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同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “Board”) of Tongfang Kontafarma Holdings Limited (the “Company”) announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022 with the comparative figures for the corresponding period in 2021 are as follows. The interim financial results of the Group for the six months ended 30 June 2022 have not been audited, but have been reviewed by the audit committee of the Company (the “Audit Committee”) and by the auditor of the Company, BDO Limited.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
			(Re-presented)
Continuing operations			
Revenue	6	451,085	385,056
Cost of sales and services		(183,610)	(196,416)
Gross profit		267,475	188,640
Other income		14,719	33,619
Other gains and losses		(973)	(42,059)
Impairment losses recognised under expected credit loss model, net		(33,665)	(15,985)
Distribution and selling expenses		(234,213)	(155,887)
Administrative expenses		(62,386)	(65,923)
Other expenses		(9,110)	(20,091)
Finance costs		(12,339)	(16,840)
Loss before taxation		(70,492)	(94,526)
Taxation	7	3,022	556
Loss for the period from continuing operations	8	(67,470)	(93,970)

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

For the six months ended 30 June 2022

		Six months ended 30 June	
	<i>NOTE</i>	2022	2021
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
			(Re-presented)
Discontinued operation			
Profit for the period from discontinued operation	9	<u>32,384</u>	<u>20,806</u>
Loss for the period		(35,086)	(73,164)
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		(29,005)	9,855
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		<u>5,841</u>	<u>2,492</u>
Other comprehensive (expense) income for the period		<u>(23,164)</u>	<u>12,347</u>
Total comprehensive expense for the period		<u>(58,250)</u>	<u>(60,817)</u>
(Loss) profit for the period attributable to:			
Owners of the Company			
— from continuing operations		(51,154)	(89,182)
— from discontinued operation		<u>19,976</u>	<u>13,679</u>
		(31,178)	(75,503)
Non-controlling interests			
— from continuing operations		(16,316)	(4,788)
— from discontinued operation		<u>12,408</u>	<u>7,127</u>
		(3,908)	2,339
Total loss for the period		<u>(35,086)</u>	<u>(73,164)</u>

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

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited) (Re-presented)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(49,010)	(65,973)
Non-controlling interests		(9,240)	5,156
		<u>(58,250)</u>	<u>5,156</u>
		<u>(58,250)</u>	<u>(60,817)</u>
		<i>HK cent</i>	<i>HK cent</i> (Re-presented)
 (Loss) earnings per share			
	<i>10</i>		
Basic			
— from continuing operations		(0.92)	(1.60)
— from discontinued operation		0.36	0.25
		<u>(0.56)</u>	<u>0.25</u>
		<u>(0.56)</u>	<u>(1.35)</u>
 Diluted			
— from continuing operations		N/A	(1.60)
— from discontinued operation		N/A	0.25
		<u>N/A</u>	<u>0.25</u>
		<u>N/A</u>	<u>(1.35)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		At 30 June 2022	At 31 December 2021
<i>NOTES</i>		<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		415,842	520,681
Right-of-use assets		486,096	589,242
Investment properties		4,416	4,704
Goodwill		302,353	358,782
Intangible assets		277,399	277,795
Interest in an associate		—	—
Deferred tax assets		169	232
Rental deposits		22,479	25,747
Contract costs		629	908
		1,509,383	1,778,091
Current assets			
Biological assets		—	17,044
Inventories		114,378	112,146
Trade receivables	12	118,550	139,946
Contract costs		4,686	5,048
Other receivables, deposits and prepayments		50,491	75,632
Other investments		20,000	16,000
Amounts due from intermediate holding companies		19	290
Amount due from an associate		128,228	145,803
Amounts due from other related parties		93,913	94,608
Restricted bank deposits		6,911	6,205
Cash and cash equivalents		133,178	167,962
		670,354	780,684
Assets classified as held-for-sale	5	279,358	—
		949,712	780,684

