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)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "Board") of directors (the "Directors") of Tongfang Kontafarma 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 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Revenue – goods and services	(3)	**2,093,724**	1,344,336
Cost of sales and sevices		**(1,530,726)**	(1,007,461)
Gross profit		**562,998**	336,875
Other income	(4)	**44,774**	40,096
Other gains and losses		**4,427**	23,638
Impairment losses of financial assets, net of reversal		**(2,454)**	(17,850)
Distribution and selling expenses		**(243,605)**	(133,027)
Administrative expenses		**(156,275)**	(138,808)
Other expenses		**(31,385)**	(32,641)
Finance costs		**(43,851)**	(21,882)
Share of results of an associate		**(12,704)**	(8,765)
Share of results of a joint venture		**(13,059)**	(11,666)
Profit before taxation		**108,866**	35,970
Taxation	(5)	**(37,354)**	(119)
Profit for the year	(6)	**71,512**	35,851

	Note	2018 HK$'000	2017 HK$'000
Other comprehensive (expense) income:			
Item that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation to presentation currency		**(76,768)**	101,338
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**1,760**	(7,319)
Fair value change on debt instruments at fair value through other comprehensive income		**(298)**	–
Other comprehensive (expense) income for the year		**(75,306)**	94,019
Total comprehensive (expense) income for the year		**(3,794)**	129,870
Profit (loss) for the year attributable to:			
Owners of the Company		**32,499**	(1,806)
Non-controlling interests		**39,013**	37,657
		71,512	35,851
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(21,228)**	60,782
Non-controlling interests		**17,434**	69,088
		(3,794)	129,870
		HK cents	*HK cents*
Earnings/(loss) per share	*(7)*		
Basic		**0.60**	(0.04)
Diluted		**0.60**	(0.04)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**641,732**	690,533
Deposits for equipment and machineries		**77,827**	81,927
Prepaid lease payments on land use rights		**111,736**	107,140
Investment properties		**4,855**	5,276
Goodwill		**437,569**	439,160
Intangible assets		**322,093**	324,302
Interests in an associate		**303**	13,007
Interests in a joint venture		**45,375**	21,093
Deferred tax assets		**2,663**	4,360
Rental deposits		**12,211**	5,127
Contract costs		**3,043**	–
Pledged bank deposits		**2,216**	2,247
		1,661,623	1,694,172
Current assets			
Properties held for sale		**2,204**	2,321
Biological assets		**4,295**	4,761
Inventories		**114,903**	97,401
Trade receivables	*(9)*	**686,591**	532,671
Contract costs		**11,481**	–
Other receivables, deposits and prepayments		**164,554**	149,432
Loans receivables		**106,036**	178,878
Financial assets at fair value through profit or loss		**107,633**	114,720
Debt instruments at fair value through other comprehensive income		**31,336**	–
Other investment		**20,000**	–
Prepaid lease payments on land use rights		**3,281**	3,289
Amount due from a joint venture		**343**	7,972
Amount due from an associate		**71,886**	34,667
Amounts due from other related parties		**204,525**	208,961
Pledged bank deposits		**50,543**	33,515
Cash and cash equivalents		**101,230**	381,450
		1,680,841	1,750,038

	Note	2018 HK$'000	2017 HK$'000
Current liabilities			
Trade and bills payables	(10)	**284,457**	207,512
Other payables and deposits received		**144,586**	123,782
Amount due to an intermediate holding company		**16,164**	17,011
Amounts due to other related parties		**38,445**	57,974
Tax liabilities		**105,533**	87,292
Bank and other borrowings due within one year		**548,896**	629,518
Obligations under finance leases		**1,009**	1,504
Provision of reinstatement cost		**42,962**	–
Deferred income		**285**	114,721
Contract liabilities		**117,525**	–
		1,299,862	1,239,314
Net current assets		**380,979**	510,724
Total assets less current liabilities		**2,042,602**	2,204,896
Capital and reserves			
Share capital		**11,177**	9,900
Share premium and reserves		**1,382,204**	1,214,123
Equity attributable to owners of the Company		**1,393,381**	1,224,023
Non-controlling interests		**515,680**	624,689
Total equity		**1,909,061**	1,848,712
Non-current liabilities			
Bank and other borrowings due after one year		**96**	175,484
Deferred taxation		**106,297**	113,537
Obligations under finance leases		**423**	1,910
Provision of reinstatement cost		**14,754**	18,943
Deferred income		**186**	46,310
Contract liabilities		**11,785**	–
		133,541	356,184
		2,042,602	2,204,896

