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 2019

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 2019 with the comparative figures for the corresponding period in 2018 are as follows. The interim financial results of the Group for the six months ended 30 June 2019 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, Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Revenue – goods and services	*(4)*	**1,305,226**	1,142,831
Cost of sales and services		**(974,673)**	(869,278)
Gross profit		**330,553**	273,553
Other income		**16,101**	24,665
Other gains and losses		**7,038**	(48,022)
Impairment losses on property, plant and equipment		**(25,586)**	–
Impairment losses reversed (recognised) under expected credit loss model, net		**3,621**	(860)
Distribution and selling expenses		**(144,519)**	(104,706)
Administrative expenses		**(73,314)**	(73,307)
Other expenses		**(11,255)**	(7,600)
Finance costs		**(59,065)**	(13,133)
Share of results of an associate		**(303)**	(6,247)
Share of results of a joint venture		**(7,244)**	(8,346)
Profit before taxation		**36,027**	35,997
Taxation	*(5)*	**(27,699)**	(14,953)
Profit for the period	*(6)*	**8,328**	21,044

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)
For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
	Note	***HK$'000***	*HK$'000*
Other comprehensive (expense) income:			
Item that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation to presentation currency		**(682)**	(8,693)
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**(549)**	(2,983)
Fair value change on debt instrument at fair value through other comprehensive income		**247**	–
Reclassify to profit or loss upon disposal of debt instrument at fair value through other comprehensive income		**(114)**	–
Other comprehensive expense for the period		**(1,098)**	(11,676)
Total comprehensive income for the period		**7,230**	9,368
(Loss) profit for the period attributable to:			
Owners of the Company		**(25,191)**	(14,731)
Non-controlling interests		**33,519**	35,775
		8,328	21,044
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(25,639)**	(23,568)
Non-controlling interests		**32,869**	32,936
		7,230	9,368
		HK cent	*HK cent*
Loss per share			
Basic	*(7)*	**(0.45)**	(0.28)
Diluted		**(0.45)**	(0.28)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Note	At 30 June 2019 Unaudited *HK$'000*	At 31 December 2018 Audited *HK$'000*
Non-current assets			
Property, plant and equipment		**615,896**	641,732
Right-of-use assets		**580,528**	–
Deposits for equipment and machineries		**26,927**	77,827
Prepaid lease payments on land use rights		**–**	111,736
Investment properties		**4,776**	4,855
Goodwill		**434,131**	437,569
Intangible assets		**317,639**	322,093
Interests in an associate		**–**	303
Interests in a joint venture		**38,131**	45,375
Deferred tax assets		**1,633**	2,663
Rental deposits		**12,119**	12,211
Contract costs		**3,142**	3,043
Pledged bank deposits		**2,235**	2,216
		2,037,157	1,661,623
Current assets			
Properties held for sale		**2,204**	2,204
Biological assets		**4,334**	4,295
Inventories		**122,581**	114,903
Trade receivables	*(9)*	**962,809**	686,591
Contract costs		**7,835**	11,481
Other receivables, deposits and prepayments		**133,778**	164,554
Loans receivables		**46,341**	106,036
Financial assets at fair value through profit or loss		**103,105**	107,633
Debt instrument at fair value through other comprehensive income		**15,723**	31,336
Other investment		**20,270**	20,000
Prepaid lease payments on land use rights		**–**	3,281
Amount due from a joint venture		**386**	343
Amount due from an associate		**74,891**	71,886
Amounts due from other related parties		**167,001**	204,525
Pledged bank deposits		**44,969**	50,543
Cash and cash equivalents		**141,239**	101,230
		1,847,466	1,680,841

