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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)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the “Board”) of directors (the “Directors”) of Kontafarma China 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 2023 with the comparative figures for the corresponding period in 2022 are as follows. The interim financial results of the Group for the six months ended 30 June 2023 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 2023

	NOTES	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Continuing operations			
Revenue	5	430,705	451,085
Cost of sales and services		<u>(183,427)</u>	<u>(183,610)</u>
Gross profit		247,278	267,475
Other income		15,378	14,719
Other gains and losses		109,259	(973)
Impairment losses recognised under expected credit loss model, net		(36,599)	(33,665)
Distribution and selling expenses		(216,049)	(234,213)
Administrative expenses		(55,229)	(62,386)
Other expenses		(13,638)	(9,110)
Finance costs		<u>(8,277)</u>	<u>(12,339)</u>
Profit (loss) before taxation		42,123	(70,492)
Taxation	6	<u>(20,745)</u>	<u>3,022</u>
Profit (loss) for the period from continuing operations	7	21,378	(67,470)

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

For the six months ended 30 June 2023

	<i>NOTE</i>	Six months ended 30 June 2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Discontinued operation			
Profit for the period from discontinued operation	8	—	32,384
Profit (loss) for the period		21,378	(35,086)
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		(23,593)	(29,005)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		3,174	5,841
Other comprehensive expense for the period		(20,419)	(23,164)
Total comprehensive income (expense) for the period		959	(58,250)
Profit (loss) for the period attributable to:			
Owners of the Company			
— from continuing operations		39,138	(51,154)
— from discontinued operation		—	19,976
		39,138	(31,178)
Non-controlling interests			
— from continuing operations		(17,760)	(16,316)
— from discontinued operation		—	12,408
		(17,760)	(3,908)
Total profit (loss) for the period		21,378	(35,086)

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

For the six months ended 30 June 2023

		Six months ended 30 June	
	<i>NOTE</i>	2023	2022
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		19,383	(49,010)
Non-controlling interests		(18,424)	(9,240)
		<u>959</u>	<u>(58,250)</u>
Total comprehensive income (expense) for the period attributable to owners of the Company			
— from continuing operations		19,383	(64,642)
— from discontinued operation		<u>—</u>	<u>15,632</u>
		<u>19,383</u>	<u>(49,010)</u>
		<i>HK cent</i>	<i>HK cent</i>
Earnings (loss) per share			
Basic			
— from continuing operations	9	0.70	(0.92)
— from discontinued operation		<u>—</u>	<u>0.36</u>
		<u>0.70</u>	<u>(0.56)</u>
Diluted			
— from continuing operations		N/A	N/A
— from discontinued operation		<u>N/A</u>	<u>N/A</u>
		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	At 30 June 2023	At 31 December 2022
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current assets		
Property, plant and equipment	237,209	382,158
Right-of-use assets	345,016	419,007
Investment properties	35,708	41,911
Goodwill	253,326	301,257
Intangible assets	257,932	267,902
Interest in an associate	—	—
Deferred tax assets	157	162
Rental deposits	12,592	17,652
Contract costs	1,479	892
	1,143,419	1,430,941
Current assets		
Inventories	99,768	111,736
Trade receivables	107,325	123,644
Contract costs	5,631	5,536
Other receivables, deposits and prepayments	76,580	73,114
Other investments	20,000	20,000
Amount due from an intermediate holding company	989	1,021
Amount due from an associate	129,129	139,222
Amounts due from other related parties	93,926	92,634
Cash and cash equivalents	150,606	122,595
	683,954	689,502