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
At 30 June 2022

	<i>NOTES</i>	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Current liabilities			
Trade and bills payables	13	26,622	39,269
Other payables and deposits received		123,302	119,905
Amount due to an intermediate holding company		74,684	2,446
Amounts due to other related parties		104,603	113,035
Tax liabilities		27,563	28,089
Bank borrowings due within one year		175,539	226,705
Deferred income		231	242
Contract liabilities		76,917	92,995
Lease liabilities		71,431	79,879
		<u>680,892</u>	<u>702,565</u>
Liabilities directly associated with assets classified as held-for-sale	5	62,296	—
		<u>743,188</u>	<u>702,565</u>
Net current assets		<u>206,524</u>	<u>78,119</u>
Total assets less current liabilities		<u>1,715,907</u>	<u>1,856,210</u>
Capital and reserves			
Share capital		11,177	11,177
Share premium and reserves		1,131,831	1,180,841
Equity attributable to owners of the Company		1,143,008	1,192,018
Non-controlling interests		136,526	145,766
Total equity		<u>1,279,534</u>	<u>1,337,784</u>
Non-current liabilities			
Bank borrowings due after one year		24,914	17,097
Deferred taxation		60,883	67,257
Provision for reinstatement cost		12,509	14,252
Deferred income		23,967	14,550
Lease liabilities		314,100	405,270
		<u>436,373</u>	<u>518,426</u>
		<u>1,715,907</u>	<u>1,856,210</u>

Notes:

(1) Review by auditor

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

(2) Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2021 annual report.

(3) Significant events

In current period, the Group had the following significant events:

On 26 April 2022, the Singapore government announced the relaxation of Safe Management Measures and opening up of the border, there is no more capacity control in the fitness centres since then. However, certain restrictive measures are still effective for Taiwan. Both Singapore and Taiwan continued to experience surges in COVID-19 cases which led to low traffic and slow pick-up of revenue during the interim period. In this regard, the Group has negotiated and received rent forgiveness related to COVID-19 from lessors.

Despite the rent forgiveness received from lessors and certain government grant received from Job Support Scheme and Jobs Growth Incentive, the lasting impact of COVID-19 pandemic had led to significant loss of the Group’s fitness business segment. With the lifting of COVID-19 restriction by the end of April 2022 in Singapore, it is anticipated that the Group’s fitness business will recover gradually over a relatively long period.

On 6 April 2022, Tongfang Pharmaceutical Group Co., Ltd.* (同方藥業集團有限公司) (“Tongfang Pharmaceutical”), a wholly-owned subsidiary of the Company, Shenzhen Waranty Asset Management Co., Ltd.* (深圳市華融泰資產管理有限公司) (“Shenzhen Waranty”), a controlling shareholder of the Company and SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福(北京)生物技術有限公司) (“SPF”) entered into the equity transfer agreement, pursuant to which Tongfang Pharmaceutical has conditionally agreed to sell, and Shenzhen Waranty has conditionally agreed to purchase the sale share, representing 55.43% equity interest in SPF. The carrying amount of 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, the “SPF Group”) will be recovered principally through sale rather than through continuing use. As the disposal has not been completed at the end of the reporting period and the SPF Group represents a separate major line of business of the Group, the Group classified the SPF Group’s assets and liabilities directly associated with those assets as held for sale, and the results of the SPF Group as discontinued operation. For details, please refer to Note 5 and Note 9 respectively.

(4) Principal accounting policies

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for biological assets which are measured at fair value less costs to sell.

Other than accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the annual financial statements of the Group for the year ended 31 December 2021.

Application of amendments to HKFRSs

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

Amendments to HKFRS 3	Reference to 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 cycle

The application of the amendments to HKFRSs in the current period had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

(5) Disposal group classified as held-for-sale

On 6 April 2022, Tongfang Pharmaceutical, Shenzhen Waranty and SPF entered into the equity transfer agreement, pursuant to which Tongfang Pharmaceutical has conditionally agreed to sell, and Shenzhen Waranty has conditionally agreed to purchase the sale share, representing 55.43% equity interest in SPF, at the cash consideration of RMB159,675,300 (equivalent to approximately HK\$186,711,000). Details of the transaction were set out in the announcement of the Company dated 6 April 2022 and circular of the Company dated 26 May 2022, respectively.

Completion of the transaction shall be conditional upon the independent shareholders having approved the equity transfer agreement and the transaction, and the completion of the required procedures for the transfer of the sale share of SPF. On 20 June 2022, the equity transfer agreement and the transaction have been approved by independent shareholders in extraordinary general meeting. On 29 July 2022, the SPF Group was disposed of and an estimated gain on disposal of HK\$42,339,000 is expected to be recognised in profit or loss.

As the carrying amounts of the SPF Group will be recovered principally through a sale transaction rather than through continuing use and the sale is highly probable, assets and liabilities belonging to the SPF Group, including but not limited to property, plant and equipment, right-of-use assets, goodwill, biological assets, inventories, trade and other receivables, cash and cash equivalents, trade and other payables, bank borrowings, contract liabilities and lease liabilities, are classified to “assets classified as held-for-sale” and “liabilities directly associated with assets classified as held-for-sale” as below, and the results of the SPF Group has been presented as “discontinued operation” (see Note 9).

