plus 1.3% per annum (31 December 2021: 1-month HIBOR plus 1.3% per annum).

As at 30 June 2022, the Group's bank and other borrowings in RMB was charged with interest rate ranged from 1-year loan prime rate ("LPR") plus 1.7% per annum to 1-year LPR plus 5.75% per annum.

As at 30 June 2022, the Group's bank borrowing denominated in HKD was secured by the pledge of certain properties (note 11) with a carrying amount of RMB27,475,000 (31 December 2021: RMB26,772,000) and guaranteed by the Company.

The amounts based on the scheduled repayment dates set out in the loan agreements and the maturities of the Group's total borrowings at the respective balance sheet dates are shown below:

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amounts of borrowings that are repayable:		
– Within 1 year	4,823	962
– Between 1 and 2 years	1,334	969
– Between 2 and 5 years	3,153	2,996
– Over 5 years	<u>5,015</u>	<u>5,304</u>
	<u>14,325</u>	<u>10,231</u>

15 Trade payables, accruals and other payables

	30 June	31 December
	2022	2021
	RMB'000	<i>RMB'000</i>
	(Unaudited)	<i>(Audited)</i>
Trade payables	<u>18,081</u>	<u>18,513</u>
Accruals and other payables	43,595	41,711
Accruals for listing expenses	400	3,631
Consideration payable	2,270	2,155
Other taxes payables	4,377	4,550
Salary payables	<u>3,548</u>	<u>5,003</u>
	<u>54,190</u>	<u>57,050</u>
Less: non-current portion		
Consideration payable	<u>(2,270)</u>	<u>(2,155)</u>
	<u>51,920</u>	<u>54,895</u>

As at 30 June 2022 and 31 December 2021, the carrying amounts of the Group's trade payables approximate their fair values due to their short maturities.

The aging analysis of the trade payables based on invoice dates is as follows:

	30 June	31 December
	2022	2021
	RMB'000	<i>RMB'000</i>
	(Unaudited)	<i>(Audited)</i>
0 - 30 days	12,394	12,350
31 - 60 days	616	550
61 - 90 days	1,409	1,431
Over 90 days	<u>3,662</u>	<u>4,182</u>
	<u>18,081</u>	<u>18,513</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In the first half of 2022, international political and economic conditions continued to be under pressure, with regional political and economic frictions emerging globally. China's economy also suffered a shock beyond expectations in the first half of the year, with recurrence of pandemic in multiple places, putting pressure on people's lives and consumption level. The real estate industry entered an era of stockpiling, with risks in the property sector spreading to the residential side as well as to other sectors such as finance. Property management companies had also been affected by the economic downturn to a certain extent. Under the new development trend, property management companies have been gradually returning to the fundamentals of the industry and focusing on the improvement of service quality and capability, which poses a bigger challenge to the diversified development and brands strength of property management companies.

Business Review

The Company is a property management service provider with a leading position in Jiangxi Province with a service network strategically covering core regions such as the Yangtze River Delta Region, the Greater Bay Area, the Bohai Rim Region and the Central China Region. We have always been adhering to the brand concept of "striving for a healthy better life", relying on the service concept of "life + health" dual butlers, empowering our business with technology and serving our property owners with quality. We will keep up with the industry trend and implement the development strategy of the Company through scientific research and judgement, so as to achieve steady growth in business performance.

In the first half of 2022, the Group recorded revenue of RMB207.8 million, representing a period-on-period growth of 19.5%. Profit for the six months ended 30 June 2022 was RMB18.2 million, representing a period-on-period growth of 5.2%. Profit and other comprehensive income for the six months ended 30 June 2022 was RMB25.5 million. As at 30 June 2022, the aggregate gross floor area ("GFA") under management reached 18.9 million square meter(s) ("sq.m."), representing a period-on-period growth of 36.0%, and the aggregate contracted GFA reached 26.9 million sq.m., representing a period-on-period growth of 22.3%.

