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 2017

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 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	(3)	**1,344,336**	633,279
Cost of sales		**(1,007,461)**	(539,160)
Gross profit		**336,875**	94,119
Other income	(4)	**40,096**	43,705
Other gains and losses		**5,788**	534
Interest income on other principal protected deposits		**–**	2,020
Distribution and selling expenses		**(133,027)**	(34,900)
Administrative expenses		**(138,808)**	(96,021)
Other expenses		**(32,641)**	(7,456)
Finance costs		**(21,882)**	(18,018)
Share of results of associates		**(8,765)**	(15)
Share of results of a joint venture		**(11,666)**	(4,096)
Profit (loss) before taxation		**35,970**	(20,128)
Taxation	(5)	**(119)**	(7,425)
Profit (loss) for the year	(6)	**35,851**	(27,553)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Cont'd)*

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Other comprehensive income (expense):			
Item that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation to presentation currency		**101,338**	(87,677)
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**(7,319)**	–
Other comprehensive income (expense) for the year		**94,019**	(87,677)
Total comprehensive income (expense) for the year		**129,870**	(115,230)
Profit (loss) for the year attributable to:			
Owners of the Company		**(1,806)**	(37,076)
Non-controlling interests		**37,657**	9,523
		35,851	(27,553)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**60,782**	(94,726)
Non-controlling interests		**69,088**	(20,504)
		129,870	(115,230)
		HK cents	*HK cents*
Loss per share	*(7)*		
Basic		**(0.04)**	(0.75)
Diluted		**(0.04)**	(0.75)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**690,533**	552,204
Deposits for equipment and machineries		**81,927**	76,279
Prepaid lease payments on land use rights		**107,140**	104,378
Investment properties		**5,276**	5,066
Goodwill		**439,160**	217,555
Intangible assets		**324,302**	15,675
Interests in associates		**13,007**	2,601
Interests in a joint venture		**21,093**	32,759
Deferred tax assets		**4,360**	199
Rental deposits		**5,127**	–
Pledged bank deposits		**2,247**	–
		1,694,172	1,006,716
Current assets			
Properties held for sale		**2,321**	2,161
Biological assets		**4,761**	2,743
Inventories		**97,401**	78,488
Trade and bills receivables	*(9)*	**532,671**	347,989
Other receivables, deposits and prepayments		**149,432**	141,028
Loans receivables		**178,878**	167,264
Financial assets at fair value through profit or loss		**114,720**	120,504
Prepaid lease payments on land use rights		**3,289**	1,499
Amount due from an intermediate holding company		**–**	89,385
Amount due from a joint venture		**7,972**	131
Amount due from an associate		**34,667**	–
Amounts due from other related parties		**208,961**	168,865
Restricted bank deposit		**–**	2,518
Pledged bank deposits		**33,515**	421,416
Time deposits with original maturity between 4 to 12 months		**–**	22,347
Cash and cash equivalents		**381,450**	581,137
		1,750,038	2,147,475

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*
At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Current liabilities			
Trade and bills payables	(10)	**207,512**	175,428
Other payables and deposits received		**123,782**	86,346
Amount due to an intermediate holding company		**17,011**	24,230
Amounts due to other related parties		**57,974**	9,528
Tax liabilities		**87,292**	91,385
Bank and other borrowings due within one year		**629,518**	916,313
Obligations under finance leases		**1,504**	–
Deferred income		**114,721**	–
		1,239,314	1,303,230
Net current assets		**510,724**	844,245
Total assets less current liabilities		**2,204,896**	1,850,961
Capital and reserves			
Share capital		**9,900**	9,900
Share premium and reserves		**1,214,123**	1,115,934
Equity attributable to owners of the Company		**1,224,023**	1,125,834
Non-controlling interests		**624,689**	517,229
Total equity		**1,848,712**	1,643,063
Non-current liabilities			
Bank and other borrowings due after one year		**175,484**	163,128
Deferred taxation		**113,537**	44,770
Obligations under finance leases		**1,910**	–
Provision of reinstatement cost		**18,943**	–
Deferred income		**46,310**	–
		356,184	207,898
		2,204,896	1,850,961