The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities attributable to owners of the Company, and accordingly, no impairment loss has been recognised.

	At 30 June 2022 HK\$'000 (Unaudited)
Assets classified as held-for-sale	<u><u>279,358</u></u>
Liabilities directly associated with assets classified as held-for-sale	<u><u>(62,296)</u></u>

(6) Revenue and segment information

Disaggregation of revenue from contracts with customers

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

Continuing operations

	For the six months ended 30 June 2022			For the six months ended 30 June 2021		
	Pharmaceutical business HK\$'000 (Unaudited)	Fitness business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Pharmaceutical business HK\$'000 (Unaudited) (Re-presented)	Fitness business HK\$'000 (Unaudited) (Re-presented)	Total HK\$'000 (Unaudited) (Re-presented)
Revenue from contracts with customers within the scope of HKFRS 15						
Disaggregated by major products or service lines						
Manufacture and sales of prescription drugs	370,379	—	370,379	306,701	—	306,701
Operation of fitness centres and provision of consultation services for fitness and health activities						
— personal training classes	—	29,258	29,258	—	29,818	29,818
— membership packages	—	32,624	32,624	—	26,465	26,465
Royalty fee income in relation to fitness and health activities	—	18,824	18,824	—	22,072	22,072
Total	<u>370,379</u>	<u>80,706</u>	<u>451,085</u>	<u>306,701</u>	<u>78,355</u>	<u>385,056</u>
Timing of revenue recognition						
Point in time	370,379	29,258	399,637	306,701	29,818	336,519
Over time	—	51,448	51,448	—	48,537	48,537
Total	<u>370,379</u>	<u>80,706</u>	<u>451,085</u>	<u>306,701</u>	<u>78,355</u>	<u>385,056</u>
Geographical markets						
Mainland China	365,167	—	365,167	295,612	—	295,612
Singapore	—	61,882	61,882	—	56,283	56,283
Taiwan	—	18,824	18,824	—	22,072	22,072
Others	5,212	—	5,212	11,089	—	11,089
Total	<u>370,379</u>	<u>80,706</u>	<u>451,085</u>	<u>306,701</u>	<u>78,355</u>	<u>385,056</u>

Segment information

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on business units. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group. The Group has following operating and reportable segments from continuing operations:

- 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.

Segment revenue and results

Analysis of the Group's segment revenue and results from continuing operations for the six months ended 30 June 2022 and 2021 is as follows:

Continuing operations

	Pharmaceutical business		Fitness business		Total	
	2022	2021	2022	2021	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Re-presented)				(Re-presented)
Segment revenue from external customers	<u>370,379</u>	<u>306,701</u>	<u>80,706</u>	<u>78,355</u>	<u>451,085</u>	<u>385,056</u>
Segment results	7,979	2,868	(64,188)	(90,368)	(56,209)	(87,500)
Unallocated corporate income					1,379	5,477
Unallocated corporate expenses					<u>(15,662)</u>	<u>(12,503)</u>
Loss before taxation					<u>(70,492)</u>	<u>(94,526)</u>

There was no inter-segment sales during the six months ended 30 June 2022 and 2021. 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. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(7) Taxation

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Re-presented)
Continuing operations		
The charge (credit) comprises:		
Current tax		
— People's Republic of China (the "PRC")		
Enterprise Income Tax	1,189	2,240
— Taiwan Corporate Income Tax	2,824	3,311
	<u>4,013</u>	<u>5,551</u>
Under (over) provision in prior years		
— PRC Enterprise Income Tax	—	186
— Singapore Corporate Income Tax	15	(458)
	<u>15</u>	<u>(272)</u>
Deferred tax	<u>(7,050)</u>	<u>(5,835)</u>
	<u><u>(3,022)</u></u>	<u><u>(556)</u></u>

(8) Loss for the period

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Re-presented)
Continuing operations		
Loss for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in administrative expenses)	5,061	5,381
Depreciation of investment properties (included in administrative expenses)	83	83
Depreciation of property, plant and equipment (included in cost of sales and services, distribution and selling expenses and administrative expenses)	19,639	15,913
Depreciation of right-of-use assets (included in cost of sales and services and administrative expenses)	40,254	42,134
Total amortisation and depreciation	<u>65,037</u>	<u>63,511</u>
Cost of inventories recognised as expenses	86,469	90,596
Net loss on disposal and write-off of property, plant and equipment	1,589	2
Net foreign exchange loss (gain)	3,738	(2,457)
Research and development expenses (included in other expenses)	9,110	20,091
Sales promotion expenses (included in distribution and selling expenses)	226,824	147,194
Property rental income, net of negligible outgoing expenses	(279)	(353)
Lease payments for short-term leases and low-value assets	263	30
Impairment loss on goodwill (included in other gains and losses)	—	(46,358)

(9) Discontinued operation

Upon SPF Group being classified as disposal group held-for-sale as detailed in Note 5, management presented the results of the SPF Group that forms part of the pharmaceutical business segment as discontinued operation under HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” as the operation of the SPF Group represents a major line of business of the Group.