Notes:

(1) BASIS OF PREPARATION

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 included disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

(3) REVENUE AND SEGMENT INFORMATION

(A) For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

	Mecdical, pharmaceutical and health business *HK$'000*	Fitness business *HK$'000*	Cement business *HK$'000*	Total *HK$'000*
Type of goods and services				
Manufacture and sales of prescription drugs and laboratory related products	495,757	–	–	495,757
Operation of fitness centres and provision of consultation services for fitness and health activities	–	310,492	–	310,492
Royalty fee income in relation to fitness and health activities in Taiwan	–	54,182	–	54,182
Service fee income in relation to fitness and health activities in Taiwan	–	2,993	–	2,993
Manufacture and sales of cement and clinker	–	–	447,738	447,738
Trading of cement	–	–	782,562	782,562
Total	495,757	367,667	1,230,300	2,093,724

(B) For the year ended 31 December 2017

	2017 *HK$'000*
An analysis of the Group's revenue for the year is as follows:	
Manufacture and sales of prescription drugs and laboratory related products	353,774
Operation of fitness centres and provision of consultation services for fitness and health activities	195,763
Royalty fee income in relation to fitness and health activities in Taiwan	31,252
Service fee income in relation to fitness and health activities in Taiwan	2,074
Manufacture and sales of cement and clinker	275,683
Trading of cement	485,790
	1,344,336

During the year ended 31 December 2017, the Group acquired fitness business. The chief executive, being the chief operating decision maker, had reassessed the Group's operations and measurement of financial performance assessment and identified (1) medical, pharmaceutical and health business; (2) fitness business; and (3) cement business as three separate operating and reportable segments of the Group.

The operating business organised and managed in each segment represents a strategic business unit that offers different products and services for the purpose of resource allocation and assessment of segment performance. The Group has following operating and reportable segments:

- Medical, pharmaceutical and health 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 and service fee income.
- Cement business – manufacture and sales of cement and clinker and trading of cement.

No operating segments identified have been aggregated in arriving at the reportable segments of the Group.

Segment revenue and results

Analysis of the Group's segment revenue and results is as follows:

	Medical, pharmaceutical and health business		**Fitness business**		**Cement business**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenue from external customers	**495,757**	353,774	**367,667**	229,089	**1,230,300**	761,473	**2,093,724**	1,344,336
Segment results	**54,736**	33,817	**67,859**	39,864	**85,805**	14,370	**208,400**	88,051
Unallocated corporate income							**4,072**	8,856
Unallocated corporate expenses							**(59,755)**	(39,055)
Finance costs							**(43,851)**	(21,882)
Profit before taxation							**108,866**	35,970

There was no inter-segment sales during the years ended 31 December 2018 and 2017. The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit from each segment without allocation of unallocated corporate income and expenses, and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(4) OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Interest income from banks	**4,189**	4,344
Interest income from loans receivables	**6,178**	6,499
Interest income from a non-controlling shareholder of the Group's subsidiary	**5,683**	6,387
Interest income from an intermediate holding company	**–**	995
Interest income from other receivables	**322**	828
Interest income from debt instruments at fair value through other comprehensive income	**1,238**	–
Interest income from other investment	**45**	–
Interest income from a joint venture	**287**	–
	17,942	19,053
Government grant and subsidy	**19,166**	8,725
Sales of scrap	**1,034**	2,277
Rental income	**3,693**	3,869
Sundry income	**2,939**	6,172
	44,774	40,096

