同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1312)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "Board") of directors (the "Directors") of Tongfang Kontafarma Holdings Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Revenue	*(3)*	**633,279**	465,739
Cost of sales		**(539,160)**	(441,537)
Gross profit		**94,119**	24,202
Other income	*(4)*	**43,705**	44,872
Other gains and losses		**534**	(23,287)
Interest income on other principal protected deposits		**2,020**	10,749
Distribution and selling expenses		**(34,900)**	(5,655)
Administrative expenses		**(100,491)**	(59,145)
Other expenses		**(2,986)**	—
Finance costs		**(18,018)**	(18,721)
Share of results of an associate		**(15)**	—
Share of results of a joint venture		**(4,096)**	—
Loss before taxation		**(20,128)**	(26,985)
Taxation	*(5)*	**(7,425)**	(2,829)
Loss for the year	*(6)*	**(27,553)**	(29,814)
Other comprehensive expense:			
Item that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation to presentation currency		**(87,677)**	(65,544)
Total comprehensive expense for the year		**(115,230)**	(95,358)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Cont'd)*
For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 *HK$'000*
Loss for the year attributable to:			
Owners of the Company		**(37,076)**	(34,237)
Non-controlling interests		**9,523**	4,423
		(27,553)	(29,814)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(94,726)**	(77,032)
Non-controlling interests		**(20,504)**	(18,326)
		(115,230)	(95,358)
		HK cent	*HK cent*
Loss per share	*(7)*		
Basic		**(0.75)**	(0.69)
Diluted		**(0.75)**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**552,204**	380,880
Deposits for equipment and machineries		**76,279**	81,565
Prepaid lease payments on land use rights		**104,378**	6,685
Investment properties		**5,066**	—
Goodwill		**217,555**	—
Intangible assets		**15,675**	9,050
Interests in an associate		**2,601**	—
Interests in a joint venture		**32,759**	—
Deferred tax assets		**199**	—
		1,006,716	478,180
Current assets			
Properties held for sale		**2,161**	2,310
Biological assets		**2,743**	—
Inventories		**78,488**	34,330
Trade and bills receivables	*(9)*	**347,989**	295,440
Other receivables, deposits and prepayments		**141,028**	51,142
Loans receivable		**167,264**	—
Financial assets at fair value through profit or loss		**120,504**	82,227
Other principal protected deposits		**—**	205,327
Prepaid lease payments on land use rights		**1,499**	187
Amount due from an intermediate holding company		**89,385**	—
Amount due from a joint venture		**131**	—
Amounts due from other related parties		**168,865**	157,937
Restricted bank deposit		**2,518**	—
Pledged short-term bank deposits		**421,416**	424,912
Time deposits with original maturity between 4 to 12 months		**22,347**	—
Cash and cash equivalents		**581,137**	897,933
		2,147,475	2,151,745
Current liabilities			
Trade and bills payables	*(10)*	**175,428**	103,997
Other payables and deposits received		**86,346**	32,093
Amount due to an intermediate holding company		**24,230**	—
Amounts due to other related parties		**9,528**	2,137
Tax liabilities		**91,385**	86,425
Bank and other borrowings due within one year		**916,313**	777,456
		1,303,230	1,002,108
Net current assets		**844,245**	1,149,637
Total assets less current liabilities		**1,850,961**	1,627,817

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*
At 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Capital and reserves		
Share capital	**9,900**	9,900
Share premium and reserves	**1,115,934**	1,197,759
Equity attributable to owners of the Company	**1,125,834**	1,207,659
Non-controlling interests	**517,229**	400,946
Total equity	**1,643,063**	1,608,605
Non-current liabilities		
Bank and other borrowings due after one year	**163,128**	—
Deferred taxation	**44,770**	19,212
	207,898	19,212
	1,850,961	1,627,817

Notes:

(1) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements included disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance (Cap 622 of the laws of Hong Kong).

(2) SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as appropriate.

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact of the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised prepaid lease payments on land use rights where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$22,645,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

For other amendments to HKFRSs, the Directors anticipate that their application will have no material impact on the results and the financial position of the Group.

(3) SEGMENT INFORMATION

During the year ended 31 December 2016, the Group acquired new business of medical, pharmaceutical and health business. The management of the Company had reassessed the Group's operations and measurement of financial performance assessment and identified the cement business and medical, pharmaceutical and health business as two separate operating and reportable segments of the Group. Accordingly, the comparative information for the year ended 31 December 2015 has been represented to conform with the current year's presentation.

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

- Cement business — manufacture and sales of cement and clinker, trading of cement and provision of technical services, if any.