The steady development and outstanding comprehensive strength of the Group have been widely recognised within and outside the industry, thus rendering the upgrade of our ranking in China’s Top 100 Property Management Companies to the 37th in 2022 (ranked 40th in 2021) in terms of overall strengths.

Outlook

Going forward, as market opportunities and challenges coexist, the Group will continue to strengthen its internal strength, enhance service quality and customer satisfaction, solidify its ability to expand independently, and expand its business scale. Under the system of efficient operation and refined management, the Group will deepen the “lifestyle + healthcare” dual butler service system, accelerate the implementation of Yearning Health Centers (怡鄰健康中心), and further build a healthcare community by relying on intelligent technology, so as to create healthy and better life for customers and create more value for the shareholders of the Company at the same time.

FINANCIAL REVIEW

Revenue

The revenue of the Group was derived from three business segments: (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services in the People’s Republic of China (the “**PRC**”). The revenue of the Group increased by approximately 19.5% from approximately RMB173.9 million for the six months ended 30 June 2021 to approximately RMB207.8 million for the six months ended 30 June 2022.

The following table sets forth the details of the Group’s revenue by business segments for the periods indicated:

	Six months ended 30 June					
	2022		2021		Changes	
	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>
Property management services	121,446	58.4	94,714	54.5	26,732	28.2
Value-added services to non-property owners	50,692	24.4	51,543	29.6	(851)	(1.7)
Community value-added services	35,674	17.2	27,687	15.9	7,987	28.8
	<u>207,812</u>	<u>100.0</u>	<u>173,944</u>	<u>100.0</u>	<u>33,868</u>	<u>19.5</u>

Property management services

Revenue from property management services increased by approximately 28.2% from approximately RMB94.7 million for the six months ended 30 June 2021 to approximately RMB121.4 million for the six months ended 30 June 2022, primarily attributable to (i) the increase in GFA under management as a result of business expansion through organic growth; and (ii) the increase in the average property management fee.

Value-added services to non-property owners

Revenue from value-added services to non-property owners decreased by approximately 1.7% from approximately RMB51.5 million for the six months ended 30 June 2021 to approximately RMB50.7 million for the six months ended 30 June 2022 mainly due to the slight decrease in revenue from IT services and intelligent construction services provided during the six months ended 30 June 2022.

Community value-added services

Revenue from community value-added services increased by approximately 28.8% from approximately RMB27.7 million for the six months ended 30 June 2021 to approximately RMB35.7 million for the six months ended 30 June 2022, primarily due to the increase in revenue from carpark sales agency services and sales of groceries to property owners as a result of the increase in number of properties being managed by the Group.

Cost of sales

The cost of services primarily consists of (i) employee benefit expenses; (ii) greening and cleaning expenses; (iii) maintenance expenses; (iv) utility and security charges; and (v) other expenses such as depreciation of property, plant and equipment and amortisation of intangible asset.

Cost of services increased by approximately 22.8% from approximately RMB113.9 million for the six months ended 30 June 2021 to approximately RMB140.0 million for the six months ended 30 June 2022, primarily due to increase in salary as a result of increased number of employees and staff resulting from business expansion and the increase in subcontracting costs as a result of the increase in GFA under management.

Gross profit margin

The following table sets forth the details of the Group's gross profit margin by types of services for the periods indicated:

	For the six months ended 30 June	
	2022	2021
Property management services	25.2%	25.3%
Value-added services to non-property owners	44.1%	44.6%
Community value-added services	41.8%	47.1%
	<u>32.7%</u>	<u>34.5%</u>

The gross profit margin for property management services and value-added services to non-property owners remained stable during the six months ended 30 June 2022 as compared to the corresponding period in 2021. The gross profit margin for community value-added services decreased from 47.1% for the six months ended 30 June 2021 to 41.8% for the six months ended 30 June 2022 because the Company increased the sales of groceries to property owners which typically has relatively lower gross profit margin than that of other community value-added services.

