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 2020

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 2020 with the comparative figures for the corresponding period in 2019 are as follows. The interim financial results of the Group for the six months ended 30 June 2020 have not been audited, but have been reviewed by the audit committee of the Company (the "Audit Committee") and by the auditor of the Company, BDO Limited.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		Unaudited	Unaudited
			(Restated)*
	Notes	***HK$'000***	*HK$'000*
Revenue – goods and services	*(5)*	**711,174**	715,506
Cost of sales and services		**(352,019)**	(384,953)
Gross profit		**359,155**	330,553
Other income		**54,245**	16,101
Other gains and losses		**(16,348)**	7,038
Impairment losses on property, plant and equipment		**(21,645)**	(25,586)
Impairment losses reversed under expected credit loss model, net		**7,854**	3,621
Distribution and selling expenses		**(157,461)**	(144,519)
Administrative expenses		**(100,243)**	(73,314)
Other expenses		**(17,475)**	(11,255)
Finance costs		**(78,854)**	(59,065)
Share of result of an associate		**–**	(303)
Share of result of a joint venture		**–**	(7,244)
Profit before taxation		**29,228**	36,027
Taxation	*(6)*	**(41,689)**	(27,699)
(Loss) profit for the period	*(7)*	**(12,461)**	8,328

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)
For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		Unaudited	Unaudited (Restated)*
	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		**(29,560)**	(682)
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**2,910**	(549)
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		**(26,650)**	(1,098)
Total comprehensive (expense) income for the period		**(39,111)**	7,230
(Loss) profit for the period attributable to:			
Owners of the Company		**(49,006)**	(25,191)
Non-controlling interests		**36,545**	33,519
		(12,461)	8,328
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(67,820)**	(25,639)
Non-controlling interests		**28,709**	32,869
		(39,111)	7,230
		HK cent	*HK cent*
Loss per share			
Basic	*(8)*	**(0.88)**	(0.45)
Diluted		**(0.88)**	(0.45)

* The restatement for the six months ended 30 June 2019 was due to prior period adjustments as disclosed in note 4.2.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Note	At 30 June 2020 Unaudited *HK$'000*	At 31 December 2019 Audited *HK$'000*
Non-current assets			
Property, plant and equipment		**588,632**	621,703
Right-of-use assets		**578,840**	540,697
Deposits for equipment and machineries		**25,982**	26,453
Investment properties		**4,457**	4,615
Goodwill		**433,071**	433,600
Intangible assets		**321,628**	334,291
Interests in an associate		**–**	–
Deferred tax assets		**176**	81
Rental deposits		**21,177**	14,406
Contract costs		**2,192**	3,104
Pledged bank deposits		**4,188**	11,199
		1,980,343	1,990,149
Current assets			
Properties held for sale		**2,127**	2,166
Biological assets		**13,713**	10,447
Inventories		**129,010**	115,328
Trade receivables	*(10)*	**338,732**	351,730
Contract costs		**4,367**	5,062
Other receivables, deposits and prepayments		**1,004,575**	912,642
Loans receivables		**72,968**	16,791
Financial assets at fair value through profit or loss		**148,385**	68,096
Other investment		**20,275**	20,000
Amount due from an associate		**99,074**	80,239
Amounts due from other related parties		**133,604**	221,943
Pledged bank deposits		**66,264**	57,281
Cash and cash equivalents		**225,261**	148,298
		2,258,355	2,010,023

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
At 30 June 2020

	Note	At 30 June 2020 Unaudited *HK$'000*	At 31 December 2019 Audited *HK$'000*
Current liabilities			
Trade and bills payables	*(11)*	**314,563**	306,562
Other payables and deposits received		**516,658**	404,660
Amount due to an intermediate holding company		**31,621**	100,813
Amounts due to other related parties		**4,259**	37,927
Tax liabilities		**120,355**	114,652
Bank and other borrowings due within one year		**539,642**	455,408
Provision of reinstatement cost		**45,664**	43,805
Deferred income		**–**	1,120
Contract liabilities		**132,990**	51,864
Lease liabilities/obligations under finance leases		**93,807**	74,221
		1,799,559	1,591,032
Net current assets		**458,796**	418,991
Total assets less current liabilities		**2,439,139**	2,409,140
Capital and reserves			
Share capital		**11,177**	11,177
Share premium and reserves		**1,333,540**	1,400,945
Equity attributable to owners of the Company		**1,344,717**	1,412,122
Non-controlling interests		**537,635**	508,926
Total equity		**1,882,352**	1,921,048
Non-current liabilities			
Bank and other borrowings due after one year		**38,350**	–
Deferred taxation		**101,757**	100,131
Provision of reinstatement cost		**15,220**	17,223
Contract liabilities		**1,883**	2,331
Lease liabilities/obligations under finance leases		**399,577**	368,407
		556,787	488,092
		2,439,139	2,409,140

Notes:

(1) Review by auditor

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 have been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

(2) Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2019 annual report.