- Medical, pharmaceutical and health business — manufacture and sales of prescription drugs and laboratory related products, if any.

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

Segment revenue and results

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

	Cement business		**Medical, pharmaceutical and health business**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue from external customers	**508,818**	465,739	**124,461**	—	**633,279**	465,739
Segment results	**33,109**	4,199	**(11,412)**	—	**21,697**	4,199
Unallocated corporate income					**1,176**	5,674
Unallocated corporate expenses					**(24,983)**	(18,137)
Finance costs					**(18,018)**	(18,721)
Loss before taxation					**(20,128)**	(26,985)

Information about major products

The revenue of the major products is analysed as follows:

	2016	2015
	HK$'000	*HK$'000*
Manufacture and sales and trading of:		
Cement	**476,375**	444,494
Clinker	**32,443**	21,245
Prescription drugs	**105,411**	—
Laboratory related products	**19,050**	—
	633,279	465,739

Information about major customers

For the year ended 31 December 2016, revenue from a customer in the cement business amounting to HK$209,284,000 (2015: HK$52,336,000) individually represented more than 10% of the Group's revenue.

Geographical information

As all the Group's revenue is derived from customers based in the People's Republic of China ("PRC") and the Group's major non-current assets are located in the PRC by location of assets, no geographical segment information is presented.

(4) OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Interest income from banks	**8,291**	6,607
Interest income from loans receivable	**11,555**	1,317
Interest income from a non-controlling shareholder of the Group's subsidiary	**6,918**	8,184
Interest income from an intermediate holding company	**2,214**	—
Subsidy and government grant	**2,530**	23,298
Overprovision of open offer expenses	**—**	360
Write-off of other payables and deposits received	**—**	1,637
Sales of scrap	**5,317**	293
Rental income	**150**	—
Sundry income	**6,730**	3,176
	43,705	44,872

(5) TAXATION

	2016	2015
	HK$'000	*HK$'000*
The (charge) credit comprises:		
Current tax		
— PRC Enterprise Income Tax	**(9,376)**	(4,766)
— Hong Kong Profits Tax	**(19)**	(19)
	(9,395)	(4,785)
(Under) over provision in prior years		
— PRC Enterprise Income Tax	**(1)**	(439)
— Hong Kong Profits Tax	**14**	—
	13	(439)
Deferred tax	**1,957**	2,395
	(7,425)	(2,829)

The PRC Enterprise Income Tax is calculated at the rates applicable to respective subsidiaries. According to the PRC tax laws and regulations, a subsidiary established in the PRC, which was recognised as the High and New Technology Enterprise in Shandong Province, is entitled to enjoy the preferential tax rate at 15% for the years ended 31 December 2016 and 2015. Another subsidiary established in the PRC was recognised as《企業從事農、林、牧、漁業項目》and is entitled to enjoy the preferential tax rate at 12.5% for the year ended 31 December 2016. The applicable tax rate for other subsidiaries established in the PRC is 25% (2015: 25%) for the year ended 31 December 2016. A subsidiary incorporated in Hong Kong is subject to withholding tax charged on the interest income from lendings to a PRC subsidiary at the withholding tax rate prevailing in the PRC under the Enterprise Income Tax Law of the PRC.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

(6) LOSS FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	**456**	278
Depreciation of investment properties	**67**	—
Depreciation of property, plant and equipment	**28,257**	22,888
Total amortisation and depreciation	**28,780**	23,166
Cost of inventories recognised as expenses	**538,120**	435,852
Loss on impairment and write-off of inventories	**576**	5,685
Release of prepaid lease payments on land use rights	**1,440**	195
Net (gain) loss on disposal and write-off of property, plant and equipment	**(6,060)**	1,697
Operating lease rentals in respect of premises	**4,167**	1,161

(7) LOSS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the year attributable to owners of the Company)	**(37,076)**	(34,237)
	Shares	*Shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of loss per share	4,949,626,885	4,950,000,000

For the year ended 31 December 2015, the number of ordinary shares for the purpose of basic and diluted loss per share has been determined on the basis that the ordinary shares of the Company have been in issue and adjusted for the effect of the subdivision of the ordinary shares in January 2015.

The computation of the diluted loss per share for the year ended 31 December 2016 does not assume the exercise of the Company's share option as such would result in a decrease in loss per share.

No diluted loss per share has been presented for the year ended 31 December 2015 as there was no outstanding potential ordinary share during the year and at the end of the reporting period.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

No dividend was declared or paid by the Company during the year (2015: Nil).