Other gains, net

The other gains, net, decreased from approximately RMB3.1 million for the six months ended 30 June 2021 to approximately RMB1.3 million for the six months ended 30 June 2022 primarily due to the decrease in government grants received during the six months ended 30 June 2022.

Selling and marketing expenses

Our selling and marketing expenses mainly include employee benefit expenses relating to sales and marketing activities, marketing and promotional expenses and others (mainly including traveling and entertainment expenses, and office expenses relating to sales and marketing activities). Selling and marketing expenses increased to RMB2.3 million for the six months ended 30 June 2022 from RMB2.0 million for the six months ended 30 June 2021, primarily due to the continuous expansion of the Group's business.

Administrative expenses

Our administrative expenses primarily consist of administrative staff's employee benefit expenses and bonuses, travel and entertainment, office expenses, depreciation and amortization and other expenses relating to administration activities, bank charges and tax and surcharges. Administrative expenses increased from approximately RMB30.3 million for the six months ended 30 June 2021 to approximately RMB37.7 million for the six months ended 30 June 2022, primarily due to an increase in administrative staff costs as a result of increased in GFA under management during the six months ended 30 June 2022.

Net provision for impairment losses of financial assets

The net provision for impairment loss of financial assets increased from approximately RMB2.4 million for the six months ended 30 June 2021 to approximately RMB3.0 million for the six months ended 30 June 2022, primarily due to the increase in trade receivables as a result of the increase in revenue from property management services.

Finance income

Finance income increased from approximately RMB0.1 million for the six months ended 30 June 2021 to approximately RMB0.2 million for the six months ended 30 June 2022, which represented the increase in interest income from bank deposits.

Finance costs

Finance costs increased from RMB0.3 million for the six months ended 30 June 2021 to approximately RMB0.6 million for the six months ended 30 June 2022, primarily due to the increase in interest expenses for the bank borrowings.

Income tax expenses

Income tax expenses decreased to approximately RMB8.1 million for the six months ended 30 June 2022 from approximately RMB11.4 million for the six months ended 30 June 2021, primarily due to (i) the decrease in profit before tax; and (ii) the preferential tax policy (tax exemption for the first two years and 50% tax reduction for the following three years) enjoyed by the double-software enterprises (雙軟企業) under the Group starting from 1 January 2022.

Profit for the period

As a result of the foregoing, the profit and total comprehensive income for the period increased by approximately RMB8.0 million from approximately RMB17.5 million for the six months ended 30 June 2021 to approximately RMB25.5 million for the six months ended 30 June 2022.

Profit attributable to owners of the Company for the period decreased from approximately RMB14.0 million for the six months ended 30 June 2021 to approximately RMB12.4 million for the six months ended 30 June 2022.

Intangible assets

The intangible assets of the Group mainly comprise property management contracts, customer relationship and goodwill resulted from the acquisition of Wuhu Senlin Property Management Co., Ltd, Shenzhen Zhongtian Yunlian Technology Development Co., Ltd and Weiye International Investments Company Limited. The intangible asset decreased from RMB48.4 million as at 31 December 2021 to RMB45.3 million as at 30 June 2022 mainly due to the amortization of customer relationship and property management contracts during the six months ended 30 June 2022.

Property, plant and equipment

The property, plant and equipment of the Group mainly consist of an office, car parking space, office equipment, machinery, vehicles, leasehold improvements and right-of-use assets. The decrease in balance from RMB56.2 million as at 31 December 2021 to RMB56.1 million was due to the combined effects of asset additions and the depreciation charge for the six months ended 30 June 2022.

Trade and other receivables and prepayments

Trade receivables mainly arise from provision of property management services, value-added services to non-property owners and community value-added services.

Trade receivables of the Group, net of allowance for impairment, increased from approximately RMB129.4 million as at 31 December 2021 to RMB173.0 million as at 30 June 2022, primarily because of the increase in the number of projects under management under the property management service segment of the Group and expansion of other business.

Other receivables mainly consist of deposits, payments made on behalf of property owners and prepaid listing expenses.

