THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Tongfang Kontafarma Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

MAJOR TRANSACTION IN RELATION TO DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY

Capitalized terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 5 to 13 of this circular.

Hong Kong, 18 December 2020

Page

In this circular, unless the context otherwise requires, the following expressions have the following meanings when used herein:

"Announcement"	the announcement of the Company dated 13 November 2020 in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder;
"Board"	the board of the Directors;
"Business Day(s)"	a day other than public holiday on which banks are generally open for business in Hong Kong;
"BVI"	the British Virgin Islands;
"China Health"	China Health Management Investment Limited, a company incorporated under the laws of BVI with limited liability, which directly holds approximately 56.77% interest in the Company as at the Latest Practicable Date;
"Company"	Tongfang Kontafarma Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 1312);
"Completion"	the completion of the Transaction;
"connected person(s)"	has the meaning as ascribed thereto under the Listing Rules;
"Consideration"	the consideration of HK$349,648,865.3 to be settled by way of (i) payment in cash for the sum of HK$2,000,000 by the Purchaser to the Vendor; and (ii) assumption of all liabilities and obligations by the Purchaser under the Novated Debt for the sum of HK$347,648,865.3 upon Completion;
"controlling shareholder"	has the meaning ascribed thereto under Rule 1.01 of the Listing Rules;
"COVID-19"	coronavirus disease 2019;

"Deed of Indemnity"	the deed of indemnity to be entered into between the Vendor and the Purchaser upon Completion in relation to the tax liabilities of the Target Group prior to Completion;
"Deed of Novation"	the deed of novation to be entered into between the Vendor, the Target Company and the Purchaser upon Completion pursuant to which the Purchaser will assume all the liabilities and obligations under the Novated Debt which is currently due by the Vendor to the Target Company;
"Director(s)"	the director(s) of the Company;
"Group"	the Company and its subsidiaries, and where the context requires, excluding the Target Group after Completion;
"HKFRSs"	Hong Kong Financial Reporting Standards;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party(ies)"	person(s) or company(ies) and its(their) respective ultimate beneficial owner(s) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is(are) third party(ies) independent of and not connected with the Company and its connected persons (as defined in the Listing Rules);
"Latest Practicable Date"	15 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Long Stop Date"	31 December 2020, or such other date as the Company and the Purchaser may agree in writing;
"Novated Debt"	the debts for the sum of HK$347,648,865.3 currently due by the Vendor to the Target Company;

"percentage ratio(s)"	percentage ratio(s) as set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction;
"the Pharmaceutical and Health Group and the Fitness Group"	consists collectively of (i) Tongfang Pharmaceutical and its subsidiaries; and (ii) True Cayman and its subsidiaries, being the subsidiaries of the Company principally engaged in the Pharmaceutical and Health Business and the Fitness Business respectively;
"PRC"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong and Macau Special Administrative Region of the People's Republic of China;
"Purchaser"	Minyi Holdings Limited, a company incorporated in the BVI with limited liability and an Independent Third Party;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 13 November 2020 entered into between the Vendor, the Target Company, the Purchaser and the Company in relation to the Transaction;
"Sale Share"	one ordinary share of US$1 in the share capital of the Target Company legally and beneficially owned by the Vendor, representing the entire issued share capital of the Target Company held by the Vendor;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	the ordinary share(s) of HK$0.002 each in the share capital of the Company;
"Shareholder(s)"	the holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Target Company"	Real Jade Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Vendor as at the Latest Practicable Date;

"Target Group"	the Target Company and its subsidiaries;
"Tongfang Pharmaceutical"	Tongfang Pharmaceutical Group Co., Ltd.* (同方藥業集團有限公司), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company;
"Transaction"	the disposal of the entire interest in the Target Company by the Vendor to the Purchaser pursuant to the terms of the Sale and Purchase Agreement;
"True Cayman"	TFKT True Holdings, a company incorporated in the Cayman Islands with limited liability and a non-wholly owned subsidiary of the Company;
"US$"	US dollars, the lawful currency of the United States of America;
"Vendor"	Fortunate Gold Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company at the Latest Practicable Date; and
"%"	per cent.

* *for identification only*

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)

Executive Directors:
Mr. Chai Hongjie *(Chairman)*
Mr. Huang Yu *(President)*
Mr. Wei Bingzhang
Mr. Jiang Chaowen *(Chief Executive Officer)*

Independent non-executive Directors:
Mr. Chan Sze Chung
Mr. Zhang Ruibin
Mr. Zhang Junxi Jack

Registered office:
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Principal place of business in Hong Kong:
15th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

18 December 2020

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY

INTRODUCTION

Reference is made to the Announcement in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. Pursuant to the Sale and Purchase Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Share at the consideration of HK$349,648,865.3 to be settled by way of (i) payment in cash for the sum of HK$2,000,000 by the Purchaser to the Vendor; and (ii) assumption of all liabilities and obligations by the Purchaser under the Novated Debt upon Completion.