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
At 30 June 2019

	Note	**At 30 June 2019 Unaudited** *HK$'000*	At 31 December 2018 Audited *HK$'000*
Current liabilities			
Trade and bills payables	*(10)*	**410,070**	284,457
Other payables and deposits received		**158,743**	144,586
Amount due to an intermediate holding company		**18**	16,164
Amounts due to other related parties		**34,433**	38,445
Tax liabilities		**104,890**	105,533
Bank and other borrowings due within one year		**518,354**	548,896
Provision of reinstatement cost		**83,232**	42,962
Deferred income		**236**	285
Contract liabilities		**57,684**	117,525
Lease liabilities/obligations under finance leases		**51,416**	1,009
		1,419,076	1,299,862
Net current assets		**428,390**	380,979
Total assets less current liabilities		**2,465,547**	2,042,602
Capital and reserves			
Share capital		**11,177**	11,177
Share premium and reserves		**1,357,711**	1,382,204
Equity attributable to owners of the Company		**1,368,888**	1,393,381
Non-controlling interests		**548,549**	515,680
Total equity		**1,917,437**	1,909,061
Non-current liabilities			
Bank and other borrowings due after one year		**–**	96
Deferred taxation		**106,621**	106,297
Provision of reinstatement cost		**16,070**	14,754
Deferred income		**–**	186
Contract liabilities		**3,526**	11,785
Lease liabilities/obligations under finance leases		**421,893**	423
		548,110	133,541
		2,465,547	2,042,602

Notes:

(1) Review by auditor

The condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been reviewed by our auditor, Deloitte Touche Tohmatsu, 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**") and an unmodified review conclusion has been issued.

(2) Basis of preparation

The 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**").

(3) Principal accounting policies

The 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 cost to sell, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to the Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the annual financial statements of the Group for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of these new and amendments to HKFRSs in the current period has 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 condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases, and the related interpretations.

The Group applied HKFRS 16 from 1 January 2019. The Group applied the modified retrospective approach and has not restated comparative amounts with the cumulative effect recognised at the date of initial application. Right-of-use assets relating to the Group's operating leases are measured at the amount of lease liabilities on initial application by applying HKFRS 16.C8(b)(ii) transition, adjusted by the amount of any prepaid or accrued lease liabilities.

(3) Principal accounting policies (Cont'd)

At 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The right-of-use assets are initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities; whereas the lease liability is initially measured at the present value of the lease payments that are unpaid at the date, and subsequently adjusted for the interest and lease payments, as well as the impact of lease modification, amongst others.

On transition, other than the reclassification of prepaid lease payments of HK$115,017,000, the Group recognised lease liabilities of HK$510,068,000 and right-of-use assets of HK$623,206,000 at 1 January 2019.

(4) Revenue and segment information

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June 2019				For the six months ended 30 June 2018			
	Medical, pharmaceutical and health business Unaudited *HK$'000*	**Fitness business Unaudited *HK$'000***	**Cement business Unaudited *HK$'000***	**Total Unaudited *HK$'000***	Medical, pharmaceutical and health business Unaudited *HK$'000*	Fitness business Unaudited *HK$'000*	Cement business Unaudited *HK$'000*	Total Unaudited *HK$'000*
Types of goods and services								
Manufacture and sales of prescription drugs and laboratory related products	**277,149**	**–**	**–**	**277,149**	240,337	–	–	240,337
Operation of fitness centres and provision of consultation services for fitness and health activities								
– personal training classes	**–**	**45,012**	**–**	**45,012**	–	96,709	–	96,709
– membership packages	**–**	**87,221**	**–**	**87,221**	–	91,557	–	91,557
Royalty fee income in relation to fitness and health activities in Taiwan	**–**	**27,158**	**–**	**27,158**	–	28,274	–	28,274
Service fee income in relation to fitness and health activities in Taiwan	**–**	**–**	**–**	**–**	–	1,476	–	1,476
Manufacture and sales of cement and clinker	**–**	**–**	**235,435**	**235,435**	–	–	158,175	158,175
Trading of cement	**–**	**–**	**633,251**	**633,251**	–	–	526,303	526,303
Total	**277,149**	**159,391**	**868,686**	**1,305,226**	240,337	218,016	684,478	1,142,831
Timing of revenue recognition								
Point in time	**277,149**	**45,012**	**868,686**	**1,190,847**	240,337	96,709	684,478	1,021,524
Over time	**–**	**114,379**	**–**	**114,379**	–	121,307	–	121,307
Total	**277,149**	**159,391**	**868,686**	**1,305,226**	240,337	218,016	684,478	1,142,831
Geographical markets								
People's Republic of China ("**PRC**")	**277,149**	**2,559**	**868,686**	**1,148,394**	240,337	14,047	684,478	938,862
Singapore	**–**	**129,674**	**–**	**129,674**	–	174,219	–	174,219
Taiwan	**–**	**27,158**	**–**	**27,158**	–	29,750	–	29,750
Total	**277,149**	**159,391**	**868,686**	**1,305,226**	240,337	218,016	684,478	1,142,831

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

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. 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.