(3) Significant event

The World Health Organisation declared coronavirus and novel coronavirus (the "COVID-19") a global health emergency on 30 January 2020. Since then, certain quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. As such, the financial positions and performance of the Group were impacted in different aspects as detailed below.

3.1 Fitness business

As a measure to counter COVID-19 in Singapore, the Singapore government implemented the "Circuit Breaker Policy" pursuant to which operation of our Group's fitness centres in Singapore was required to be suspended. The Circuit Breaker Policy originally commenced from 7 April 2020 to 4 May 2020 was extended for additional four weeks to 1 June 2020 and the operation of fitness industry was announced to resume from 19 June 2020. As the fitness centres were not able to open due to Circuit Breaker Policy, the Group has negotiated and received rent forgiveness related to COVID-19 from lessors.

The Group also applied for the Job Support Scheme ("JSS") introduced by the Singapore government in response to the global pandemic. The JSS will provide wage support to employers, helping enterprises retain their local employees (Singapore citizens and permanent residents) during this period of economic uncertainty. The JSS obtained during the period relating to supporting the payroll of the Group's employees of HK$8,705,000 is included in profit or loss as "other income". The Group has elected to present this government grant separately, rather than reducing the related expense. The Group does not have any unfulfilled obligations relating to this program.

Despite the rent forgiveness received from lessors and the government grant received from JSS, the suspension of operation of the Group's fitness centres had led to a loss and decrease in revenue of the Group in this business segment. It is expected that the fitness business of the Group will improve in the second half of the year as the health and fitness clubs of our Singapore operation resumes.

(3) Significant event (Cont'd)

3.2 Pharmaceutical and health business

The operation of some of the Group's production facilities in pharmaceutical and health business in the People's Republic of China ("the PRC") was suspended from late January to March 2020 with a decrease in production capacity of 30% to 70% during the period.

However, Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) ("Chongqing Kangle"), being an indirect non-wholly owned subsidiary of the Company, had previously been accredited by the National Medical Products Administration ("NMPA") to manufacture the Active Pharmaceutical Ingredients ("API") Chloroquine Phosphate, which has been tested and proved to have certain curative effect in combating against the pneumonia infected by COVID-19 and included in the list of central medical reserve* (中央醫藥儲備) of the PRC, and this has contributed to increase in revenue and profit of the pharmaceutical and health business segment for the six months ended 30 June 2020.

(4) Principal accounting policies

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

Other than accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the annual financial statements of the Group for the year ended 31 December 2019.

Application of amendments to HKFRSs

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Except as described below, the applications of the Amendments to References to the Conceptual Framework in HKFRSs and the 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 interim condensed consolidated financial statements.

(4) Principal accounting policies (Cont'd)

4.1 Accounting policies and impacts on early application of amendment to HKFRS 16 "COVID-19-Related Rent Concessions" ("Amendment to HKFRS 16")

4.1.1 Accounting policies

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

4.1.2 Impact on early application

During the six months ended 30 June 2020, certain monthly lease payments for the leases of the Group's fitness centres in Singapore have been waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early applied the amendment and applied the practical expedient to all qualifying COVID-19 related rent concessions granted to the Group during the period with no impact to the opening retained profits at 1 January 2020. The Group recognized changes in lease payments that are resulted from rent concessions received from lessors of HK$9,913,000 as "other income" in the profit or loss for the current interim period.

(4) Principal accounting policies (Cont'd)

4.2 Prior period adjustments

In preparing the interim condensed consolidated financial statements for the six months ended 30 June 2020, the directors of the Company have revisited the sales agreements entered into with the customers by the Group and considered the nature of its promise is to arrange for the cement products to be provided by its suppliers (i.e. the Group as an agent) during the six months ended 30 June 2019 and therefore adjustments are required to be made to the comparative information presented so as to ensure that the interim condensed consolidated financial statements presented are in compliance with HKFRSs. The Group has quantified the amount of adjustments for each financial statement line item affected as below.