The Target Company, being a direct wholly-owned subsidiary of the Vendor, is the holding company of the Target Group which is principally engaged in the Cement Business (as defined below). As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction exceed 25% but are below 75%, the Transaction constitutes a major transaction of the Company and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders have a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, the Company has already obtained a written Shareholder's approval from China Health, a controlling Shareholder directly holding 3,172,778,000 Shares, representing approximately 56.77% of the issued share capital of the Company as at the date of the Sale and Purchase Agreement and up to the Latest Practicable Date, for approving the Sale and Purchase Agreement and the transactions contemplated thereunder in lieu of holding a general meeting of the Company in accordance with Rule 14.44 of the Listing Rules. Accordingly, no general meeting of the Company will be held for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Sale and Purchase Agreement and the Transaction; (ii) the financial information of the Group; and (iii) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date: 13 November 2020 (after trading hours)

Parties:
(1) the Vendor, a direct wholly-owned subsidiary of the Company
(2) the Target Company, being a direct wholly-owned subsidiary of the Vendor
(3) the Purchaser
(4) the Company, as the Vendor's warrantor

Consideration

Pursuant to the Sale and Purchase Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Share at the consideration of HK$349,648,865.3 to be settled by way of (i) payment in cash for the sum of HK$2,000,000 by the Purchaser to the Vendor; and (ii) assumption of all liabilities and obligations by the Purchaser under the Novated Debt upon Completion. As at the date of the Sale and Purchase Agreement, the Vendor owed the Target Company a debt for the sum of HK$347,648,865.3. During the operations of the Target Group, the Company is responsible for the central treasury function of the Target Group which results in an inter-company account balance maintained between the Vendor and the Target Company. The Novated Debt represents the resulted net amount due from the Vendor to the Target Company for the inter-company account balance as at the date of the Sale and Purchase Agreement. As the Novated Debt is an inter-company account balance, there is no specific term of repayment of the debt and it has been expected that the debt would be due to be settled within twelve months. As part of the Consideration for the Transaction, at Completion, the Vendor, the Target Company and the Purchaser will enter into the Deed of Novation pursuant to which the Purchaser will assume in place of the Vendor, and the Vendor will be discharged and released from, all the liabilities and obligations under the said debt of HK$347,648,865.3 (i.e. the Novated Debt) effective from the date of Completion, and the Novated Debt will then be owed by the Purchaser to the Target Company.

Conditions Precedent

Completion is conditional upon and subject to the following conditions:

(i) the Purchaser having completed its due diligence review on the Target Group and being reasonably satisfied with the results thereof;

(ii) the warranties respectively given by the Vendor, the Purchaser and the Company under the Sale and Purchase Agreement remaining true and accurate in all material respects and not misleading in any material respect as at Completion;

(iii) the Company having obtained the approval from the Shareholders for the Sale and Purchase Agreement and the transactions contemplated thereunder either (a) by a majority vote at a general meeting of the Company; or (b) subject to the fulfilment of the conditions in Rule 14.44 of the Listing Rules, by written shareholder's approval from a shareholder or a closely allied group of shareholders of the Company who together hold more than 50% of the voting rights at the general meeting, and such approval not having been revoked or withdrawn; and

(iv) where applicable, the obtaining of all necessary approvals, confirmations, waiver or consents from the relevant government or regulatory authorities or any third parties which are required for the execution and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder, and such approvals, confirmations, waiver or consents not having been revoked or withdrawn.

If the conditions set out above have not been satisfied (or as the case may be, waived) on or before the Long Stop Date, the Sale and Purchase Agreement shall cease and terminate, and thereafter neither party shall have any obligations and liabilities towards each other thereunder. Among the conditions mentioned above, only the condition under aforesaid paragraph (ii) can be waived by the Vendor (in respect of the warranties given by the Purchaser) and only the conditions under aforesaid paragraphs (i) and (ii) (in respect of the warranties given by the Vendor and the Company) can be waived by the Purchaser.

As at the Latest Practicable Date, the conditions under aforesaid paragraphs (iii) and (iv) have been fulfilled. As to the condition under aforesaid paragraph (i), as at the Latest Practicable Date, the Purchaser has not raised any further queries or requested additional information regarding its due diligence review on the Target Group. As to the condition under aforesaid paragraph (ii), no circumstances came to the knowledge of the Company as at the Latest Practicable Date that would render any warranties respectively given by the Vendor, the Purchaser and the Company under the Sale and Purchase Agreement becoming untrue and inaccurate in any material respects and misleading in any material respect as at Completion. It is currently expected that such condition could be fulfilled upon Completion.

Deed of Indemnity

On Completion, the Vendor and the Purchaser will enter into the Deed of Indemnity whereby the Vendor undertakes to the Purchaser to indemnify it against any tax liabilities in relation to the business activities of the Target Group prior to Completion.

