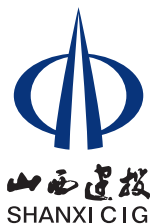


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華控康泰集團有限公司

Kontafarma China Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the “Board”) of directors (the “Directors”) of Kontafarma China Holdings Limited (the “Company”) announces that the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2023 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Continuing operations			
Revenue	3	809,107	894,062
Cost of sales and services		(337,815)	(387,841)
Gross profit		471,292	506,221
Other income	4	24,469	37,928
Other gains and losses		111,162	4,907
Impairment losses under expected credit loss model, net of reversal		(72,350)	(55,718)
Distribution and selling expenses		(429,469)	(443,355)
Administrative expenses		(113,023)	(115,331)
Other expenses		(20,750)	(29,110)
Finance costs		(15,250)	(23,278)
Loss before taxation		(43,919)	(117,736)
Taxation	5	(17,196)	7,992
Loss for the year from continuing operations	6	(61,115)	(109,744)
Discontinued operation			
Profit for the period from discontinued operation		—	56,942
Loss for the year		(61,115)	(52,802)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (Cont'd)**

For the year ended 31 December 2023

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive expense:		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation to presentation currency	(11,936)	(55,991)
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	<u>(4,585)</u>	<u>(2,114)</u>
Other comprehensive expense for the year, net of tax	<u>(16,521)</u>	<u>(58,105)</u>
Total comprehensive expense for the year	<u>(77,636)</u>	<u>(110,907)</u>
Loss for the year attributable to:		
Owners of the Company		
— from continuing operations	(28,843)	(84,878)
— from discontinued operation	<u>—</u>	<u>43,332</u>
	<u>(28,843)</u>	<u>(41,546)</u>
Non-controlling interests		
— from continuing operations	(32,272)	(24,866)
— from discontinued operation	<u>—</u>	<u>13,610</u>
	<u>(32,272)</u>	<u>(11,256)</u>
Loss for the year	<u>(61,115)</u>	<u>(52,802)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (Cont'd)**

For the year ended 31 December 2023

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Total comprehensive expense for the year attributable to:			
— Owners of the Company		(43,818)	(90,911)
— Non-controlling interests		<u>(33,818)</u>	<u>(19,996)</u>
		<u>(77,636)</u>	<u>(110,907)</u>
 (Loss) earnings per share	 7	 <i>HK cent</i>	 <i>HK cent</i>
Basic			
— from continuing operations		(0.52)	(1.52)
— from discontinued operation		<u>—</u>	<u>0.78</u>
		<u>(0.52)</u>	<u>(0.74)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	2023	2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		240,196	382,158
Right-of-use assets		334,214	419,007
Investment properties		35,424	41,911
Goodwill		253,418	301,257
Intangible assets		249,630	267,902
Interest in an associate		—	—
Amounts due from an associate		12,835	—
Deferred tax assets		160	162
Rental deposits		11,805	17,652
Contract costs		1,896	892
		<u>1,139,578</u>	<u>1,430,941</u>
Current assets			
Inventories		98,266	111,736
Trade receivables	9	106,518	123,644
Contract costs		6,361	5,536
Other receivables, deposits and prepayments		45,668	73,114
Other investments		10,000	20,000
Amount due from an intermediate holding company		9,238	1,021
Amounts due from an associate		132,346	139,222
Amounts due from other related parties		101,701	92,634
Cash and cash equivalents		77,659	122,595
		<u>587,757</u>	<u>689,502</u>
Current liabilities			
Trade payables	10	6,674	21,398
Other payables and deposits received		99,592	133,084
Amounts due to other related parties		7,522	25,280
Tax liabilities		36,321	29,677
Bank borrowings due within one year		39,546	158,772
Deferred income		218	221
Contract liabilities		127,593	72,467
Lease liabilities		66,134	63,808
		<u>383,600</u>	<u>504,707</u>
Net current assets		<u>204,157</u>	<u>184,795</u>
Total assets less current liabilities		<u><u>1,343,735</u></u>	<u><u>1,615,736</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*At 31 December 2023*

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Capital and reserves		
Share capital	11,177	11,177
Share premium and reserves	1,046,112	1,089,930
	<hr/>	<hr/>
Equity attributable to owners of the Company	1,057,289	1,101,107
Non-controlling interests	4,657	55,174
	<hr/>	<hr/>
Total equity	1,061,946	1,156,281
	<hr/>	<hr/>
Non-current liabilities		
Bank borrowings due after one year	12,801	103,153
Deferred taxation	40,434	55,143
Provision for reinstatement cost	12,230	13,336
Deferred income	982	22,834
Lease liabilities	215,342	264,989
	<hr/>	<hr/>
	281,789	459,455
	<hr/>	<hr/>
	1,343,735	1,615,736
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term “Significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies set out in the consolidated financial statements.