	As previously reported *HK$'000*	Adjustments *HK$'000*	As restated *HK$'000*
Condensed consolidated statement of profit or loss and other comprehensive income			
for the six months ended 30 June 2019			
Revenue – goods and services	1,305,226	(589,720)	715,506
Cost of sales and services	(974,673)	589,720	(384,953)
Condensed consolidated statement of financial position			
at 30 June 2019			
Trade receivables	962,809	(571,402)	391,407
Other receivables, deposits and prepayments	133,778	571,402	705,180
Trade and bills payables	410,070	(121,590)	288,480
Other payables and deposits received	158,743	121,590	280,333
Condensed consolidated statement of cash flows			
for the six months ended 30 June 2019			
Net cash used in operating activities			
(Increase) decrease in trade receivables	(276,305)	571,402	295,097
Increase in trade and bills payables	126,315	(121,590)	4,725
Other operating cash flows	(44,148)	(449,812)	(493,960)

(5) Revenue and segment information

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June 2020				For the six months ended 30 June 2019			
	Pharmaceutical and health business Unaudited	Fitness business Unaudited	Cement business Unaudited	Total Unaudited	Pharmaceutical and health business Unaudited	Fitness business Unaudited	Cement business Unaudited (Restated)	Total Unaudited (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Types of goods and services								
Manufacture and sales of prescription drugs and laboratory related products	**378,657**	**–**	**–**	**378,657**	277,149	–	–	277,149
Operation of fitness centres and provision of consultation services for fitness and health activities								
– personal training classes	**–**	**19,552**	**–**	**19,552**	–	45,012	–	45,012
– membership packages	**–**	**31,593**	**–**	**31,593**	–	87,221	–	87,221
Royalty fee income in relation to fitness and health activities in Taiwan	**–**	**25,907**	**–**	**25,907**	–	27,158	–	27,158
Manufacture and sales of cement and clinker	**–**	**–**	**202,217**	**202,217**	–	–	235,435	235,435
Trading of cement	**–**	**–**	**53,248**	**53,248**	–	–	43,531	43,531
Total	**378,657**	**77,052**	**255,465**	**711,174**	277,149	159,391	278,966	715,506
Timing of revenue recognition								
Point in time	**378,657**	**52,810**	**255,465**	**686,932**	277,149	45,012	278,966	601,127
Over time	**–**	**24,242**	**–**	**24,242**	–	114,379	–	114,379
Total	**378,657**	**77,052**	**255,465**	**711,174**	277,149	159,391	278,966	715,506
Geographical markets								
The PRC	**378,657**	**–**	**255,465**	**634,122**	277,149	2,559	278,966	558,674
Singapore	**–**	**51,145**	**–**	**51,145**	–	129,674	–	129,674
Taiwan	**–**	**25,907**	**–**	**25,907**	–	27,158	–	27,158
Total	**378,657**	**77,052**	**255,465**	**711,174**	277,149	159,391	278,966	715,506

(5) 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:

- 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 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 2020 and 30 June 2019 is as follows:

	Pharmaceutical and health business		**Fitness business**		**Cement business**		**Total**	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited (Restated)	**Unaudited**	Unaudited (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue from external customers	**378,657**	277,149	**77,052**	159,391	**255,465**	278,966	**711,174**	715,506
Segment results	**64,644**	22,686	**(30,355)**	28,331	**11,547**	603	**45,836**	51,620
Unallocated corporate income							**3,741**	842
Unallocated corporate expenses							**(20,349)**	(16,435)
Profit before taxation							**29,228**	36,027

There was no inter-segment sales during the six months ended 30 June 2020 and 30 June 2019. 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. This is the measure reported to the chief operating decision makers of the Company for the purposes of resource allocation and performance assessment.

(6) Taxation

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	HK$'000	*HK$'000*
The charge comprises		
Current tax		
– PRC Enterprise Income Tax	**35,172**	20,497
– Singapore Corporate Income Tax	**3**	2,312
– Taiwan Corporate Income Tax	**3,886**	4,074
	39,061	26,883
(Over)underprovision in prior years		
– PRC Enterprise Income Tax	**(6)**	518
– Singapore Corporate Income Tax	**–**	10
	(6)	528
Deferred tax	**2,634**	288
	41,689	27,699

(7) (Loss) profit for the period

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
		(Restated)
	HK$'000	*HK$'000*
(Loss) profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**7,272**	5,462
Depreciation of investment properties	**76**	80
Depreciation of property, plant and equipment	**30,030**	26,912
Depreciation of right-of-use assets	**41,081**	40,000
Total amortisation and depreciation	**78,459**	72,454
Cost of inventories recognised as expenses	**256,980**	268,918
Net loss on disposal and write-off of property, plant and equipment	**1,957**	3,566
Net foreign exchange loss (gain)	**4,946**	(512)
Property rental income, net of negligible outgoing expenses	**(1,733)**	(1,542)
Lease payments for short-term leases and low-value assets	**3,025**	2,335
Write-down of inventories	**513**	–

(8) Loss per share

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

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share attributable to owners of the Company	**(49,006)**	(25,191)

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**5,578,713,777**	5,578,713,777

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

The computation of the diluted loss per share for the six months ended 30 June 2020 and 30 June 2019 do not assume the exercise of the Company's share options as such would result in a decrease in loss per share.

