同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the "Board") of Tongfang Kontafarma Holdings Limited (the "Company") announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2021 with the comparative figures for the corresponding period in 2020 are as follows. The interim financial results of the Group for the six months ended 30 June 2021 have not been audited, but have been reviewed by the audit committee of the Company (the "Audit Committee") and by the auditor of the Company, BDO Limited.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
			(Re-presented)
Continuing operations			
Revenue	*5*	**458,192**	455,709
Cost of sales and services		**(232,765)**	(212,444)
Gross profit		**225,427**	243,265
Other income		**34,933**	38,959
Other gains and losses		**(33,543)**	(16,041)
Impairment losses recognised under expected credit loss model, net		**(16,077)**	(1,229)
Distribution and selling expenses		**(172,116)**	(156,005)
Administrative expenses		**(70,995)**	(65,030)
Other expenses		**(24,574)**	(10,071)
Finance costs		**(17,027)**	(16,523)
(Loss) profit before taxation		**(73,972)**	17,325
Taxation	*6*	**808**	(13,028)
(Loss) profit for the period from continuing operations	*7*	**(73,164)**	4,297

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)
For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Re-presented)
Discontinued operation		
Loss for the period from discontinued operation	**—**	(16,758)
Loss for the period	**(73,164)**	(12,461)
Other comprehensive income (expense):		
Item that will not be reclassified subsequently to profit or loss:		
Exchange difference arising on translation to presentation currency	**9,855**	(29,560)
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	**2,492**	2,910
Other comprehensive income (expense) for the period	**12,347**	(26,650)
Total comprehensive expense for the period	**(60,817)**	(39,111)
(Loss) profit for the period attributable to:		
Owners of the Company		
— from continuing operations	**(75,503)**	(12,854)
— from discontinued operation	**—**	(36,152)
	(75,503)	(49,006)
Non-controlling interests		
— from continuing operations	**2,339**	17,151
— from discontinued operation	**—**	19,394
	2,339	36,545
Total loss for the period	**(73,164)**	(12,461)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)
For the six months ended 30 June 2021

	Note	Six months ended 30 June	
		2021	2020
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited) (Re-presented)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(65,973)**	(67,820)
Non-controlling interests		**5,156**	28,709
		(60,817)	(39,111)
		HK cent	*HK cent*
Loss per share	*8*		
Basic			
— from continuing operations		**(1.35)**	(0.23)
— from discontinued operation		**—**	(0.65)
		(1.35)	(0.88)
Diluted			
— from continuing operations		**(1.35)**	(0.23)
— from discontinued operation		**—**	(0.65)
		(1.35)	(0.88)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Note	At 30 June 2021 HK$'000 (Unaudited)	At 31 December 2020 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**360,281**	358,518
Right-of-use assets		**626,121**	629,125
Deposit for land use right		**—**	15,471
Investment properties		**4,737**	4,740
Goodwill		**358,437**	404,265
Intangible assets		**331,366**	321,213
Interest in an associate		**—**	—
Deferred tax assets		**194**	190
Rental deposits		**25,514**	24,178
Contract costs		**1,159**	1,784
		1,707,809	1,759,484
Current assets			
Biological assets		**15,493**	12,846
Inventories		**101,572**	89,960
Trade receivables	*10*	**155,532**	177,124
Contract costs		**5,962**	5,958
Other receivables, deposits and prepayments		**97,168**	56,809
Financial assets at fair value through profit or loss		**14,696**	8,501
Other investment		**19,500**	20,473
Amount due from an intermediate holding company		**828**	—
Amount due from an associate		**126,175**	111,108
Amounts due from other related parties		**94,485**	134,202
Pledged and restricted bank deposits		**7,250**	—
Cash and cash equivalents		**107,679**	165,819
		746,340	782,800

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

At 30 June 2021

	Note	At 30 June 2021 HK$'000 (Unaudited)	At 31 December 2020 HK$'000 (Audited)
Current liabilities			
Trade and bills payables	11	**52,862**	59,395
Other payables and deposits received		**94,815**	123,272
Amount due to an intermediate holding company		**57,602**	33,738
Amounts due to other related parties		**3,099**	466
Tax liabilities		**24,166**	22,235
Bank borrowings due within one year		**214,964**	167,627
Contract liabilities		**135,133**	108,709
Lease liabilities		**96,492**	117,040
		679,133	632,482
Net current assets		**67,207**	150,318
Total assets less current liabilities		**1,775,016**	1,909,802
Capital and reserves			
Share capital		**11,177**	11,177
Share premium and reserves		**1,114,651**	1,203,009
Equity attributable to owners of the Company		**1,125,828**	1,214,186
Non-controlling interests		**119,177**	139,571
Total equity		**1,245,005**	1,353,757
Non-current liabilities			
Bank borrowings due after one year		**20,788**	29,150
Deferred taxation		**69,317**	76,163
Provision for reinstatement cost		**13,975**	13,254
Lease liabilities		**425,931**	437,478
		530,011	556,045
		1,775,016	1,909,802

Notes:

(1) Review by auditor

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 have been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

(2) Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2020 annual report.