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) APPLICATION OF NEW AND REVISED HKFRSs

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

(3) REVENUE AND SEGMENT INFORMATION

Revenue represents the sales amount from (1) manufacturing and sales of prescription drugs and laboratory related products, (2) operation of fitness centres and provision of consultation services (such as monthly membership fees, trial classes and personal training classes) for fitness and health activities, and (3) manufacturing and sales of cement and clinker and trading of cement, net of discount and sales related tax.

	2017	2016
	HK$'000	*HK$'000*
Manufacture and sales of prescription drugs and laboratory related products	**353,774**	124,461
Operation of fitness centres and provision of consultation services for fitness and health activities	**195,763**	–
Royalty fee income in relation to fitness and health activities in Taiwan	**31,252**	–
Service fee income in relation to fitness and health activities in Taiwan	**2,074**	–
Manufacture and sales of cement and clinker	**275,683**	214,319
Trading of cement	**485,790**	294,499
	1,344,336	633,279

During the years ended 31 December 2016 and 31 December 2017, the Group acquired new businesses of medical, pharmaceutical and health business and fitness business, respectively. The Directors, being the chief operating decision maker, had reassessed the Group's operations and measurement of financial performance assessment and identified (1) medical, pharmaceutical and health business; (2) fitness business; and (3) cement business as three separate operating and reportable segments of the Group.

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

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

- Fitness business – operate fitness centres and provide consultation services for fitness and health activities and operate the franchise business for royalty and service fee income.

- Cement business – manufacture and sales of cement and clinker and trading of cement.

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

Segment revenue and results

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

	Medical, pharmaceutical and health business		Fitness business		Cement business		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue from external customers	**353,774**	124,461	**229,089**	–	**761,473**	508,818	**1,344,336**	633,279
Segment results	**22,151**	(11,412)	**39,864**	–	**14,370**	33,109	**76,385**	21,697
Unallocated corporate income							**8,856**	1,176
Unallocated corporate expenses							**(27,389)**	(24,983)
Finance costs							**(21,882)**	(18,018)
Profit (loss) before taxation							**35,970**	(20,128)

There was no inter-segment sales during the years ended 31 December 2017 and 2016. The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit (loss) from each segment without allocation of unallocated corporate income and expenses, and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

Information about major customers

For the year ended 31 December 2017, revenue from a customer in the cement business amounting to HK$375,162,000 (2016: HK$209,284,000) individually represented more than 10% of the Group's revenue.

Geographical information

The Group's operations for the year ended 31 December 2016 are originally located in the People's Republic of China (the "PRC"). With the fitness business acquired during the year ended 31 December 2017, the Group's operations are now located in the PRC and Singapore. Information about the Group's revenue from continuing operations from external customers is presented based on the location of operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,129,941**	633,279	**1,083,078**	1,006,517
Singapore	**214,395**	–	**604,487**	–
	1,344,336	633,279	**1,687,565**	1,006,517

(4) OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income from banks	**4,344**	8,291
Interest income from loans receivables	**6,499**	11,555
Interest income from a non-controlling shareholder of the Group's subsidiary	**6,387**	6,918
Interest income from an intermediate holding company	**995**	2,214
Interest income from other receivables	**828**	846
Government grant and subsidy	**8,725**	2,530
Sales of scrap	**2,277**	5,317
Rental income	**3,869**	150
Sundry income	**6,172**	5,884
	40,096	43,705

(5) TAXATION

	2017	2016
	HK$'000	*HK$'000*
The (charge) credit comprises:		
Current tax		
– PRC Enterprise Income Tax	**(1,974)**	(9,376)
– Hong Kong Profits Tax	**(19)**	(19)
– Singapore Corporate Income Tax	**(6,978)**	–
	(8,971)	(9,395)
(Under) over provision in prior years		
– PRC Enterprise Income Tax	**7,475**	(1)
– Hong Kong Profits Tax	**14**	14
	7,489	13
Deferred tax	**1,363**	1,957
	(119)	(7,425)

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 2017 and 2016. 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 2017 and 2016. The applicable tax rate for other subsidiaries established in the PRC is 25% (2016: 25%) for the year ended 31 December 2017. 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.

