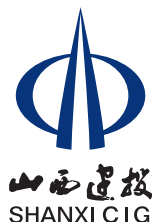


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華控康泰集團有限公司

Kontafarma China Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the “Board”) of directors (the “Directors”) of Kontafarma China 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 2022 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000 (Re-presented)
Continuing operations			
Revenue	3	894,062	803,267
Cost of sales and services		<u>(387,841)</u>	<u>(407,091)</u>
Gross profit		506,221	396,176
Other income	4	37,928	74,596
Other gains and losses		4,907	24,456
Impairment losses under expected credit loss model, net of reversal		(55,718)	(24,942)
Distribution and selling expenses		(443,355)	(329,155)
Administrative expenses		(115,331)	(127,655)
Other expenses		(29,110)	(34,331)
Finance costs		<u>(23,278)</u>	<u>(33,610)</u>
Loss before taxation		(117,736)	(54,465)
Taxation	5	<u>7,992</u>	<u>(1,830)</u>
Loss for the year from continuing operations	6	<u>(109,744)</u>	<u>(56,295)</u>
Discontinued operation			
Profit for the year from discontinued operation		<u>56,942</u>	<u>51,742</u>
Loss for the year		<u>(52,802)</u>	<u>(4,553)</u>

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Re-presented)
Other comprehensive (expense) income:		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation to presentation currency	(55,991)	16,871
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	<u>(2,114)</u>	<u>2,936</u>
Other comprehensive (expense) income for the year, net of tax	<u>(58,105)</u>	<u>19,807</u>
Total comprehensive (expense) income for the year	<u><u>(110,907)</u></u>	<u><u>15,254</u></u>
(Loss) profit for the year attributable to:		
Owners of the Company		
— from continuing operations	(84,878)	(47,713)
— from discontinued operation	<u>43,332</u>	<u>32,665</u>
	<u>(41,546)</u>	<u>(15,048)</u>
Non-controlling interests		
— from continuing operations	(24,866)	(8,582)
— from discontinued operation	<u>13,610</u>	<u>19,077</u>
	<u>(11,256)</u>	<u>10,495</u>
Loss for the year	<u><u>(52,802)</u></u>	<u><u>(4,553)</u></u>

	<i>Note</i>	2022 HK\$'000	2021 <i>HK\$'000</i> (Re-presented)
Total comprehensive (expense) income for the year attributable to:			
— Owners of the Company		(90,911)	217
— Non-controlling interests		(19,996)	15,037
		(110,907)	15,254
(Loss)/earnings per share	7	HK cent	HK cent (Re-presented)
Basic			
— from continuing operations		(1.52)	(0.86)
— from discontinued operation		0.78	0.59
		(0.74)	(0.27)
Diluted			
— from continuing operations		N/A	(0.86)
— from discontinued operation		N/A	0.59
		N/A	(0.27)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022 HK\$'000	2021 HK\$'000
Non-current assets			
Property, plant and equipment		382,158	520,681
Right-of-use assets		419,007	589,242
Investment properties		41,911	4,704
Goodwill		301,257	358,782
Intangible assets		267,902	277,795
Interest in an associate		—	—
Deferred tax assets		162	232
Rental deposits		17,652	25,747
Contract costs		892	908
		<u>1,430,941</u>	<u>1,778,091</u>
Current assets			
Biological assets		—	17,044
Inventories		111,736	112,146
Trade receivables	9	123,644	139,946
Contract costs		5,536	5,048
Other receivables, deposits and prepayments		73,114	75,632
Other investments		20,000	16,000
Amounts due from intermediate holding companies		1,021	290
Amount due from an associate		139,222	145,803
Amounts due from other related parties		92,634	94,608
Restricted bank deposits		—	6,205
Cash and cash equivalents		122,595	167,962
		<u>689,502</u>	<u>780,684</u>