Impacts on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraph 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision, the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022; the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use assets and lease liabilities.

The application of the amendments has had no material impact on the Group’s financial position and performance.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

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

Continuing operations

	2023			2022		
	Pharmaceutical business <i>HK\$'000</i>	Fitness business <i>HK\$'000</i>	Total <i>HK\$'000</i>	Pharmaceutical business <i>HK\$'000</i>	Fitness business <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>						
Disaggregated by major products or services lines						
Manufacture and sales of prescription drugs	607,131	—	607,131	722,903	—	722,903
Operation of fitness centres and provision of consultation services for fitness and health activities						
— personal training classes	—	65,982	65,982	—	58,380	58,380
— membership packages	—	96,824	96,824	—	74,976	74,976
Royalty fee income in relation to fitness and health activities	—	39,170	39,170	—	37,803	37,803
Total	<u>607,131</u>	<u>201,976</u>	<u>809,107</u>	<u>722,903</u>	<u>171,159</u>	<u>894,062</u>
Timing of revenue recognition						
Point in time	607,131	65,982	673,113	722,903	58,380	781,283
Over time	—	135,994	135,994	—	112,779	112,779
Total	<u>607,131</u>	<u>201,976</u>	<u>809,107</u>	<u>722,903</u>	<u>171,159</u>	<u>894,062</u>
Geographical markets						
Mainland China	592,366	—	592,366	714,922	—	714,922
Singapore	—	162,806	162,806	—	133,356	133,356
Taiwan	—	39,170	39,170	974	37,803	38,777
Others	14,765	—	14,765	7,007	—	7,007
Total	<u>607,131</u>	<u>201,976</u>	<u>809,107</u>	<u>722,903</u>	<u>171,159</u>	<u>894,062</u>

Segment information

Information reported to the chief executive of the Company, being the chief operation decision maker (the “CODM”), for the purpose of resource allocation and assessment of segment performance focuses on business units. During the year ended 31 December 2022, the Group disposed of its interests in SPF (Beijing) Biotechnology Co., Ltd* (斯貝福(北京)生物技術有限公司) (“SPF”) and its wholly-owned subsidiary, SPF (Suzhou) Biotechnology Co., Ltd.* (斯貝福(蘇州)生物技術有限公司) (collectively, the “SPF Group”), subsidiaries in the pharmaceutical business segment which was presented as “discontinued operation”. The Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments. The following segment information of the Group’s business units does not include the discontinued operation.

The Directors have chosen to organise the Group around differences in products and services. The Group is principally engaged in pharmaceutical and fitness business.

- Pharmaceutical business — manufacture and sales of prescription drugs.
- Fitness business — operate fitness centres and provide consultation services for fitness and health activities and operate the franchise business for royalty fee income.

The Group’s reportable segments are strategic business units that offer different products or services. They are managed separately because each business requires different technology and marketing strategies.

Segment revenue and results

The following is an analysis of the Group’s revenue and results from continuing operations by reportable and operating segments.

Continuing operations:

	Pharmaceutical business		Fitness business		Total	
	2023	2022	2023	2022	2023	2022
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue from external customers	<u>607,131</u>	<u>722,903</u>	<u>201,976</u>	<u>171,159</u>	<u>809,107</u>	<u>894,062</u>
Segment results	69,607	8,349	(81,470)	(101,310)	(11,863)	(92,961)
Unallocated corporate income					2,907	4,708
Unallocated corporate expenses					<u>(34,963)</u>	<u>(29,483)</u>
Loss before taxation					<u>(43,919)</u>	<u>(117,736)</u>

The accounting policies of the operating segments are the same as the Group’s accounting policies. Segment results represent the profit earned by (loss from) each segment without allocation of certain corporate income and expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

There was no inter-segment sales during the years ended 31 December 2023 and 2022.