(9) TRADE AND BILLS RECEIVABLES

The Group has a policy of allowing its trade customers credit periods normally ranging from 30 days to 1 year. The aged analysis of trade and bills receivables, net of allowance for bad and doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	2016	2015
	HK$'000	*HK$'000*
0 to 90 days	**206,377**	161,123
91 to 180 days	**93,456**	59,782
181 to 365 days	**36,812**	47,388
Over 1 year	**11,344**	27,147
	347,989	295,440

(10) TRADE AND BILLS PAYABLES

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

	2016	2015
	HK$'000	*HK$'000*
0 to 90 days	**65,230**	60,043
91 to 180 days	**50,373**	20,300
181 to 365 days	**54,833**	20,324
Over 1 year	**4,992**	3,330
	175,428	103,997

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, the Group was principally engaged in the manufacturing and sales of cement and clinker, trading of cement and provision of technical services with operations in Shandong province and Shanghai in the PRC. Since the completion of the Group's acquisition of 60% equity interest in 北京紫光製藥有限公司 (Beijing Ziguang Pharmaceutical Co., Ltd.*) ("Ziguang Pharmaceutical") that took place in July 2016 (the "Acquisition"), the Group has also been engaging in the manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines in the PRC.

Financial Results

The revenue of the Group for the year ended 31 December 2016 was approximately HK$633.3 million (2015: HK$465.7 million), representing an increase of 36.0% as compared to the previous year. The loss for the year of the Group was approximately HK$27.6 million (2015: HK$29.8 million). The loss per share amounted to HK0.75 cent (2015: HK0.69 cent).

The Group recorded a significant increase of HK$167.6 million in revenue for the year ended 31 December 2016 as compared to the year ended 31 December 2015. Approximately HK$124.5 million of such increase was attributable to the revenue generated by Ziguang Pharmaceutical and its subsidiaries for the period since the completion of the Acquisition to 31 December 2016.

The increase of HK$41.3 million in the Group's administrative expenses for the year ended 31 December 2016 was mainly attributable to the granting of a share option during the year of approximately HK$13.8 million. Loss for the year of the Group would be HK$13.8 million if the effect of such share option was excluded, representing a decrease of 53.7% as compared to the previous year.

Business Review

Cement Business

The Group's cement and clinker sales amounted to 2,318,000 tons (2015: 2,002,000 tons) during the year ended 31 December 2016, representing an increase of 15.8% as compared to the previous year.

1. *Shanghai Allied Cement Co., Ltd. ("Shanghai SAC")*

   In 2016, cement distributed by Shanghai SAC amounted to 1,210,000 tons (2015: 805,000 tons), which represents an increase by 50.3% over the previous year. Gross profit generated by Shanghai SAC was HK$23.1 million (2015: HK$19.1 million), representing an increase of 20.9% from the previous year. During the year, Shanghai SAC had been actively exploring and strengthening its relationship with quality customers with a view to enhance its sales. To reduce its operating costs, Shanghai SAC has further implemented its cost control and streamlining policies during the year. Special vehicles are no longer provided to the executives of Shanghai SAC. For the year ended 31 December 2016, the administrative expenses of Shanghai SAC amounted to HK$16.0 million (2015: HK$18.9 million), representing a decrease of 15.3% from the previous year. Moreover, Shanghai SAC has continued to invest cautiously the surplus of its idle funds from its business operation in wealth management products in accordance with the Group's treasury policies and investment guidelines. Shanghai SAC recorded fair value gains and interest income on financial assets of HK$2.7 million (2015: interest income of HK$4.1 million) through treasury management.

2. *Shandong Allied Wangchao Cement Limited ("Allied Wangchao")*

   In 2016, Allied Wangchao's clinker production amounted to 790,000 tons (2015: 852,000 tons), while cement production was 932,000 tons (2015: 1,083,000 tons). The sales of cement and clinker amounted to 1,108,000 tons (2015: 1,197,000 tons), representing a decrease of 7.4% as compared to the previous year. Gross profit amounted to HK$8.9 million (2015: HK$10.6 million), which represents a decrease of 16.0% as compared to the previous year.

   During the year, Allied Wangchao increased its investments in technological innovation and equipment modification, which has resulted in reduced consumption and enhanced production quality, and declarations for several projects in the Shandong Province and Zaozhuang City have also been completed. To save investment and operating costs, Allied Wangchao has utilised new technologies in desulfurisation. While the PRC government has demanded staggering production be adopted across the country, Allied Wangchao obtained approval from the Shandong Economic and Information Technology Committee in November 2016 to use its existing production facilities to process the municipal waste and was therefore exempted from the production suspension, which played a decisive role in stabilising its profit.