(5) TAXATION

	2018	2017
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
– People's Republic of China (the "PRC") Enterprise Income Tax	**(33,456)**	(1,974)
– Hong Kong Profits Tax	**(10)**	(19)
– Singapore Corporate Income Tax	**(587)**	(1,979)
– Other jurisdiction	**(6,811)**	(4,999)
	(40,864)	(8,971)
Over provision in prior years		
– PRC Enterprise Income Tax	**535**	7,475
– Hong Kong Profits Tax	**9**	14
	544	7,489
Deferred tax	**2,966**	1,363
	(37,354)	(119)

(6) PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets	**12,711**	5,231
Depreciation of investment properties	**162**	158
Depreciation of property, plant and equipment	**68,622**	51,356
Total amortisation and depreciation	**81,495**	56,745
Research and development expenses (included in other expenses)	**25,283**	23,727
Loss on impairment of inventories (included in cost of sales and services)	**–**	1,469
Provision of financial guarantee (included in other expenses)	**–**	1,488
Release of prepaid lease payments on land use rights	**3,396**	3,151
Operating lease rentals in respect of premises	**106,554**	66,865

(7) EARNINGS/(LOSS) PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share – attributable to owners of the Company	**32,499**	(1,806)

	2018	2017
	Shares	*Shares*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	**5,455,121,336**	4,943,780,754

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").

For the year ended 31 December 2018, the computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for 2018.

For the year ended 31 December 2017, the computation of the diluted loss per share does not assume the exercise of the Company's share options as such would result in a decrease in loss per share.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

No dividend was declared or paid by the Company during the year ended 31 December 2018 (2017: Nil).

(9) TRADE RECEIVABLES

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:

	2018	2017
	HK\$'000	*HK\$'000*
0 to 90 days	**296,537**	254,138
91 to 180 days	**197,311**	197,028
181 to 365 days	**181,889**	74,446
Over 1 year	**10,854**	7,059
	686,591	532,671

As at 31 December 2018, total bills received amounting HK\$145,210,000 (2017: HK\$131,913,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

(10) 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:

	2018	2017
	HK\$'000	*HK\$'000*
0 to 90 days	**133,343**	81,559
91 to 180 days	**51,844**	16,793
181 to 365 days	**89,283**	101,539
Over 1 year	**9,987**	7,621
	284,457	207,512

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, the Group was principally engaged in the (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines 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 and service fee income; and (iii) manufacturing and sales of cement and clinker, trading of cement and provision of technical services with operations in Shandong province and Shanghai in the PRC.

Financial Results

The revenue of the Group for the year ended 31 December 2018 was approximately HK$2,093.7 million (2017: HK$1,344.3 million), representing an increase of 55.8% as compared to the previous year. The profit for the year of the Group was HK$71.5 million (2017: HK$35.9 million). The basic earnings per share amounted to HK0.60 cents (2017: basic loss per share HK0.04 cents).

The Group recorded a net profit for the year ended 31 December 2018 was primarily attributable to (i) the medical, pharmaceutical and health business of the Group has been expanding since the first half of 2018; (ii) the revenue and other gain generated from the fitness business of the Group following the Group's acquisition of 51% of the issued share capital in TFKT True Holdings in May 2017; and (iii) the increase in revenue generated by the cement business of the Group.

Business Review

Medical, Pharmaceutical and Health Business

In 2018, PRC's healthcare reforms has gradually moved towards the critical stage. At macro level, the PRC government successively adjusted the management structure of the national healthcare sector, establishing the trinity supervision and management system composed of the National Health Commission of the PRC, the National Medical Products Administration and the National Healthcare Security Administration. It also amended the "National Essential Drug List" (《國家基本藥物目錄》) and implemented continuous reforms in the medical insurance payment of hospitals. The government also put forward numerous reform requirements and specific measures against chemical generic medicine which accounts for the largest share in the market, particularly mid- to high-end generic medicine, and many of which are significant measures such as 4+7 procurement with target quantity. Besides, the whole industry has been deeply influenced by policies in recent years such as constant environmental supervision and the taxation supervision resulted from the extension of the Third Phase of the Golden Tax Project.