Singapore Corporate Income Tax is calculated at 17% of the estimated assessable profits for the year ended 31 December 2017.

(6) PROFIT (LOSS) FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	**5,231**	456
Depreciation of investment properties	**158**	67
Depreciation of property, plant and equipment	**51,356**	28,257
Total amortisation and depreciation	**56,745**	28,780
Cost of inventories recognised as expenses	**817,328**	538,120
Research and development expenses	**23,727**	4,470
Loss on impairment of inventories	**1,469**	576
Provision of financial guarantee	**1,488**	–
Release of prepaid lease payments on land use rights	**3,151**	1,440
Operating lease rentals in respect of premises	**66,865**	4,167

(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:

	2017	2016
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share – attributable to owners of the Company	**(1,806)**	(37,076)
	Shares	*Shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of loss per share	**4,943,780,754**	4,949,626,885

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

For the years ended 31 December 2017 and 2016, the computation of the diluted loss per share does not assume the exercise of the Company's share options as such would result in a decrease in loss per share.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

No dividend was declared or paid by the Company during the year ended 31 December 2017 (2016: 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:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**254,138**	206,377
91 to 180 days	**197,028**	93,456
181 to 365 days	**74,446**	36,812
Over 1 year	**7,059**	11,344
	532,671	347,989

(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:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**81,559**	65,230
91 to 180 days	**16,793**	50,373
181 to 365 days	**101,539**	54,833
Over 1 year	**7,621**	4,992
	207,512	175,428

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2017, the Group was principally engaged in the (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines in the PRC; and (ii) 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 51% and 29% of the issued share capital in TFKT True Holdings and True Yoga Holdings Limited, respectively, in May 2017 (the "Acquisition"), the Group has also been engaging in the operating of fitness centres and provision of consultation services for fitness and health activities, and operating of franchise business for royalty and service fee income.

Financial Results

The revenue of the Group for the year ended 31 December 2017 was approximately HK$1,344.3 million (2016: HK$633.3 million), representing an increase of 112.3% as compared to the previous year. The profit for the year of the Group was HK$35.9 million (2016: loss of HK$27.6 million). The basic loss per share amounted to HK0.04 cents (2016: HK0.75 cents).

The Group recorded a net profit for the year ended 31 December 2017 as compared to the net loss for the year ended 31 December 2016. Such turnaround was primarily attributable to (i) the profit generated by the medical, pharmaceutical and health business of the Group following the Group's acquisition of 60% equity interest in 同方藥業集團有限公司 Tongfang Pharmaceutical Group Co., Ltd* ("Tongfang Pharmaceutical") and its subsidiaries in July 2016; (ii) the profit generated by the fitness business of the Group following the Group's Acquisition; and (iii) the other gain arising from the Group's Acquisition.

For the year ended 31 December 2017, the Group recorded significant increases of HK$98.1 million and HK$42.8 million in distribution and selling expenses and administrative expenses, respectively. Such increments were mainly attributable to the Group's acquisitions of the medical, pharmaceutical and health business and fitness business in July 2016 and May 2017, respectively.