Analysis of the results of the discontinued operation:

	Six months ended 30 June	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Revenue	98,261	73,136
Expenses	<u>(63,229)</u>	<u>(52,582)</u>
Profit before taxation	35,032	20,554
Taxation	<u>(2,648)</u>	<u>252</u>
Profit for the period from discontinued operation	<u>32,384</u>	<u>20,806</u>
Operating cash (outflows) inflows	(11,925)	11,883
Investing cash outflows	(19,134)	(15,289)
Financing cash inflows	<u>11,671</u>	<u>14,712</u>
Net cash (outflows) inflows	<u><u>(19,388)</u></u>	<u><u>11,306</u></u>

For the purpose of presenting the discontinued operation, certain comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income and the related notes have been restated to present the results of the disposal group as discontinued operation to conform to the current period presentation.

(10) (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:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Re-presented)
(Loss) profit for the purposes of basic and diluted (loss) earnings per share attributable to owners of the Company		
— from continuing operations	(51,154)	(89,182)
— from discontinued operation	19,976	13,679
	<u>(31,178)</u>	<u>(75,503)</u>
	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
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 for the share award scheme.

No diluted (loss) earnings per share is presented for the six months ended 30 June 2022 as there was no potential ordinary share in issue for the six months ended 30 June 2022. The computation of the diluted (loss) earnings per share for the six months ended 30 June 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.

(11) Dividend

No dividend was paid, declared or proposed during the current period (2021: Nil).

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (2021: Nil).

(12) Trade receivables

Other than the trade receivables in relation to the payment to be settled through credit cards for customers in fitness business, the Group has a policy of allowing credit periods for its trade customers normally from 30 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:

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
0 to 90 days	59,787	85,918
91 to 180 days	35,815	25,617
181 to 365 days	14,727	21,791
Over 1 year	8,221	6,620
	<u>118,550</u>	<u>139,946</u>

(13) Trade and bills payables

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

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
0 to 90 days	10,779	16,262
91 to 180 days	12,768	17,021
181 to 365 days	685	687
Over 1 year	2,390	5,299
	<u>26,622</u>	<u>39,269</u>

(14) Contingencies

As at 30 June 2022 and up to the date of this announcement, the Group had the following contingent liabilities arising from incidents as disclosed in the 2021 audited consolidated financial statements of the Company and relevant announcements in the current and prior period.