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 medicine with over approximately 30,000 square meters of drug production workshops 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 2018, the operating revenue amounted to RMB237.7 million, representing a growth of 45.3% as compared to RMB163.6 million for 2017. Gross profit for the year ended 31 December 2018 amounted to RMB212.7 million, representing a growth of 48.4% as compared to RMB143.3 million for 2017.

   In 2018, Tongfang Pharmaceutical confronted a complex external environment and faced significant pressures and challenges. It implemented a series of effective measures to cope with various risks such as optimizing system, strengthening management, controlling risks and facilitating accountability mechanism. Tongfang Pharmaceutical streamlined 81 schemes in total, and established and carried out a supervision mechanism. Tongfang Pharmaceutical also formed a strategic planning committee and issued documents requiring the subsidiaries to formulate a 3-5 year strategic development plan; streamlined various quality regulations and policy documents to strengthen the supply and sales, production, quality and technical management of the subsidiaries and strictly control the quality risks. The document also required the subsidiaries to strengthen safety production education, carry out regular safety drills and implement safety production responsibility system. Since the beginning of the year, with the efforts made by all staff of Tongfang Pharmaceutical and its subsidiaries (the “Tongfang Pharmaceutical Group”), the subsidiaries did not have any quality, environmental or safety incidents. Under stringent environmental protection policies, the environmental impact assessments achieved significant progress. All subsidiaries passed various “unannounced inspections”. The team building and corporate culture construction had made remarkable results, resulting in a more reasonable and optimized team deployment. Tongfang Pharmaceutical increased its investment in research and development and constantly improved its product structure, eventually achieving a higher growth.

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 in the Chinese medicine-related fields, including the planting, manufacturing and distribution of Chinese medicines and operating a production facility in Baoji, Shaanxi. For the year ended 31 December 2018, an operating revenue amounted to RMB73.6 million, representing a growth of 14.5% as compared to RMB64.3 million for 2017. Gross profit for the year ended 31 December 2018 amounted to RMB37.0 million, representing a growth of 52.3% as compared to RMB24.3 million for 2017.

With the effective leadership of Tongfang Pharmaceutical Group and the efforts made by the management and all staff, Shaanxi Life Care continued to uphold the operating principles of "adjustment, reform, innovation and enhancement", adhere to the work standard of "clear objectives, right approaches, smooth communication, effective assessment and efficient incentives" and strive for achieving the operating indicators set by the board by proactively innovating its sales model, strengthening its internal management and enhancing quality management and control. Despite of the unfavorable circumstances in 2017, Shaanxi Life Care still stabilized its corporate development and achieved a certain level of growth back then. In 2019, it will strive for restoring the best level in its history.

3. *Chongqing Kangle Pharmaceutical Co., Ltd.*（重慶康樂製藥有限公司）("Chongqing Kangle")*

Chongqing Kangle is principally engaged in the research and development, production and sales of active pharmaceutical ingredients ("API") and intermediate API in Chongqing Changshou Chemical Industrial Park. For the year ended 31 December 2018, an operating revenue amounted to RMB64.9 million, representing a growth of 43.9% as compared to RMB45.1 million for 2017. Gross profit for the year ended 31 December 2018 amounted to RMB13.1 million, representing a growth of 84.5% as compared to RMB7.1 million for 2017.

In 2018, Chongqing Kangle launched new products in the market and reached a certain level of sales scale. However, due to numerous factors such as environmental protection supervision and quality standard adjustment, the sales performance of several significant customers in the PRC failed to meet its expectations. Therefore, Chongqing Kangle adopted a number of measures for the deployment to the development in 2019 and in the future, including the plans to add product lines to its existing offerings, adding green facilities and strengthen its sales team and channels, endeavoring to accomplish more rapid growth and the operating objectives in 2019.

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 supply of standardized laboratory animals and animal indigenous raw materials. For the year ended 31 December 2018, an operating revenue amounted to RMB43.8 million, representing a growth of 27.0% as compared to RMB34.5 million for 2017. Gross profit for the year ended 31 December 2018 amounted to RMB25.2 million, representing a growth of 70.3% as compared to RMB14.8 million for 2017.