4. OTHER INCOME

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Continuing operations		
Interest income from banks	1,143	2,657
Interest income from an intermediate holding company	—	1,066
Interest income from loans to an associate	1,817	795
Interest income from other investments	542	661
	<u>3,502</u>	<u>5,179</u>
Government grant and subsidy		
— release from deferred income	220	230
— related to expenses (<i>note i</i>)	5,669	8,009
— related to employment (<i>note ii</i>)	2,064	2,800
COVID-19-related rent concessions (<i>note iii</i>)	—	6,885
Rental income	3,680	1,603
Service income	280	1,044
Sundry income	9,054	12,178
	<u>24,469</u>	<u>37,928</u>

Note i: The amount represented financial subsidies received for compensating expenses already incurred or giving immediate financial support to the Group. There are no unfulfilled conditions or contingencies in relation to the grants and the grants were determined at the sole discretion of relevant government authorities.

Note ii: Government grant related to employment mainly arose from the Progress Wage Credit Scheme (“PWCS”) and Job Growth Incentive (“JGI”) introduced by the Singapore government of approximately HK\$1,335,000 (2022: HK\$1,568,000). The PWCS and JGI supported employers to expand local hiring. The Group has elected to present this government grant separately in profit or loss as “other income”, rather than reducing the related expense. There are no unfulfilled conditions or contingencies attached to the receipts of those subsidies.

Note iii: In 2022, the Group has negotiated with landlords to obtain the rental relief which the Group has elected to apply the practical expedient in HKFRS 16 by not assessing whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and derecognised the part of lease liabilities that have extinguished as negative variable lease payment in profit or loss.

5. TAXATION

Income tax has been recognised in profit or loss as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Continuing operations		
Current tax		
— The People's Republic of China (the "PRC") Enterprise Income Tax	19,992	1,252
— Dividend Withholding Income Tax	2,825	—
— Taiwan Corporate Income Tax	<u>5,875</u>	<u>5,722</u>
	<u>28,692</u>	<u>6,974</u>
Over provision in prior years		
— PRC Enterprise Income Tax	<u>—</u>	<u>(3,937)</u>
	<u>—</u>	<u>(3,937)</u>
Deferred tax	<u>(11,496)</u>	<u>(11,029)</u>
	<u><u>17,196</u></u>	<u><u>(7,992)</u></u>

6. LOSS FOR THE YEAR

Loss for the year from continuing operations has been arrived at after charging (crediting):

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Continuing operations		
Staff costs (including Directors' and senior management's emoluments)		
— Salaries and other costs	163,492	148,537
— Retirement benefits scheme contributions	<u>14,854</u>	<u>15,045</u>
Total staff costs	178,346	163,582
Less: amounts capitalised in inventories	<u>(13,382)</u>	<u>(14,322)</u>
Total staff costs (included in cost of sales and services, distribution and selling expenses and administrative expenses)	<u>164,964</u>	<u>149,260</u>
Amortisation and depreciation		
— Amortisation of intangible assets (included in administrative expenses)	6,748	8,648
— Depreciation of investment properties (included in administrative expenses)	1,862	955
— Depreciation of right-of-use assets (included in cost of sales and services and administrative expenses)	64,646	76,524
— Depreciation of property, plant and equipment (included in cost of sales and services, distribution and selling expenses and administrative expenses)	<u>33,908</u>	<u>36,215</u>
Total amortisation and depreciation	<u>107,164</u>	<u>122,342</u>
Auditors' remuneration		
— Audit service	3,235	3,815
— Non-audit service	948	924
Cost of inventories recognised as expenses (including write down of inventories amounting to HK\$1,554,000 (2022: HK\$469,000))	132,131	193,206
Net foreign exchange gain	(5,125)	(4,024)
Property rental income, net of negligible outgoing expenses	(3,680)	(1,603)
Research and development expenses (included in other expenses)	20,750	29,110
Sales promotion expenses (included in distribution and selling expenses)	419,097	428,680
Lease payments for low-value assets	160	108
Lease payments for short-term lease	<u>236</u>	<u>1,320</u>

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to owners of the Company is based on the following data:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(Loss) profit for the year for the purposes of basic loss per share attributable to owners of the Company		
— from continuing operations	(28,843)	(84,878)
— from discontinued operation	<u>—</u>	<u>43,332</u>
	<u>(28,843)</u>	<u>(41,546)</u>
	2023 <i>Shares</i>	2022 <i>Shares</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>5,578,713,777</u>	<u>5,578,713,777</u>

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

No diluted loss per share is presented for the years ended 31 December 2023 and 2022 as there was no potential ordinary share in issue for the years ended 31 December 2023 and 2022.

8. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil). No dividend was declared or paid by the Company during the year ended 31 December 2023 (2022: Nil).

9. 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 its trade customers credit periods normally from 30 to 180 days. 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 90 days	68,363	79,150
91 to 180 days	28,465	33,925
181 to 365 days	6,530	7,004
Over 1 year	3,160	3,565
	106,518	123,644

As at 31 December 2023, included in total trade receivables are bills receivable amounting to HK\$3,863,000 (2022: HK\$1,504,000) held by the Group for future settlement of trade payables. All bills receivables are with a maturity period of less than one year.

10. TRADE PAYABLES

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 90 days	3,366	9,879
91 to 180 days	6	8,565
181 to 365 days	1,010	598
Over 1 year	2,292	2,356
	6,674	21,398

The credit period on purchases of goods and services is 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2023, the Group's continuing operations mainly included (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines in the PRC; and (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 engaged in the business of sales of laboratory related products and the disposal of such business was completed on 29 July 2022 and presented as discontinued operation for the year ended 31 December 2022.

Financial Results

Continuing Operations

For the year ended 31 December 2023, the Group's revenue and gross profit amounted to approximately HK\$809.1 million and HK\$471.3 million (2022: approximately HK\$894.1 million and HK\$506.2 million) respectively, representing a decrease of approximately 9.5% and 6.9% as compared with last year. The decrease in revenue and gross profit was mainly attributable to the following reasons:

- For the pharmaceutical business segment, i) due to the adverse impact caused by the medical insurance policy adjustment in Mainland China, the revenue and gross profit from one of the main products of Tongfang Pharmaceutical Group., Ltd* (同方藥業集團有限公司) ("Tongfang Pharmaceutical") decreased significantly; ii) Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) ("Chongqing Kangle") suffered a decline in revenue and gross profit due to shrinking customer demand; iii) the Group completed the disposal of its entire equity interest held in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.* (陝西紫光辰濟藥業有限公司) ("Shaanxi Life Care") and its subsidiaries (collectively, "Shaanxi Life Care Group") on 9 May 2023 ("Disposal Date"), thus the revenue and gross profit of Shaanxi Life Care Group as of the Disposal Date decreased as compared to that of the previous year; and
- In respect of the fitness business segment, the Group's fitness business in Singapore has gradually recovered from the impact of the COVID-19 pandemic and has significantly improved, which has partially offset the negative impact of the above-mentioned pharmaceutical business segment.

The Group's net loss for the year ended 31 December 2023 was approximately HK\$61.1 million (2022: net loss of approximately HK\$109.7 million), representing a decrease of approximately HK\$48.6 million as compared with the corresponding period of 2022. Basic loss per share was approximately HK\$0.52 cent (2022: loss per share of approximately HK\$1.52 cent). Under unfavorable circumstances with a decrease in both revenue and gross profit and, the increase in expected credit losses on receivables, the performance of the Group has improved mainly due to the one-time gain of approximately HK\$110.5 million from the disposal of its entire equity interest held in Shaanxi Life Care.

Discontinued Operation

SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福 (北京) 生物技術有限公司) (“SPF”) and its wholly-owned subsidiary, SPF (Suzhou) Biotechnology Co., Ltd.* (斯貝福 (蘇州) 生物技術有限公司) (collectively as “SPF Group”), is principally engaged in the sales of laboratory related products. On 6 April 2022, Tongfang Pharmaceutical, a wholly-owned subsidiary of the Company, Shenzhen Warranty Asset Management Co., Ltd.* (深圳市華融泰資產管理有限公司) (“Shenzhen Warranty”), a controlling shareholder of the Company and SPF entered into an equity transfer agreement, pursuant to which Tongfang Pharmaceutical sold 55.43% equity interest in SPF held by it to Shenzhen Warranty. Such transaction was duly passed by the independent shareholders of the Company by way of poll at the extraordinary general meeting held on 20 June 2022.

On 29 July 2022, the SPF Group was disposed of and presented as discontinued operation for the year ended 31 December 2022.