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
At 30 June 2023

		At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
	<i>NOTE</i>		
Current liabilities			
Trade payables	12	8,764	21,398
Other payables and deposits received		93,172	133,084
Amounts due to other related parties		7,049	25,280
Tax liabilities		55,311	29,677
Bank borrowings due within one year		69,037	158,772
Deferred income		215	221
Contract liabilities		85,612	72,467
Lease liabilities		59,365	63,808
		<u>378,525</u>	<u>504,707</u>
Net current assets		<u>305,429</u>	<u>184,795</u>
Total assets less current liabilities		<u>1,448,848</u>	<u>1,615,736</u>
Capital and reserves			
Share capital		11,177	11,177
Share premium and reserves		1,109,313	1,089,930
		<u>1,120,490</u>	<u>1,101,107</u>
Equity attributable to owners of the Company		20,051	55,174
Non-controlling interests		<u>20,051</u>	<u>55,174</u>
Total equity		<u>1,140,541</u>	<u>1,156,281</u>
Non-current liabilities			
Bank borrowings due after one year		16,214	103,153
Deferred taxation		45,043	55,143
Provision for reinstatement cost		11,815	13,336
Deferred income		1,073	22,834
Lease liabilities		234,162	264,989
		<u>308,307</u>	<u>459,455</u>
		<u>1,448,848</u>	<u>1,615,736</u>

Notes:

(1) Review by auditor

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023 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 2022 annual report.

(3) Significant event

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

On 13 April 2023, Tongfang Pharmaceutical Group Co., Ltd.* (同方藥業集團有限公司) (“Tongfang Pharmaceutical”), a wholly-owned subsidiary of the Company and Ping An Tsumura Inc.* (平安津村有限公司) (“Ping An Tsumura”), an independent third party entered into the equity transfer agreement, pursuant to which Tongfang Pharmaceutical conditionally agreed to sell, and Ping An Tsumura conditionally agreed to purchase the sale shares, representing 66% equity interest in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.* (陝西紫光辰濟藥業有限公司) (“Shaanxi Life Care”) at a consideration of RMB168,160,080 (equivalent to approximately HK\$192,425,000) (the “Transaction”). Upon completion, the Group ceased to have any beneficial interests in Shaanxi Life Care and its subsidiaries, namely Shaanxi Unisplendour Hi-tech Pharmaceutical Co., Ltd.* (陝西紫光高新藥業有限公司) and Shaanxi Daxingtang Pharmaceutical Logistics Co., Ltd.* (陝西達興堂醫藥物流有限公司) (collectively, “Shaanxi Life Care Group”). Shaanxi Life Care Group is principally engaged in manufacturing and sales of Chinese medicine products. The Transaction was completed on 9 May 2023. Details of the Transaction are set out in the Company’s announcement dated 13 April 2023 and circular dated 23 June 2023.

(4) Principal accounting policies

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Other than accounting policies resulting from application of new and 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 2023 are the same as those presented in the annual financial statements of the Group for the year ended 31 December 2022.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and 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 2023 for the preparation of the Group’s interim condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

The application of the new and 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) 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 2023			For the six months ended 30 June 2022		
	Pharmaceutical business HK\$'000 (Unaudited)	Fitness business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Pharmaceutical business HK\$'000 (Unaudited)	Fitness business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15						
Disaggregated by major products or service lines						
Manufacture and sales of prescription drugs	332,721	—	332,721	370,379	—	370,379
Operation of fitness centres and provision of consultation services for fitness and health activities						
— personal training classes	—	33,000	33,000	—	29,258	29,258
— membership packages	—	44,486	44,486	—	32,624	32,624
Royalty fee income in relation to fitness and health activities	—	20,498	20,498	—	18,824	18,824
Total	<u>332,721</u>	<u>97,984</u>	<u>430,705</u>	<u>370,379</u>	<u>80,706</u>	<u>451,085</u>
Timing of revenue recognition						
Point in time	332,721	33,000	365,721	370,379	29,258	399,637
Over time	—	64,984	64,984	—	51,448	51,448
Total	<u>332,721</u>	<u>97,984</u>	<u>430,705</u>	<u>370,379</u>	<u>80,706</u>	<u>451,085</u>
Geographical markets						
Mainland China	325,828	—	325,828	365,167	—	365,167
Singapore	—	77,486	77,486	—	61,882	61,882
Taiwan	—	20,498	20,498	—	18,824	18,824
Others	6,893	—	6,893	5,212	—	5,212
Total	<u>332,721</u>	<u>97,984</u>	<u>430,705</u>	<u>370,379</u>	<u>80,706</u>	<u>451,085</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 2023 and 2022 is as follows:

Continuing operations

	Pharmaceutical business		Fitness business		Total	
	2023	2022	2023	2022	2023	2022
	<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)
Segment revenue from external customers	<u>332,721</u>	<u>370,379</u>	<u>97,984</u>	<u>80,706</u>	<u>430,705</u>	<u>451,085</u>
Segment results (<i>note</i>)	108,475	7,979	(52,115)	(64,188)	56,360	(56,209)
Unallocated corporate income					1,384	1,379
Unallocated corporate expenses					<u>(15,621)</u>	<u>(15,662)</u>
Profit (loss) before taxation					<u>42,123</u>	<u>(70,492)</u>

Note: The segment results of pharmaceutical business included a gain on disposal of subsidiaries of approximately HK\$110,491,000 recognised in the consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2023.