Other receivables and prepayments, net of allowance for impairments, decreased from approximately RMB21.4 million as at 31 December 2021 to approximately RMB16.1 million as at 30 June 2022 mainly due to the utilisation of prepaid listing expenses during the six months ended 30 June 2022.

Trade payables

Trade payables decreased slightly from approximately RMB18.5 million as at 31 December 2021 to approximately RMB18.1 million as at 30 June 2022. No material fluctuation was noted during the six months ended 30 June 2022.

Accruals and other payables

Accruals and other payables (including those recorded as current liabilities and non-current liabilities) decreased from approximately RMB57.1 million as at 31 December 2021 to approximately RMB54.2 million as at 30 June 2022, mainly due to the settlement of accrued listing expenses during the six months ended 30 June 2022.

Contract liabilities

Contract liabilities primarily consist of advances of property management fees and other service fees. Contract liabilities decreased from approximately RMB76.3 million as at 31 December 2021 to approximately RMB66.2 million as at 30 June 2022, primarily due to the seasonal effect of property owners paying their outstanding property management fee balances at the year-end out of payment preference and convenience.

Borrowings

Borrowings increased from approximately RMB10.2 million as at 31 December 2021 to approximately RMB14.3 million as at 30 June 2022 because of the new bank and other borrowings granted to the Group. As at 30 June 2022, bank borrowings denominated in Hong Kong dollars (“**HK\$**”) amounted to approximately HK\$11.9 million and were charged with interest rate of 1-month HIBOR plus 1.3% per annum (31 December 2021: 1-month HIBOR plus 1.3% per annum) while bank and other borrowings denominated in RMB amounted to approximately RMB4.1 million and were charged with effective interest rate ranging from 1-year LPR plus 1.7% per annum to 1-year LPR plus 5.75% per annum.

Liquidity, financial resources and capital structure

As at 30 June 2022, the cash and cash equivalents of the Group amounted to approximately RMB227.7 million while the cash and cash equivalents of the Group amounted to approximately RMB123.7 million as at 31 December 2021. As at 30 June 2022 and 31 December 2021, the Group’s cash and cash equivalents were denominated in HK\$, RMB and United States dollar (“**US\$**”).

The Group maintained a sound financial position. As at 30 June 2022, the Group’s net current assets amounted to approximately RMB242.1 million while the Group’s net current assets as at 31 December 2021 amounted to approximately RMB60.3 million. As at 30 June 2022, the Group’s current ratio (current assets/current liabilities) was approximately 2.39 times while the Group’s current ratio as at 31 December 2021 was approximately 1.28 times. The gearing ratio (interest-bearing borrowings divided by total equity multiplied by 100%) as at 30 June 2022 was 4.2% while the gearing ratio as at 31 December 2021 was 6.3%.

Capital commitments

As at 30 June 2022, the Group did not have any material capital commitments (31 December 2021: Nil).

Contingent liabilities

As at 30 June 2022, the Group did not have any material contingent liabilities (31 December 2021: Nil).

Pledge of assets

As at 30 June 2022 and 31 December 2021, the Group's bank borrowings were secured by the pledge of certain properties with a carrying amount of approximately RMB27.5 million (31 December 2021: RMB26.8 million) and guaranteed by the Company.

Foreign exchange risk

Almost all of the Group's operating activities are carried out in the PRC with most of the transactions denominated in RMB. The major foreign currency source of the Group is the net proceeds received following the successful listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 31 March 2022 (the "**Listing Date**"), which were denominated in HK\$. The Directors expected that the fluctuations in RMB exchange rate would not have a material adverse effect on the operations of the Group. The Group will closely monitor the fluctuations of the RMB exchange rate and adopt prudent measures to reduce potential foreign exchange risk. As at 30 June 2022, the Group did not engage in hedging activities for managing the foreign exchange risk.

Interest rate risk

Except for the interest-bearing bank borrowings, the Group was not exposed to material risk directly relating to changes in market interest rate as at 30 June 2022.