(3) Significant event

The World Health Organisation declared coronavirus and novel coronavirus (the "COVID-19") a global health emergency on 30 January 2020. Since then, certain quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts on the global economy, business environment and directly and indirectly affected the operations of the Group. In 2021, as the COVID-19 pandemic in Mainland China has been effectively under control, the operation of the Group's pharmaceutical business has recovered to its normal level in a gradual manner, while the financial positions and performance of the Group's fitness business were still impacted in different aspects as detailed below.

Since May 2021, both Singapore and Taiwan were hit by COVID-19 pandemic again. Therefore, the governments of these two regions implemented circuit breaker measures ("Circuit Breaker"), of which operations of the Group's fitness centres in Singapore and Taiwan were required to be suspended from 8 May 2021 to 20 June 2021 and from 14 May 2021 to 14 July 2021, respectively. As the fitness centers were not able to open due to these measures, the Group has negotiated and received rent forgiveness related to COVID-19.

(3) Significant event (Cont'd)

The Group also applied for the Job Support Scheme ("JSS") introduced by the Singapore government in response to the global pandemic. The JSS provides wage support to employers, helping enterprises retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty. The JSS obtained during the period relating to supporting the payroll of the Group's employees of approximately HK$12,927,000 is included in profit or loss as "other income". The Group has elected to present this government grant separately, rather than reducing the related expense. The Group does not have any unfulfilled obligations relating to this program.

Despite the rent forgiveness received and the government grant received from JSS, the suspension of operation of the Group's fitness centres had led to significant loss of the Group in this business segment. There are also significant uncertainties concerning when social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's fitness business.

(4) Principal accounting policies

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and biological assets, which are measured at fair value and fair value less costs to sell, as appropriate.

Other than accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the annual financial statements of the Group for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's interim condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group has early applied the Amendment to HKFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021".

The application of the amendments to HKFRSs in the current period had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

(5) Revenue and segment information

Disaggregation of revenue from contracts with customers

An analysis of the Group's revenue for the period from continuing operations is as follows:

	For the six months ended 30 June 2021			For the six months ended 30 June 2020		
	Pharmaceutical business	**Fitness business**	**Total**	Pharmaceutical business	Fitness business	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15						
Disaggregated by major products or service lines						
Manufacture and sales of prescription drugs and laboratory related products	**379,837**	**—**	**379,837**	378,657	—	378,657
Operation of fitness centres and provision of consultation services for fitness and health activities						
— personal training classes	**—**	**29,818**	**29,818**	—	19,552	19,552
— membership packages	**—**	**26,465**	**26,465**	—	31,593	31,593
Royalty fee income in relation to fitness and health activities in Taiwan	**—**	**22,072**	**22,072**	—	25,907	25,907
Total	**379,837**	**78,355**	**458,192**	378,657	77,052	455,709
Timing of revenue recognition						
Point in time	**379,837**	**29,818**	**409,655**	378,657	52,810	431,467
Over time	**—**	**48,537**	**48,537**	—	24,242	24,242
Total	**379,837**	**78,355**	**458,192**	378,657	77,052	455,709
Geographical markets						
Mainland China	**368,748**	**—**	**368,748**	378,657	—	378,657
Singapore	**—**	**56,283**	**56,283**	—	51,145	51,145
Taiwan	**—**	**22,072**	**22,072**	—	25,907	25,907
Others	**11,089**	**—**	**11,089**	—	—	—
Total	**379,837**	**78,355**	**458,192**	378,657	77,052	455,709

(5) Revenue and segment information (Cont'd)

Segment information

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on business units. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group. On 21 December 2020, the Group disposed of the interests in cement business segment which was presented as "discontinued operation" and its relevant figures for the six months ended 30 June 2020 have been re-presented. The segment information does not include the discontinued operation. The Group has the following operating and reportable segments:

- Pharmaceutical business — manufacture and sales of prescription drugs and laboratory related products.