(9) Dividend

No dividend was paid, declared or proposed during the current period (2019: Nil).

The board of directors of the Company does not recommend the payment of an interim dividend for the period ended 30 June 2020 (2019: Nil).

(10) Trade receivables

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

	At 30 June 2020	At 31 December 2019
	Unaudited	Audited
	HK$'000	*HK$'000*
0 to 90 days	**219,721**	231,922
91 to 180 days	**64,332**	92,353
181 to 365 days	**48,245**	23,346
Over 1 year	**6,434**	4,109
	338,732	351,730

As at 30 June 2020, included in total trade receivables are bill receivables amounting to HK$158,870,000 (31 December 2019: HK$154,783,000) held by the Group for future settlement of trade payables and payables for trading of cement. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills receivables are with a maturity period of less than one year.

(11) Trade and bills payables

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

	At 30 June 2020 Unaudited *HK$'000*	At 31 December 2019 Audited *HK$'000*
0 to 90 days	**141,287**	191,706
91 to 180 days	**22,765**	28,468
181 to 365 days	**143,697**	79,649
Over 1 year	**6,814**	6,739
	314,563	306,562

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2020, the Group was principally engaged in the (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines, and laboratory related products in the PRC; (ii) operating of fitness centres and provision of consultation services for fitness and health activities, and operating of franchise business for royalty fee income; 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 2020 was HK$711.2 million (2019: HK$715.5 million), representing a decrease of 0.6% as compared to the corresponding period of 2019. The loss of the Group for the six months ended 30 June 2020 was HK$12.5 million (2019: profit of HK$8.3 million). The basic loss per share amounted to HK0.88 cent (2019: HK0.45 cent).

The decrease in revenue from HK$715.5 million to HK$711.2 million with a slight increase in gross profit from HK$330.6 million to HK$359.2 million was mainly attributable to the following reasons:

– In the pharmaceutical and health business segment, due to the spread of COVID-19 in the PRC during the first quarter of 2020, the operation of some of our production facilities in the PRC was suspended from late January to March 2020. However, the revenue and gross profit of this business segment have increased significantly during the six months ended 30 June 2020 as a result of the global pandemic by the contribution of Chongqing Kangle, which had previously been accredited by the NMPA to manufacture the API Chloroquine Phosphate, which has been tested and proved to have certain curative effect in combating against the pneumonia infected by COVID-19 and included in the list of central medical reserve* (中央醫藥儲備) of the PRC;

– In the fitness business segment, due to the prevalence of COVID-19 in the second quarter of 2020 in Singapore and the Circuit Breaker Policy by the Singapore government, the operation of our nine fitness centres in Singapore was required to be suspended for more than two months. The suspension of operation of our fitness centres also led to a loss and decrease in revenue and gross profit of the Group in this business segment; and

– In the cement business segment, as affected by the COVID-19, the demand for cement in the PRC has almost stagnated in the first quarter of 2020, though the demand has gradually recovered in the second quarter of 2020, the cement market price continuously decreased during the period, thereby affected the average selling price of cement and revenue of the cement business.

The Group recorded a net loss for the six months ended 30 June 2020 as compared to the net profit for the six months ended 30 June 2019. Such turnaround was primarily attributable to the following reasons:

– Increase in distribution and selling expenses and administrative expenses by approximately HK$39.9 million;

– Increase in finance costs by approximately HK$19.8 million;

– Increase in other losses by approximately HK$23.4 million; and

– Offset by the increase in other income by approximately HK$38.1 million and increase in gross profit by HK$28.6 million as abovementioned.

Business Review

Pharmaceutical and Health Business

The revenue of the Group's pharmaceutical and health business for the six months ended 30 June 2020 was HK$378.7 million (2019: HK$277.1 million), representing an increase of 36.7% as compared to the corresponding period of 2019. The profit for the six months ended 30 June 2020 was HK$53.1 million (2019: HK$16.9 million), representing an increase of 214.2% as compared to the corresponding period of 2019.