Segment revenue and results

Analysis of the Group's segment revenue and results for the six months ended 30 June 2019 and 2018 is as follows:

	Medical, pharmaceutical and health business		**Fitness business**		**Cement business**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Unaudited	Unaudited and restated	**Unaudited**	Unaudited and restated	**Unaudited**	Unaudited and restated	**Unaudited**	Unaudited and restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue from external customers	**277,149**	240,337	**159,391**	218,016	**868,686**	684,478	**1,305,226**	1,142,831
Segment results	**22,686**	24,388	**28,331**	34,637	**603**	(2,028)	**51,620**	56,997
Unallocated corporate income							**842**	2,078
Unallocated corporate expenses							**(16,435)**	(23,078)
Profit before taxation							**36,027**	35,997

There was no inter-segment sales during the six months ended 30 June 2019 and 30 June 2018. For the six months ended 30 June 2018, segment results represent the profit from each segment without allocation of unallocated corporate income and expenses, and finance costs. In current interim period, basis of measurement of segment results reported to the chief operating decision maker has changed to include finance costs in segment results. Accordingly, the comparative information for the six months ended 30 June 2018 has been represented to conform with the current period's measurement. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(5) Taxation

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	HK$'000	*HK$'000*
The charge comprises		
Current tax		
– PRC Enterprise Income Tax	**20,497**	9,916
– Singapore Corporate Income tax	**2,312**	4,521
– Taiwan Corporate Income Tax	**4,074**	4,463
	26,883	18,900
Under(over)provision in prior years		
– PRC Enterprise Income Tax	**518**	(615)
– Singapore Corporate Income Tax	**10**	–
	528	(615)
Deferred tax	**288**	(3,332)
	27,699	14,953

(6) Profit for the period

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**5,462**	3,740
Depreciation of investment properties	**80**	85
Depreciation of property, plant and equipment	**26,912**	31,514
Depreciation of right-of-use assets	**40,000**	–
Total amortisation and depreciation	**72,454**	35,339
Cost of inventories recognised as expenses	**858,638**	710,809
Release of prepaid lease payments on land use rights	**–**	1,710
Net loss on disposal and write-off of property, plant and equipment	**3,566**	3,044
Net foreign exchange (gain) loss	**(512)**	2,342
Property rental income, net of negligible outgoing expenses	**(1,542)**	(1,848)
Operating lease rentals in respect of premises	**–**	51,662
Lease payments for short-term leases and low-value assets	**2,335**	–
Written off of loans receivables	**–**	45,447

(7) 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	
	2019	2018
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share attributable to owners of the Company	**(25,191)**	(14,731)

	Six months ended 30 June	
	2019	2018
	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**	5,326,273,883

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 2019 and 2018 do not assume the exercise of the Company's share options as such would result in a decrease in loss per share.

(8) Dividend

No dividend was paid, declared or proposed during the current period (2018: Nil).

The board of directors of the Company does not recommend the payment of an interim dividend for the period ended 30 June 2019 (2018: Nil).

(9) Trade receivables

Other than the trade receivables in relation to the payment to be settled through credit cards, the Group has a policy of allowing its trade customers credit periods 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 2019	At 31 December 2018
	Unaudited	Audited
	HK$'000	*HK$'000*
0 to 90 days	**524,420**	296,537
91 to 180 days	**374,727**	197,311
181 to 365 days	**60,667**	181,889
Over 1 year	**2,995**	10,854
	962,809	686,591

As at 30 June 2019, total bills received amounting to HK$184,577,000 (31 December 2018: HK$145,210,000) 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:

	At 30 June 2019 Unaudited *HK$'000*	At 31 December 2018 Audited *HK$'000*
0 to 90 days	**314,239**	133,343
91 to 180 days	**8,856**	51,844
181 to 365 days	**77,557**	89,283
Over 1 year	**9,418**	9,987
	410,070	284,457

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2019, 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, and laboratory related products; (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 and trading of cement with operations in Shandong province and Shanghai in the PRC.