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current liabilities			
Trade and bills payables	<i>10</i>	21,398	39,269
Other payables and deposits received		133,084	119,905
Amount due to an intermediate holding company		—	2,446
Amounts due to other related parties		25,280	113,035
Tax liabilities		29,677	28,089
Bank borrowings due within one year		158,772	226,705
Deferred income		221	242
Contract liabilities		72,467	92,995
Lease liabilities		63,808	79,879
		<u>504,707</u>	<u>702,565</u>
Net current assets		<u>184,795</u>	<u>78,119</u>
Total assets less current liabilities		<u>1,615,736</u>	<u>1,856,210</u>
Capital and reserves			
Share capital		11,177	11,177
Share premium and reserves		1,089,930	1,180,841
Equity attributable to owners of the Company		1,101,107	1,192,018
Non-controlling interests		55,174	145,766
Total equity		<u>1,156,281</u>	<u>1,337,784</u>
Non-current liabilities			
Bank borrowings due after one year		103,153	17,097
Deferred taxation		55,143	67,257
Provision for reinstatement cost		13,336	14,252
Deferred income		22,834	14,550
Lease liabilities		264,989	405,270
		<u>459,455</u>	<u>518,426</u>
		<u>1,615,736</u>	<u>1,856,210</u>

Notes:

1. BASIS OF PREPARATION AND PRESENTATION

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 include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current year 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.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

An analysis of the Group's revenue for the year from continuing operations is as follows:

Continuing operations

	2022			2021		
	Pharmaceutical business HK\$'000	Fitness business HK\$'000	Total HK\$'000	Pharmaceutical business HK\$'000 (Re-presented)	Fitness Business HK\$'000	Total HK\$'000 (Re-presented)
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>						
Disaggregated by major products or services lines						
Manufacture and sales of prescription drugs	722,903	—	722,903	641,985	—	641,985
Operation of fitness centres and provision of consultation services for fitness and health activities						
— personal training classes	—	58,380	58,380	—	58,273	58,273
— membership packages	—	74,976	74,976	—	65,213	65,213
Royalty fee income in relation to fitness and health activities	—	37,803	37,803	—	37,796	37,796
Total	<u>722,903</u>	<u>171,159</u>	<u>894,062</u>	<u>641,985</u>	<u>161,282</u>	<u>803,267</u>
Timing of revenue recognition						
Point in time	722,903	58,380	781,283	641,985	58,273	700,258
Over time	—	112,779	112,779	—	103,009	103,009
Total	<u>722,903</u>	<u>171,159</u>	<u>894,062</u>	<u>641,985</u>	<u>161,282</u>	<u>803,267</u>
Geographical markets						
Mainland China	714,922	—	714,922	623,668	—	623,668
Singapore	—	133,356	133,356	—	123,486	123,486
Taiwan	974	37,803	38,777	691	37,796	38,487
Others	7,007	—	7,007	17,626	—	17,626
Total	<u>722,903</u>	<u>171,159</u>	<u>894,062</u>	<u>641,985</u>	<u>161,282</u>	<u>803,267</u>

Segment information

Information reported to the chief executive of the Company, being the chief operation decision maker (the “CODM”), for the purpose of resource allocation and assessment of segment performance, focuses on business units. During the year ended 31 December 2022, the Group disposed of its interests in SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福 (北京) 生物技術有限公司) (“SPF”) and its wholly-owned subsidiary, SPF (Suzhou) Biotechnology Co., Ltd.* (斯貝福 (蘇州) 生物技術有限公司) (collectively as “SPF Group”), subsidiaries in the pharmaceutical business segment which was presented as “discontinued operation”. The Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments. The following segment information of the Group’s business units does not include the discontinued operation. Prior year segment disclosures have been re-presented to conform with the current year’s presentation.

The Directors have chosen to organise the Group around differences in products and services. The Group is principally engaged in pharmaceutical and fitness business.

- Pharmaceutical business — manufacture and sales of prescription drugs.
- Fitness business — operate fitness centres and provide consultation services for fitness and health activities and operate the franchise business for royalty fee income.

The Group’s reportable segments are strategic business units that offer different products or services. They are managed separately because each business requires different technology and marketing strategies.

Segment revenue and results

The following is an analysis of the Group’s revenue and results from continuing operations by reportable and operating segments.