There was no inter-segment sales during the six months ended 30 June 2023 and 2022. 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.

(6) Taxation

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
The charge (credit) comprises:		
Current tax		
— People's Republic of China (the "PRC")		
Enterprise Income Tax	21,856	1,189
Dividend Withholding Tax	2,825	—
— Taiwan Corporate Income Tax	3,075	2,824
	<u>27,756</u>	<u>4,013</u>
Under provision in prior years		
— Singapore Corporate Income Tax	—	15
	<u>—</u>	<u>15</u>
Deferred tax	<u>(7,011)</u>	<u>(7,050)</u>
	<u>20,745</u>	<u>(3,022)</u>

(7) Profit (loss) for the period

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Profit (loss) for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in administrative expenses)	3,482	5,061
Depreciation of investment properties (included in administrative expenses)	966	83
Depreciation of property, plant and equipment (included in cost of sales and services, distribution and selling expenses and administrative expenses)	19,580	19,639
Depreciation of right-of-use assets (included in cost of sales and services and administrative expenses)	33,752	40,254
Total amortisation and depreciation	<u>57,780</u>	<u>65,037</u>
Cost of inventories recognised as expenses	81,170	86,469
Net loss on disposal and write-off of property, plant and equipment	366	1,589
Net foreign exchange loss	871	3,738
Research and development expenses (included in other expenses)	13,638	9,110
Sales promotion expenses (included in distribution and selling expenses)	208,868	226,824
Property rental income, net of negligible outgoing expenses	(1,857)	(279)
Lease payments for short-term leases and low-value assets	<u>150</u>	<u>263</u>

(8) Discontinued operation

On 6 April 2022, 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 shares, representing 55.43% equity interest in SPF at consideration of RMB159,675,300 (subject to interest) (the “Disposal”).

The Disposal was approved by independent shareholders at the extraordinary general meeting on 20 June 2022 and completed on 29 July 2022. As at 30 June 2022, the carrying amounts of assets and liabilities 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”) would be recovered principally through a sale transaction rather than through continuing use, hence, assets and liabilities of the SPF Group had been classified as “assets classified as held-for-sale” and “liabilities directly associated with assets classified as held-for-sale” as at 30 June 2022 under HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (“HKFRS 5”), and the operation of the SPF Group which represented a major line of business of the Group constituted a discontinued operation under HKFRS 5. The results of the SPF Group had been presented under “discontinued operation” in the consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2022.

Analysis of the results of the discontinued operation:

	Six months ended 30 June 2022 <i>HK\$'000</i> (Unaudited)
Revenue	98,261
Expenses	<u>(63,229)</u>
Profit before taxation	35,032
Taxation	<u>(2,648)</u>
Profit for the period from discontinued operation	<u>32,384</u>
Operating cash outflows	(11,925)
Investing cash outflows	(19,134)
Financing cash inflows	<u>11,671</u>
Net cash outflows	<u><u>(19,388)</u></u>

(9) Earnings (loss) per share

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the purposes of basic and diluted earnings (loss) per share attributable to owners of the Company		
— from continuing operations	39,138	(51,154)
— from discontinued operation	—	19,976
	<u>39,138</u>	<u>(31,178)</u>
	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) 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 of the Company.

No diluted earnings (loss) per share is presented for the six months ended 30 June 2023 and 2022 as there was no potential ordinary share in issue for the six months ended 30 June 2023 and 2022.

(10) Dividend

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (2022: Nil). No dividend was paid, declared or proposed during the current period (2022: Nil).