Completion

Completion shall take place within five Business Days after the fulfilment or waiver (as the case may be) of the conditions precedent set out in the Sale and Purchase Agreement or such other date as the parties to the Sale and Purchase Agreement may agree in writing.

Upon Completion, the Target Group will cease to be subsidiaries of the Company and the Group will cease to engage in the Cement Business.

INFORMATION OF THE GROUP

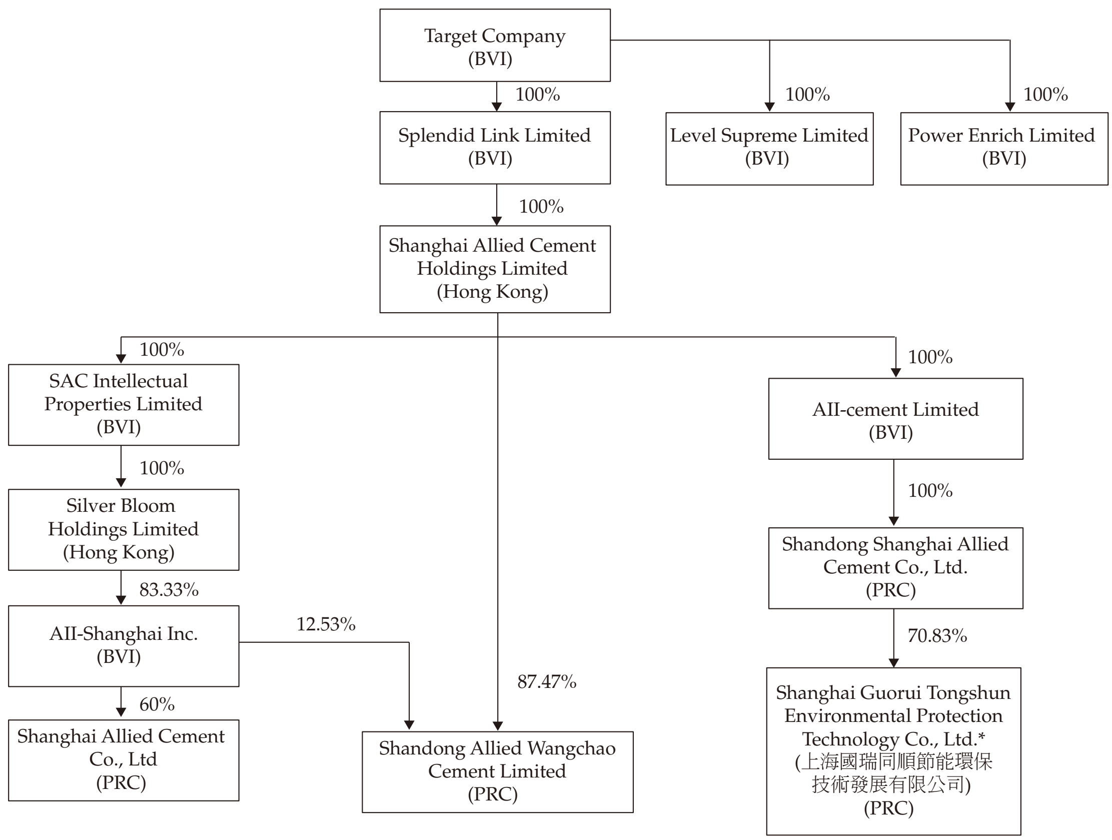
The Company is an investment holding company and the Group is currently principally engaged in (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines, and laboratory related products in the PRC (the "**Pharmaceutical and Health Business**"); (ii) operating fitness centres and providing consultation services for fitness and health activities, and operating franchise business for royalty fee income (the "**Fitness Business**"); and (iii) manufacturing and sales of cement and clinker and trading of cement in the PRC (the "**Cement Business**").

INFORMATION OF THE PURCHASER

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Purchaser is a company incorporated under the laws of the BVI with limited liability and is principally engaged in investment holding; (ii) the ultimate beneficial owner of the Purchaser is Cheng Lung Don; (iii) the Purchaser and its ultimate beneficial owner are Independent Third Parties; and (iv) save as the transactions contemplated under the Sale and Purchase Agreement, the Company (including its connected persons) do not have any relationship (business or otherwise) with the Purchaser and Cheng Lung Don.

INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated in the BVI with limited liability, which is principally engaged in investment holding. The Target Group is principally engaged in the Cement Business. The current group structure of the Target Group is set out below:



Set out below is certain financial information of the Target Group prepared in accordance with the HKFRSs for the two years ended 31 December 2019:

	For the year ended 31 December 2018 (unaudited) *HK$'000*	**For the year ended 31 December 2019 (unaudited)** *HK$'000*
Revenue	1,230,300	561,199
Profit before taxation	51,390	42,149
Profit after taxation	23,381	493
Profit (loss) attributable to owners of the Company	5,093	(17,856)

As at 30 June 2020, the unaudited total asset value of the Target Group was approximately HK$2,182.7 million, and the unaudited net asset value of the Target Group attributable to owners of the Company was approximately HK$454.8 million.