3. *Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC")*

   Shandong SAC is actively exploring the possibility of transforming and upgrading its products and technology. It is also proactively looking for investment opportunity in the fields of energy-saving and environmental protection.

4. *The development of new cement production facilities at Bailonggang, Pudong, Shanghai ("Bailonggang Project")*

   During the year, the project preparatory team of the Bailonggang Project had continued to push forward the project. Investors from both sides are expected to leverage on their respective advantages to procure the relevant government authority to approve the application for the postponement of the project.

In 2017, the cement entities of the Group will persist in the philosophy of innovation to forge ahead with innovation in management and industry, and enhance corporate culture. The Group will continue to strengthen its innovation in technology and explore potentials in all respects, increase the level of equipment automation and reduce hidden troubles of equipment to improve the steadiness of production techniques. The Group will also continue to improve the relationships with its customers, improve its sales management system and enhance its risk management. The Group will adjust its debt structure, reduce its financial costs, avoid exchange rate risk and continue to invest cautiously in wealth management products. The organisational structure of cement entities will further be optimised and appraisal system will also be improved to increase the work motivation of our staff.

As part of the Group's social responsibilities, the cement entities of the Group will continue to proceed synergetic disposal of solid waste in the cement kiln, increase the utilisation rate of substitutable fuels, and expand the utilisation volume of industrial wastes to achieve green success of the cement industry.

In general, the cement entities of the Group will actively explore the possibility of the enterprise transformation and upgrade, seek for the new profit growth point and certain new investment opportunities.

Medical, Pharmaceutical and Health Business

The Group's revenue in its medical, pharmaceutical and health business segment for the period since the completion of the Acquisition to 31 December 2016 was HK$124.5 million, which was attributable to sales of prescription drugs and laboratory related products.

1. *Ziguang Pharmaceutical*

   Ziguang Pharmaceutical was principally engaged in the manufacturing of chemical drugs. The key products of Ziguang Pharmaceutical are prescription drugs for gynecological and local anesthesia purposes. During the period since the completion of the Acquisition to 31 December 2016, Ziguang Pharmaceutical had sold 3,820,000 sticks/pills of drugs, recording a revenue of approximately HK$47.6 million and a gross profit of HK$41.0 million. In 2016, Ziguang Pharmaceuticals and its subsidiaries had carried out target-oriented assessment on budgeting and KPI control as its core. In the sales aspect, Ziguang Pharmaceutical proactively expanded its market to provide to quality customers its products with a view to establish a long-term and stable relationship with them. To achieve this, Ziguang Pharmaceuticals has rapidly adjusted its business policies and implemented more comprehensive marketing strategy so as to respond to the changes in policy environment such as the Two-Invoice System and the transitioning from business tax to value-added tax in the PRC. In market distribution aspect, Ziguang Pharmaceutical focused on the high-end market in municipalities and in developed cities such as Beijing and Chongqing, while utilising every opportunity to extend its products coverage to various institutions including healthcare centers of the town communities in the PRC. Based on the abovementioned efforts, it will not only secure basic sale volume but also lay a solid foundation for future growth.

2. *Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.* ("Shaanxi Life Care")*

   Shaanxi Life Care was principally engaged in business in the Chinese medicine-related fields, including the planting, manufacturing and distribution of Chinese medicine and operating a production facility in Baoji, Shaanxi. Shaanxi Life Care possesses over 150 drug approvals. During the period since the completion of the Acquisition to 31 December 2016, Shaanxi Life Care recorded a revenue of approximately HK$31.8 million and a gross profit of approximately HK$7.9 million. During the year, Shaanxi Life Care has entered into a strategic cooperation with Baoji Municipal Government in relation to the construction of an industrial park of innovative Chinese medicine at Baoji High-tech Development Zone within three years. Leveraging on Tsinghua University's strength of integrating production, education and research, a modern industrial park of pharmaceutical that are in compliance with international standards will be built. It will be developed into a comprehensive pharmaceutical enterprise, integrating pharmaceutical research and development, modern pharmacy, pharmaceutical business and herbs planting.