- (a) In August 2019, the Company was served a writ of summons filed by Mr. Patrick John Wee Ewe Seng (“Mr. PJW”) and Active Gains Universal Limited (“Active Gains”) as the plaintiffs against the Company and Fester Global Limited (“Fester Global”), a wholly-owned subsidiary of the Company, as the defendants, under High Court Action No. 1469/2019 in the High Court of Hong Kong (the “2019 Legal Proceedings”) regarding certain arrangements under the sale and purchase agreement of acquisition for the 51% equity interest in TFKT True Holdings (“True Cayman”) (the “SPA”). The Group has been vigorously defending and opposing the plaintiffs’ claims. In January 2021, the Group has enforced its right under a share charge agreement since Active Gains had failed to compensate the Group in respect of the profit guarantee shortfalls for the financial years of 2017 and 2018 under the SPA. 10,000 shares in True Cayman charged in favour of Fester Global were transferred to Fester Global as partial settlement of the amounts due and payable under the profit guarantee arrangement. Subsequently, the Group issued a Counterclaim against the plaintiffs to recover the balance of the profit guarantee shortfalls for the financial years of 2017 and 2018, and in response, the plaintiffs filed their Amended Reply, Defence to Counterclaim and Counterclaim to Counterclaim. On 4 January 2022, the Company and Fester Global filed (a) Re-Amended Defence and Counterclaim and (b) Rejoinder to Amended Reply and Reply to Defence to Counterclaim and Defence to Counterclaim to Counterclaim. The 2019 Legal Proceedings are still at a preliminary stage and the date of trial has not been fixed up to the date of this announcement. Based on the opinion of the management of the Company after seeking legal advice and considering the latest development, the possibility of any significant economic outflow in relation to the 2019 Legal Proceedings is remote.
- (b) In March 2021, Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) (“Chongqing Kangle”), a non-wholly owned subsidiary of the Company, received a court summons* (傳票) attaching a statement of civil claim* (民事起訴狀) (the “Shanghai Legal Proceedings”) from the Shanghai Xuhui District People’s Court* (上海市徐匯區人民法院) (“Xuhui District Court”) in relation to the claim made by Shanghai Haixin Pharmaceutical Co., Ltd.* (上海海欣醫藥股份有限公司) (“Shanghai Haixin”) against Chongqing Kangle as defendant for the alleged non-performance of a cooperation agreement on project for Hydroxychloroquine Sulfate* (硫酸羥氯喹項目合作協議) signed on 19 May 2011 between Chongqing Kangle and Shanghai Haixin (the “Cooperation Agreement”). Shanghai Haixin sought for a court order to terminate the Cooperation Agreement, and claimed against Chongqing Kangle for the damages in the amount of RMB49,000,000 and the costs incurred in connection with the Shanghai Legal Proceedings. Chongqing Kangle had engaged lawyers and intended to vigorously defend Shanghai Haixin’s claims. On 25 November 2021, the Xuhui District Court added Xi’an Haixin Pharmaceutical Co., Ltd.* (西安海欣製藥有限公司) (“Xi’an Haixin”), a related party of Shanghai Haixin, as additional plaintiff to the Shanghai Legal Proceedings. All parties to the proceedings exchanged evidence online and expressed their views on examination of evidence on 21 January 2022.

Pursuant to a civil mediation agreement* (民事調解書) (the “Civil Mediation Agreement”) issued by the Xuhui District Court on 24 June 2022, Chongqing Kangle, Shanghai Haixin and Xi’an Haixin have reached settlement in respect of the Shanghai Legal Proceedings through mediation conducted by the Xuhui District Court. According to the Civil Mediation Agreement, it is agreed that (i) the Shanghai Legal Proceedings shall be settled; (ii) Chongqing Kangle shall sell the active pharmaceutical ingredients Hydroxychloroquine Sulfate to Xi’an Haixin, and Xi’an Haixin shall make payment to Chongqing Kangle for such products provided; and (iii) Shanghai Haixin and Xi’an Haixin shall dismiss all the claims against Chongqing Kangle under the Shanghai Legal Proceedings, including the discharge of all freezing, seizure and attachment of assets under the Shanghai Legal Proceedings, and shall waive any future claim arising out of the Cooperation Agreement.

As at the date of this announcement, the parties have complied with the terms of the Civil Mediation Agreement, and all freezing, seizure and attachment of assets of Chongqing Kangle under the Shanghai Legal Proceedings have been discharged.

- (c) As part of the Group’s further actions to seek compensation from Active Gains and Mr. PJW under the profit guarantee arrangement of the SPA, in March 2022, a concurrent writ of summons with statement of claim (the “Writ”) was served on Active Gains and Mr. PJW (collectively as the “Defendants”), outside Hong Kong pursuant to the leave granted by the High Court of Hong Kong on 18 February 2022 for serving the Writ on the Defendants out of the jurisdiction of Hong Kong in relation to the legal action instituted by Fester Global, as the plaintiff, against the Defendants under the High Court Action No. 1942/2021 (the “2021 Legal Proceedings”). Fester Global’s claims under the 2021 Legal Proceedings are related to the breaches of the SPA by Active Gains and Mr. PJW, and the breaches of the shareholders’ agreement (the “SHA”) dated 29 May 2017 entered into among Fester Global, Active Gains and True Cayman by Active Gains. Details of Fester Global’s claims against Active Gains are disclosed in the Company’s announcement dated 25 March 2022.

Active Gains and Mr. PJW have filed and served a Defence and Counterclaim on 20 July 2022, pursuant to which Active Gains counterclaimed for (i) a declaration that True Cayman is subject to trade sale as of 31 March 2020 pursuant to the SHA, (ii) specific performance of clauses 11.2 and 11.5 of the SHA, specifically the appointment of an appointed valuer (as defined under clause 11.3 of the SHA), and (iii) relevant damages for breach of the above provisions.

The 2021 Legal Proceedings are still at a preliminary stage and the date of trial has not been fixed up to the date of this announcement. Based on the opinion of the management of the Company after seeking legal advice and considering the latest development, the possibility of any significant economic outflow in relation to the 2021 Legal Proceedings is remote.