The global COVID-19 outbreak in 2020 has greatly affected China's economy, and the pharmaceutical industry is also hit by the pandemic. Many domestic pharmaceutical enterprises experienced different levels of decline in their performance, as they encountered many hurdles in the first half of 2020, including the reduction in the number of outpatients because of the suspension of outpatient services in hospitals (with medical staff across the country joining the rescue in worst-hit areas), the failure of timely delivery of the products to the destinations because of the interrupted logistics, the suspension of staff returning to work because of the lockdowns in various areas and the difficulty in allocating production materials.

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 2020, the revenue amounted to RMB125.9 million, representing a decrease of 8.6% as compared to RMB137.8 million for the corresponding period of 2019. Gross profit for the six months ended 30 June 2020 amounted to RMB112.5 million, representing a decrease of 9.5% as compared to RMB124.3 million for the corresponding period of 2019.

Products of Tongfang Pharmaceutical are mainly targeted at hospitals of all levels in the PRC. As the COVID-19 has significantly affected Tongfang Pharmaceutical in the first quarter of 2020, its marketing activity was encountered with extreme difficulties in the toughest months. To tackle with such situation, Tongfang Pharmaceutical, on the one hand, coordinated various resources to ensure that the production would continue smoothly and on the other hand, avoided unnecessary spendings. In the meantime, it rapidly adjusted marketing policies in the market to offset the negative impact of the COVID-19. As the COVID-19 was effectively controlled by the PRC government and Tongfang Pharmaceutical has been making unremitting efforts, Tongfang Pharmaceutical resumed normal operation in the second quarter of 2020. It is expected that the business operation of Tongfang Pharmaceutical will continue to improve in the second half of 2020.

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

Shaanxi Life Care is principally engaged in business of the Chinese medicine-related fields, including the planting, manufacturing and distribution of Chinese medicines and operating a production facility in Baoji, Shaanxi. For the six months ended 30 June 2020, the revenue of Shaanxi Life Care amounted to RMB24.3 million, representing a decrease of 20.3% as compared to RMB30.5 million for the corresponding period of 2019. Gross profit for the six months ended 30 June 2020 amounted to RMB10.7 million, representing a decrease of 39.9% as compared to RMB17.8 million for the corresponding period of 2019.

Shaanxi Life Care is greatly affected by the COVID-19 and it suffers from hike in the price of raw material and other conditions, which resulted in unsatisfactory performance in the first half of 2020. Currently, Shaanxi Life Care has developed a plan to promote its continuous development which is expected to be implemented in the second half of 2020; and if executed smoothly, the plan may ease the problems that hinder Shaanxi Life Care's development and revitalize the existing resources.

3. *Chongqing Kangle*

Chongqing Kangle is principally engaged in the research and development, production and sales of API and intermediate API in Chongqing Changshou Chemical Industrial Park. For the six months ended 30 June 2020, the revenue of Chongqing Kangle amounted to RMB161.0 million, representing an increase of 327.1% as compared to RMB37.7 million for the corresponding period of 2019. Gross profit for the six months ended 30 June 2020 amounted to RMB96.6 million, representing an increase of 1,280.0% as compared to RMB7.0 million for the corresponding period of 2019.

Soon after the COVID-19 broke out, Chongqing Kangle received the emergency instruction from the relevant department of the State Council to produce strategic materials. Being the only company which has the ability to put the said product into mass production in the PRC market at that time, Chongqing Kangle united all of its staff to devote in the production with their best endeavours and also with the leadership of the management and the communication and coordination of all sectors of the society, providing markets with abundant high-quality APIs in a timely manner, making an outstanding contribution to the PRC's and even the world's fighting against the COVID-19, and thus being awarded the special recognition of the State Council.

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 2020, the revenue of SPF amounted to RMB29.9 million, representing a decrease of 9.4% as compared to RMB33.0 million for the corresponding period of 2019. Gross profit for the six months ended 30 June 2020 amounted to RMB12.2 million, representing a decrease of 34.4% as compared to RMB18.6 million for the corresponding period of 2019.

One of SPF's major downstream customers are relevant faculties of universities and colleges. Affected by the COVID-19, many universities and colleges were closed and experiments could not be conducted as scheduled, resulting in marketing activities being temporarily suspended. If the COVID-19 can be effectively controlled and universities and colleges are allowed to open in September 2020, marketing activities may resume and this business segment may recover gradually.

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

Apros was incorporated in the United States in 2016. With the advancement of science and technology, the treatment of cancer has evolved from traditional surgery treatment, radiotherapy and chemotherapy to targeted therapy and immunotherapy. At present, cancer immunotherapies such as Programmed Cell Death Protein 1 (PD-1) or Programmed Cell Death Protein Ligand 1 (PD-L1) antibodies are shown effective in achieving durable or curative anti-tumor response. However, only a small subset of patients show responses to the current immunotherapies, while most patients are not benefited. How to turn the immunologically cold tumors (non-responding) into hot tumors (responding) has become a major research focus in this field. Apros takes the regulation of innate immunity as the starting point, and discovers Toll-like receptor ("TLR") agonists with favourable biological properties and druggability as the product candidate for further research and development.