3. *Chongqing Kangle Pharmaceutical Ltd.* ("Chongqing Kangle")*

   Chongqing Kangle was principally engaged in the research and development, production and sale of Active Pharmaceutical Ingredients ("API") and intermediate for API. It operates a production facility at the Chonqing Changshou Chemical Industrial Park. During the period since the completion of the Acquisition to 31 December 2016, Chongqing Kangle recorded a revenue of HK$25.2 million and a gross profit of HK$5.0 million. During the year, Chongqing Kangle has focused on future development and established Tsinghua University Teaching and Practising Base (清華大學教學實習基地) and Chongqing Kangle Academician Workstation (重

慶康樂院士工作站) in cooperation with Tsinghua University. We expect that Chongqing Kangle will allow us to gain a great competitive edge in API and intermediate for API market in the future.

4. *SPF (Beijing) Biotechnology Co., Ltd.* ("SPF")*

SPF was founded by a number of doctors from the Academy of Military Medical Sciences. SPF was principally engaged in the supply of standardized laboratory animals and animal indigenous raw materials, and is the only biotechnology company focusing on the supply of laboratory animals in the entire industry of Tsinghua University. During the period since the completion of the Acquisition to 31 December 2016, SPF recorded a revenue of approximately HK$19.1 million and a gross profit of HK$10.3 million. During the year, SPF began its rapid expansion and in the future will focus on the regional market distribution and expand along the value chain. In this regard, SPF will 1) set up branches in fast-growing areas, including East China, South China and Southwest China, to seize market share nationwide; and 2) expands its business to upstream and downstream fields, such as transgenic research, drugs evaluation and service, laboratory related products and other aspects, taking advantage of its own proven model and technology advantages and in combination with Tsinghua University's strong research and production capability and powerful appeal.

Ziguang Pharmaceutical and its subsidiaries are now developing into a group of companies to cover the value-chain of biopharmaceuticals. The companies are actively engaging in various links of the biopharmaceutical field, including biotechnology service, new drug research and development, active pharmaceutical ingredients and intermediates, chemical generic medicine, prescribed Chinese medicines and medicine circulation. As the companies are in the period of rapid development, resources will be allocated to research and development, infrastructure construction, market expansion, business channel construction, personnel organization construction to merger, acquisition and reorganization in order to meet the above strategic layout. With the positive effect from the initial investment, we expects the entities to achieve rapid performance growth in 2017.

In August 2016, the Group and Dr. Ding Sheng started investing in medical research with a focus in immunology and small molecule, which includes identifying potent and selective small molecule modulators and accumulating data through clinical studies. The result is critical in the discovery of related drugs and treatment for cancer and infectious diseases.

Dr. Ding Sheng is the co-founder of the School of Pharmaceutical Sciences of Tsinghua University and is among the first batch of experts recruited under the Thousand Talents Plan of the PRC. He is the leading authority in the fields of biochemistry and stem-cell research and is a co-founder of several biotech companies in the United States. The Directors consider that the investment will further enhance the research and innovation capability of the Group in the development of medical and pharmaceutical products.

Financial Review

Liquidity and Financing

On 22 December 2014, additional shares of the Company were issued in an open offer ("Open Offer") to raise gross proceeds of approximately HK$495.0 million. Details of the open offer and update on the use of proceeds are set out in the section headed "Use of Proceeds from Open Offer" in the announcement.

Except for the proceeds raised from the Open Offer, the Group's capital expenditure, daily operations and investments during the year ended 31 December 2016 are mainly funded by cash generated from its operations and loans granted by its principal banks and third parties.

During the year ended 31 December 2016, the Group had refinanced bank loans with aggregate principal amount of HK$380.0 million by other borrowings from third parties.

As at 31 December 2016, the Group maintained bank balances and cash reserves of approximately HK$1,027.4 million (2015: HK$1,322.8 million), including cash and cash equivalents of approximately HK$581.1 million (2015: HK$897.9 million), pledged short-term bank deposits of approximately HK$421.4 million (2015: HK$424.9 million), time deposits with original maturity between 4 to 12 months of approximately HK$22.3 million (2015: Nil) and restricted bank deposit of approximately HK$2.5 million (2015: Nil).

As at 31 December 2016, the Group had outstanding borrowings of approximately HK$916.3 million repayable within one year (2015: HK$777.5 million) and outstanding borrowings of approximately HK$163.1 million repayable after one year (2015: Nil). Approximately 72.3% of the Group's outstanding borrowings were denominated in Hong Kong dollars ("HK$") and the remainder were in Renminbi ("RMB"). Around 15.1% of the Group's outstanding borrowings were charged with interest at fixed rates while the remainder were at floating rates.