Financial Results

The revenue of the Group for the six months ended 30 June 2019 was approximately HK$1,305.2 million (2018: HK$1,142.8 million), representing an increase of 14.2% as compared to the previous period. The profit for the six months ended 30 June 2019 of the Group was HK$8.3 million (2018: HK$21.0 million). The basic loss per share amounted to HK0.45 cent (2018: HK0.28 cent).

The Group recorded a decrease in net profit for the six months ended 30 June 2019 as compared to the net profit for the six months ended 30 June 2018. It was primarily attributable to the overall improvement in business performance of various segments of the Group leading to the increase in gross profit offset by the (i) impairment losses on property, plant and equipment amounting to approximately HK$25.6 million; (ii) increase in distribution and selling expenses by approximately HK$39.8 million and (iii) increase in finance costs by approximately HK$45.9 million.

Business Review

Medical, Pharmaceutical and Health Business

In the first half of 2019, the deepening reform of the medical system went on across the pharmaceutical industry in the PRC, and the "4+7" procurement policy with minimum procurement quantities was carried out nationwide gradually. On the other hand, the PRC will intensify its efforts to reorganise and define the value chain of the pharmaceutical industry. It is expected that a verification work will be carried out over the entire industry in the future. Various reform measures as currently being implemented in the PRC will all be bound to have a profound influence on the whole industry.

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 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 six months ended 30 June 2019, the operating revenue amounted to RMB137.8 million, representing a growth of 33.1% as compared to RMB103.5 million for the corresponding period of 2018. Gross profit for the six months ended 30 June 2019 amounted to RMB124.3 million, representing a growth of 35.9% as compared to RMB91.5 million for the corresponding period of 2018.

In the first half of 2019, Tongfang Pharmaceutical concentrated on developing sales channels, and several newly developed areas and target hospitals. The increase of target hospitals serves as a solid foundation for sustainable and rapid future 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 six months ended 30 June 2019, the operating revenue of Shaanxi Life Care amounted to RMB30.5 million, representing a decline of 2.9% as compared to RMB31.4 million for the corresponding period of 2018. Gross profit for the six months ended 30 June 2019 amounted to RMB17.8 million, representing a growth of 21.9% as compared to RMB14.6 million for the corresponding period of 2018.

The current restrictions against use of proprietary Chinese medicines in the domestic hospital market and the highly frequent inspection over Chinese medicine factories by the drug regulatory authorities may affect the growing pace of the Chinese medicine sector in the future. Amid this situation, Shaanxi Life Care has been actively seeking breakthroughs. Up to now, it has selected a number of high-margin and specialty products, and will focus on the development and promotion of these products in the future.

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 six months ended 30 June 2019, the operating revenue of Chongqing Kangle amounted to RMB37.7 million, representing a decrease of 8.5% as compared to RMB41.2 million for the corresponding period of 2018. Gross profit for the six months ended 30 June 2019 amounted to RMB7.0 million, representing a decrease of 15.7% as compared to RMB8.3 million for the corresponding period of 2018.

The increasingly strengthening efforts in regulations and requirements in domestic environmental protection will bring in additional cost to the API field, which may lead to an increase in the cost of existing products. On the other hand, the "4+7" procurement policy with minimum procurement quantities in pharmaceutical industry and the wide-range promotion of drug consistency evaluation have also brought in significant opportunities to the API field.

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. For the six months ended 30 June 2019, the operating revenue of SPF amounted to RMB33.0 million, representing a growth of 73.7% as compared to RMB19.0 million for the corresponding period of 2018. Gross profit for the six months ended 30 June 2019 amounted to RMB18.6 million, representing a growth of 66.1% as compared to RMB11.2 million for the corresponding period of 2018.

In the first half of 2019, the experimental animal field of SPF was driven by the rapid growth of the downstream contract research organization industry, resulting improved production volume and sales volume.