Business Review

Medical, Pharmaceutical and Health Business

2017 was a year of changes for the pharmaceutical industry in the PRC. In January 2017, the National Health and Family Planning Commission of the People's Republic of China (a supervisory department of the pharmaceutical, medical and health management of the PRC) issued the implementation plan for the Two-Invoice System in respect of medicine circulation, signifying that the system will be put in place nationwide. The implementation plan requires that, all provinces and municipalities shall introduce a written proposal of the Two-Invoice System at provincial level in 2017 and the system be fully implemented across the country from 2018 onwards. Besides, the Ministry of Human Resources and Social Security of the PRC released a new version of the medical insurance catalog on 23 February 2017. This represented the first substantial update to the national medicine catalog for medical insurance schemes after eight years. It also permitted negotiating market entry for medical insurance drugs. In other words, drug tendering will be reopened, and resumption is expected to take place in most of the provinces in 2017. Moreover, many other policies that have significant impact on the industry were issued. For example, the 13th Five-Year National Plan for Drug Safety (《「十三五」國家藥品安全規劃》) tightened safety and quality requirements for drugs. The Decision of the China Food and Drug Administration on Matters concerning Adjusting the Registration Administration of Imported Drugs (《國家食品藥品監督管理總局關於調整進口藥品註冊管理有關事項的決定》) permitted simultaneous applications and modified registration procedures. The Law of the People's Republic of China on Traditional Chinese Medicine (《中華人民共和國中醫藥法》) supports and promotes the development of traditional Chinese medical industry. Last but not least, laws and regulations regarding medical devices and shortage drugs shall have materially changed the competitive landscape of the medical industry.

1. Tongfang Pharmaceutical

Tongfang Pharmaceutical is principally engaged in the production and sales of chemical drugs with 30,000 square meters of drug production workshops in Yanqing District, Beijing. Its key products are prescription drugs for gynecological and local anesthesia purposes. For the year ended 31 December 2017, it recorded an operating revenue of RMB163.6 million, representing a growth of 98.1% from RMB82.6 million for 2016. Gross profit for the year ended 31 December 2017 amounted to RMB143.3 million, representing an increase of 114.2% from RMB66.9 million for 2016.

In 2017, Tongfang Pharmaceutical and its subsidiaries continue to focus on budgeting and Key Performance Indicators control, as well as fully strengthening its information-based management. Benefiting from the abovementioned Two-Invoice System and updated medical insurance catalog, Tongfang Pharmaceutical aims to strive for growth to a new higher level. On the sales front, Tongfang Pharmaceutical has appointed external sales agency to accurately capture the direction of national policies to promote market expansion. In parallel with deepening and solidifying its existing key markets, Tongfang Pharmaceutical has been awarded tenders in the provinces resuming tendering activities, which have laid a foundation for the sustainable and rapid growth in the future. Besides business expansion, Tongfang Pharmaceutical also upholds the philosophy of fairness, strictness, trustworthiness and lawfulness in its operation; due payment of taxes and contribution to the society, and as a result, it was recognised and awarded grade-A tax credit by the local government in Yanqing District, Beijing.

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

Shaanxi Life Care is principally engaged in business in the Chinese medicine-related fields, including the planting, manufacturing and distribution of Chinese medicines and operating a production facility in Baoji, Shaanxi. For the year ended 31 December 2017, it recorded an operating revenue of RMB64.3 million, representing an increase of 14.6% from RMB56.1 million for 2016. Gross profit for the year ended 31 December 2017 amounted to RMB24.3 million, representing an increase of 67.6% from RMB14.5 million for 2016.

In 2017, Shaanxi Life Care continues to focus on financial management by implementing micro management measures. On the sales front, benefiting from the abovementioned Two-Invoice System and updated medical insurance catalog, Shaanxi Life Care pursues innovative and unique marketing model, enabling it to gain a foothold among competitors in the Chinese medicine market.

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

Chongqing Kangle is principally engaged in the research and development, production and sales of Active Pharmaceutical Ingredients (“API”) and intermediate API in Chongqing Changshou Chemical Industrial Park. For the year ended 31 December 2017, it recorded an operating revenue of RMB45.1 million, representing a decrease of 24.8% from RMB60.0 million for 2016. Gross profit for the year ended 31 December 2017 amounted to RMB7.1 million, representing a decrease of 34.3% from RMB10.8 million for 2016.