- Fitness business — operate fitness centres and provide consultation services for fitness and health activities and operate the franchise business for royalty fee income.

Segment revenue and results

Analysis of the Group's segment revenue and results for the six months ended 30 June 2021 and 2020 is as follows:

	Pharmaceutical business		**Fitness business**		**Total**	
	2021	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited) (Re-presented)
Segment revenue from external customers	**379,837**	378,657	**78,355**	77,052	**458,192**	455,709
Segment results	**23,422**	64,644	**(90,368)**	(30,355)	**(66,946)**	34,289
Unallocated corporate income					**5,477**	3,741
Unallocated corporate expenses					**(12,503)**	(20,705)
(Loss) profit before taxation					**(73,972)**	17,325

There was no inter-segment sales during the six months ended 30 June 2021 and 2020. The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit (loss) from each segment without allocation of unallocated corporate income and expenses. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(6) Taxation

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Re-presented)
Continuing operations		
The (credit) charge comprises:		
Current tax		
— People's Republic of China (the "PRC") Enterprise Income Tax	**4,091**	12,118
— Singapore Corporate Income Tax	**—**	3
— Taiwan Corporate Income Tax	**3,311**	3,886
	7,402	16,007
Overprovision in prior years		
— PRC Enterprise Income Tax	**(471)**	(1,113)
— Singapore Corporate Income Tax	**(458)**	—
	(929)	(1,113)
Deferred tax	**(7,281)**	(1,866)
	(808)	13,028

(7) (Loss) profit for the period

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Re-presented)
Continuing operations		
(Loss) profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in administrative expenses)	**5,381**	7,132
Depreciation of investment properties (included in administrative expenses)	**83**	76
Depreciation of property, plant and equipment (included in cost of sales and services, distribution and selling expenses and administrative expenses)	**20,643**	20,017
Depreciation of right-of-use assets (included in cost of sales and services and administrative expenses)	**42,134**	40,383
Total amortisation and depreciation	**68,241**	67,608
Cost of inventories recognised as expenses	**131,670**	116,892
Net loss on disposal and write-off of property, plant and equipment	**2**	1,081
Net foreign exchange (gain) loss	**(2,478)**	4,021
Research and development expenses (included in other expenses)	**24,574**	10,071
Property rental income, net of negligible outgoing expenses	**(353)**	(742)
Lease payments for short-term leases and low-value assets	**30**	2,943
Write-down of inventories (included in cost of sales and services)	**—**	513
Impairment loss on goodwill (included in other gains and losses) *(note)*	**46,358**	—

Note: The directors of the Company have identified the suspension of fitness business for several weeks under Circuit Breaker and other social distancing measures prevailing since the COVID-19 outbreak in Singapore which resulted in operating loss for the period as an impairment indicator, impairment loss on goodwill of HK$46,358,000 relating to fitness business has been recognised during the period.

(8) Loss per share

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Re-presented)
Loss for the purposes of basic and diluted loss per share attributable to owners of the Company		
— from continuing operations	**(75,503)**	(12,854)
— from discontinued operation	**—**	(36,152)
	(75,503)	(49,006)

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**5,578,713,777**	5,578,713,777

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the share award scheme (the "Share Award Scheme").

The computation of the diluted loss per share for the six months ended 30 June 2021 and 2020 do not assume the exercise of the Company's share options as such would result in a decrease in loss per share.

(9) Dividend

No dividend was paid, declared or proposed during the current period (2020: Nil).

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: Nil).

(10) Trade receivables

Other than the trade receivables in relation to the payment to be settled through credit cards for customers in fitness business, the Group has a policy of allowing credit periods for its trade customers normally from 30 days to 1 year. The aged analysis of trade receivables, net of allowance for credit losses, is presented based on the invoice date at the end of the reporting period as follows:

	At 30 June 2021 ***HK$'000*** **(Unaudited)**	At 31 December 2020 *HK$'000* (Audited)
0 to 90 days	**101,306**	111,417
91 to 180 days	**28,037**	42,273
181 to 365 days	**16,667**	10,668
Over 1 year	**9,522**	12,766
	155,532	177,124

(11) Trade and bills payables

An aged analysis of the Group's trade and bills payables, presented based on the invoice date, at the end of the reporting period is as follows:

	At 30 June 2021 ***HK$'000*** **(Unaudited)**	At 31 December 2020 *HK$'000* (Audited)
0 to 90 days	**29,411**	45,510
91 to 180 days	**12,223**	6,913
181 to 365 days	**2,380**	3,749
Over 1 year	**8,848**	3,223
	52,862	59,395

(12) Contingencies

As at 30 June 2021, the Group had the following contingent liabilities arising from incidents as disclosed in the 2020 audited consolidated financial statements of the Company.