Apros has three global innovative and differentiated small molecule TLR7 agonist programs with First-In-Class potential. The three development candidate compounds have the same target and mechanism, while differing in molecular structures, routes of administration, and disease indications. These programs are currently listed as major special scientific research projects in Beijing in 2020. The first candidate is expected to enter into Phase 1 trials in the United States by early 2021.

Fitness Business

The revenue of the Group's fitness business for the six months ended 30 June 2020 was HK$77.1 million which includes a franchise income of HK$25.9 million (2019: HK$159.4 million (including franchise income of HK$27.2 million)). The loss for the six months ended 30 June 2020 was HK$31.8 million (2019: profit of HK$21.7 million).

According to the International Health, Racquet and Sportsclub Association Global Report 2020, before the COVID-19, the global health club industry finished the decade with record performance. The industry revenue worldwide totaled US$96.7 billion in 2019, with more than 184 million members attaching to nearly 210,000 health and fitness facilities. The report shows that health clubs worldwide were flourishing before the COVID-19. Strong performance indicators across global markets demonstrate how important a role that health clubs, gyms and studios play in promoting the public to engage in regular exercises, and thus leading to a more healthy life. Our Group has opened a new fitness centre, TFX, in June 2019 and renovated four existing fitness centres in 2019 and 2020. The Singapore operation has also been awarded for its re-branding efforts. While 2020 will be a challenging year, the global health and fitness club industry will continue to recover as the industry reopens and is positioned to prosper in the years to come.

The health and fitness clubs have been severely impacted by the COVID-19. Countries and states ordered closure of health and fitness clubs since the outbreak of COVID-19 globally. In Singapore and Taiwan where we operate, our response strategies and risk-management to cope with the pandemic vary depending on how effective a territory has been able to control COVID-19.

Less or almost no revenue was generated during the shutdown period. Singapore in particular, had all centres shut down for more than 2 months. We keep our businesses afloat by navigating through different phases of the COVID-19. As at the date of this announcement, all health and fitness clubs in both territories have now resumed operation, although those in Singapore are still constrained by capacity limitation.

The Three-Stages approach

Closed/Low-Key Phase

– Cleanliness and safety: Thorough cleaning, fumigation and disinfection protocols established and implemented.

– Cost control: Implemented cost control strategy and business continuation strategy. Adopted government programs and applied government grants. Proactively negotiated with landlords on rent free or reduction period.

– Member engagement: Nothing is more important than communicating with our members during this period. We utilized the social media to a great extent to publish remediation cleaning protocol steps we are taking. We offer free on-line workout programs and live Zoom GX classes for our members to access so that they could continue to work out with us while at home, which helped foster stickiness and loyalty of our members.

Pre-opening Phase

We planned our reopening strategies in advance, so that as soon as the restrictions on operation of the health and fitness clubs are lifted, operation can be resumed to normal straight away. We are well prepared to meet all safety standards from operational perspective. Videos are made to communicate our preparation for resumption of normal operation including social distancing policy, check-in procedures and club amenity availability. We are prepared to launch the promotional programs to both prospects as well as members upon resumption of normal operation.

Open Phase

We developed a mobile app to enable access control and booking by members, which supports metered check-in and advance check-in reservation.

To enhance health and safety, masks, gloves and sanitizers had been stocked up for our staff. We rearranged equipment to maintain the required distance between equipment. We posted policies throughout the clubs for reminding members to clean equipment after use.

We emphasize staff visibility, ensuring members could see our staff implementing cleanliness policies and safety measures. We refocus marketing by using discounted price and promoting personal training for boosting membership sales. Special marketing campaign had been launched to highlight the importance of exercise as a preventive measure.

We commit and refine our online programs such as home workout, Zoom GX class, online personal training etc. while making sure that online and in-club programming do not conflict with each other, making online programs an add-on to our services and as part of our marketing initiative.