FINANCIAL EFFECT OF THE TRANSACTION

Upon Completion, the Group will cease to have any interests in the Target Group, and the financial results of the Target Group will no longer be consolidated in the financial statements of the Group.

The deficit of the Consideration over the net asset value of the Target Group as at 30 June 2020 was approximately HK$105.2 million. The Group expects to record an estimated loss of approximately HK$154.2 million based on the unaudited net asset value of the Target Group as at 30 September 2020 as a result of the Transaction at the Completion. The actual loss as a result of the Transaction to be recorded by the Group is subject to audit to be performed by the auditors of the Company. The cash consideration will be applied as general working capital of the Group. The Group will be discharged and released from the Novated Debt with effect from the Completion.

REASONS FOR THE TRANSACTION AND BASIS OF THE CONSIDERATION

In these years, the Directors have noted the adjustments in the economy structure of the PRC, in particular that it has been the spirit of national policies in the PRC to boost high quality and streamline resources for quality and efficiency enhancement in various industries through phasing out obsolete and redundant production, and that cement operators with larger operational scale have higher efficiency than cement operators with smaller operational scale by benefiting from economies of scale. Industrial Structure Adjustment Guiding Catalogue* (產業結構調整指導目錄), being promulgated by National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (the "**NDRC Guiding Catalogue**") in October 2019 and effective from 1 January 2020, sets out the direction on types of production planned to be phased out in different industries. For implementing the direction under the NDRC Guiding Catalogue, in November 2019, China Building Materials Federation* (中國建築材料聯合會) issued a more specific Guiding Catalogue for Phasing Out Obsolete Production in Building Materials Industry* (《建材行業淘汰落後產能指導目錄》) (the "**Building Materials Guiding Catalogue**"). The Building Materials Guiding Catalogue covers various building materials including cement, and requires cement clinker production lines with production capacity of 2,500 ton per day or below be eliminated by the end of 2022. The Target Group, which is engaged in the Cement Business, must abide by the Building Materials Guiding Catalogue. As far as the Cement Business of the Target Group is concerned, the maximum production capacity of cement clinker of the Target Group is 2,500 ton per day which is based on the scale of construction of the cement clinker production line of the Target Group as approved by the local authorities in the PRC and therefore, the cement clinker production line of the Target Group is classified under this category and is subject to elimination by the end of 2022. Despite being a relatively small-scale cement operator in the PRC, the management of the Target Group has attempted to negotiate with the local authorities in the PRC to increase its approved production capacity and avoid itself becoming a phasing-out target under the Building Materials Guiding Catalogue.

However, the unexpected outbreak of COVID-19 pandemic posed unprecedented challenges to the Cement Business of the Target Group. The cement production line of the Target Group was closed until April this year under the government-mandated lockdowns in the PRC. After resumption of cement production, no alleviation to the phase-out measures under the Building Materials Guiding Catalogue or the NDRC Guiding Catalogue have been launched and it is observed that there is an overproduction in the cement industry and competition in the cement industry has become much fiercer. The trend of phasing out obsolete and redundant production in the industry has become more obvious and has been accelerating after the COVID-19 pandemic. Compared to other market players with larger operational scale, the Target Group has been losing its competitive edge in benefiting from economies of scale and higher efficiency.

The Company has been vigorously exploring feasible means to sustain the Cement Business of the Target Group. As disclosed in the announcements of the Company respectively dated 3 and 6 July 2020, the Target Group disposed of certain machines and equipment used for production of cement to an Independent Third Party at approximately RMB38.4 million in cash and leased back such machines and equipment at rental of approximately RMB5.8 million payable by the Target Group annually. Notwithstanding the ease of the cashflow pressure in short term, in view of the requirements under the Building Materials Guiding Catalogue, heavy capital expenditure is expected to be incurred by mid of 2022 for upgrading production line to avoid the Target Group becoming a phasing-out target at the end of 2022. The capital expenditure at the estimated total sum of approximately RMB150 million in cash is inevitably expected to be incurred by mid of 2022.

Since the outbreak of COVID-19 pandemic, the Company and its Directors have been proactively evaluating the business strategies of the Group from time to time so as to stabilize the business and maintain the sustainable development and growth of the Group amid the extremely challenging market conditions. After assessing the overall business environment in the cement industry, the competitive edge of the Target Group in the cement industry, the business and financial performance and expected prospect of the Cement Business compared to other business segments of the Group as well as the estimated capital expenditure required for the Target Group in view of the Building Materials Guiding Catalogue, the Directors believe that the Transaction represents an opportunity to the Group to dispose of business which is not only loss making but also requires high capital expenditure. As advised by the Purchaser, the Purchaser is aware of the requirement as set out in the Building Materials Guiding Catalogue. After Completion, it is the intention of the Purchaser to maintain the existing businesses of the Target Group and the Purchaser will work with the management of the Target Group to cope with the requirements as set out in the Building Materials Guiding Catalogue. The Directors also believe that the Transaction will allow the Group to focus on other business segments, namely the Pharmaceutical and Health Business and the Fitness Business which are expected to bring higher positive returns to the Company and its Shareholders in long term as elaborated in the paragraph headed "Performance and Prospect of the Pharmaceutical and Health Business and the Fitness Business" in Appendix II to this circular.