Fitness Business

According to the latest report issued by International Health, Racquet and Sportsclub Association, 22 million members in the Asia-Pacific region are served at more than 25,000 health clubs. In total, this market generates annual revenues of US$16.8 billion. It demonstrates that fuelled by growing economies, the health club industry in the Asia-Pacific is robust, with significant potential for continued growth. Nevertheless, such growing opportunities come with challenges. High real estate costs, rental availability, the need for professionalized services, and increasing competition are some of the challenges health club operators face in the Asia-Pacific market. However, a favorable economic outlook along with increasing health awareness and demand for group exercise and personalized training are all expected to drive industry growth.

Driven by the momentum of economic growth, the fitness market in the Asia-Pacific region has shown steady growth with a positive outlook going forward. Overall market penetration is on an upward trajectory, reflecting an increasing awareness of health and club memberships.

The revenue of the Group's fitness business for the six month ended 30 June 2019 was HK$159.4 million which includes a franchise income of HK$27.2 million (2018: HK$218.0 million (including franchise income of HK$29.8 million)). The profit for the six months ended 30 June 2019 of the Group was HK$25.6 million (2018: HK$23.1 million).

The Group operates 9 clubs in Singapore, with its 10th club due to open in the first half of 2020, and 14 clubs in Taiwan. The Group has about 110,000 members in Singapore and Taiwan, and is one of the largest fitness and yoga lifestyle chains in Asia. 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 management underwent a change in May 2018, wherein a new management team was brought to restructure and revitalise the business. After an extensive search, the Group brought in a new chief executive officer who has over 20 years' experience in the fitness industry. Business turnaround has been the main focus for the new management team as the business had been underperforming in an increasingly competitive market. One of the major changes has been the change from selling prepaid memberships to monthly dues so as to reduce the large upfront payment for members. This is in keeping with what the other competitors were already doing. The new management also introduced limits to the number of personal training sessions that can be sold to members, with a greater focus on personal trainers having their personal training clients utilising their sessions.

The Group's fitness brand "True Fitness" needed an uplift, and a new premium brand called "TFX" was introduced into the Singapore market, bringing a new experience to the market with curated fitness equipment and experiences using technology. The first TFX club was opened in June 2019 in Funan, the newest shopping mall in the city centre. TFX Funan is the first "big box" gym in Singapore to employ MYZONE, a heart-rate wearable sensor technology, throughout the club. The oldest club in Singapore at Pacific Plaza, which was a yoga club branded "True Yoga", has been renovated and rebranded as a TFX club, introducing fitness to supplement its yoga offerings. The Group's newest club at Millenia Walk, which at 41,700 square feet is also Singapore largest gym, will feature both a True Fitness and a TFX.

There also has been investments made for renovations to existing clubs in Singapore and Taiwan, and for new equipment to be brought in. The new management has cemented relationships with all of the major equipment brands which will result in better pricing and terms, including extended warranties for equipment. Management is also keeping a close eye on fitness trends around the world, and introducing trending and popular ones, such as high intensity interval training and functional fitness. There will be continued investments made for renovations and new equipment for existing clubs.

Taiwan's newest club focuses on yoga and is branded "Yoga Edition". This new brand will allow the Group to mount an offensive into the yoga market, which is one of the fastest growing markets in Taiwan.

With TFX and Yoga Edition as part of its offerings along with True Fitness and True Yoga, the Group is able to offer differentiated experiences at varying price points to its members. The various clubs are sited in convenient, accessible locations. Feedback from members has been very positive.

Cement Business

For the six months ended 30 June 2019, the Group's revenue from the cement business amounted to HK$868.7 million (2018: HK$684.5 million), representing an increase of 26.9% as compared to the corresponding period of the previous year. Such increase was mainly attributable to the increase in the average selling prices and sales volume of cement driven by the improvement of the relationship of supply and demand due to the improved China cement demand environment and the lower inventory because the supply-side was subject to the off-peak production, production restriction for environmental protection and other factors. For the six months ended 30 June 2019, the sales volume of the Group's cement and clinker was 1,739,000 tons (2018: 1,537,000 tons), representing an increase of 13.1% as compared to the corresponding period of the previous year.