Business Review

Pharmaceutical Business

For the year ended 31 December 2023, the revenue and gross profit of the Group’s pharmaceutical business were approximately HK\$607.1 million and HK\$467.2 million (2022: approximately HK\$722.9 million and HK\$522.2 million) respectively, representing a year-on-year decrease of approximately 16.0% and 10.5%. The main reasons for the decline are as follows: i) due to the adverse impact caused by the medical insurance policy adjustment in Mainland China, the sales of one of the main products of Tongfang Pharmaceutical dropped significantly; ii) under the weak macroeconomic condition, Chongqing Kangle experienced a decline in sales due to shrinking customer demand; and iii) Shaanxi Life Care Group, which was disposed of on 9 May 2023, witnessed a decrease in revenue and gross profit as of the Disposal Date as compared to that of previous year.

For the year ended 31 December 2023, the performance of the pharmaceutical business of the Group recorded a profit of approximately HK\$69.6 million (2022: approximately HK\$8.3 million). The significant increase in profit was mainly due to the one-off gain of approximately HK\$110.5 million from the disposal of 66% equity interest in Shaanxi Life Care by Tongfang Pharmaceutical on 9 May 2023, which offset the adverse impact brought by the decrease in revenue and gross profit and the increase in expected credit losses on receivables.

1. *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. For the year ended 31 December 2023, Tongfang Pharmaceutical recorded revenue and gross profit of approximately RMB462.7 million and RMB413.8 million (2022: approximately RMB453.5 million and RMB412.4 million), respectively. The revenue recorded a year-on-year increase of approximately 2.0% as compared with that of last year, while the gross profit was basically stable as compared with the corresponding period of last year.

At present, Tongfang Pharmaceutical is facing pressure due to the adjustment of medical insurance policies and the emergence of new competitive products. In response, it is actively seeking countermeasures.

2. *Chongqing Kangle*

Chongqing Kangle is principally engaged in the research and development, production and sales of active pharmaceutical ingredients (“API”) and API intermediate in Chongqing Changshou Chemical Industrial Park. For the year ended 31 December 2023, Chongqing Kangle recorded revenue and gross profit of approximately RMB72.7 million and RMB9.0 million (2022: approximately RMB117.2 million and RMB29.6 million) respectively, representing a decrease of approximately 38.0% and 69.7% as compared with last year.

Constrained by the weak macroeconomic environment in 2023, Chongqing Kangle faced a decrease in customer demand, in particular a sharp decrease in its export demand, leading to a significant decrease in its performance. Currently, Chongqing Kangle is actively seeking new customers and orders, and exploring open new markets to strive for an enhancement in its performance in 2024.

3. *Shaanxi Life Care*

Shaanxi Life Care Group is principally engaged in the manufacturing and sales of Chinese medicine products. On 13 April 2023, Tongfang Pharmaceutical, a subsidiary of the Company, entered into an equity transfer agreement with Ping An Tsumura Inc.* (平安津村有限公司) (“Ping An Tsumura”), pursuant to which Tongfang Pharmaceutical sold its 66% equity interest in Shaanxi Life Care to Ping An Tsumura. Shaanxi Life Care Group was disposed of on 9 May 2023.

As of 9 May 2023, Shaanxi Life Care Group recorded revenue and gross profit of approximately RMB21.6 million and RMB9.7 million (2022: approximately RMB62.3 million and RMB26.8 million) respectively, representing a decrease of approximately 65.4% and 63.6% as compared with last year.

Fitness Business

The revenue of the Group’s fitness business for the year ended 31 December 2023 was approximately HK\$202.0 million (2022: approximately HK\$171.2 million), which includes royalty fee income of approximately HK\$39.2 million (2022: approximately HK\$37.8 million). The results of the Group’s fitness business for the year ended 31 December 2023 was loss of approximately HK\$81.5 million (2022: approximately HK\$101.3 million).

The favourable increase in revenue was partially offset by the negative impact brought by i) the increase in salaries and commission; ii) the decrease in government grants and subsidies and rental rebates related to COVID-19 pandemic and iii) the increase in expected credit losses on the receivables of royalty fee income.

The year 2023 was a key year for the recovery of the Group’s fitness business. It has achieved remarkable revenue growth and narrowed losses with high-quality customer experience and various fitness services. The Group’s yoga brand of “Yoga Edition” launched at the end of 2022 has also made progress, and the management will continue to push forward the development of the yoga business.

Discontinued Operation

On 29 July 2022, the SPF Group was disposed of and presented as discontinued operation for the year ended 31 December 2022.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the year ended 31 December 2023 were mainly funded by cash generated from its operations, net proceeds from disposal of subsidiaries and loans from principal bankers.

As at 31 December 2023, the Group maintained bank balances and cash reserves of approximately HK\$77.7 million (31 December 2022: approximately HK\$122.6 million), all of which were cash and cash equivalents.