Having considered the overall performance of different segments of the Group, the unavoidable heavy capital expenditure required to be invested in the Cement Business of the Group for improving the operation efficiency and the increasingly stringent regulatory environment of the cement market in the PRC, the Company is determined to focus on developing and expanding the Pharmaceutical and Health Business and the Fitness Business with steady and sustainable growth which in turn will bring higher return to the Shareholders. The Directors are of the view that the Transaction represents a good opportunity for the Group to deploy its resources in a more optimal way by concentrating the resources on the Pharmaceutical and Health Business and the Fitness Business.

The terms and conditions of the Transaction and the Consideration of the Transaction (including the cash consideration payable by the Purchaser to the Vendor and the assumption of all liabilities and obligations under the Novated Debt by the Purchaser) were negotiated on arm's length basis and on normal commercial terms between the Vendor, the Target Company, the Purchaser and the Company with reference to various factors, including (i) the accelerating phasing-out process especially after the COVID-19 pandemic under the requirements of the NDRC Guiding Catalogue and the Building Materials Guiding Catalogue; (ii) the difficult operational environment of the Target Group as being a relatively small-scale cement operator in the PRC; (iii) the fact that the cement clinker production line of the Target Group is subject to elimination by the end of 2022 in accordance with the criteria of elimination as set out in the Building Materials Guiding Catalogue; and (iv) the discharge of the Group from significant liabilities and capital expenditure relating to the Target Group.

After thorough consideration of the above factors, the Directors consider that the terms of the Sale and Purchase Agreement (including the Consideration) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction exceed 25% but are below 75%, the Transaction constitutes a major transaction of the Company and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

WRITTEN SHAREHOLDER'S APPROVAL

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders have a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Sale and Purchase Agreement and the transactions thereunder.

As at the Latest Practicable Date, the Company has already obtained a written Shareholder's approval from China Health, a controlling Shareholder directly holding 3,172,778,000 Shares, representing approximately 56.77% of the issued share capital of the

Company as at the date of the Sale and Purchase Agreement and up to the Latest Practicable Date, for approving the Sale and Purchase Agreement and the transactions contemplated thereunder in lieu of holding a general meeting of the Company in accordance with Rule 14.44 of the Listing Rules. Accordingly, no general meeting of the Company will be held for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATION

Although no general meeting will be convened for approving the Transaction, the Directors (including the independent non-executive Directors) believe that the Transaction and the Sale and Purchase Agreement are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, if the general meeting were convened for approving the Transaction, the Directors would have recommended the Shareholders to vote in favour of the Transaction and the Sale and Purchase Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
Tongfang Kontafarma Holdings Limited
Chai Hongjie
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group:

(i) for the year ended 31 December 2019 has been disclosed on pages 93 to 288 of the Company's 2019 annual report published on 14 May 2020;

(ii) for the year ended 31 December 2018 has been disclosed on pages 91 to 288 of the Company's 2018 annual report published on 29 April 2019;

(iii) for the year ended 31 December 2017 has been disclosed on pages 72 to 220 of the Company's 2017 annual report published on 26 April 2018; and

(iv) for the six months ended 30 June 2020 has been disclosed on pages 5 to 42 of the Company's 2020 interim report published on 25 September 2020.

The aforesaid annual reports and interim report of the Company are available on the websites of the Stock Exchange (http://www.hkexnews.hk) and of the Company (http://www.tfkf.com.hk).

2. INDEBTEDNESS STATEMENT

As at 31 October 2020, the details of the Group's indebtedness and contingent liabilities were as follows:

Bank and other borrowings

As at 31 October 2020, the Group had outstanding bank and other borrowings of approximately HK$670,141,000. The borrowings comprised (i) unsecured and unguaranteed bank and other borrowings of approximately HK$467,277,000; (ii) unsecured and guaranteed bank and other borrowings of approximately HK$49,438,000; (iii) secured and guaranteed bank and other borrowings of approximately HK$41,579,000 and (iv) secured and unguaranteed bank and other borrowings of approximately HK$111,847,000.

The aforesaid secured bank borrowings were secured by the Group's right-of-use assets, buildings, pledged bank deposits, trade receivables and the assets of a subsidiary as at 31 October 2020.