The performance of Chongqing Kangle for the first half of 2017 was impacted by the external environment, with its foreign trade business showing a significant decline as compared to 2016. Furthermore, sales to individual key customers in the PRC were terminated due to various reasons including restructuring and adjustments in quality standards. Chongqing Kangle has conducted an analysis on its current condition from market, production, quality and other perspectives, and has also taken corresponding measures, which included exploring new customer base, verification and registration of new products, etc. Such measures have yielded excellent results. For instance, in respect of Hydroxychloroquine Sulfate API which approval was pending for years, written approval and GMP certificate were granted by Chongqing Food and Drug Administration; the initial launch of the products will take place in early 2018. Meanwhile, the construction of Phase II has reached the completion and closing stage, and this newly built plant will commence operation in the first quarter of 2018. Thus, it is envisaged that the performance of Chongqing Kangle will achieve a turnaround in 2018 and become an important contributor to the Group’s results.

4. SPF (Beijing) Biotechnology Co., Ltd. (斯貝福(北京)生物技術有限公司) ("SPF")*

SPF is principally engaged in the supply of standardised laboratory animals and animal indigenous raw materials. For the year ended 31 December 2017, it recorded an operating revenue of RMB34.5 million, representing an increase of 31.2% from RMB26.3 million for 2016. Gross profit for the year ended 31 December 2017 amounted to RMB14.8 million, representing an increase of 52.6% from RMB9.7 million for 2016.

After years of efforts, SPF is now one of the leaders in the laboratory animal industry in the PRC. Going forward, it is the strategy of SPF to capitalise on its existing resources and expand its business outreach. It will take advantage of its strengths in technology, product and capital, and focus on laboratory animals and animal indigenous drugs to achieve fast expansion and build a business layout regarding peripheral services and products.

In 2017, Tongfang Pharmaceutical continued its effort in developing a full value-chain biopharmaceutical enterprise. Based on its focused and innovation-driven strategy, it has made every effort to enhance the value of every segment, every product and every customer of the existing chemical generic medicine, Chinese medicine and other businesses using its internal resources and market and customer development. It has also taken aggressive attempts in product and business model innovation in order to lay a foundation for sustainable development in the future.

Fitness Business

The global fitness industry continued to grow in 2016. According to the International Health, Racquet and Sportsclub Association ("IHRSA") Global Report 2017, the total industry revenue reached an estimated US$83.1 billion, as roughly 200,000 clubs served 162 million members worldwide. Leading markets in North America, Europe and Asia continued to grow.

The Asia-Pacific, home to nearly half of the world's population, is the world's largest potential market for the health club and fitness industry. At present, it serves 17 million members at 31,000 health clubs across 14 markets (excluding the Middle East), where the industry revenue totals US$14.4 billion in the region. The IHRSA Asia-Pacific Health Club Report shows the regional market remains largely untapped. Larger cities in Asia, including Beijing, Shanghai, Kuala Lumpur and Jakarta, are home to maturing industries, while future growth is anticipated in growing cities as well as the Asia-Pacific.

The implications of the above are immense as Asia-Pacific will be the world's largest consumer of health and fitness services as its membership penetration rate moves closer to those of developed economies, where a small increase of the membership penetration rate will translate to a sizeable opportunity for local and emerging players. Combined with exceptional demand dynamics, the currently low penetration rates and sizable population will present a rare growth opportunity to capitalise on a yet unpenetrated market.

The Group's revenue in its fitness business segment for the year since the completion of the Acquisition was HK$229.1 million, which was attributable to (i) operation of fitness and wellness groups comprising mainly fitness, yoga, spa and aesthetics groups in Singapore and PRC; and (ii) royalty fee income and service fee income in relation to fitness and health activities in Taiwan.

The Singapore operation currently includes 8 fitness and yoga centres operating under the brand name of True Fitness. In addition to these clubs, the Singapore operation also operates a yoga centre.

The Singapore market has the highest penetration among the population in Asia with over 4.8% of the population being members of a fitness centre. The Group has opened a new express club in the year to cater for the increasingly health awareness. This new concept club has an average size of 4,000 to 5,000 sq ft and charges a lower monthly fee as compared to the mainstream clubs.