SIGNIFICANT INVESTMENTS HELD

The Group had no significant investment held as at 30 June 2022.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures during the six months ended 30 June 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2022, save as disclosed in the prospectus of the Company dated 22 March 2022 (the “**Prospectus**”), the Group did not have other future plans for material investments and capital assets.

EMPLOYEES AND REMUNERATION POLICY

The Group had 2,489 full-time employees as at 30 June 2022 (30 June 2021: 2,430). The total staff costs for the six months ended 30 June 2022 were approximately RMB90.5 million (30 June 2021: RMB77.1 million). Employees’ remuneration package includes salary, performance bonus and other welfare subsidies. The remuneration of employees is determined in accordance with the Group’s remuneration and welfare policies, the employees’ positions, performance, company profitability, industry level and market environment.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Since 30 June 2022 and up to the date of this announcement, the Company is not aware of any material subsequent events.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

After deducting the underwriting fees and commissions, the net proceeds received by the Company from the Global Offering (as defined in the Prospectus) amounted to approximately HK\$155.6 million (the “**Net Proceeds**”). The Company intends to utilize the Net Proceeds for the purposes as set out in the Prospectus. As of 30 June 2022, an analysis of the utilisation of the Net Proceeds is as follows:

Proposed use of the Net Proceeds as set out in the Prospectus	Approximate		Utilised Net	Unutilised Net	Expected time of full utilisation
	percentage of total Net Proceeds	Net Proceeds <i>Approximately HK\$ (million)</i>	Proceeds as of 30 June 2022 <i>Approximately HK\$ (million)</i>	Proceeds as of 30 June 2022 <i>Approximately HK\$ (million)</i>	
(1) To pursue selective strategic investment and acquisition opportunities to further expand the Group’s business scale and broaden its service offerings, among which:	55.0%	85.5	—	85.5	
<ul style="list-style-type: none"> to acquire other property management companies with a focus on the management of residential projects 	38.5%	59.9	—	59.9	By 31 December 2024
<ul style="list-style-type: none"> to acquire other property management companies with diversified portfolio of properties under management 	16.5%	25.6	—	25.6	By 31 December 2024
(2) To upgrade information technology infrastructure and promote smart community management, among which:	15.0%	23.3	1.6	21.7	
<ul style="list-style-type: none"> to upgrade the intelligent operation system to enhance operational efficiency 	3.0%	4.65	0.6	4.05	By 31 December 2024
<ul style="list-style-type: none"> to enhance smart community management system, such as smart carpark management system, smart visitor management system and smart traffic control system, to enhance customer experience 	9.0%	14.0	0.7	13.3	By 31 December 2024
<ul style="list-style-type: none"> to recruit and support additional personnel to implement the technology upgrades mentioned above 	3.0%	4.65	0.3	4.35	By 31 December 2024
(3) To improve the Group’s services as the lifestyle butler to improve customers’ experience and satisfaction	10.0%	15.6	0.1	15.5	By 31 December 2024
(4) To expand the Group’s community healthcare services as the healthcare butler	10.0%	15.6	0.5	15.1	By 31 December 2024
(5) For general business purpose and working capital	10.0%	15.6	—	15.6	By 31 December 2024
Total	100.0%	155.6	2.2	153.4	

INTERIM DIVIDEND

The Board has resolved not to declare any payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

PURCHASE, SALE, OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 30 June 2022.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Part 2 of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance since the Listing Date and up to 30 June 2022.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date and up to 30 June 2022.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Chow Ming Sang (as the chairman), Mr. Sze Irons and Mr. Lau Yu Leung. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Company on financial reporting matters including a review of the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2022.

PUBLICATION OF UNAUDITED 2022 INTERIM RESULTS AND INTERIM REPORT

This interim results announcement has been published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.redcohealthy.com. The interim report of the Company for the six months ended 30 June 2022 will be dispatched to the shareholders of the Company and made available on the above websites in September 2022.

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

Hong Kong, 26 August 2022

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.