In 2018, SPF confronted relatively severe challenges. SPF is China's largest supplier of ICR/KM submandibular gland, a raw material of mouse nerve growth factor drugs. However, the sales volume of such drugs recorded a sharp decline as the downstream customers were affected by the national policies regarding the restrictions on outpatient prescription. In the face of risks, the board and management of SPF adjusted its strategies by investing more key resources and efforts in laboratory animal business and gradually shrinking the biopharmaceutical raw material business. With constant adjustment throughout the year, SPF eventually minimized the negative impacts and stabilized its operating situation.

2018 was a challenging year for Tongfang Pharmaceutical Group as well as the entire pharmaceutical industry in the PRC. Faced with various pressures, Tongfang Pharmaceutical Group proactively searched for solutions to the problems. From strategic adjustment to changes in details of specific operations, every part demonstrated the wisdom and effort of every staff. The core strategy of Tongfang Pharmaceutical Group was to plan on development after stabilizing its operations, that was, maintaining the operation results accomplished in the past two years, avoiding systematic risks and stabilizing its operations, and at the same time capturing present opportunities, in order to seek further development.

Fitness Business

In 2017, the industry topped 174 million consumers around the globe, according to the International Health, Racquet and Sportsclub Association ("IHRSA") Global Report 2018. In revenue terms, industry revenue totalled an estimated US$87.2 billion in 2017 and the club count exceeded 200,000 facilities globally. According to the latest report, emerging markets, particularly in the Asia-Pacific region, showed potential for continued growth.

22 million members are served at more than 25,000 clubs in the Asia-Pacific region. In total, this market, excluding the Middle East, generates annual revenues of US$16.8 billion according to the IHRSA Asia-Pacific Health Club Report (Second Edition). The fitness market shows signs of rapid growth in Singapore at the rate of 5.8% and Taiwan at the rate of 3.0%. Both markets belong to the fast-expanding and maturing second-tier markets. This segment features gradually professionalizing services, expanding consumer bases, and high concentration of leading participants. With room for growth, already fierce competition is expected to continue in the future.

The revenue of the Group's fitness business for the year ended 31 December 2018 was HK$367.7 million, which includes a franchise income of HK$57.2 million as compared to HK$229.1 million (including franchise income of HK$33.3 million) for the seven-month same period of last year ended 31 December 2017. The profit for the year of the Group's fitness business was HK$32.2 million as compared to HK$20.6 million for the seven-month same period of last year ended 31 December 2017. As disclosed in the circular of the Company dated 28 July 2017 relating to acquisition of entities engaging in fitness business, the seller undertook to the Group that if the audited consolidated net profit after tax attributable to TFKT True Holdings and its subsidiaries (the "True Cayman Group") for the year ended 31 December 2018 is less than US$10.9 million (equivalent to approximately HK$86.7 million) (subject to a 10% buffer of downward adjustment), the seller would pay to the Group an amount equal to such shortfall on a dollar-to-dollar basis. Based on the consolidated accounts of the True Cayman Group for 2018 available to the Company, there is a shortfall of US$7,600,000 (or HK$58,900,000) (2017: US$3,449,907 (or HK$27,125,000)) against the guaranteed amount which is recognised as other gains and losses in the consolidated financial statements of the Company.

The Singapore operation of the Group's fitness business is positioned in the middle-market segment. Singapore turnaround is a key component of the projections. The business underperformed for the past two years not delivering to core strengths. Issues included: sales focus was traditionally based only with upfront prepaid membership led to current non-paying members; insufficient re-investment at the older club, service and fitness products against a background of new competitor entrants to the market, resulting in lower retention and a drop in membership over the period.

The Group's fitness business is one of the largest independent fitness and yoga lifestyle chains with 24 state-of-the-art clubs serving 110,000 members in Taiwan, Singapore and the PRC. It has received multiple consecutive industry awards from various renowned health and lifestyle magazines, recognizing the Group's first-class fitness and yoga studios as well as classes.