Cement Business

For the six months ended 30 June 2020, the Group's revenue from the cement business amounted to HK$255.5 million (2019: HK$279.0 million), representing a decrease of 8.4% as compared to the corresponding period of the previous year. The decrease in revenue from the cement business of the Group was mainly due to the lower average selling price of cement, as compared to the same period of last year, sold by the Shandong Allied Wangchao Cement Limited. As affected by the COVID-19 since the early 2020, the resumption of work and production across the country has been delayed, thus hitting the economy of the PRC. In the first quarter of 2020, being the slack season of consumption of the PRC's cement market, market demand for cement has almost stagnated as caused by COVID-19. In the second quarter of 2020, market demand for cement gradually recovered with the advancement of downstream engineering projects. However, cement production companies seized customer resources in order to complete their budgets, which has resulted in poor industry synergies, and continuously lowered market cement price with the combined effect of the extremely long rainy season in the southern China. In terms of costs, the cement and clinker production costs of the Group decreased to varying degrees as compared to the corresponding period of last year. Furthermore, an impairment loss on the machinery of approximately HK$21.6 million was recognized by the cement business during the period.

The Group will accelerate intellectualization, informatization and greening construction and implement green and smart plant. It will also improve the green and low-carbon management systems by focusing on technological innovation and management aiming to achieve on energy saving, consumption reduction and emission reduction, so as to promote its sustainable and healthy development.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the six months ended 30 June 2020 were mainly funded by cash generated from its operations and loans from principal bankers and third parties.

As at 30 June 2020, the Group maintained bank balances and cash reserves of approximately HK$295.7 million (31 December 2019: HK$216.8 million), including cash and cash equivalents of approximately HK$225.3 million and pledged bank deposits of approximately HK$70.4 million (31 December 2019: cash and cash equivalents of approximately HK$148.3 million and pledged bank deposits of approximately HK$68.5 million).

As at 30 June 2020, the Group had outstanding borrowings of approximately HK$539.6 million repayable within one year (31 December 2019: HK$455.4 million) and approximately HK$38.4 million repayable after one year (31 December 2019: Nil). The Group's outstanding borrowings were denominated in Hong Kong dollars ("HK$"), Renminbi ("RMB") and Singapore dollar ("SGD") as to 65.9%, 27.4% and 6.7%, respectively. All of the Group's outstanding borrowings were charged with interest at fixed rates (31 December 2019: 97.0% were charged at fixed rate while the remaining were at floating rate).

The gearing ratio (total borrowings over total assets) of the Group as at 30 June 2020 was as follows:

	At 30 June 2020 Unaudited ***HK$'000***	At 31 December 2019 Audited *HK$'000*
Total borrowings	**577,992**	455,408
Total assets	**4,238,698**	4,000,172
Gearing ratio	**13.6%**	11.4%

Financial Management and Policy

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

Risk of Foreign Exchange Fluctuation

The Group's operations are mainly located in the PRC and Singapore and most of its transactions, related working capital and borrowings are denominated in RMB, SGD, United States dollars ("US$") and HK$. Currently, the Group does not have a foreign currency hedging policy. 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 2020, the Group's bank and other borrowings of HK$91.4 million, short-term bank facilities of the issuance of bills payable to suppliers of HK$240.8 million and finance lease of HK$0.2 million (31 December 2019: bank and other borrowings of HK$48.3 million, short-term bank facilities of the issuance of bills payable to suppliers of HK$222.5 million and finance lease of HK$0.5 million) were secured by the following:

	At 30 June 2020 Unaudited ***HK$'000***	At 31 December 2019 Audited *HK$'000*
Building and structures	**83,307**	50,338
Plant and machinery	**457**	2,744
Prepaid lease payments on land use rights	**15,210**	16,398
Exchange rate linked structured deposits	**72,565**	57,332
Pledged bank deposits	**69,352**	68,480
Bills receivables	**–**	17,490
Bank balance	**2,671**	599
	243,562	213,381

Material Capital Commitments and Investments

As announced by the Company on 15 February 2012, Shanghai Allied Cement Co., Ltd* (上海聯合水泥有限公司) ("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 (Group) Company Limited* (上海建材(集團)有限公司) ("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$440.0 million (31 December 2019: HK$448.0 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$418.0 million (31 December 2019: HK$425.6 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 2020, Shanghai SAC has made the respective first payments of the remaining two purchase agreements amounting to RMB23.6 million (equivalent to approximately HK$26.0 million (31 December 2019: HK$26.5 million)). Details of the transaction were set out in the announcements of the Company dated 3 October 2012 and 24 April 2019, respectively, and the circular of the Company dated 15 November 2012.

Event after the End of the Reporting Period

The Group has applied a rental relief framework provided by the Singapore government which came in force on 31 July 2020. The rental relief framework provides for mandated equitable co-sharing of rental obligations between the Singapore government, landlords and tenants. According to the rental relief framework, the Group will receive rental relief for April 2020 to May 2020 which is supported by the Singapore government assistance, and additional rental relief for June 2020 to July 2020 which is supported by the landlords.