Except for the above, the Group did not have any material contingent liabilities as at 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 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.

As at 30 June 2022, the Group's sales of laboratory related products business has been classified as discontinued operation, and its respective assets and liabilities have been classified as "assets classified as held-for-sale" and "liabilities directly associated with assets classified as held-for-sale", respectively, and the comparatives for the six months ended 30 June 2021 have been re-presented as discontinued operation accordingly. For details, please refer to the "Discontinued Operation" section below.

Financial Results

Continuing Operations

For the six months ended 30 June 2022, the Group's revenue and gross profit of approximately HK\$451.1 million and HK\$267.5 million (2021: HK\$385.1 million and HK\$188.6 million) increased by 17.1% and 41.8% respectively as compared to the corresponding period of 2021. The increase in revenue and gross profit were mainly attributable to the following reasons:

- In 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 the first half of 2022, whereas Tongfang Pharmaceutical encountered such failure in the first half of 2021 which led to negative impact on its sales in respect of such period; and
- In the fitness business segment, the increase in revenue and gross profit resulted from social distancing restrictions in Singapore being uplifted since the end of April 2022 which, to a certain extent, offset the decrease in royalty fee income in Taiwan region caused by the outbreak of pandemic.

For the six months ended 30 June 2022, the Group's net loss was HK\$67.5 million (2021: HK\$94.0 million), representing a narrowing of loss by HK\$26.5 million as compared with the corresponding period of 2021. Basic loss per share was HK\$0.92 cents (2021: HK\$1.60 cents).

Apart from the aforesaid increase in revenue and gross profit, the narrowing of net loss of the Group was mainly attributable to no further impairment on the goodwill having been made for the fitness business segment of the Group in the first half of 2022, as compared to the impairment loss on goodwill of approximately HK\$46.4 million recognised in the corresponding period of 2021, and such positive impact offset the increase in the expected credit loss on receivables for the fitness business.

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, the “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, 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 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 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 six months ended 30 June 2022 and the comparatives for the six months ended 30 June 2021 have been re-presented accordingly. As at 30 June 2022, the SPF Group’s assets and liabilities have been classified as “assets classified as held-for-sale” and “liabilities directly associated with assets classified as held-for-sale”, respectively.

For the six months ended 30 June 2022, the revenue and net profit of the Group’s discontinued operation was HK\$98.3 million (2021: HK\$73.1 million) and HK\$32.4 million (2021: HK\$20.8 million), representing an increase of 34.4% and 55.6% respectively as compared to the corresponding period of 2021.

Business Review

Pharmaceutical Business

The revenue of the Group’s pharmaceutical business for the six months ended 30 June 2022 was HK\$370.4 million (2021: HK\$306.7 million), representing an increase of 20.8% as compared to the corresponding period of 2021. The net profit for the six months ended 30 June 2022 was HK\$6.7 million (2021: HK\$0.4 million), representing an increase of 1,575% as compared to the corresponding period of 2021. The substantial increase in net profit was mainly attributable to that Tongfang Pharmaceutical has not experienced failure of a major product supplier in making timely delivery of production materials in

the first half of 2022, whereas Tongfang Pharmaceutical encountered such failure in the first half of 2021 which led to negative impact on its performance in respect of such period.

In the first half of 2022, there was an occasional outbreak of COVID-19 cases in Mainland China, and the cost of some raw materials rose. The Group's pharmaceutical business weathered such challenges by quickly taking countermeasures to minimise the impact of unfavorable factors and achieve an improvement in its performance.

1. Tongfang Pharmaceutical

Tongfang Pharmaceutical is principally engaged in the production and sales of chemical generic drugs. It has a preparation workshop of 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 the first half of 2022, its revenue amounted to RMB231.3 million, representing an increase of 44.5% as compared with RMB160.1 million in the same period in 2021; gross profit amounted to RMB211.8 million in the first half of 2022, representing a growth of 48.6% as compared with RMB142.5 million in the same period in 2021.

Products of Tongfang Pharmaceutical are mainly targeted at hospitals of all levels in Mainland China, in 2022, with the accumulation of experience in the prevention and control of the COVID-19 pandemic in Mainland China, the end market was generally stable. Although Tongfang Pharmaceutical was affected by the rebound of the COVID-19 pandemic in certain periods and regions, its overall operation was good. In the first half of 2022, the failure of major product suppliers to supply products in a timely manner, which was encountered in the last year, did not occur, and Tongfang Pharmaceutical has achieved favorable results in the promotion of new products and the exploration of new cooperation models.