The Group's business strategy of opening conveniently-located and large clubs to offer ample facilities to service its members, has efficaciously catered to broad member interests with dedicated facilities for yoga, spinning, group exercise, personal training sessions and weight and cardio training, etc. To add, the Group also achieves its brand differentiation through a distinctive, modern and upscale brand image with a focus on health and wellness lifestyle, with a particular appeal to the underserved female market segment.

Its primary business segment and strategic focus are combining fitness and yoga studios: a format popular with members, and gives the Group's fitness business a unique combination of yoga and fitness under one roof with added revenue stream from personal training services.

Cement Business

For the year ended 31 December 2018, the Group's revenue from the cement business amounted to HK$1,230.3 million (2017: HK$761.5 million). The increase in revenue from the cement business was mainly attributable to the increase in the average selling prices and sales volume of cement as the supply-demand correlation improved. For the year ended 31 December 2018, the sales volume of the Group's cement and clinker was 2,797,000 tonnes (2017: 2,601,000 tonnes), representing a slight increase of 7.5% as compared to last year.

The Group experienced different degrees of year-on-year reduction in the production volumes of clinker and cement in the first half of the year as a result of the seasonal halt of production. The operating rate of the kilns improved in the second half of the year.

The Group's development project of new cement production facilities at Bailonggang, Pudong, Shanghai ("Bailonggang Project") obtained the approval letter issued by Shanghai Municipal Development and Reform Commission on 26 January 2014. The approval has an effective period of two years from the date of issue. The Group has applied for a postponement of Bailonggang Project as required by the government, and the Group is currently endeavoring to procure the relevant government authority to approve the application for the postponement.

Financial Review

Liquidity and Financing

On 13 February 2018, 400,000,000 shares of the Company (the "Share(s)") were allotted and issued to raise gross proceeds of approximately HK$201.3 million. Details of the issuance of Shares and update on the use of proceeds are set out in the section headed "Use of Proceeds from Issue of New Shares" in this announcement.

Except for the proceeds raised from the above issuance of Shares, the Group's capital expenditure, daily operations and investments during the year ended 31 December 2018 were mainly funded by cash generated from its operations and loans from principal bankers and third parties.

As at 31 December 2018, the Group maintained bank balances and cash reserves of approximately HK$151.8 million (2017: HK$415.0 million), including cash and cash equivalents of approximately HK$90.4 million, time deposits of approximately HK$10.9 million and pledged bank deposits of approximately HK$50.5 million (2017: cash and cash equivalents of approximately HK$381.5 million and pledged bank deposits of approximately HK$33.5 million.)

As at 31 December 2018, the Group had outstanding borrowings of approximately HK$548.9 million repayable within one year (2017: HK$629.5 million) and outstanding borrowings of approximately HK$0.1 million repayable after one year (2017: HK$175.5 million). The Group's outstanding borrowings were denominated in Hong Kong dollars ("HK$"), Renminbi ("RMB"), and Singapore dollars ("SGD") as to 69.2%, 30.7% and 0.1%, respectively. Around 19.1% 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 2018 was as follows:

	2018	2017
	HK$'000	*HK$'000*
Total borrowings	**548,992**	805,002
Total assets	**3,342,464**	3,444,210
Gearing ratio	**16.4%**	23.4%

As at 31 December 2018, a balance amounting to HK$127.7 million (2017: HK$158.6 million) were included in the amounts due from other related parties, which represent the provision of entrusted loans through a bank to Shanghai Building Material (Group) Company Limited* (上海建材(集團)有限公司) ("Shanghai Building Material") and the related interest receivable. Details of the transactions were set out in the announcement of the Company dated 24 April 2018.

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 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 dollars ("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, it is inevitable that the Group would face foreign exchange exposure, whether positive or negative, from translating the accounts to its presentation currency.

Pledge of Assets

As at 31 December 2018, carrying values of building and structures, plant and equipment, prepaid lease payments on land use rights, exchange rate linked structured deposits and bank deposits of approximately HK$53.3 million, HK$0.1 million, HK$16.5 million, HK$28.4 million and HK$52.8 million respectively (2017: HK$155.3 million, HK$54.3 million, HK$99.5 million, HK$24.0 million and HK$35.8 million) were pledged for bank and other borrowings, short-term bank facilities and finance lease of the Group.