Lease liabilities/obligations under finance leases

As at 31 October 2020, the Group had outstanding lease liabilities/obligations under finance leases of approximately HK$484,104,000. The lease liabilities/obligations under finance leases of (i) approximately HK$76,535,000 were secured by deposits placed for the rental of premises and unguaranteed; (ii) approximately HK$3,328,000 were charged over the leased assets and unguaranteed; and (iii) remaining HK$404,241,000 were unsecured and unguaranteed.

Amounts due to related parties

As at 31 October 2020, the Group had outstanding amounts due to related parties of approximately HK$37,110,000 which were unguaranteed and unsecured.

Contingent liabilities

As at 31 October 2020, the Group had contingent liabilities arising from incident as disclosed in the 2019 audited consolidated financial statements of the Company. The Company was served a writ of summons (the "**Writ**") filed by Mr. Patrick John Wee Ewe Seng and Active Gains Universal Limited as the plaintiffs (collectively as the "**Plaintiffs**") against the Company and Fester Global Limited, a wholly-owned subsidiary of the Company in the High Court of Hong Kong regarding certain arrangements under the sale and purchase agreement of acquisition of 51% equity interest in True Cayman. The Group has been vigorously defending and rejecting the Plaintiffs' claims. Based on the opinion of the management of the Company in consideration of latest development, the possibility of any significant economic outflow in relation to the legal proceedings is remote.

Save as aforesaid, and apart from intra-group liabilities and normal trade and other payables, at 31 October 2020, the Group did not have any debt securities issued or outstanding or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL OF THE GROUP

The Directors, after due and careful enquiry, are of the opinion that, taking into account the internal financial resources and credit facilities available to the Group and the effects of the Transaction, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As stated in the paragraph headed "Reasons for the Transaction and basis of the Consideration" in the letter from the Board, the unexpected outbreak of COVID-19 pandemic posed unprecedented challenges to the Cement Business of the Group, 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. In respect of the Fitness Business, due to the prevalence of COVID-19 in the second quarter of 2020 in Singapore and the "Circuit Breaker Policy" implemented by the Singapore government, the operation of the nine fitness centres in Singapore was required to be suspended for more than two months. The suspension of operation of the fitness centres also led to a loss and decrease in revenue and gross profit of the Group in the Fitness Business.

As disclosed in the 2020 interim report of the Company, the Group recorded a net loss for the six months ended 30 June 2020 of approximately HK$12.5 million as compared to a net profit of approximately HK$8.3 million for the same period in 2019. Such turnaround was primarily attributable to: (i) increase in distribution and selling expenses and administrative expenses by approximately HK$39.9 million; (ii) increase in finance costs by approximately HK$19.8 million; (iii) increase in other losses by approximately HK$23.4 million; and (iv) offset by the increase in other income by approximately HK$38.1 million and increase in gross profit by approximately HK$28.6 million.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the Group's latest published audited consolidated financial statements were made up.

Management Discussion and Analysis

As stated in the paragraph headed "Reasons for the Transaction and basis of the Consideration" in the letter from the Board, the Transaction will allow the Group to deploy its resources in a more optimal way by concentrating the resources on the Pharmaceutical and Health Business and the Fitness Business.

Set out below is the management discussion and analysis of the Pharmaceutical and Health Business and the Fitness Business of the Group for the first half of 2020:

Pharmaceutical and Health Business

The global COVID-19 outbreak in 2020 has greatly affected China's economy in the first half of 2020, 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.

Fitness Business

According to the International Health, Racquet and Sportsclub Association Global Report 2020, before the COVID-19 pandemic, 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. The 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 pandemic. Countries and states ordered closure of health and fitness clubs since the outbreak of COVID-19 globally. In Singapore and Taiwan where the Group's Fitness Business operates, the 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. As at the Latest Practicable Date, all health and fitness clubs in both territories have now resumed operation, although those in Singapore are still constrained by capacity limitation.

Performance and Prospect of the Pharmaceutical and Health Business and the Fitness Business

While the COVID-19 pandemic posed unprecedented challenges to the Cement Business of the Target Group, the Company sees the positive prospects of the Pharmaceutical and Health Business and the Fitness Business. As disclosed in the announcement of the Company dated 3 February 2020, 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 been accredited by the National Medical Products Administration (previously known as the China Food and Drug Administration (國家藥品監督管理局(前稱國家食品藥品監督管理總局)) to manufacture the Active Pharmaceutical Ingredients Chloroquine Phosphate which has been included in the list of central medical reserve* (中央醫藥儲備) of the PRC. The Chloroquine Phosphate has been tested and proved to have certain curative effect in combating against the pneumonia infected by COVID-19. Chongqing Kangle was requested to resume production earlier in February 2020. Such production contributed to increase in revenue and profit of the Pharmaceutical and Health Business of the Group for the six months ended 30 June 2020. As to the Fitness Business, although there had been temporary closure of the fitness centres earlier this year due to COVID-19 pandemic which led to decrease in revenue and loss in the Fitness Business of the Group for the six months ended 30 June 2020, the Company believes that the demand for fitness centres and consultation services for fitness and health activities will increase in the long run amid the rising health consciousness of the people after COVID-19 pandemic. As of the Latest Practicable Date, all of the fitness centres of the Group have resumed operation and it is expected that the Fitness Business will improve and its prospect will remain affirmative in the long run.