Cement Business

For the year ended 31 December 2017, the Group's revenue generated from the cement business amounted to HK$761.5 million (2016: HK$508.8 million), representing an increase of 49.7% as compared to last year. The increase in revenue from the cement business was mainly attributable to higher average selling prices and sales volume of the Group's cement products as compared to last year driven by the recovery of the cement market in the PRC. For the year ended 31 December 2017, the sales volume of the Group's cement and clinker was approximately 2,601,000 tons (2016: 2,318,000 tons), representing an increase of 12.2% as compared to last year. Notwithstanding an increase in revenue from the cement business, write-off of fixed assets and other receivables and the increase in research and development expenses have hugely reduced the contribution of the cement business to the Group as compared to last year.

The Group's subsidiaries engaging in the cement business will continue to follow the philosophy of innovation to forge ahead with innovation in management and operation. They will also enhance their corporate culture, continue to strengthen their technological innovation and explore potential in all respects.

Financial Review

Liquidity and Financing

On 22 December 2014, additional shares of the Company were issued in an open offer (the "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 this 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 2017 were mainly funded by cash generated from its operations and loans from principal bankers and third parties.

As at 31 December 2017, the Group maintained bank balances and cash reserves of approximately HK$415.0 million (2016: HK$1,027.4 million), including cash and cash equivalents of approximately HK$381.5 million and pledged bank deposits of approximately HK$33.5 million (2016: cash and cash equivalents of approximately HK$581.1 million, pledged bank deposits of approximately HK$421.4 million, time deposits with original maturity between 4 to 12 months of approximately HK$22.3 million and restricted bank deposit of approximately HK$2.5 million).

As at 31 December 2017, the Group had outstanding borrowings of approximately HK$629.5 million repayable within one year (2016: HK$916.3 million) and outstanding borrowings of approximately HK$175.5 million repayable after one year (2016: HK$163.1 million). The Group's outstanding borrowings were denominated in Hong Kong dollars ("HK$"), Renminbi ("RMB"), United States dollars ("USD") and Singapore dollars ("SGD") as to 47.2%, 52.3%, 0.3% and 0.2%, respectively. Around 78.2% of the Group's outstanding borrowings were charged with interest at floating rates while the remainder were at fixed rates.

The gearing ratio (total borrowings over total assets) of the Group as at 31 December 2017 was as follows:

	2017	2016
	HK$'000	*HK$'000*
Total borrowings	**805,002**	1,079,441
Total assets	**3,444,210**	3,154,191
Gearing ratio	**23.4%**	34.2%

As at 31 December 2017, a balance amounting to HK$158.6 million (2016: HK$147.7 million) were included in the amounts due from other related parties, which represent the provision of entrusted loans 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 26 May 2017.

Financial Management and Policy

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

Risk of Foreign Exchange Fluctuation

The Group's operations are mainly located in the PRC and Singapore and most of its transactions, related working capital and borrowings are denominated in RMB, SGD, USD and HK$. The Group closely monitors such foreign exchange exposure and will consider hedging significant currency exposure if necessary. However, since the Group's consolidated financial statements are presented in HK$ which is different from its functional currency, it is inevitable that the Group would face foreign exchange exposure, whether positive or negative, from translating the accounts to its presentation currency.

Pledge of Assets

At the end of the reporting period, certain of the Group's buildings and structures with carrying amount of HK$155.3 million (2016: HK$106.0 million), plant and machinery with carrying amount of HK$54.3 million (2016: Nil), prepaid lease payments on land use rights with carrying amount of HK$99.5 million (2016: HK$45.7 million), an exchange rate linked structured deposits with carrying value of HK$24.0 million (2016: HK$22.4 million) together with bank deposits of HK$35.8 million (2016: HK$421.4 million) were pledged to secure bank loans to the extent of HK$249.8 million (2016: HK$502.8 million) granted to the Group, short-term bank facilities in respect of the issuance of bills payable to suppliers amounting to HK$100.0 million (2016: HK$98.8 million) and finance lease of HK$3.4 million (2016: Nil).