(11) 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 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
0 to 90 days	72,030	79,150
91 to 180 days	26,294	33,925
181 to 365 days	5,533	7,004
Over 1 year	3,468	3,565
	<u>107,325</u>	<u>123,644</u>

(12) Trade payables

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

	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
0 to 90 days	6,389	9,879
91 to 180 days	115	8,565
181 to 365 days	6	598
Over 1 year	2,254	2,356
	<u>8,764</u>	<u>21,398</u>

(13) Contingencies

As at 30 June 2023 and up to date of issue of this announcement, the Group had the following contingent liabilities arising from incidents as disclosed in the 2022 audited consolidated financial statements of the Company and relevant announcements in the current and prior period.

- (a) On 13 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 issuance 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) 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. In response, Fester Global filed Reply and Defence to Counterclaim on 11 November 2022.

The 2021 Legal Proceedings are still at a preliminary stage and the date of trial has not been fixed up to the date of issue 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 2023.

(14) Event after the end of the reporting period

On 26 July 2023, True Fitness Pte. Ltd. (an indirect non-wholly owned subsidiary of the Company) as tenant entered into a new lease with Overseas Movie (Private) Limited (an independent third party of the Group) as landlord in respect of renewal of the lease of premises at which one of the Group's fitness centers is currently operating for a term of two years. The modification of the right-of-use assets and corresponding lease liability to be recognised by the Group is amounted to approximately HK\$15,146,000. Details of the renewal of lease agreement are set out in the announcement of the Company dated 26 July 2023.

Except for the above, no other material event after the reporting period is required to be accounted for or disclosed.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2023, 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 and the disposal of such business was completed on 29 July 2022, and such business was therefore presented as discontinued operation for the six months ended 30 June 2022.

Financial Results

Continuing Operations

For the six months ended 30 June 2023, the Group's revenue and gross profit amounted to approximately HK\$430.7 million and HK\$247.3 million (2022: approximately HK\$451.1 million and HK\$267.5 million) respectively, representing a decrease of approximately 4.5% and 7.6% as compared with the corresponding period of 2022. The decrease in revenue and gross profit was mainly attributable to the following reasons:

- For the pharmaceutical business segment, due to the adverse impact caused by the medical insurance policy adjustment in Mainland China, Tongfang Pharmaceutical Group Co., Ltd* (同方藥業集團有限公司) (“Tongfang Pharmaceutical”) launched new products with lower gross profit to capture market share; and Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) (“Chongqing Kangle”) suffered a decline in revenue due to shrinking customer demand under the impact of weak macro-economy. Meanwhile, to boost sales, the selling prices for Chongqing Kangle's certain products were lowered and thus gross profit further reduced; and
- In respect of the fitness business segment, the Group's fitness business in Singapore has gradually recovered from the impact of the COVID-19 pandemic and has significantly improved, which has partially offset the negative impact of the above-mentioned pharmaceutical business segment.

The Group's net profit for the six months ended 30 June 2023 was approximately HK\$21.4 million (2022: net loss of approximately HK\$67.5 million), representing a turnaround of approximately HK\$88.9 million as compared with the corresponding period of 2022. Basic earnings per share was approximately HK\$0.7 cent (2022: loss per share approximately HK\$0.92 cent). The turnaround from loss to profit was mainly attributable to the following factors which offset the decrease in revenue and gross profit:

- the Group recorded a one-off gain on the disposal of subsidiaries of approximately HK\$110.5 million; and

- The effectiveness of the cost control measures adopted by the Group in its business operations.

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 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 six months ended 30 June 2022.

Business Review

Continuing Operations

Pharmaceutical Business

For the six months ended 30 June 2023, the revenue and gross profit of the Group’s pharmaceutical business were approximately HK\$332.7 million and HK\$247.7 million (2022: approximately HK\$370.4 million and HK\$279.3 million) respectively, representing a decrease of approximately 10.2% and 11.3% as compared to the corresponding period of 2022. This was mainly due to the reasons that (i) as a result of the adverse impact caused by the medical insurance policy adjustment in Mainland China, Tongfang Pharmaceutical launched new products with lower gross profit to capture market share; (ii) Chongqing Kangle suffered a decline in sales due to the impact of weak macro-economy and the shrinking demand from customers. Meanwhile, to boost sales, the selling prices for certain products were lowered and thus gross profit further reduced; and (iii) Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.* (陝西紫光辰濟藥業有限公司) (“Shaanxi Life Care”) was disposed of on 9 May 2023 (the “Disposal Date”), and both revenue and gross profit as of the Disposal Date recorded a decrease as compared with the amounts for the six months ended 30 June 2022.