(a) In August 2019, the Company was served a writ of summons (the "Writ") filed by Mr. Patrick John Wee Ewe Seng ("Mr. PJW") and Active Gains Universal Limited ("Active Gains") as the plaintiffs (collectively as the "Plaintiffs") against the Company and Fester Global Limited ("Fester Global"), a wholly-owned subsidiary of the Company, as the defendants in the High Court of Hong Kong (the "Legal Proceedings") regarding certain arrangements under the sale and purchase agreement of acquisition of 51% equity interest in TFKT True Holdings ("True Cayman") ("SPA"). The Group has been vigorously defending and opposing the Plaintiffs' claims. In January 2021, the Group has enforced its right under a share charge agreement since Active Gains has failed to compensate the Group in respect of the profit guarantee shortfalls under the SPA. 10,000 shares in True Cayman charged in favour of Fester Global were transferred to Fester Global as partial settlement of the amounts due and payable under the profit guarantee arrangement. Subsequently, the Group issued a Counterclaim against the Plaintiffs to recover the balance of the profit guarantee shortfalls, and in response, the Plaintiffs filed their Amended Reply, Defence to Counterclaim and Counterclaim to Counterclaim. The Legal Proceedings are still at a preliminary stage and the date of trial has not been fixed up to the date of this announcement. Based on the opinion of the management of the Company in consideration of the latest development, the possibility of any significant economic outflow in relation to the Legal Proceedings is remote.

(b) In March 2021, Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) ("Chongqing Kangle"), a non-wholly owned subsidiary of the Company, received a court summons* (傳票) attaching a statement of civil claim* (民事起訴狀) (the "Shanghai Legal Proceedings") from the Shanghai Xuhui District People's Court* (上海市徐匯區人民法院) in relation to the claim made by Shanghai Haixin Pharmaceutical Co., Ltd.* (上海海欣醫藥股份有限公司) ("Shanghai Haixin") against Chongqing Kangle as defendant for the alleged non-performance of a cooperation agreement on project for Hydroxychloroquine Sulfate* (硫酸羥氯喹項目合作協議) signed on 19 May 2011 between Chongqing Kangle and Shanghai Haixin (the "Cooperation Agreement"). Shanghai Haixin sought for court order to terminate the Cooperation Agreement, and claimed against Chongqing Kangle for the damages in the amount of RMB49,000,000 and the costs incurred in connection with the Shanghai Legal Proceedings. Chongqing Kangle has engaged lawyers and intends to vigorously defend Shanghai Haixin's claims. Based on the opinion of the management of the Company in consideration of the latest development, the possibility of any significant economic outflow in relation to the Shanghai Legal Proceedings is remote.

Except for the above, the Group did not have any material contingent liabilities as at 30 June 2021.

(13) Event after the end of the reporting period

On 12 July 2021, Shaanxi Unisplendour Hi-tech Pharmaceutical Co., Ltd.* (陝西紫光高新藥業有限公司) ("Shaanxi Unisplendour"), an indirect non-wholly owned subsidiary of the Company, entered into a construction contract ("Shaanxi Construction Contract") in respect of the construction project ("Shaanxi Production Base Project") of the new production base for Chinese medicines located at Hi-tech Industrial Development District, Baoji City, Shaanxi Province, the PRC* (中國陝西省寶雞市高新技術產業開發區) with Shanxi Industrial Equipment Installation Group Co., Ltd.* (山西省工業設備安裝集團有限公司) ("Shanxi Industrial"), a fellow subsidiary of the Company, pursuant to which Shaanxi Unisplendour agreed to engage Shanxi Industrial as the general contractor to carry out the construction works for the Shaanxi Production Base Project at the estimated contract price of RMB166,000,000 (subject to adjustments).

An extraordinary general meeting will be convened and held at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong on Thursday, 9 September 2021 at 11: 00 a.m. for the independent shareholders to consider and, if thought fit, approve the Shaanxi Construction Contract and the transaction contemplated thereunder, details of which are set out in the circular of the Company dated 18 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2021, the Group was principally engaged in the (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines, and laboratory related products in the PRC; (ii) operating of fitness centres and provision of consultation services for fitness and health activities, and operating of franchise business for royalty fee income. The Group was previously engaged in cement business, that is, the manufacturing and sales of cement and clinker and trading of cement with operations in Shandong province and Shanghai in the PRC. The Group has disposed of its cement business on 21 December 2020, and the comparatives for the six months ended 30 June 2020 have been re-presented as discontinued operation accordingly.