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

Shaanxi Life Care is principally engaged in business of the Chinese medicine-related fields, including the manufacturing and distribution of Chinese medicines and operating a production facility in Baoji, Shaanxi. Shaanxi Life Care achieved revenue of RMB27.3 million in the first half of 2022, representing a decrease of 19.2% as compared with the revenue of RMB33.8 million in the same period in 2021, and achieved a gross profit of RMB12.1 million in the first half of 2022, representing a decrease of 21.4% as compared with the gross profit of RMB15.4 million in the same period in 2021.

In the first half of 2022, Shaanxi Life Care was affected by the COVID-19 pandemic, resulting in a year-on-year decrease in sales revenue, and at the same time, due to the rising raw material prices, the gross profit was also unsatisfactory.

Shaanxi Unisplendour Hi-tech Pharmaceutical Co., Ltd.* (陝西紫光高新藥業有限公司), a wholly-owned subsidiary of Shaanxi Life Care, has made all efforts in building its new production base in the hi-tech industrial development area in Baoji, Shaanxi Province, China, which targets to solve the production capacity issue that restricts the development of Shaanxi Life Care. The existing resources will be revitalized to the maximum extent for creating higher value for shareholders of the Company.

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 API and intermediate API in Chongqing Changshou Chemical Industrial Park. Chongqing Kangle recorded revenue of RMB52.6 million in the first half of 2022, representing a decrease of 20.7% as compared with the revenue of RMB66.3 million in the same period of 2021; its gross profit for the first half of 2022 amounted to RMB15.7 million, representing a decrease of 31.4% as compared with the gross profit of RMB22.9 million in the same period of 2021.

In the first half of 2022, the sales performance of Chongqing Kangle was unsatisfactory due to the dual impact of the COVID-19 pandemic and rising raw material prices. In the second half of 2022, Chongqing Kangle will vigorously expand the market, improve its risk response capability and strive to improve the unfavorable situation.

Fitness Business

The revenue of the Group’s fitness business for the six months ended 30 June 2022 was approximately HK\$80.7 million (2021: HK\$78.4 million) which includes a franchise income of approximately HK\$18.8 million (2021: HK\$22.1 million). The net loss for the six months ended 30 June 2022 was approximately HK\$59.9 million (2021: HK\$87.3 million).

The Group’s fitness business continued to face pressure in the first half of 2022 as the resurgence of COVID-19 cases in both Singapore and Taiwan led to low traffic and slow pick-up of sales. As part of the strategies of cost-cutting and efficiency improvement, we closed one club when the lease expired in March 2022 to streamline our members to the rest of the clubs.

On 26 April 2022, the Singapore government announced the relaxation of Safe Management Measures and the open-up of the borders. After such announcement, there is no longer capacity control on our gyms in Singapore. Without the social distancing restrictions, we will firmly execute our plans to regain the members we lost during the COVID-19 pandemic.

During this period of recovery, other than boosting sales and regaining members, we will explore sources of funding to ease capital pressure, continue to impose stringent cost control measures and drive the efficiency of the Group's fitness business as a whole.

Discontinued Operation

On 29 July 2022, the SPF Group was disposed of and presented as discontinued operation for the six months ended 30 June 2022 and the comparatives for the six months ended 30 June 2021 have been re-presented accordingly. As at 30 June 2022, the SPF Group's assets and liabilities have been classified as "assets classified as held-for-sale" and "liabilities directly associated with assets classified as held-for-sale", respectively.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the six months ended 30 June 2022 were mainly funded by cash generated from its operations and loans from principal bankers.

As at 30 June 2022, the Group maintained bank balances and cash reserves of approximately HK\$140.1 million (31 December 2021: HK\$174.2 million), including cash and cash equivalents of approximately HK\$133.2 million (31 December 2021: HK\$168.0 million) and restricted bank deposits of approximately HK\$6.9 million (31 December 2021: HK\$6.2 million).

As at 30 June 2022, the Group had outstanding borrowings repayable within one year of approximately HK\$175.5 million and HK\$24.9 million repayable after one year (31 December 2021: HK\$226.7 million repayable within one year and HK\$17.1 million repayable after one year), excluding borrowings repayable within one year of approximately HK\$25.6 million, which were classified as "liabilities directly associated with assets classified as held-for-sale". As at 30 June 2022, 81.5% of the Group's outstanding borrowings, excluding the borrowings classified as "liabilities directly associated with assets classified as held-for-sale", were denominated in Renminbi ("RMB") and 18.5% in Singapore dollars ("SGD"). All of the Group's outstanding borrowings were charged at fixed rates.