Continuing operations

	Pharmaceutical business		Fitness business		Total	
	2022	2021	2022	2021	2022	2021
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(Re-presented)				(Re-presented)	
Segment revenue from external customers	<u>722,903</u>	<u>641,985</u>	<u>171,159</u>	<u>161,282</u>	<u>894,062</u>	<u>803,267</u>
Segment results	8,349	10,667	(101,310)	(101,768)	(92,961)	(91,101)
Unallocated corporate income					4,708	79,040
Unallocated corporate expenses					<u>(29,483)</u>	<u>(42,404)</u>
Loss before taxation					<u>(117,736)</u>	<u>(54,465)</u>

The accounting policies of the operating segments are the same as the Group’s accounting policies. Segment results represent the profit earned by (loss from) each segment without allocation of certain corporate income and expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

There was no inter-segment sales during the years ended 31 December 2022 and 2021.

4. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Re-presented)
Continuing operations		
Interest income from banks	2,657	2,515
Interest income from intermediate holding company	1,066	—
Interest income from loan to an associate	795	395
Interest income from other investment	661	397
	<u>5,179</u>	<u>3,307</u>
Government grant and subsidy		
— release from deferred income	230	20
— related to expenses (<i>note i</i>)	8,009	6,987
— related to employment (<i>note ii</i>)	2,800	20,311
COVID-19-related rent concessions (<i>note iii</i>)	6,885	29,169
Rental income	1,603	757
Service income	1,044	334
Sundry income	12,178	13,711
	<u>37,928</u>	<u>74,596</u>

Note i: The amount represented financial subsidies received for compensating expenses already incurred or giving immediate financial support to the Group. There are no unfulfilled conditions or contingencies in relation to the grants and the grants were determined at the sole discretion of relevant government authorities.

Note ii: Government grant related to employment mainly arose from the Job Support Scheme (“JSS”) and Jobs Growth Incentive (“JGI”) introduced by the Singapore government in response to COVID-19 pandemic of approximately HK\$1,568,000 (2021: HK\$18,215,000). The JSS provided wage support to employers, helping enterprises retain their local employees (Singapore citizens and permanent residents). The JGI supports employers to expand local hiring. The Group has elected to present this government grant separately in profit or loss as “other income”, rather than reducing the related expense. There are no unfulfilled conditions or other contingencies attached to the receipts of those subsidies.

Note iii: The Group has negotiated with landlords to obtain the rental relief which the Group has elected to apply the practical expedient in HKFRS 16 by not assessing whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and derecognised the part of lease liabilities that have extinguished as negative variable lease payment in profit or loss.

5. TAXATION

Income tax has been recognised in profit or loss as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Re-presented)
Continuing operations		
Current tax		
— The People's Republic of China (the "PRC") Enterprise Income Tax	1,252	4,366
— Singapore Corporate Income Tax	—	(33)
— Taiwan Corporate Income Tax	5,722	5,669
	<u>6,974</u>	<u>10,002</u>
(Over) under provision in prior years		
— PRC Enterprise Income Tax	(3,937)	187
— Singapore Corporate Income Tax	—	(422)
	<u>(3,937)</u>	<u>(235)</u>
Deferred tax	<u>(11,029)</u>	<u>(7,937)</u>
	<u>(7,992)</u>	<u>1,830</u>