Financial Results

Continuing Operations

The revenue of the Group for the six months ended 30 June 2021 was HK$458.2 million (2020: HK$455.7 million), representing an increase of 0.5% as compared to the corresponding period of 2020. The net loss of the Group for the six months ended 30 June 2021 was HK$73.2 million (2020: net profit of HK$4.3 million). The basic loss per share amounted to HK1.35 cents (2020: HK0.23 cent).

The slight increase in revenue from HK$455.7 million to HK$458.2 million and the decrease in gross profit from HK$243.3 million to HK$225.4 million was mainly attributable to the following reasons:

— In the pharmaceutical business segment, the effective control of the spread of COVID-19 in Mainland China has impact on the subsidiaries in different manners. The excess demand of the active pharmaceutical ingredients ("API") Chloroquine Phosphate manufactured by Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) ("Chongqing Kangle") has gradually steadied in 2021, which resulted in the decline in Chongqing Kangle's revenue and gross profit, while the revenue and gross profit from other pharmaceutical business subsidiaries have gradually recovered, which alleviated the impact of the decrease in revenue and gross profit in Chongqing Kangle to a certain extent;

— In the fitness business segment, due to the outbreak of the COVID-19 in the second quarter of 2021 in Singapore and Taiwan, the suspension of operation of the fitness centres in these two regions led to the decrease in the gross profit in that business segment.

The Group recorded a net loss for the six months ended 30 June 2021 as compared to the net profit for the six months ended 30 June 2020. Apart from the decrease in gross profit, the turnaround from profit to loss was mainly attributable to (i) one-off impairment on goodwill and expected credit loss on receivables in the fitness business of the Group; and (ii) significant loss of the Group in the fitness business segment resulting from the suspension of operation of our fitness centres in Singapore and Taiwan due to the outbreak of the COVID-19 in the second quarter of 2021 in these two regions.

Discontinued Operation

The Group has disposed of its cement business on 21 December 2020, and the comparatives for the six months ended 30 June 2020 have been re-presented as discontinued operation accordingly.

Business Review

Pharmaceutical Business

The revenue of the Group's pharmaceutical business for the six months ended 30 June 2021 was HK$379.8 million (2020: HK$378.7 million), representing a slight increase of 0.3% as compared to the corresponding period of 2020. The net profit for the six months ended 30 June 2021 was HK$21.2 million (2020: HK$53.1 million), representing a decrease of 60.1% as compared to the corresponding period of 2020. The decrease of net profit was mainly because the excess demand and high margin of the API manufactured by Chongqing Kangle have gradually steadied in 2021, as the COVID-19 pandemic has been effectively controlled in Mainland China. Details are set out in the analysis of respective subsidiaries of pharmaceutical business.

In 2021, as the COVID-19 pandemic in Mainland China has been effectively under control, outpatients of hospitals from different regions are gradually recovering, the interruptions in logistics have been solved, and mobility restrictions and difficulty in allocating production materials now rarely happen. With these improving factors, the operation of the Group's pharmaceutical business has gradually recovered to its normal level. Yet, the sales of proprietary Chinese medicines under the Group's pharmaceutical business, which were affected to a greater extent in 2020, take more time to reorganize and recover. Nonetheless, the Group has already taken measures to overcome such situation and to minimize the period for recovery as far as possible. On the front of sales of API, the excess demand brought by the COVID-19 came to an end in 2021, and product prices and level of demand all returned to a stable range.

1. *Tongfang Pharmaceutical Group Co., Ltd* (同方藥業集團有限公司) ("Tongfang Pharmaceutical")*

   Tongfang Pharmaceutical is principally engaged in the production and sales of chemical generic drugs. It has a preparation workshop of 30,000 square meters in Yanqing District, Beijing. Its key products are prescription drugs and its therapeutic areas mainly include drugs for local anesthesia and gynecological purposes. In the first half of 2021, its revenue amounted to RMB160.1 million, representing an increase of 27.2% as compared with RMB125.9 million in 2020; gross profit amounted to RMB142.5 million in the first half of 2021, representing a growth of 26.7% as compared with RMB112.5 million in the same period in 2020.