The gearing ratio (total borrowings over total assets) of the Group as at 30 June 2022 was as follows:

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Total borrowings	<u>226,026</u>	<u>243,802</u>
Total assets	<u>2,459,095</u>	<u>2,558,775</u>
Gearing ratio	<u>9.2%</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 the current capital in financial products with significant risks.

Risk of Foreign Exchange Fluctuation

The Group's operations are mainly located in the PRC and Singapore and most of its transactions, related working capital and borrowings are denominated in RMB, SGD, United States dollar 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 functional currencies of most subsidiaries, the Group would inevitably face foreign exchange exposure, whether positive or negative, arising from translating the accounts to its presentation currency.

Pledge of Assets

As at 30 June 2022, the Group's bank borrowings of HK\$140,452,000 (31 December 2021: HK\$167,046,000) and lease liabilities of HK\$2,823,000 (31 December 2021: HK\$4,776,000) were secured by the following:

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Building and structures	86,308	98,586
Right-of-use assets	20,884	24,563
Trade receivables	18,955	20,123
Bank balance	1,371	889
	<u>127,518</u>	<u>144,161</u>

Material Capital Commitments and Investments

The Group had the following capital commitments:

	As at 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
Capital commitments contracted for but not provided in the interim condensed consolidated financial statements:		
— Acquisition of property, plant and equipment	<u>111,218</u>	<u>118,572</u>

Employees

As at 30 June 2022, the Group had 1,365 (31 December 2021: 1,305) employees. The staff costs (including Directors' emoluments and retirement benefits scheme contributions) of the Group's continuing operations and discontinued operation were approximately HK\$75,495,000 and HK\$9,707,000, respectively (30 June 2021: HK\$76,914,000 and HK\$5,311,000). 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 adopted by the Company from time to time and the share award scheme, respectively. The purposes of the schemes are to provide incentives to the selected employees to contribute to the Group, to enable the Group to recruit and retain high-calibre employees, and attract and retain human resources that are valuable to the Group.

OUTLOOK

Pharmaceutical Business

In the first half of 2022, there were occasional rebounds of the COVID-19 pandemic in Mainland China in certain periods and regions, which had a certain impact on the Group's pharmaceutical business. Nevertheless, the overall risks were manageable. The Group's pharmaceutical business has also accumulated experience in dealing with such situation. All employees of the Group's pharmaceutical business have always maintained a positive attitude, and strived to fully utilise their professional advantages in research and development of new products, market expansion, capacity upgrading, risk control, etc., and have continuously dived deep into and focused on existing resources to maximise the effective utilisation of assets. Meanwhile, the Group keeps actively exploring new business models, partners and new profit growth drivers. Hence, it is expected to perform better throughout the year.

Fitness Business

Since the end of April 2022, safe distancing has no longer been required and the capacity limit has been lifted in Singapore. However, the performance of the Group's fitness business has not been on the sure path to recovery. The pandemic has changed the fitness industry landscape over the past two-plus years. Brick-and-mortar gyms are struggling with the legacy of the pandemic, such as the explosion of online classes and the habits of at-home workouts. Virtual fitness has incomparable advantages in convenience and flexibility over gyms, while the amenities, professional in-person training and real-world social settings provided by the latter one are not replaceable. Therefore, the Group's fitness business will continue to improve its in-store experience and staff professionalism. Although some predicted that more fitness fans will come out as the

pandemic recedes, given the wave of infections in Singapore and Taiwan are still ongoing, the performance of the Group's fitness business in these two regions is expected to fluctuate in the near-term.

INTERIM DIVIDEND

The Board considers that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore does not recommend to declare an interim dividend for the six months ended 30 June 2022 (2021: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 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.

AUDIT COMMITTEE REVIEW

The Audit Committee, together with the Company's management team, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2022. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants as well as reports obtained from the Company's management. The Audit Committee has not undertaken detailed independent audit checks.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

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

The interim report of the Company for the six months ended 30 June 2022 (the “2022 Interim Report”) will be despatched to the shareholders of the Company and made available on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company’s website (<http://www.tfkf.com.hk>) in due course. The 2022 interim financial results set out above does not constitute the Company’s statutory financial statements for the six months ended 30 June 2022 to be included in the 2022 Interim Report.

By Order of the Board
Tongfang Kontafarma Holdings Limited
Bai Pingyan
Chairman

Hong Kong, 29 August 2022

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*