Set out below is the combined financial information of the Pharmaceutical and Health Group and the Fitness Group prepared in accordance with the HKFRSs for the two years ended 31 December 2019:

	For the year ended 31 December 2018 (unaudited) *(HK$'000)*	**For the year ended 31 December 2019 (unaudited)** *(HK$'000)*
Revenue	863,424	921,148
Profit before taxation	108,116	101,800
Profit after taxation	98,871	86,997
Profit attributable to owners of the Company	78,034	75,764

As at 30 June 2020, the unaudited combined total asset value of the Pharmaceutical and Health Group and the Fitness Group was approximately HK$2,273.1 million, and the unaudited combined net asset value of the Pharmaceutical and Health Group and the Fitness Group attributable to owners of the Company was approximately HK$58.0 million.

The Pharmaceutical and Health Business and the Fitness Business have as a whole demonstrated steady growth. The total revenue of approximately HK$921.1 million has been recorded for 2019, representing a year-on-year increase of approximately 6.7%. The gross profit margins of the Pharmaceutical and Health Business were approximately 68.2% and 69.0% for the years ended 31 December 2018 and 2019 respectively. The gross profit margins of the Fitness Business were approximately 19.8% and 23.8% for the years ended 31 December 2018 and 2019 respectively. Given the accreditation of the Group in drug manufacturing and the stronger desire in pursuing health and fitness after COVID-19 pandemic, the Company strongly believes the Pharmaceutical and Health Business and the Fitness Business have great synergies enabling the Company to strategically focus on health-related businesses. The Company is optimistic about the future prospect and growth potential of the Pharmaceutical and Health Business and the Fitness Business and expects that such businesses will continue to be the driver of the sustainable growth of the Group going forward.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

(a) Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Interests in associated corporation:

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest of associated corporation
Jiang Chaowen *(Note)*	SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福（北京）生物技術有限公司) ("**SPF**")	Beneficial owner	5.47%

Note:

As at the Latest Practicable Date, Mr. Jiang Chaowen owned 5.47% interests in the registered capital of SPF, an indirect non-wholly owned subsidiary of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and chief executives of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the Shares and underlying Shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

		Long position	
Name of substantial Shareholders	**Capacity**	**Number of Shares interested**	**Approximate percentage of issued Shares**
China Health	Beneficial owner *(Note 1)*	3,172,778,000	56.77%
Waranty Assets Management (HK) Limited ("**Waranty Hong Kong**")	Interest in a controlled corporation *(Note 2)*	3,172,778,000	56.77%
Shenzhen Waranty Asset Management Co., Ltd.* (深圳市華融泰資產管理有限公司) ("**Shenzhen Waranty**")	Interest in a controlled corporation *(Note 3)*	3,172,778,000	56.77%
Shanxi Construction Investment Group Co., Ltd.* (山西建設投資集團有限公司) ("**Shanxi Construction**")	Interest in a controlled corporation *(Note 4)*	3,172,778,000	56.77%

Name of substantial Shareholders	Capacity	Long position Number of Shares interested	 Approximate percentage of issued Shares
Shanxi State-owned Capital Operation Co., Ltd.* (山西省國有資本運營有限公司) ("**State-owned Capital Operation Co.**")	Interest in a controlled corporation *(Note 5)*	3,172,778,000	56.77%
State-owned Assets Supervision and Administration Commission of Shan Xi Provincial Government ("**Shanxi Government Commission**")	Interest in a controlled corporation *(Note 6)*	3,172,778,000	56.77%
THTF Energy-Saving Holdings Limited (清華同方節能控股有限公司*), ("**THTF Energy-Saving**")	Beneficial owner *(Note 7)*	513,994,000	9.20%
Resuccess Investments Limited ("**Resuccess**")	Interest in a controlled corporation *(Note 8)*	513,994,000	9.20%
Tsinghua Tongfang Co., Ltd.* (同方股份有限公司) ("**Tsinghua Tongfang**")	Interest in a controlled corporation *(Note 9)*	513,994,000	9.20%

Notes:

1. The figure refers to the legal and beneficial interests of China Health in 3,172,778,000 Shares.

2. Waranty Hong Kong owns 100% interests in the issued share capital of China Health and is therefore deemed to have an interest in the Shares in which China Health is interested. The figure refers to the same interests of China Health in the Shares under the SFO.

3. Shenzhen Waranty, through its subsidiary, namely Waranty Hong Kong, owns 100% interests in the issued share capital of China Health and is therefore deemed to have an interest in the Shares in which China Health is interested. The figure refers to the same interests of China Health in the Shares under the SFO.