Products of Tongfang Pharmaceutical are mainly targeted at hospitals of all levels in Mainland China. The outbreak of COVID-19 pandemic in 2020 had a huge impact on Tongfang Pharmaceutical. In 2021, with the effective control of the COVID-19 pandemic in Mainland China and the unremitting efforts of Tongfang Pharmaceutical, the operation returned to the normal track in the first half of the year, and the end market is gradually recovering. Tongfang Pharmaceutical has also formulated more targeted expansion plans, striving to achieve more rapid growth in the next few years. At the same time, Tongfang Pharmaceutical has continued to put efforts in the operation of new products and new models, and new products such as UCAN* ("優暢康") and Vigor* ("精優能") have been well received by the market. Tongfang Pharmaceutical is currently in discussion with several competent large enterprises, and is ready to achieve win-win cooperation in the future.

2. *Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.* (陝西紫光辰濟藥業有限公司) ("Shaanxi Life Care")*

Shaanxi Life Care is principally engaged in business of the Chinese medicine-related fields, including the manufacturing and distribution of Chinese medicines and operating a production facility in Baoji, Shaanxi. Shaanxi Life Care achieved revenue of RMB33.8 million in the first half of 2021, representing an increase of 39.1% as compared with the revenue of RMB24.3 million in the same period in 2020, and achieved a gross profit of RMB15.4 million in the first half of 2021, representing an increase of 43.9% as compared with the gross profit of RMB10.7 million in the same period in 2020.

Shaanxi Life Care was severely affected by the COVID-19, and concurrently encountered various challenges such as rising raw material prices and rising energy prices. In the first half of 2021, Shaanxi Life Care adopted a positive way to deal with the challenges and stabilized its overall operation. In the meantime, Shaanxi Life Care has formulated the plan to promote the sustainable development, which has been implemented since the second half of 2020. The construction of a new production base in Baoji, Shaanxi was conducted through tendering and bidding process, and is now pending the approval of the shareholders of the Company. If the plan is successfully implemented, it will solve the major issues that restrict the development of Shaanxi Life Care. The existing resources will be revitalized which will enable Shaanxi Life Care to achieve a leap in quality and better contribute in value to shareholders and society.

3. *Chongqing Kangle*

Chongqing Kangle is principally engaged in the research and development, production and sales of API and intermediate API in Chongqing Changshou Chemical Industrial Park. Chongqing Kangle recorded revenue of RMB66.3 million in the first half of 2021, representing a decrease of 58.8% as compared with the revenue of RMB161.0 million in the same period of 2020; its gross profit for the first half of 2021 amounted to RMB22.9 million, representing a decrease of 76.3% as compared with the gross profit of RMB96.6 million in the same period of 2020.

With the effective control of the global COVID-19 pandemic and the COVID-19 pandemic in Mainland China, the price and supply of related API of Chongqing Kangle have gradually returned to a stable range, and the positive effect brought by the massive demand of the API Chloroquine Phosphate manufactured by Chongqing Kangle in 2020 has continued to a certain extent. At present, the production and operation of Chongqing Kangle are in good condition, and it is expected that the revenue and profit level in 2021 will increase as compared to the status before the COVID-19 pandemic.

4. *SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福（北京）生物技術有限公司) ("SPF")*

SPF is principally engaged in the sales of standardized laboratory animals and animal indigenous raw materials. SPF recorded revenue of RMB61.3 million in the first half of 2021, representing an increase of 105.0% as compared with the operating revenue of RMB29.9 million in the same period in 2020, and recorded gross profit of RMB31.8 million in the first half of 2021, representing an increase of 160.7% as compared with the gross profit of RMB12.2 million in the same period in 2020.

With the rapid growth of the research and development of new drugs in Mainland China, the performance of SPF has also achieved relatively rapid growth. At present, SPF's production and operation are stable. The problem faced by SPF is that the rapid growth of competitors in the industry has a great impact on the overall market. SPF will need to encounter the pressure from competitors for a long time in the future.

5. *Apros Therapeutics, Inc. ("Apros")*

Apros was incorporated in the United States in 2016. With the advancement of science and technology, the treatment of tumor has advanced from traditional surgery treatment, radiotherapy and chemotherapy to targeted therapy and immunotherapy. At present, tumor immunotherapy has become a promising and popular research field, with many approaches being taken to elicit anti-tumor immunity. Apros focuses on the discovery and development of Toll-Like Receptor-7 (TLR7) agonists and has developed a portfolio of small molecule TLR7 agonists for the treatment of cancer and infectious disease. The first clinical candidate was cleared by the United States Food and Drug Administration and entered Phase 1 clinical trial in colorectal cancer patients in 2021.