For the six months ended 30 June 2023, the performance of the pharmaceutical business of the Group recorded a profit of approximately HK\$108.5 million (2022: approximately HK\$8.0 million). The significant increase in profit was mainly due to the one-off gain of approximately HK\$110.5 million from the disposal of 66% equity interest in Shaanxi Life Care by Tongfang Pharmaceutical on 9 May 2023, which offsets the adverse impact brought by the decrease in revenue and gross profit.

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. For the six months ended 30 June 2023, Tongfang Pharmaceutical recorded revenue and gross profit of approximately RMB231.4 million and RMB205.5 million (2022: approximately RMB231.3 million and RMB211.8 million), respectively. The revenue was basically stable and the gross profit decreased by approximately 3.0% as compared with the corresponding period of 2022.

At present, Tongfang Pharmaceutical is facing pressure from the adjustment of medical insurance policy and the emergence of new competing products. It is actively seeking countermeasures to stabilize the existing market, while strengthening the research and development of new products, increasing investment to open up new markets and building new business models, as well as striving to achieve sustainable growth.

2. 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 six months ended 30 June 2023, Chongqing Kangle recorded revenue and gross profit of approximately RMB46.2 million and RMB8.8 million (2022: approximately RMB52.6 million and RMB15.7 million) respectively, representing a decrease of approximately 12.2% and 44.0% as compared with the corresponding period of 2022.

In the first half of 2023, Chongqing Kangle’s performance declined due to the weak macro-economic environment, the decrease in customer demand and the reduction in product selling prices under the pressure exerted by market downturn. Chongqing Kangle is currently taking active measures to seek new customers, new orders and open up new markets, with an aim to improve its performance in the second half of 2023.

3. Shaanxi Life Care

Shaanxi Life Care and its wholly-owned subsidiaries, Shaanxi Unisplendour Hi-tech Pharmaceutical Co., Ltd.* (陝西紫光高新藥業有限公司) and Shaanxi Daxingtang Pharmaceutical Logistics Co., Ltd.* (陝西達興堂醫藥物流有限公司) (collectively referred to as “Shaanxi Life Care Group”), are principally engaged in the manufacturing and sales of Chinese medicine products. On 13 April 2023, Tongfang Pharmaceutical and Ping An Tsumura Inc.* (平安津村有限公司) (“Ping An Tsumura”) entered into an equity transfer agreement, pursuant to which Tongfang Pharmaceutical sold its 66% equity interest in Shaanxi Life Care to Ping An Tsumura. Shaanxi Life Care Group was disposed of on 9 May 2023.

As of 9 May 2023, Shaanxi Life Care Group recorded revenue and gross profit of approximately RMB21.6 million and RMB9.7 million (2022: approximately RMB27.3 million and RMB12.1 million) respectively, representing a decrease of approximately 21.2% and 19.2% as compared with the corresponding period of 2022.

Fitness Business

The revenue of the Group’s fitness business for the six months ended 30 June 2023 was approximately HK\$98.0 million (2022: approximately HK\$80.7 million), which includes royalty fee income of approximately HK\$20.5 million (2022: approximately HK\$18.8 million). The net loss for the six months ended 30 June 2023 was approximately HK\$48.2 million (2022: approximately HK\$59.9 million).

The increasing revenue and narrowing net loss were primarily attributable to the recovery of fitness business from the COVID-19 pandemic. Riding on the gradual increase in new member acquisition, the Group’s fitness business in Singapore continued to see a steady rebound, and the new member units sold for the six months ended 30 June 2023 surged to 3,823 (2022: 2,598) units.

The development of a more robust sales team, combined with strategic and effective operational initiatives, have been instrumental in allowing the Group’s fitness business to capture a resurgence of the clientele eager to return to work out in fitness centres. We have also been more actively involved in executing targeted sales and marketing campaigns, as well as digital outreach, which increased exposure and engagement for the different brands under the Group’s fitness business in Singapore, helping to drive more traffic and leads to the clubs.