4. Shanxi Construction owns 76.90% interests in the registered capital of Shenzhen Waranty, is therefore deemed to have an interest in the Shares in which Shenzhen Waranty is interested. The figure refers to the same interests of China Health in the Shares under the SFO.

5. State-owned Capital Operation Co., through its subsidiary, namely Shanxi Construction, owns approximately 76.90% interests in the registered capital of Shenzhen Waranty and is therefore deemed to have an interest in the Shares in which Shenzhen Waranty is interested. The figure refers to the same interests of China Health in the Shares under the SFO.

6. Shanxi Government Commission owns 100% interests in the registered capital of State-owned Capital Operation Co. and is therefore deemed to have an interest in the Shares in which State-owned Capital Operation Co. is interested. The figure refers to the same interests of China Health in the Shares under the SFO.

7. The figure refers to the legal and beneficial interests of THTF Energy-Saving in 513,994,000 Shares.

8. Resuccess owns 100% interests in the issued share capital of THTF Energy-Saving and is therefore deemed to have an interest in the Shares in which THTF Energy-Saving is interested. The figure refers to the same interests of THTF Energy-Saving in the Shares under the SFO.

9. Tsinghua Tongfang, through its wholly-owned subsidiary, namely Resuccess, owns 100% interests in the issued share capital of THTF Energy-Saving and is therefore deemed to have an interest in the Shares in which THTF Energy-Saving is interested. The figure refers to the same interests of THTF Energy-Saving in the Shares under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

As at the Latest Practicable Date, Mr. Chai Hongjie, an executive Director, was also a director of Shenzhen Waranty, Mr. Huang Yu, an executive Director, was also a director of Waranty Hong Kong and Mr. Wei Bingzhang, an executive Director, was also an employee of Shanxi Construction, each of which has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS

(a) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, the following Director has declared interests in the following businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group as at the Latest Practicable Date:

Mr. Jiang Chaowen holds directorship in and has interests in the share capital of Chongqing Jewelland Pharmaceutical Co., Ltd.* (重慶健能醫藥開發有限公司). Chongqing Jewelland Pharmaceutical Co., Ltd.* engages in the wholesale of chemical Active Pharmaceutical Ingredients and its preparations, antibiotic Active Pharmaceutical Ingredients and its preparations, biochemical drugs and proprietary Chinese medicines. In addition, he holds directorship in Si Chuan Jewelland Pharmaceutical Co., Ltd.* (四川健能製藥有限公司). Si Chuan Jewelland Pharmaceutical Co., Ltd.* engages in the production and sales of tablets, medical technology development, and technology transfer and consultations. The business of the abovementioned companies is likely to compete with the Pharmaceutical and Health Business of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors (not being the independent non-executive Directors) had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Company or any of its subsidiaries within one year without payment (other than statutory compensation).

5. LITIGATION

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

The Plaintiffs' allegations in the Writ are related to the acquisition by Fester Global of 51% equity interest in True Cayman pursuant to the sale and purchase agreement dated 6 May 2017 made between Fester Global (as purchaser), the Company (as purchaser's guarantor), Active Gains (being an entity controlled by Mr. PJW as vendor), and Mr. PJW (as vendor's warrantor) (the "**Transaction Agreement**"). Details of the said acquisition were disclosed in the announcements and circular of the Company respectively dated 7 May 2017, 29 May 2017 and 28 July 2017. The Plaintiffs claim for, among others, the following:

(i) payment of balance of the purchase price, being US$3,500,000;

(ii) a declaration that the profit guarantee given by Active Gains and Mr. PJW in favour of the Company and Fester Global in respect of True Cayman Group for the financial year ended 31 December 2017 had been met; and

(iii) a declaration that the profit guarantee given by Active Gains and Mr. PJW in favour of the Company and Fester Global in respect of the True Cayman Group for the financial year ended 31 December 2018 and 2019 ceases to have effect and that Active Gains be entitled to exercise the put option so as to sell certain shareholding in True Cayman to Fester Global according to the terms of the Transaction Agreement.

The Company has filed the defence to the High Court of Hong Kong on 12 December 2019 and is currently seeking legal advice in relation to the Legal Proceedings and intends to vigorously defend and reject the Plaintiffs' claims.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, none of the members of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was pending or threatened against any member of the Group.

6. MATERIAL CONTRACT

Save as the Sale and Purchase Agreement, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this circular, which is, or may be, material to the Group.

7. GENERAL

The registered office of the Company is situated at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The head office and principal place of business of the Company is situated at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

The principal share registrar of the Company is Ocorian Trust (Cayman) Limited at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The company secretary of the Company is Ms. Si Tou Man Wai, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in Australia.

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on a business day at the principal place of business of the Company at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong from the date of this circular up to 4 January 2021:

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for each of the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020; and

(d) the Sale and Purchase Agreement.