Fitness Business

The revenue of the Group's fitness business for the six months ended 30 June 2021 was HK$78.4 million (2020: HK$77.1 million) which includes a franchise income of HK$22.1 million (2020: HK$25.9 million). The net loss for the six months ended 30 June 2021 was HK$87.3 million (2020: HK$31.8 million).

The fitness business of the Group kicked off the year 2021 in an excellent way and was moving forward to recovery. Income from personal training classes and the number of new members increased continuously. The situation reversed in May as Singapore and Taiwan once again faced the threat brought by the COVID-19. In view of the measures adopted by the governments of these two regions, all of our clubs in Singapore and the clubs of the Group's associate, True Yoga Holdings Limited (the "associate") in Taiwan were forced to close. Since our clubs in Singapore were closed last year, when we faced the similar situation in 2021, the Group was able to adopt countermeasures swiftly, including but not limited to enhancing cost control, maintaining communication with its members, emphasising on the cleaning of clubs and caring about the health of its staff. The experience from last year is that members returned to our clubs after they are reopened. Thus the Group is confident to overcome the challenges brought by the effect from COVID-19 on the fitness business of the Group in 2021, and strive to provide better services to every member in achieving health both mentally and physically.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the six months ended 30 June 2021 were mainly funded by cash generated from its operations and loans from principal bankers and an intermediate holding company.

As at 30 June 2021, the Group maintained bank balances and cash reserves of approximately HK$114.9 million (31 December 2020: HK$165.8 million), including cash and cash equivalents of approximately HK$107.7 million and pledged and restricted bank deposits of approximately HK$7.2 million (31 December 2020: cash and cash equivalents of approximately HK$165.8 million).

As at 30 June 2021, the Group had outstanding borrowings repayable within one year of approximately HK$215.0 million and HK$20.8 million repayable after one year (31 December 2020: HK$167.6 million repayable within one year and HK$29.2 million repayable after one year). As at 30 June 2021, 80.6% of the Group's outstanding borrowings were denominated in Renminbi ("RMB") and 19.4% in Singapore dollars ("SGD"). All of the Group's outstanding borrowings were charged at fixed rates.

The gearing ratio (total borrowings over total assets) of the Group as at 30 June 2021 was as follows:

	At 30 June 2021 *HK$'000* (Unaudited)	At 31 December 2020 *HK$'000* (Audited)
Total borrowings	**235,752**	196,777
Total assets	**2,454,149**	2,542,284
Gearing ratio	**9.6%**	7.7%

Financial Management and Policy

The Group's financial policy aims at minimising the Group's financial risk exposure. Our policy is not to engage in speculative derivative financial transactions and not to invest the current capital in financial products with significant risks.

Risk of Foreign Exchange Fluctuation

The Group's operations are mainly located in the PRC and Singapore and most of its transactions, related working capital and borrowings are denominated in RMB, SGD, United States dollar ("US$") and HK$. The Group closely monitors such foreign exchange exposure and will consider hedging significant currency exposure if necessary. However, since the Group's consolidated financial statements are presented in HK$ which is different from functional currencies of most subsidiaries, the Group would inevitably face foreign exchange exposure, whether positive or negative, arising from translating the accounts to its presentation currency.

Pledge of Assets

As at 30 June 2021, the Group's bank borrowings of HK$149,084,000 (31 December 2020: HK$104,364,000), short-term bank facilities in respect of the issuance of bills payable to suppliers of HK$4,901,000 (31 December 2020: Nil), and lease liabilities of HK$5,099,000 (31 December 2020: HK$6,169,000) were secured by the following:

	At 30 June 2021 ***HK$'000*** **(Unaudited)**	At 31 December 2020 *HK$'000* (Audited)
Building and structures	**102,926**	41,775
Right-of-use assets	**23,469**	24,320
Pledged bank deposits	**1,763**	—
Trade receivables	**19,909**	30,827
Bank balance	**4,608**	1,552
	152,675	98,474

Material Capital Commitments and Investments

The Group had the following capital commitments:

	As at 30 June 2021 ***HK$'000*** **(Unaudited)**	As at 31 December 2020 *HK$'000* (Audited)
Capital commitments contracted for but not provided in the interim condensed consolidated financial statements:		
— Acquisition of property, plant and equipment	**57,123**	14,589

Event after the End of the Reporting Period

Details of the Group's events after the end of the reporting period are set out in note 13 to the unaudited condensed consolidated interim results in this announcement.