As at 30 June 2020, the Group has been recognized the rent concessions from landlords of HK$9,913,000 before the rental relief framework was passed. The Group will further receive rental relief amounting to approximately HK$6,831,000 after offsetting the rent concessions received.

Employees

As at 30 June 2020, the Group had 1,478 (31 December 2019: 1,500) employees. The Group maintains a policy of paying competitive remuneration packages and employees are also rewarded salary and bonus on a performance related basis. In addition, share options and awarded shares may be granted to eligible employees pursuant to the terms of the share option scheme and the Share Award Scheme, respectively. The purposes of the schemes are to provide incentives to the selected employees to contribute to the Group, to enable the Group to recruit and retain high-calibre employees, and attract and retain human resources that are valuable to the Group.

OUTLOOK

Pharmaceutical and Health Business

The global COVID-19 in 2020 has a significant impact on China's pharmaceutical economy. At the same time, China's medical reform, which relates to the future development of pharmaceutical industry, is being promoted unswervingly. In such circumstances, the Group firmly believes that opportunities and risks coexist. While leveraging on its professional strengths and focusing on existing advantages, the Group will make good use of all of its assets and will actively explore new profit growth engines, with a view to contributing to achieving a better performance for the whole year.

Fitness Business

The health and fitness clubs of our Singapore operation are reopened since 19 June 2020 under capacity restrictions on the number of users in health and fitness clubs. We have only been selling about 15%-20% of membership and have only resumed 65% of personal training at pre-COVID-19 level. We are unable to cater to majority of our members usage of our fitness centres due to capacity restrictions.

We are confident that the Singapore government will gradually release the capacity restrictions with fewer community cases found in the territory. Health and fitness clubs have been viewed as "part of the solution" to the COVID-19, as fitness and exercise help combat health problems such as obesity and cardiovascular disease, which are found to have correlation to greater health impacts after contracting COVID-19. We expect people to have a renewed interest in exercise after the pandemic, given its link to health. So far, when we reopened in June 2020, members have reported that they were excited to be back to in-person workout, as home workout does not offer the same variety available at the fitness centres. We opened a new fitness centre, TFX, in June 2019 and renovated four existing fitness centres in 2019 and 2020. Combined with re-branding efforts, in late 2019, we were awarded "Best Asian Fitness Brand 2019" and "GHP Distinction Award for Yoga Classes & Facilities". In 2020, we were nominated for New Entry of the Year and Fitness/Wellness Company of the Year by Fit Summit, the business network for health, fitness, wellness and sports in Asia-Pacific. With strong rebound strategies in place, we project the performance of our Singapore operation will recover to pre-COVID-19 level in due course and gradually outperform past years' results.

The post-holiday season after Chinese New Year was estimated to be a key period for membership sales and growth for our Taiwan operation. The COVID-19 outbreak has paralyzed our ability to capitalize on this expected key cash inflow period. This is a blow to revenue of the first quarter of 2020. Fortunately, the infection of COVID-19 in Taiwan was kept at a low rate and therefore our health and fitness clubs in Taiwan were not required to be closed by the Taiwan government. With the growing confidence of members returning to our centres, business is now moving into recovering phase, as clearly shown from the performance during July 2020 and August 2020.

Cement Business

Affected by the COVID-19 in China and around the world, the national and local governments have introduced a series of infrastructure construction investment policies aiming to stabilizing growth and protecting people's livelihood of the PRC, bringing new development opportunities to the cement industry in China. The real estate market currently maintained positive growth in terms of commencement of new construction and the construction speed, which also supported demand in cement. Although generally speaking, cement industry is still an industry with overcapacity, the continuous advancement of supply-side reforms in the cement industry and the implementation of policies such as production restriction during peak period and industry coordination will still effectively suppress production capacity and reduce market supply. Therefore, in general, the cement industry is expected to operate within a reasonable range of profit.

At the beginning of 2020, the Group invested in the construction of mine transportation belt corridor project and proposed to participate in the construction of barren rock treatment production line, which is conducive to the sustainable development of the Group's cement business. Further, the Group will continue to increase technology investment, respond to the declining coal reduction target, increase research and development investment, and focus on research and development as a high-tech enterprise. 2020 is a year full of stress and development, and also a year full of opportunities and challenges. Let's seize the day and live it to the fullest, and forge ahead with craftsmanship.

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 2020 (2019: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, the Company has applied the principles of, and complied with, all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE REVIEW

The Audit Committee together with the Company's management team 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 2020. 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 2020, 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 2020 (the "2020 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 2020 interim financial results set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2020 to be included in the 2020 Interim Report.

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

Hong Kong, 28 August 2020

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*