Material Acquisitions

On 6 May 2017, the Company, as guarantor, and Fester Global Limited ("Fester Global"), a direct wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement with each of Active Gains Universal Limited and Active Yield Investment Limited (collectively, the "Vendors"), and Mr. Patrick John Wee Ewe Seng, as warrantor, pursuant to which Fester Global has conditionally agreed to purchase, and the respective Vendors have conditionally agreed to sell 51% shareholding in TFKT True Holdings and 29% shareholding in True Yoga Holdings Limited, respectively for the consideration in an aggregate sum of US$36,720,000. The completion of the above acquisition took place on 29 May 2017. Details of the transaction were set out in the announcements of the Company dated 6 May 2017, 11 May 2017 and 29 May 2017, respectively and the circular of the Company dated 28 July 2017.

Material Capital Commitments and Investments

As announced by the Company on 15 February 2012, Shanghai Allied Cement Co., Ltd ("Shanghai SAC") entered into the《關於建設「白龍港項目」合作協議》(Bailonggang Project Construction Cooperation Agreement*) and the《關於設立合資公司(原則)協議》(Agreement in Principle for the Establishment of the Joint Venture Company*) on 13 February 2012 with Shanghai Building Material, a state-owned enterprise, for the purpose of setting up a joint venture company (the "JV Company") to operate and manage the development of new cement production facilities at Bailonggang, Pudong, Shanghai (the "Bailonggang Project") after the relevant government approvals for the Bailonggang Project being obtained. The setting up of the JV Company constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The 50% share of registered capital of the JV Company amounting to RMB400 million (equivalent to approximately HK$480.0 million (2016: HK$446.9 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$456.0 million (2016: HK$424.6 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 2017, Shanghai SAC has settled the first installment of the total consideration under the three respective agreements in an aggregate amount of RMB68.3 million (2016: RMB68.3 million) (equivalent to approximately HK$82.0 million (2016: HK$76.3 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.

Event after the End of the Reporting Period

On 23 January 2018, the Group and THTF Energy-Saving Holdings Limited (the "Subscriber") entered into a subscription agreement pursuant to which the Subscriber conditionally agreed to subscribe and the Company conditionally agreed to allot and issue 400,000,000 shares of the Company at a price of HK$0.5 per share.

On 23 January 2018, the Group also entered into a sale and purchase agreement with 深圳市世奧萬運投資有限公司 (Shenzhen Shiao Wan Yun Investment Co. Ltd.*) and Sea Best Group Limited (collectively as the "Vendors") for the acquisition of remaining 40% equity interest in Tongfang Pharmaceutical, at a total consideration of RMB200,000,000 (equivalent to approximately HK$243,902,439), of which (i) RMB100,000,000 (equivalent to approximately HK$121,951,220) shall be satisfied in cash and (ii) RMB100,000,000 (equivalent to approximately HK$121,951,220) shall be satisfied by the issue of 243,863,777 shares of the Company to the Vendors at the price of HK$0.5 per share.

The completion of the transaction is subject to the fulfilment of certain conditions, which includes, among others, the receipt of the "Overseas Investment Certificate" by PRC Enterprises* (企業境外投資證書) from the relevant PRC regulatory authority and the passing of an ordinary resolution by the independent shareholders of the Company at its extraordinary general meeting to approve the issue of 243,863,777 of the Company's shares as settlement of part of the consideration of the acquisition (the "EGM"). On 16 March 2018, the EGM was held and the resolution was approved. The Company will make further announcement upon completion.

Employees

As at 31 December 2017, the Group had 2,118 (2016: 1,064) employees. The Group maintains a policy of paying competitive remuneration packages and employees are also rewarded salary and bonus on a performance related basis. In addition, share options and awarded shares may be granted to eligible employees pursuant to the terms of the share option scheme and the Share Award Scheme, respectively. The purpose of the schemes is to provide incentives to the selected employees to contribute to the Group and to enable the Group to recruit and retain high-calibre employees, and attract and retain human resources that are valuable to the Group.