Employees

As at 30 June 2021, the Group had 1,213 (31 December 2020: 1,221) employees. The Group maintains a policy of paying competitive remuneration packages and employees are also rewarded salary and bonus on a performance related basis. In addition, share options and awarded shares may be granted to eligible employees pursuant to the terms of the share option scheme and the Share Award Scheme, respectively. The purposes of the schemes are to provide incentives to the selected employees to contribute to the Group, to enable the Group to recruit and retain high-calibre employees, and attract and retain human resources that are valuable to the Group.

OUTLOOK

Pharmaceutical Business

In 2021, the COVID-19 in Mainland China has been well contained. The impact on the pharmaceutical industry of Mainland China is gradually reducing, yet the pharmaceutical industry still faces uncertainties brought by the medical reform in Mainland China. In the face of the current situation, the Group's pharmaceutical segment has always maintained a positive trend of response, and strived to fully utilize its professional advantages in research and development of new products, market expansion, capacity upgrading, risk control, etc., and has continuously dived deep into and focused on existing resources to maximise the effective utilisation of assets. Meanwhile, it keeps actively exploring new business models, partners and new profit growth drivers.

Fitness Business

The strategy of the Group's fitness segment is based on its mission at creating value for all the stakeholders by having a positive impact on the health of people and the communities. The Group believes that everyone should have access to the benefits that fitness offers. People have become increasingly aware of the need for a healthier lifestyle in light of the COVID-19. The outbreak of the COVID-19 highlighted the importance of boosting people's immune systems. In view of this, the Group will take this opportunity to attract more members, improve member experience, and achieve business growth through the following methods:

- ***Income management***

  We are committed to keeping membership fee attractive, and continuously increasing membership yield by offering value-added products and services.

- ***Compelling member experience***

  With contracts of flexible terms delivered through well-equipped and maintained gyms, staffed with friendly fitness experts, we offer a very compelling member experience that has a wide appeal across age and income groups and to gym amateurs and experts alike. The associate completed 2 refits of obsolete gyms in Taiwan, to maintain consistent brand presentation and ensure the range of equipment continuing to exceed member expectations. Our intensive planned maintenance program with regular site visits and a bi-annual update of every site ensure that our entire estate continues to be competitive in providing high-quality facilities to all our members.

- ***APP add-on and providing virtual fitness***

  Most of our current clubs are located close to where people live and work, and this is essential for people to join a club. In addition, we organize virtual group classes and instruction videos to all our members, so they can also work out at home. By offering our members the opportunity to exercise both at home and at a club, they can work on their fitness wherever and whenever they want. On top of helping them to stay fit, we will be adding nutrition guides in our APP to help our members to choose healthy food options and select the right nutrients that fit their exercise plans. Members can get an experience beyond their expectation through our clean and state-of-the-art equipments and a safe and welcoming environment. Our competitive prices allow more and more people to work out throughout the year.

- ***Re-negotiate lease term with landlords***

  In the light of the government-mandated closure of fitness centres and gyms, some landlords are now willing to be flexible and negotiate with us given the unprecedented impact of the COVID-19 pandemic. We managed to conclude deals with some of our landlords for some form of rent relief and rent deduction for the next 6–9 months, and will continue to request for support from landlords in the coming months to lower our operation costs.

INTERIM DIVIDEND

The Board considers that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore does not recommend to declare an interim dividend for the six months ended 30 June 2021 (2020: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2021, the Company has applied the principles of, and complied with, all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE REVIEW

The Audit Committee, together with the Company's management team, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2021. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants as well as reports obtained from the Company's management. The Audit Committee has not undertaken detailed independent audit checks.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

PUBLICATION OF INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND OF THE COMPANY

The interim report of the Company for the six months ended 30 June 2021 (the "2021 Interim Report") will be despatched to the shareholders of the Company and made available on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.tfkf.com.hk) in due course. The 2021 interim financial results set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2021 to be included in the 2021 Interim Report.

By Order of the Board
Tongfang Kontafarma Holdings Limited
Chai Hongjie
Chairman

Hong Kong, 30 August 2021

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Chai Hongjie (Chairman), Mr. Huang Yu (President), Mr. Wei Bingzhang and Mr. Jiang Chaowen (Chief Executive Officer); and three independent non-executive directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.

* *For identification purpose only*