Due to the impact of the rising price of bulk raw materials, equipment replacement and maintenance, depreciation and other factors, the cement production cost has increased significantly as compared to the corresponding period of the previous year. However, the improvement of the cement market environment has led to a large increase in the overall price of cement.

The Group adheres to the innovation in management and operation, focusing on the development of recycling economy. In the future, the Group will continue to promote dual-system online operation, improve the construction of green mines, do an annual certification of the energy management system, carry on the comprehensive utilization project of industrial waste residue, and unswervingly implement the governance philosophy of "safety, environmental protection, high efficiency, low consumption and harmony".

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the six months ended 30 June 2019 were mainly funded by cash generated from its operations and loans from principal bankers and third parties.

As at 30 June 2019, the Group maintained bank balances and cash reserves of approximately HK$186.2 million (31 December 2018: HK$151.8 million), including cash and cash equivalents of approximately HK$121.8 million, time deposits of approximately HK$19.4 million and pledged bank deposits of approximately HK$45.0 million (31 December 2018: 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.)

As at 30 June 2019, the Group had outstanding borrowings of approximately HK$518.4 million repayable within one year (31 December 2018: HK$548.9 million) and no outstanding borrowings repayable after one year (31 December 2018: HK$0.1 million). The Group's outstanding borrowings were denominated in Hong Kong dollars ("**HK$**") and Renminbi ("**RMB**") as to 73.3% and 26.7%, respectively. Around 94.1% of the Group's outstanding borrowings were charged with interest at fixed rates while the remaining were at floating rates.

The gearing ratio (total borrowings over total assets) of the Group as at 30 June 2019 was as follows:

	At 30 June 2019 Unaudited ***HK$'000***	At 31 December 2018 Audited *HK$'000*
Total borrowings	**518,354**	548,992
Total assets	**3,884,623**	3,342,464
Gearing ratio	**13.3%**	16.4%

As at 30 June 2019, a balance amounting to HK$90.1 million (31 December 2018: HK$127.7 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 liquid 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, Singapore dollars, 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, 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 2019, the Group's bank and other borrowings of HK$13.7 million and short-term bank facilities of the issuance of bills payable to suppliers of HK$150.2 million (31 December 2018: bank and other borrowings of HK$104.9 million, short-term bank facilities of the issuance of bills payable to suppliers of HK$169.3 million and finance lease of HK$1.4 million) were secured by the following:

	At 30 June 2019 Unaudited ***HK$'000***	At 31 December 2018 Audited *HK$'000*
Building and structures	**52,282**	53,275
Plant and machinery	**–**	987
Prepaid lease payments on land use rights	**–**	16,459
Right-of-use assets	**20,989**	–
Exchange rate linked structured deposits	**57,158**	28,412
Pledged bank deposits	**47,204**	52,759
	177,633	151,892

Material Capital Commitments and Investments

As announced by the Company on 15 February 2012, Shanghai Allied Cement Co., Ltd ("**Shanghai SAC**") entered into the Bailonggang Project Construction Cooperation Agreement* (《關於建設「白龍港項目」合作協議》) and the Principle Agreement for the Establishment of the Joint Venture Company* (《關於設立合資公司(原則)協議》) 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 2018: HK$456.0 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 2018: HK$433.2 million)), for future use in the Bailonggang Project. The Company does not intend to retain such equipment and machineries for its own use. On 23 April 2019, Shanghai SAC has agreed to cancel one of the purchase agreements with consideration of RMB235.0 million (equivalent to approximately HK$267.9 million) with the seller and the respective first payment of RMB44.7 million (equivalent to HK$50.9 million) has been refunded. As at 30 June 2019, Shanghai SAC has made the respective first payments of the remaining two purchase agreements amounting to RMB23.6 million (equivalent to approximately HK$26.9 million). Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012, 15 November 2012 and 24 April 2019, respectively.

Event after the End of the Reporting Period

On 13 August 2019, the Company received a writ of summons filed by Mr. Patrick John Wee Ewe Seng and Active Gains Universal Limited as the plaintiffs (the "**Plaintiffs**") against the Company and Fester Global Limited, being a wholly-owned subsidiary of the Company, as the defendants under High Court Action No. 1469/2019 (the "**Legal Proceedings**") in the High Court of Hong Kong.