The gearing ratio (total borrowings over total assets) of the Group as at 31 December 2016 was as follows:

	2016	2015
	HK$'000	*HK$'000*
Total borrowings	**1,079,441**	777,456
Total assets	**3,154,191**	2,629,925
Gearing ratio	**34.2%**	29.6%

As at 31 December 2016, a balance amounting to HK$147.7 million (2015: HK$157.9 million) were included in the amounts due from other related parties, which represent the provision of entrusted loans by the Group through a bank to 上海建材（集團）有限公司 (Shanghai Building Material (Group) Company Limited*) (formerly known as 上海建築材料（集團）總公司 (Shanghai Building Material (Group) General Company*)) ("Shanghai Building Material") and the related interest receivable. Details of the transactions were set out in the announcement of the Company dated 27 May 2016.

Financial Management and Policy

The Group's financial policy aims at minimising the Group's financial risk exposure. To achieve this objective, the Group does not engage in speculative derivative financial transactions and invest the current capital in financial products with significant risk.

Risk of Foreign Exchange Fluctuation

The Group's operations are mainly located in the PRC and its transactions, working capital and borrowings are primarily denominated in RMB and HK$. The Group has been closely monitoring any foreign exchange exposure and will consider the need of hedging should significant currency exposure arise. However, since the Group's consolidated financial statements are presented in HK$ which is different from its functional currency, RMB, it is inevitable that the Group would face foreign exchange exposure in this respect, whether positive or negative, from translating the accounts to its presentation currency.

Pledge of Assets

At the end of the reporting period, certain of the Group's buildings and structures with aggregate carrying amount of HK$106.0 million (2015: buildings and structures and plant and machinery of HK$133.9 million), prepaid lease payments on land use rights with carrying amount of HK$45.7 million (2015: HK$6.0 million), an exchange rate linked structured deposit with carrying value of HK$22.4 million (2015: interest rate linked structured deposit of HK$143.4 million) together with short-term bank deposits of HK$421.4 million (2015: HK$424.9 million) were pledged to secure bank loans to the extent of HK$502.8 million (2015: HK$777.5 million) granted to the Group and short-term bank facilities in respect of the issuance of bills payable to suppliers amounting to HK$98.8 million (2015: HK$69.2 million).

Material Acquisitions

As announced by the Company on 28 January 2016, Kingwood Limited ("Kingwood"), an indirect wholly-owned subsidiary of the Company, and 深圳市華融泰資產管理有限公司 (Shenzhen Warranty Asset Management Co., Ltd.*) ("Shenzhen Warranty"), an intermediate holding company, have entered into a sale and purchase agreement, pursuant to which Kingwood has conditionally agreed to purchase, and Shenzhen Warranty has conditionally agreed to sell, an aggregate of 60% equity interest in Ziguang Pharmaceutical, a sino-foreign joint venture enterprise established in the PRC, representing the entire interest held by Shenzhen Warranty in Ziguang Pharmaceutical, for an aggregate consideration of RMB291.2 million. The acquisition was completed in July 2016. Details of the transaction were set out in the announcement and circular of the Company dated 28 January 2016, 22 March 2016 and 15 April 2016, respectively.

Material Capital Commitments and Investments

As announced by the Company on 15 February 2012, Shanghai SAC has entered into the《關於建設「白龍港項目」合作協議》(Bailonggang Project Construction Cooperation Agreement*) and the《關於設立合資公司(原則)協議》(Principle Agreement for the Establishment of the Joint Venture Company*) on 13 February 2012 with Shanghai Building Material, a state-owned enterprise, for the purpose of setting up a joint venture company ("JV Company") to operate and manage 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 attributable to the Group amounting to RMB400 million (equivalent to approximately HK$446.9 million (2015: HK$477.9 million)) will 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 million (equivalent to approximately HK$424.6 million (2015: HK$454.0 million)), for future use in the Bailonggang Project. The Company does not intend to retain such equipment and machineries for its own use. Up to 31 December 2016, Shanghai SAC settled the first installment of the total consideration under the three respective agreements in an aggregate amount of RMB68.3 million (2015: RMB68.3 million) (equivalent to approximately HK$76.3 million (2015: HK$81.6 million)). Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012 and 15 November 2012, respectively.