OUTLOOK

Medical, Pharmaceutical and Health Business

Under the dual impact of the regulatory and economic environment, the competitive landscape, operating mode and other material aspects of the PRC pharmaceutical industry will be greatly affected. The changes in policies and regulations bring direct challenges to the Group's capabilities in funding, research and development, management and adaptability to changes. Tongfang Pharmaceutical will capture the direction of the policies and grasp opportunities arising from such reforms. As an overall strategy, Tongfang Pharmaceutical will focus on front-line markets, further leverage its own strengths, reinforce internal management and take the lead in individual market segments. Leveraging on its own unique advantages and adopting a scientific management approach, Tongfang Pharmaceutical will create greater value for its shareholders and the society as a whole.

Fitness Business

In 2017, various competitors have opened new fitness clubs in response to the steady and strong demand driven by the increasing awareness of a healthy lifestyle. In particular, there is a foreseeable strong growth potential for fitness centers in urban city areas in the PRC amid the increasing recognition and demand. Many chain fitness clubs are looking to expand their presence in the key cities such as Beijing, Shanghai and Guangzhou. The growing fitness trend has also led to the emergency of many new concepts and small scale fitness studio concepts which provide small group training classes for groups of 8 to 20 people. The growth of these small scale fitness studios strengthen the awareness of fitness as many of these studios are located in shopping malls and on main street and prime locations in the cities.

The Group plans to engage a social media marketing company to help build the brand by utilizing various social media platforms. The management will also identify locations for flagship clubs in PRC's major cities and potential locations for franchised clubs in each city, followed by the identification for acquisition chain clubs in the second and third-tier cities of the PRC. The Group will also explore on the possibilities of taking over and rebranding existing clubs and fitness centres in residential developments. In addition, the Group with the likelihood of setting up fitness centres in industrial parks in view of the demand from the operators, either by way of franchising or by managing the respective fitness centres of the corporates in the industrial parks.

Cement Business

As cement is a raw material and bulk commodity, the cement industry is by nature subject and closely related to macro-economic cycles and fluctuations in fixed assets investment. In recent years, the PRC has been pushing forward the supply-side reform for industries with overproduction, such as iron and steel, coal, electrolytic aluminium and cement industries, thereby greatly changing their fundamentals. With general decreases in both supply and demand, cement market equilibrium in the PRC restored recently. Nonetheless, the equilibrium was short-lived as investment in fixed assets is declining. Due to the growing concern about environmental protection issues, the PRC environmental regulatory framework will become increasingly stringent. The cement industry in the PRC may have to bear additional expenses on environmental issues for compliance purposes. The Group must consider the direction to tackle such challenges.

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 (the "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 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 funding the development of and/or investment in pharmaceutical and health business.

As at 31 December 2017, all 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 Tongfang Pharmaceutical completed in July 2016;

(ii) as to approximately HK$36.8 million in the investment in medical research with a focus in immunology and small molecule in August 2016; and

(iii) as to approximately HK$111.6 million in the settlement of part of the consideration for the acquisition of 51% and 29% of the issued share capital in TFKT True Holdings and True Yoga Holdings Limited, respectively completed in May 2017.

DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "2018 AGM") is scheduled to be held on Wednesday, 6 June 2018. For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Thursday, 31 May 2018 to Wednesday, 6 June 2018 (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 2018 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 Wednesday, 30 May 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company had applied the principles of, and complied with, all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017.

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 2017 (the "2017 Annual Report"), which will be despatched to the Shareholders in April 2018.

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 2017.

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 2017 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 2017, 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 as adopted on 20 September 2016 purchased on the Stock Exchange a total of 6,756,000 shares of the Company at an aggregated consideration of HK$3,483,240 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 2017 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 2017 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 2017 to be included in the 2017 Annual Report.

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

Hong Kong, 28 March 2018

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

* *For identification purpose only*