Material Acquisitions

On 23 January 2018, the Company and Kingwood Limited, an indirect wholly-owned subsidiary of the Company (the "Purchaser") entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Shenzhen Shiao Wan Yun Investment Co. Ltd.* (深圳市世奧萬運投資有限公司) and Sea Best Group Limited (collectively, the "Vendors") in relation to the acquisition of remaining 40% equity interest in Tongfang Pharmaceutical by the Group (the "Acquisition"). Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell, a total of 40% equity interest in Tongfang Pharmaceutical, at a total consideration of RMB200,000,000, of which (i) RMB100,000,000 was satisfied in cash and (ii) RMB100,000,000 was satisfied by the issue of 243,863,777 consideration shares by the Company to the Vendors at the issue price of HK$0.5 per consideration share. Upon completion of the Acquisition on 3 May 2018, Tongfang Pharmaceutical has become an indirect wholly-owned subsidiary of the Company. Details of the Acquisition were set out in the announcements of the Company dated 23 January 2018, 13 February 2018, 16 March 2018 and 3 May 2018, respectively and the circular of the Company dated 27 February 2018.

Material Capital Commitments and Investments

As announced by the Company on 15 February 2012, Shanghai Allied Cement Co., Ltd ("Shanghai SAC") entered into the《關於建設「白龍港項目」合作協議》(Bailonggang Project Construction Cooperation Agreement*) and the 《關於設立合資公司（原則）協議》 (Principle Agreement for the Establishment of the Joint Venture Company*) on 13 February 2012 with Shanghai Building Material, a state-owned enterprise, for the purpose of setting up a joint venture company (the "JV Company") to operate and manage the development of new cement production facilities at Bailonggang, Pudong, Shanghai (the "Bailonggang Project") after the relevant government approvals for the Bailonggang Project being obtained. The setting up of the JV Company constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The 50% share of registered capital of the JV Company amounting to RMB400.0 million (equivalent to approximately HK$456.0 million (31 December 2017: HK$480.0 million)) would be contributed and funded by internal resources of the Group. Details of the transaction were set out in the announcements of the Company dated 15 February 2012 and 30 January 2014, respectively and the circular of the Company dated 16 March 2012.

As announced by the Company on 3 October 2012, Shanghai SAC entered into three purchase agreements on 28 September 2012 for the purchases of certain equipment and machineries at the aggregate consideration of RMB380.0 million (equivalent to approximately HK$433.2 million (31 December 2017: HK$456.0 million)), for future use in the Bailonggang Project. The Company does not intend to retain such equipment and machineries for its own use. Up to 31 December 2018, Shanghai SAC has settled the first installment of the total consideration under the three respective agreements in an aggregate amount of RMB68.3 million (31 December 2017: RMB68.3 million) (equivalent to approximately HK$77.9 million (31 December 2017: HK$82.0 million)). Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012 and 15 November 2012, respectively.

Employees

As at 31 December 2018, the Group had 1,527 (2017: 2,118) 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 purpose of the schemes 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

Medical, Pharmaceutical and Health Business

With the continuous adjustment of the macroeconomic development and the deepening reform of the medical system in the PRC, 2019 will be a critical year for the development of the Group's medical, pharmaceutical and health business. Facing pressures and challenges, the core strategy of the Group is "seeking progress while maintaining stability". In 2019, the focus of the Group will be strengthening risk controls, enhancing operational quality, seizing market opportunities, steadily propelling the development of key projects, enhancing its innovative research and development capabilities and striving for accomplishing the targets set for 2019, so as to lay a strong foundation for the Group's sustainable development in the future.

Fitness Business

As cardiovascular disease and the obesity epidemic continue to rise, the industry will play an increasingly important role in the health of global populations. Fitness businesses that adapt to meet this challenge should find security over the long-term. As Millennials increasingly drive consumer spending, providing services that appeal to their values will be crucial. However, that doesn't mean that other generations should be neglected at their expense. The active-ageing segment is another growth area, which gains immense health benefits from regular fitness activity, so there are huge opportunities in this area too.