As announced by the Company on 16 December 2016, the Company has entered into a share subscription agreement with Binex Co., Ltd. ("Binex") and the majority Korean shareholders of Binex, pursuant to which the Company (or through its wholly owned subsidiary designated by it) has conditionally agreed to subscribe from Binex, and Binex has conditionally agreed to issue to the Company (or through its wholly owned subsidiary designated by it), subscription shares, representing (i) approximately 29% of the total issued share capital of Binex as enlarged by the Subscription Shares immediately upon closing; and (ii) approximately 28% of the total issued share capital of Binex as enlarged by the Subscription Shares and assuming that all the outstanding convertible bonds and employees share options of Binex are fully converted and exercised. The total subscription consideration of Binex is KRW210,917 million (equivalent to approximately HK$1,397 million) based on the subscription price of KRW16,000 (equivalent to HK$106) per share. Subject to the conditions precedent pursuant to the Company's announcement dated 16 December 2016, the Company will satisfy the subscription consideration by cash upon closing. Details of the transaction were set out in the announcement dated 16 December 2016 and a circular containing, inter alia, further information regarding the Share Subscription Agreement will be despatched to the shareholders of the Company in due course.

Employees

As at 31 December 2016, the Group had 1,064 (2015: 306) 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 also be granted to eligible employees. The purpose of the schemes is to provide incentives to the selected employees to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract and retain human resources that are valuable to the Group.

Corporate Social Responsibility

Domesticlinternational high-level pharmaceutical production facility

The chemical drugs production base located in Beijing, the Chinese medicines production base located in Baoji City, Shaanxi Province and the active pharmaceutical ingredients and intermediates production base located in Chongqing City have passed the GMP certification from the Food and Drug Administration of the PRC, while the active pharmaceutical ingredients and intermediates production line located in Chongqing City have also passed the FDA certification in the United States and the PQ certification from the World Health Organization. The experimental animal workshop located in Beijing City has passed the experimental animal production qualification certification from the Beijing Municipal Science & Technology Commission.

Contribution to society

Ziguang Pharmaceutical and SPF, being two manufacturing enterprises located in the relatively poor Yanqing District in Beijing, has contributed significantly to taxes and provided a lot of job opportunities with their own performance growth. The two companies paid taxes totaling approximately RMB14.8 million to the Yanqing District in 2016, being a great support to the local infrastructure and offering approximately 100 job opportunities. As such, they were awarded the Best Growth Enterprises in Yanqing District by the Zhongguancun High-tech Committee.

The Group also maintains its commitment to social responsibility and philanthropy. Over the years, Allied Wangchao has sponsored uniforms to schools on Children's day (1 June), sponsored notebooks and granted scholarship to the children of our staff members, paid visit to the elderly living in adjacent villages and poverty-stricken families of our staff during Chung Yang Festival and voluntarily repaired roads nearby.

Providing more professional skills training for employees

The Group provided regular training regarding production, skillsets and code of behaviour for its staff members in order to enhance their all-round quality. The Group also fosters communication and cooperation with colleges and academic institutions in the PRC to render support to technology innovation and at the same time reduce cost and boost efficiency.

Also, the Group has engaged external consultants to provide trainings and workshops on the topics of environmental, social and governance ("ESG") to the relevant employees. With the facilitation by external consultants, the Group identified material ESG issues and considered their impacts to different stakeholders during these trainings and workshops. The Group management also evaluated its ESG initiatives and its performances during these workshops and trainings. An ESG report will be contained in the annual report to be published on or before the end of April 2017.

OUTLOOK

Cement Business

In 2016, the PRC economy was facing with various risks such as narrowing trade surplus, weak private investment and economic downturn. In the Central Economic Working Conference (中央經濟工作會議) held in December 2016, the PRC government clearly put forward that, they would focus on promoting the supply-side structural reform, moderately expanding social demand and properly dealing with emerging risks and challenges. The year 2017 will be crucial for deepening supply-side reform.

To deepen the supply-side structural reform, it is required to take the first step of reducing overcapacity. Only by adopting the policies of "promoting staggering production" and "prohibiting the production of grade 32.5 composite portland cement" proposed in the 《關於促進建材工業穩增長調結構增效益的指導意見》(國辦發[2016]34號) ("Guiding Opinions on Promoting Steady Growth, Restructuring and Efficiency Improvement of Building Materials Industry" (Guo Ban Fa [2016] No. 34)*) issued by the State Council of the PRC in May 2016, which represents hope for industrial development, to remove the gloom of massive overcapacity in the development of cement industry, can we solve the problem of overcapacity, secure benefits from the industry and push forward industry transformation and upgrade.

It is expected that the PRC government will continue the efforts to intensify its investment in infrastructure construction in 2017. As cement is one of the basic materials in the construction of infrastructure, the demand of cement will naturally be strong. In 2017, the merger, acquisition and reorganisation among large scale corporations in the cement market will sustain its momentum in 2016 to further improve industrial concentration. It is anticipated that the government will further strengthen regulation on environmental protection. Therefore, the duration of production suspension will be increased, affecting the production volume of cement. Having taken into account the above factors, the Group expects that, in 2017, the market price of cement will show a trend of steady rise and the production volume of cement in the PRC will be roughly equivalent to the total output of 2016. Against such background, the performance of cement industry in the PRC is expected to be improved.