The Company is currently seeking legal advice in relation to the Legal Proceedings and intends to vigorously defend and reject the Plaintiffs' claims. Details of the Legal Proceedings were set out in the announcement of the Company dated 14 August 2019.

Employees

As at 30 June 2019, the Group had 1,449 (31 December 2018: 1,527) 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

Medical, Pharmaceutical and Health Business

Year 2019 and the foreseeable future represent a very critical period for Tongfang Pharmaceutical and its subsidiaries (the "**Tongfang Pharmaceutical Group**") and the entire pharmaceutical industry. The kind of changes that eventually take shape in the industry is not easily predictable. Tongfang Pharmaceutical Group's current strategy is to make quick adjustment according to the changes in the situation, to seize the opportunity to the greatest extent, to reduce the risks, and to move forward steadily so as to minimise the adverse effects while maximising the benefits.

Fitness Business

Singapore's strategic location on major sea lanes and its industrious population have given the country an economic importance in Southeast Asia disproportionate to its small size. It has been the center of world-class financial, business and transport service sectors and is equipped with modern and highly efficient infrastructure. The country has achieved a per-capita gross domestic product level comparable to levels of developed western countries, and its people enjoy one of the world's highest standards of consumer spending growing at a compound annual growth rate of 5.5%; prevalence of high obesity rates in white collar labour population affects modern lifestyle trends, including increasing sophistication in the health & fitness sector.

Activity and wellness are high on the government's social agenda. With growing affluence, expenditure on fitness, health and wellness has been on the rise, and it is expected to continue to go up. There is prospect of further growth in the fitness industry.

According to the statistics of the Ministry of Finance of Taiwan, the sports services entities in the Taiwan market increased from 1,462 in 2013 to 2,040 in 2017. The turnover of the overall sports services industry increased to NT$126.22 billion. The expenditure in sports venues is an important option for public to participate in sports. The number of sports venues was 1,230 in 2014 and increased to 1,564 in 2017, and the overall revenue of sports venues even increased to NT$20.9 billion. Among the breakdown of the sports venues, the number of fitness centers has increased from 149 in 2013 to 369 in 2017. According to the statistics for 2018, there are about 500 fitness centers, representing an increasing trend year by year (based on 2018 Taiwan Trend Research Report). Due to the quantification of data, the integration of real and virtual technology, gamification and community management, the promotion of video and audio of sports teaching films, and even the integration of home fitness, corporate fitness, silver-haired race fitness and sports nutrition in the market, different operators emerges, showing a rather hot market development. The growth of the fitness market for female consumers shows a more obvious trend of year-on-year growth in the overall market. Taiwan's fitness business is expected to continue to grow.

Cement Business

In the first half of 2019, the cement-related demand environment demonstrated significant improvement due to continuous rapid growth in the real estate investment and the strengthening of points of weakness in the infrastructure. It is expected that the real estate investment will experience a slowdown during the second half of 2019, while the investment in infrastructure projects is expected to accelerate, which indicates that the total demand of the cement market will be in a steady phase. With respect to the future policy, “reduction and replacement” and “off-peak production” will be strictly implemented with an aim to further optimize the market structure.

In the future, the cement industry will certainly head into a stage of high-quality development. The Company will continue to strictly implement capacity replacement, eliminate outdated production lines and put extra efforts in business integration. Small and medium enterprises will definitely experience a certain degree of pressure regarding technology innovation, promotion of green and smart plant construction as well as collaborative treatment of household waste, industrial residue and hazardous waste by using cement kilns, etc.

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 2019 (2018: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed below, 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 during the six months ended 30 June 2019:

Code Provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Due to other pre-arranged business commitments, the chairman of the board was not able to attend the annual general meeting of the Company on 11 June 2019.

AUDIT COMMITTEE REVIEW

The Audit Committee together with the Company’s management team have 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 2019. 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 2019, 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 2019 (the "**2019 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 2019 interim financial results set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2019 to be included in the 2019 Interim Report.

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

Hong Kong, 29 August 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*