6. LOSS FOR THE YEAR

Loss for the year from continuing operations has been arrived at after charging (crediting):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Re-presented)
Continuing operations		
Staff costs (including Directors' and senior management's emoluments)		
—Salaries and other costs	148,537	148,608
—Retirement benefits scheme contributions	<u>15,045</u>	<u>15,012</u>
Total staff costs	163,582	163,620
Less: amounts capitalised in inventories	<u>(14,322)</u>	<u>(24,194)</u>
Total staff costs (included in cost of sales and services, distribution and selling expenses and administrative expenses)	<u><u>149,260</u></u>	<u><u>139,426</u></u>
Amortisation and depreciation		
—Amortisation of intangible assets (included in administrative expenses)	8,648	10,734
—Depreciation of investment properties (included in administrative expenses)	955	166
—Depreciation of right-of-use assets (included in cost of sales and services and administrative expenses)	76,524	86,401
—Depreciation of property, plant and equipment (included in cost of sales and services, distribution and selling expenses and administrative expenses)	<u>36,215</u>	<u>35,898</u>
Total amortisation and depreciation	<u><u>122,342</u></u>	<u><u>133,199</u></u>
Auditors' remuneration		
—Audit service	3,815	4,282
—Non-audit service	924	1,406
Cost of inventories recognised as expenses (including write down of inventories amounting to HK\$469,000 (2021: HK\$ Nil))	193,206	219,910
Net foreign exchange (gain) loss	(4,024)	2,902
Property rental income, net of negligible outgoing expenses	(1,603)	(757)
Impairment loss on goodwill (included in other gains or losses)	—	46,358
Research and development expenses (included in other expenses)	29,110	34,331
Sales promotion expenses (included in distribution and selling expenses)	428,680	313,178
Lease payments for low-value assets	108	563
Lease payments for short-term lease	<u><u>1,320</u></u>	<u><u>2,109</u></u>

7. (LOSS) EARNINGS PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Re-presented)
(Loss) profit for the year for the purposes of basic and diluted (loss) earnings per share attributable to owners of the Company		
— from continuing operations	(84,878)	(47,713)
— from discontinued operation	43,332	32,665
	<u>(41,546)</u>	<u>(15,048)</u>
	2022 <i>Shares</i>	2021 <i>Shares</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<u>5,578,713,777</u>	<u>5,578,713,777</u>

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

No diluted (loss) earnings per share is presented for the year ended 31 December 2022 as there was no potential ordinary share in issue for the year ended 31 December 2022. The computation of the diluted (loss) earnings per share for the year ended 31 December 2021 does not assume the exercise of the Company’s share options as the exercise price of those options was higher than the average market price for shares.

8. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil). No dividend was declared or paid by the Company during the year ended 31 December 2022 (2021: Nil).

9. TRADE RECEIVABLES

Other than the trade receivables in relation to the payment to be settled through credit cards for customers in fitness business, the Group has a policy of allowing its trade customers credit periods normally from 30 to 180 days. The aged analysis of trade receivables, net of allowance for credit losses, is presented based on the invoice date at the end of the reporting period as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 90 days	79,150	85,918
91 to 180 days	33,925	25,617
181 to 365 days	7,004	21,791
Over 1 year	3,565	6,620
	123,644	139,946

As at 31 December 2022, included in total trade receivables are bills receivable amounting to HK\$1,504,000 (2021: HK\$6,364,000) held by the Group for future settlement of trade payables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills receivables are with a maturity period of less than one year.

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 90 days	9,879	16,262
91 to 180 days	8,565	17,021
181 to 365 days	598	687
Over 1 year	2,356	5,299
	21,398	39,269

The credit period on purchases of goods and services is 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2022, the Group's continuing operations mainly included (i) manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines in the PRC; and (ii) operating of fitness centres and provision of consultation services for fitness and health activities, and operating of franchise business for royalty fee income.

The Group was engaged in the business of sales of laboratory related products. Such business was disposed of by the Group on 29 July 2022 and presented as discontinued operation for the year ended 31 December 2022, and the comparative figures for the year ended 31 December 2021 have been re-presented accordingly.

Financial Results

Continuing Operations

For the year ended 31 December 2022, the Group's revenue and gross profit amounted to approximately HK\$894.1 million and HK\$506.2 million (2021: approximately HK\$803.3 million and HK\$396.2 million) respectively, representing an increase of approximately 11.3% and 27.8% respectively as compared with last year. The increase in revenue and gross profit was mainly due to the following reasons:

- For the pharmaceutical business segment, Tongfang Pharmaceutical Group Co., Ltd* (同方藥業集團有限公司) ("Tongfang Pharmaceutical") has not experienced failure of a major product supplier in making timely delivery of production materials in 2022, whereas Tongfang Pharmaceutical encountered such failure in 2021 which led to negative impact on its sales in respect of such year; and
- The fitness business segment has gradually improved by overcoming the impact of COVID-19 pandemic.