Cement Business

In 2018, the cumulative cement production volume in PRC was 2,177 million tonnes, representing a year-on-year increase of 3%. The cumulative clinker production volume in the PRC was 1,422 million tonnes, representing a year-on-year increase of 3.56%, maintaining low-speed growth.

It is expected that the growth rate of real estate investment will face downward pressure under continued tightening of regulatory control of the property market of the PRC in 2019. In the light of an expected downward trend of the growth rate of real estate investment and a lag effect in demand for newly invested infrastructure projects, the national cement production volume in 2019 is expected to decline slightly.

The year 2019 is yet another important year for PRC's environmental governance. As such, it is expected that there will not be a significant reduction in the government's efforts in policy implementation, especially for markets in southern regions, which will continue to contribute to supply reduction. Therefore, the cement industry will continue the implementation of supply-side structural reform, while enhance the green production level. The enterprises will increase the investment in environmental protection, which will expose the enterprises to certain pressure.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

On 23 January 2018, the Company and THTF Energy-Saving Holdings Limited (the "Subscriber") entered into a subscription agreement pursuant to which the Subscriber conditionally agreed to subscribe and the Company conditionally agreed to allot and issue 400,000,000 Shares (the "Subscription") at the subscription price of HK$0.5 per subscription Share. The Subscription was completed on 13 February 2018 and the gross proceeds raised from it amounted to approximately HK$201.3 million. After deducting the relevant expenses, the net proceeds raised from the Subscription amounted to approximately HK$200.5 million.

The Company had applied HK$119.0 million for the settlement of part of the consideration payable for the Acquisition. It was disclosed in the announcement of the Company dated 23 January 2018 that the remaining net proceeds will be used for general corporate business development and general working capital.

As at 31 December 2018, the remaining net proceeds from the Subscription had been utilized in the following manner:

(i) as to approximately HK$39.3 million in the repayment of bank borrowings on 27 August 2018;

(ii) as to approximately HK$20.0 million in the investment in a financial asset on 30 November 2018; and

(iii) as to approximately HK$22.2 million in the settlement of general working capital during the year.

Details of the transactions were disclosed in the announcements of the Company respectively dated 23 January 2018, 13 February 2018, 16 March 2018 and 3 May 2018 and the circular dated 27 February 2018.

DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "2019 AGM") is scheduled to be held on Tuesday, 11 June 2019. For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 4 June 2019 to Tuesday, 11 June 2019 (both days inclusive), during which period no transfer of Shares will be registered. In order for a shareholder of the Company (the "Shareholder") to be eligible to attend and vote at the 2019 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 3 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company had 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 throughout the year ended 31 December 2018.

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 2018 (the "2018 Annual Report"), which will be despatched to the Shareholders in April 2019.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2018.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

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 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES

Pursuant to the general mandate to buy back Shares granted by the Shareholders at the annual general meeting held on 6 June 2018, the Company bought back a total of 5,292,000 Shares on the Stock Exchange (the "Share Buy-Back"). The Shares bought back were subsequently cancelled.

Details of the Share Buy-Back during the year ended 31 December 2018 are summarised as follows:

Month	Number of purchased Shares	Purchase price per Share		Aggregate price paid
		Highest	**Lowest**	
		HK$	*HK$*	*HK$*
September	5,292,000	0.43	0.31	1,974,870

The Board believes the Share Buy-Back would create capital management benefits to the Shareholders. Details of the Share Buy-Back were set out in the announcement of the Company dated 6 September 2018 and the next day disclosure returns dated 6 September 2018, 7 September 2018, 10 September 2018, 11 September 2018, 12 September 2018 and 14 September 2018.

Save as disclosed above and in the paragraph headed "Use of Proceeds from Issue of New 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 2018.

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

The 2018 Annual Report of the Company will be despatched to the Shareholders 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 audited consolidated results of the Group for the year ended 31 December 2018 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 2018 to be included in the 2018 Annual Report.

By Order of the Board
Tongfang Kontafarma Holdings Limited
Huang Yu
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Huang Yu (Chairman) 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*