As at 31 December 2023, the Group had outstanding borrowings repayable within one year of approximately HK\$ 39.5 million and outstanding borrowings repayable after one year of approximately HK\$ 12.8 million (31 December 2022: approximately HK\$158.8 million and HK\$103.2 million). As at 31 December 2023, 46.4% of the Group's outstanding borrowings were denominated in Renminbi ("RMB") and 53.6% in Singapore dollars ("SGD"). Approximately 34.0% of the Group's outstanding borrowings were charged with interest at floating rates while the remainder were at fixed rates.

The gearing ratio (total borrowings over total assets) of the Group as at 31 December 2023 was as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Total borrowings	<u>52,347</u>	<u>261,925</u>
Total assets	<u>1,727,335</u>	<u>2,120,443</u>
Gearing ratio	<u>3.0%</u>	<u>12.4%</u>

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 current capital in financial products with significant risk.

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 its functional currency, 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 31 December 2023, the Group's bank borrowings of approximately HK\$28,824,000 (2022: approximately HK\$206,555,000) and lease liabilities of approximately HK\$1,076,000 (2022: approximately HK\$661,000) were secured by the following:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Buildings and structures	1,835	81,558
Investment property	—	37,760
Right-of-use assets	4,454	32,945
Construction in progress	—	136,843
Bank balance	129	112
	<u>6,418</u>	<u>289,218</u>

Material Capital Commitments and Investments

The Group had the following capital commitments:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments contracted for but not provided in the consolidated financial statements:		
— Acquisition of property, plant and equipment	<u>16,883</u>	<u>93,075</u>

Employees

As at 31 December 2023, the Group had 720 (2022: 922) 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, awarded shares may be granted to eligible employees pursuant to the terms of the share award scheme of the Company. The purpose of the scheme is to provide incentives to the selected employees to contribute to the Group and 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

The year of 2024 remains a challenging year for the pharmaceutical business of the Group. On one hand, with the impact on the change in demand and supply of the market environment, certain products of the Group will face a fiercer price competition inevitably. On the other hand, the Group will step up its efforts on promoting the research and development of new products and enriching the product mix to consolidate the market share of the Group's products, and thus creating new opportunities for earning growth.

Based on macro market changes, the Group has formulated targeted strategies, including the launch of online marketing and a new round of products selection plan. With the synergistic effect brought by these strategies, the Group's pharmaceutical business will strive for a moderate growth in 2024.

Fitness Business

Looking ahead to 2024, the Group's fitness business stands at the forefront of an optimistic and dynamic fitness landscape. The positive trajectory and outlook for the year ahead provides an opportunity for the Group to capitalise on emerging trends while solidifying what we do best — offering superior fitness and yoga experiences.

The Group's fitness business will continue to aim for sustainable year-on-year growth in new member sales and acquisition, personal training and other ancillary revenue streams via the leveraging of innovative marketing strategies and more personalised offerings.

Targeted efforts in attracting new members on a broader scale, a carefully crafted member retention strategy, and a proactive exploration of franchise opportunities, will be pivotal in shaping our success and growth trajectory in future.

DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2023 (2022: Nil).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the “2024 AGM”) is scheduled to be held on Friday, 7 June 2024. For determining the entitlement to attend and vote at the 2024 AGM, the register of members of the Company will be closed from Monday, 3 June 2024 to Friday, 7 June 2024 (both days inclusive), during which period no transfer of Shares will be registered. In order for a shareholder to be eligible to attend and vote at the 2024 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 31 May 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2023, 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 C1 to the Listing Rules.

Further information on the Company’s corporate governance practices during the year under review will be set out in the Corporate Governance Report to be contained in the Company’s annual report for the year ended 31 December 2023 (the “2023 Annual Report”).

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the annual results for the year ended 31 December 2023 contained herein.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023.

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

The 2023 Annual Report will be made available on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company's website (<http://www.kontafarma.com.hk>) in due course. The audited consolidated results of the Group for the year ended 31 December 2023 set out above does not constitute the Company's statutory financial statements but is extracted from the consolidated financial statements for the year ended 31 December 2023 to be included in the 2023 Annual Report.

By order of the Board
Kontafarma China Holdings Limited
Bai Pingyan
Chairman

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Bai Pingyan (Chairman), Mr. Chai Hongjie, Mr. Huang Yu (President) 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*