The Group's net loss for the year ended 31 December 2022 was approximately HK\$109.7 million (2021: approximately HK\$56.3 million), representing an increase in loss of approximately HK\$53.4 million as compared to the corresponding period in 2021. Basic loss per share was approximately HK\$1.52 cents (2021: approximately HK\$0.86 cents). The increase in net loss was mainly due to the following factors which offset the increase in revenue and gross profit:

- In respect of the pharmaceutical business segment, the Group's distribution and selling expenses increased as compared with last year due to market expansion;
- For the fitness business segment, government grants and subsidies relating to COVID-19 pandemic that the Group received have decreased as compared with last year, and expected credit losses on receivables increased as compared with last year; and

— The Group recorded a one-off gain of approximately HK\$51.4 million from the disposal of a subsidiary in 2021.

Discontinued Operation

SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福 (北京) 生物技術有限公司) (“SPF”) and its wholly-owned subsidiary, SPF (Suzhou) Biotechnology Co., Ltd.* (斯貝福 (蘇州) 生物技術有限公司) (collectively as “SPF Group”), are principally engaged in the sales of laboratory related products. On 6 April 2022, Tongfang Pharmaceutical, a wholly-owned subsidiary of the Company (as the vendor), Shenzhen Warranty Asset Management Co., Ltd.* (深圳市華融泰資產管理有限公司) (“Shenzhen Warranty”), a controlling shareholder of the Company (as the purchaser) and SPF entered into an equity transfer agreement, pursuant to which Tongfang Pharmaceutical sold 55.43% equity interest in SPF held by it to Shenzhen Warranty. Such transaction was duly passed by the independent shareholders of the Company by way of poll at the extraordinary general meeting held on 20 June 2022.

On 29 July 2022, the SPF Group was disposed of and presented as discontinued operation for the year ended 31 December 2022 and the comparatives for the year ended 31 December 2021 have been re-presented accordingly.

Business Review

Continuing Operations

Pharmaceutical Business

In 2022, the revenue and gross profit of the Group’s pharmaceutical business both increased, which is mainly due to that Tongfang Pharmaceutical has not experienced failure of a major product supplier in making timely delivery of production materials in 2022. This favorable change was offset by the fact that certain pharmaceutical business subsidiaries of the Group were unable to fully recover from the impact of the COVID-19 pandemic and regional extreme weather.

1. Tongfang Pharmaceutical

Tongfang Pharmaceutical is principally engaged in the production and sales of chemical generic drugs. It has a preparation workshop covering 30,000 square meters in Yanqing District, Beijing. Its key products are prescription drugs and its therapeutic areas mainly include drugs for local anesthesia and gynecological purposes. In 2022, its revenue amounted to approximately RMB453.5 million (2021: approximately RMB329.6 million), representing an increase of approximately 37.6% as compared to last year; gross profit amounted to approximately RMB412.4 million in 2022 (2021: approximately RMB294.9 million), representing a growth of approximately 39.8% as compared to last year.

The products of Tongfang Pharmaceutical are mainly targeted at hospitals at all levels in China. The outbreak of the COVID-19 pandemic in 2020 had a greater impact on Tongfang Pharmaceutical. With the improvement of the COVID-19 pandemic situation in Mainland China in 2022, the overall operation of Tongfang Pharmaceutical returned to normal level and the terminal market was also gradually recovering. In 2022, Tongfang Pharmaceutical has not experienced failure of a major product supplier in making timely delivery of production materials as in the previous year, therefore both the operating revenue and gross profit increased as compared with the corresponding period of last year.

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 the business of Chinese medicine related fields, including the manufacturing and distribution of Chinese medicines and the operation of production facilities in Baoji City, Shaanxi. Shaanxi Life Care recorded a revenue of approximately RMB62.3 million in 2022 (2021: approximately RMB66.6 million), representing a drop of approximately 6.5% as compared to last year; gross profit amounted to approximately RMB26.8 million in 2022 (2021: approximately RMB31.1 million), representing a decrease of approximately 13.8% as compared to last year.