The personal training department in Singapore was also able to leverage on this increased footfall and membership growth, experiencing a significant upturn in key metrics such as revenue growth and improved new member penetration.

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.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the six months ended 30 June 2023 were mainly funded by cash generated from its operations, net proceeds from disposal of subsidiaries and loans from principal bankers.

As at 30 June 2023, the Group maintained bank balances and cash reserves of approximately HK\$150.6 million (31 December 2022: approximately HK\$122.6 million), all of which were cash and cash equivalents, mainly denominated in Renminbi ("RMB").

As at 30 June 2023, the Group had outstanding borrowings repayable within one year of approximately HK\$ 69.0 million and outstanding borrowings repayable after one year of approximately HK\$ 16.2 million (31 December 2022: approximately HK\$158.8 million and HK\$103.2 million). As at 30 June 2023, approximately 63.6% of the Group's outstanding borrowings were denominated in RMB and 36.4% in Singapore dollars ("SGD"). Approximately 20.3% of the Group's outstanding borrowings were charged with interest at floating rates while the remainder were charged at fixed rates.

The gearing ratio (total borrowings over total assets) of the Group as at 30 June 2023 was as follows:

	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Total borrowings	<u>85,251</u>	<u>261,925</u>
Total assets	<u>1,827,373</u>	<u>2,120,443</u>
Gearing ratio	<u>4.7%</u>	<u>12.4%</u>

Financial Management and Policy

The Group's financial policy aims at minimising the Group's financial risk exposure. The Group's policy is not to engage in speculative derivative financial transactions and not to invest current assets 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 ("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 30 June 2023, the Group's bank borrowings of HK\$49,880,000 (31 December 2022: HK\$206,555,000) and lease liabilities of HK\$1,560,000 (31 December 2022: HK\$661,000) were secured by the following:

	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Building and structures	23,334	81,558
Investment property	35,708	37,760
Right-of-use assets	4,524	32,945
Construction in progress	—	136,843
Bank balance	697	112
	64,263	289,218

Material Capital Commitments and Investments

The Group had the following capital commitments:

	As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <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>8,081</u>	<u>93,075</u>

Employees

As at 30 June 2023, the Group had 715 (31 December 2022: 922) employees. The staff costs (including Directors' emoluments and retirement benefits scheme contributions) of the Group's continuing operations were approximately HK\$81,232,000 (30 June 2022: approximately HK\$75,495,000). 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 2023, the macro-economic situation had a certain adverse impact on the Group's pharmaceutical business. Based on the Group's judgment on the current situation and in-depth research and analysis of market conditions, a series of countermeasures have been formulated and implemented. The Group will make active attempts in various aspects such as new product line positioning, new market expansion, new business model development and new partnership establishment.

In the first half of 2023, the Group achieved better cash inflow and investment return through disposal of subsidiaries. Going forward, the Group will integrate existing resources, overcome difficulties through the above measures, and continue to strive for sustainable growth and performance returns.

Fitness Business

With the impacts from the COVID-19 pandemic on the fitness industry greatly waning and essentially all related restrictions lifted since April 2022 in Singapore, the Group's fitness business is witnessing a steady rebound. This resurgence demonstrates the resilience of the fitness industry and reaffirms our belief in the potential for continued growth of the fitness industry. We have navigated through challenging times and adapted our strategies, and now stand strong to capitalise on the increasing demand for fitness and wellness services in the post-pandemic era.

Looking ahead, the fitness industry in Singapore appears poised for further growth and innovation. With the improvement of people's health awareness, the public are prioritising fitness and wellness, leading to a growing market for our services.

The Group's fitness business is well-positioned for continuous success. While we acknowledge the presence of new entrants, our confidence in our value proposition and commitment to customer satisfaction strengthens our position in Singapore market. By staying adaptable, innovative, and customer-oriented, we are ready to embrace the opportunities ahead.

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 2023 (2022: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2023, 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 2023. 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 2023, 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 2023 (the "2023 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.kontafarma.com.hk>) in due course. The 2023 interim financial results set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2023 to be included in the 2023 Interim Report.

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

Hong Kong, 30 August 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*