Medical, Pharmaceutical and Health Business

In 2016, the PRC government has enacted a number of laws and regulations and the relevant government departments have enforced the greatest coordinated supervision that have never seen over the past 30 years. It demonstrates the government's determination to push forward the pharmaceutical reform. In the Report on the Work of the Government of 2016, Premier Li Keqiang has expressly put forward the ideas that "We will advance the coordinated reform of medical services, medical insurance, and the medicine industry. Health is the root of happiness." This points out the way for future development of the pharmaceutical industry in the PRC. Standing at the crossroad of reform, Ziguang Pharmaceutical and its subsidiaries will firmly seize the opportunities emerging from this new era by taking full advantage of its own industrial chain and adhering to its overall strategy of "dedicate to the frontier market, seek our own advantages, strengthen our internal management and maintain our leading position in the market segment", with the aim to sustain sound momentum for growth and seize the greatest market share in the market segment, thus delivering better performance for the coming year.

In 2017, the Group will continue to leverage on the opportunities brought by the reform, actively respond to the deployment of the national strategic planning and government's reform, and build the core competitiveness for the rapid development by quick reaction and innovative research and development model, cooperation model and sales model. Ziguang Pharmaceutical and its subsidiaries will continue to strengthen its internal management, make full use of management tools in internal control, organisational structure, financial management and human resources, and enhance the overall operation level through management, so as to better reflect the value creation.

USE OF PROCEEDS FROM OPEN OFFER

On 22 December 2014, the Company completed the Open Offer to raise approximately HK$495.0 million (before costs and expenses) by way of the Open Offer of 330,000,000 new ordinary shares of the Company ("Offer Shares") at a subscription price of HK$1.5 per Offer Share on the basis of one Offer Share for every two ordinary shares of the Company held on the record date, 28 November 2014, on the terms pursuant to the underwriting agreement dated 7 November 2014 (the "Underwriting Agreement") entered into among the Company, China Health Management Investment Limited and First Shanghai Securities Limited in respect of the underwriting and other arrangement in respect of the Open Offer. Details of the Open Offer and the completion of the Open Offer are set out in the Company announcements dated 7 November 2014 and 22 December 2014 and the Company's listing document dated 1 December 2014. The net proceeds raised upon completion after deduction of relevant costs and expenses were approximately HK$487.3 million. It was intended that the entire amount of the net proceeds would be applied by the Group in the funding of the development of and/or investment in pharmaceutical and health business.

As of 31 December 2016, a total of approximately HK$375.7 million of the net proceeds from the Open Offer had been utilised in the following manner:

(i) as to approximately HK$338.9 million in the settlement of the consideration for the acquisition of 60% equity interest in Ziguang Pharmaceutical; and

(ii) as to approximately HK$36.8 million in the investment in medical research with a focus in immunology and small molecule.

The remaining balance of the net proceeds from the Open Offer in the amount of approximately HK$111.6 million will be used as intended.

DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "2017 AGM") is scheduled to be held on Tuesday, 20 June 2017. For determining the entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Wednesday, 14 June 2017 to Tuesday, 20 June 2017 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order for a shareholder of the Company (the "Shareholder") to be eligible to attend and vote at the 2017 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 June 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company had applied the principles of, and complied with, all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2016.

Further information on the Company's corporate governance practices during the year under review will be set out in the Corporate Governance Report to be contained in the Company's annual report for the year ended 31 December 2016 (the "2016 Annual Report"), which will be despatched to the Shareholders in April 2017.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2016.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares, except that the trustee of the share award scheme of the Company as adopted on 20 September 2016 (the "Share Award Scheme") purchased on the Stock Exchange a total of 1,434,000 shares of the Company at an aggregated consideration of HK$860,000 pursuant to the trust deed of the Share Award Scheme.

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

The 2016 Annual Report of the Company will be despatched to the Shareholders and made available on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.tfkf.com.hk) in due course. The audited consolidated results of the Group for the year ended 31 December 2016 set out above does not constitute the Company's statutory financial statements but is extracted from the consolidated financial statements for the year ended 31 December 2016 to be included in the 2016 Annual Report.

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

Hong Kong, 24 March 2017

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Huang Yu (Chairman), Mr. Ng Qing Hai (Managing Director) and Mr. Zhang Yi; and three independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.

* *For identification purpose only*