In 2022, Shaanxi Life Care was not able to fully recover from the impact of the COVID-19 pandemic. At the same time, it was affected by unfavorable factors such as rising raw material prices, resulting in a year-on-year decrease in its revenue and profitability. With the slow recovery of the terminal sales market of Shaanxi Life Care and the rapid increase in costs, this has brought certain challenges to the future development of the new production base in Hi-tech Industrial Development District, Baoji City, Shaanxi Province, the PRC* (中國陝西省寶雞市高新技術產業開發區), which is being developed by the Group.

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 API intermediates in Chongqing Changshou Chemical Industrial Park. In 2022, Chongqing Kangle recorded a revenue of approximately RMB117.2 million (2021: approximately RMB145.2 million), representing a decrease of approximately 19.3% as compared to last year; gross profit amounted to approximately RMB29.6 million in 2022 (2021: approximately RMB47.8 million), representing a drop of approximately 38.1% as compared to last year.

In 2022, Chongqing Kangle successively experienced rising raw material prices, regional power supply shortage caused by the impact of local extreme weather, and the peak of COVID-19 infection at the end of 2022, which had a periodic negative impact on the annual results. In 2023, with the improvement of the COVID-19 pandemic situation in Mainland China, the performance of Chongqing Kangle will gradually recover with the word-of-mouth reputation of its products in the terminal sales market.

Fitness Business

The revenue of the Group’s fitness business for the year ended 31 December 2022 was approximately HK\$171.2 million (including royalty fee income of approximately HK\$37.8 million) representing an increase of approximately 6.1% as compared to HK\$161.3 million (including royalty fee income of approximately HK\$37.8 million) last year. The net loss for the year was approximately HK\$46.0 million (2021: HK\$26.4 million).

Since the easing of restrictions from the end of April 2022 in Singapore, the Group focused on building back its sales team and operations in preparation of recovery of the fitness industry. The Group’s fitness business finally saw a clear improvement in membership acquisition from October 2022, which is also reflected in the increase in revenue for the year, whereas the net loss of Group’s fitness business widens which is primarily attributable to the significant drop in government grants and subsidies and landlords’ rental rebates as compared to the previous year.

We pay close attention to the market trend and adjust operation strategies accordingly. In December 2022, we have launched our premium yoga brand named “Yoga Edition” in Singapore to attract yoga practitioners and to increase focus on mental well-being, as we believe that more people tend to focus on mental and physical wellness after the COVID-19 pandemic.

The Group's fitness business keeps customer experience as top priority all the time. In 2022, we continued our digitalization efforts, embarked on virtual membership cards, revamped APP and refreshed our website. We will continue to invest in and enhance our technology capability, and the key development for 2023 is to further upgrade our existing proprietary APP with more features to enhance our customer experience.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the year ended 31 December 2022 were mainly funded by cash generated from its operations and loans from principal bankers.

As at 31 December 2022, the Group maintained bank balances and cash reserves of approximately HK\$122.6 million (2021: approximately HK\$174.2 million), including cash and cash equivalents of approximately HK\$122.6 million (2021: approximately HK\$168.0 million) and pledged and restricted bank deposits of nil (2021: approximately HK\$6.2 million).

As at 31 December 2022, the Group had outstanding borrowings repayable within one year of approximately HK\$158.8 million and outstanding borrowings repayable after one year of approximately HK\$103.2 million (2021: approximately HK\$226.7 million and HK\$17.1 million). As at 31 December 2022, approximately 86.8% of the Group's outstanding borrowings were denominated in Renminbi ("RMB") and approximately 13.2% in Singapore dollars ("SGD"). Approximately 6.6% 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 2022 was as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total borrowings	<u>261,925</u>	<u>243,802</u>
Total assets	<u>2,120,443</u>	<u>2,558,775</u>
Gearing ratio	<u>12.4%</u>	<u>9.5%</u>

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 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, United States dollar ("US\$") and HK\$. The Group closely monitors such foreign exchange exposure and will consider hedging significant currency exposure if necessary. However, since the Group's consolidated financial statements are presented in HK\$ which is different from its functional currency, the Group would inevitably face foreign exchange exposure, whether positive or negative, arising from translating the accounts to its presentation currency.

Pledge of Assets

As at 31 December 2022, the Group's bank borrowings of HK\$206,555,000 (2021: HK\$167,046,000) and lease liabilities of HK\$661,000 (2021: HK\$4,776,000) were secured by the following:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Buildings and structures	81,558	98,586
Investment property	37,760	—
Right-of-use assets	32,945	24,563
Construction in progress	136,843	—
Trade receivables	—	20,123
Bank balance	112	889
	<u>289,218</u>	<u>144,161</u>

Material Capital Commitments and Investments

The Group had the following capital commitments:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments contracted for but not provided in the consolidated financial statements:		
— Acquisition of property, plant and equipment	<u>93,075</u>	<u>118,572</u>

Employees

As at 31 December 2022, the Group had 922 (2021: 1,305) 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 (which was expired on 17 January 2022) and the share award scheme of the Company, 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

Pharmaceutical Business

The outbreak of the COVID-19 pandemic in 2020 took a heavy toll on China's economy and crippled the pharmaceutical industry as well. The performance of the Group's pharmaceutical business segment has also been affected and fluctuated. In 2022, the Group's pharmaceutical business has successively experienced adverse impacts such as extreme weather in some regions and the peak of COVID-19 infections, but with the Group's operational resilience, it has achieved business growth.

As the negative impact of the COVID-19 pandemic subsides rapidly, China's pharmaceutical industry will usher in new development opportunities. On the one hand, the Group will focus on the development of its existing advantageous chemical generic medicine and API industries, and on the other hand, it will pay close attention to the investment opportunities in emerging sub-sectors, and strive to extend its business reach to a wider range of areas, so as to bring better long-term returns to the shareholders.

Fitness Business

When the safe distancing has been no longer required and capacity limit has been lifted in Singapore since end of April 2022, the Group's fitness business did not see a clear trend of recovery in new membership sign-ups till the last quarter of 2022, during which period we ended the financial year of 2022 with the greatest number of new membership acquisition since the COVID-19 pandemic.

As the COVID-19 pandemic comes to an end, we believe that more joiners will flood back to fitness centres in the coming year. Though we have much to do to catch up on the lost memberships due to COVID-19 pandemic, we are confident that the upward trend of new membership acquisition will continue in 2023. The Group is well prepared to play a key role to embrace the recovery of the fitness industry in 2023.

DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2022 (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the “2023 AGM”) is scheduled to be held on Friday, 9 June 2023. For determining the entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Monday, 5 June 2023 to Friday, 9 June 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order for a Shareholder to be eligible to attend and vote at the 2023 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 2 June 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2022, the Company has applied the principles of, and complied with, all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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 2022 (the “2022 Annual Report”).

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the annual results for the year ended 31 December 2022 contained herein.

SCOPE OF WORK OF BDO LIMITED

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 2022 as set out in this announcement have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited 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 BDO Limited on this announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

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

The 2022 Annual Report 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.kontafarma.com.hk>) in due course. The audited consolidated results of the Group for the year ended 31 December 2022 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 2022 to be included in the 2022 Annual Report.

PROPOSED AMENDMENT TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

The Board proposes to amend the existing memorandum and articles of association of the Company (the "Memorandum and Articles of Association") for the purposes of providing that the Shareholders may by ordinary resolution, rather than a special resolution, to remove the Company's auditor (the "Proposed Amendment") in order to conform to the Core Shareholder Protection Standards set out in Appendix 3 of the Listing Rules. In view of the Proposed Amendment, the Board proposes that a new Memorandum and Articles of Association incorporating the Proposed Amendment be adopted as the third amended and restated Memorandum and Articles of Association in substitution for, and to the exclusion of, the existing Memorandum and Articles of Association. The Proposed Amendment is subject to the approval of the Shareholders by way of special resolution at the 2023 AGM.

A circular containing, among others, the Proposed Amendment together with a notice convening the 2023 AGM will be despatched to the Shareholders in due course.

By order of the Board
Kontafarma China Holdings Limited
Bai Pingyan
Chairman

Hong Kong, 24 March 2023

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

* *For identification purpose only*