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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 2024

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 2024 with the comparative figures for the corresponding period in 2023 are as follows. The interim financial results of the Group for the six months ended 30 June 2024 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 2024

		Six months ended 30 June	
		2024	2023
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	458,517	430,705
Cost of sales and services		<u>(181,371)</u>	<u>(183,427)</u>
Gross profit		277,146	247,278
Other income		19,850	15,378
Other gains and losses		(19,044)	109,259
Impairment losses recognised under expected credit loss model, net		(25,466)	(36,599)
Distribution and selling expenses		(198,288)	(216,049)
Administrative expenses		(39,745)	(55,229)
Other expenses		(4,079)	(13,638)
Finance costs		<u>(6,702)</u>	<u>(8,277)</u>
Profit before taxation		3,672	42,123
Taxation	5	<u>(8,204)</u>	<u>(20,745)</u>
(Loss) profit for the period	6	<u>(4,532)</u>	<u>21,378</u>

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

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive income (expense):			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation to presentation currency		(3,200)	(23,593)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		6,517	3,174
		<u>3,317</u>	<u>(20,419)</u>
Other comprehensive income (expense) for the period			
		<u>3,317</u>	<u>(20,419)</u>
Total comprehensive (expense) income for the period		<u>(1,215)</u>	<u>959</u>
(Loss) profit for the period attributable to:			
Owners of the Company		4,745	39,138
Non-controlling interests		(9,277)	(17,760)
		<u>(4,532)</u>	<u>21,378</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		6,753	19,383
Non-controlling interests		(7,968)	(18,424)
		<u>(1,215)</u>	<u>959</u>
		<u><u>(1,215)</u></u>	<u><u>959</u></u>
		<i>HK cent</i>	<i>HK cent</i>
Earnings per share	7		
Basic		0.09	0.70
		<u><u>0.09</u></u>	<u><u>0.70</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

	<i>NOTE</i>	At 30 June 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		240,959	240,196
Right-of-use assets		294,527	334,214
Investment property		34,283	35,424
Goodwill		253,380	253,418
Intangible assets		233,252	249,630
Interest in an associate		—	—
Amounts due from an associate		22,742	12,835
Deferred tax assets		159	160
Rental deposits		15,819	11,805
Contract costs		1,899	1,896
		1,097,020	1,139,578
Current assets			
Inventories		91,255	98,266
Trade receivables	9	143,540	106,518
Contract costs		6,247	6,361
Other receivables, deposits and prepayments		45,473	45,668
Other investment		10,000	10,000
Amount due from an intermediate holding company		—	9,238
Amounts due from an associate		129,485	132,346
Amounts due from other related parties		100,204	101,701
Cash and cash equivalents		68,663	77,659
		594,867	587,757

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
At 30 June 2024

	<i>NOTE</i>	At 30 June 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <i>HK\$'000</i> (Audited)
Current liabilities			
Trade payables	<i>10</i>	6,923	6,674
Other payables and deposits received		116,972	99,592
Amounts due to other related parties		10,125	7,522
Tax liabilities		46,186	36,321
Bank borrowings due within one year		43,281	39,546
Deferred income		217	218
Contract liabilities		118,584	127,593
Lease liabilities		62,355	66,134
		<u>404,643</u>	<u>383,600</u>
Net current assets		<u>190,224</u>	<u>204,157</u>
Total assets less current liabilities		<u>1,287,244</u>	<u>1,343,735</u>
Capital and reserves			
Share capital		11,177	11,177
Share premium and reserves		1,052,865	1,046,112
		<u>1,064,042</u>	<u>1,057,289</u>
Equity attributable to owners of the Company		1,064,042	1,057,289
Non-controlling interests		(3,311)	4,657
		<u>1,060,731</u>	<u>1,061,946</u>
Total equity		<u>1,060,731</u>	<u>1,061,946</u>
Non-current liabilities			
Bank borrowings due after one year		—	12,801
Deferred taxation		34,694	40,434
Provision for reinstatement cost		11,945	12,230
Deferred income		867	982
Lease liabilities		179,007	215,342
		<u>226,513</u>	<u>281,789</u>
		<u>1,287,244</u>	<u>1,343,735</u>

Notes:

(1) Review by auditor

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2024 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 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 2023 annual report.

(3) Principal accounting policies

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

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 2024 are the same as those presented in the annual financial statements of the Group for the year ended 31 December 2023.

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 2024 for the preparation of the Group’s interim condensed consolidated financial statements:

Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements
Amendments to HKFRS 16	Lease liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants

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.

(4) Revenue and segment information

Disaggregation of revenue from contracts with customers

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

	For the six months ended 30 June 2024			For the six months ended 30 June 2023		
	Pharmaceutical business <i>HK\$'000</i> (Unaudited)	Fitness business <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	Pharmaceutical business <i>HK\$'000</i> (Unaudited)	Fitness business <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (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, including chemical drugs	345,390	—	345,390	332,721	—	332,721
Operation of fitness centres and provision of consultation services for fitness and health activities						
— personal training classes	—	35,295	35,295	—	33,000	33,000
— membership packages	—	59,715	59,715	—	44,486	44,486
Royalty fee income in relation to fitness and health activities	—	18,117	18,117	—	20,498	20,498
Total	<u>345,390</u>	<u>113,127</u>	<u>458,517</u>	<u>332,721</u>	<u>97,984</u>	<u>430,705</u>
Timing of revenue recognition						
Point in time	345,390	35,295	380,685	332,721	33,000	365,721
Over time	—	77,832	77,832	—	64,984	64,984
Total	<u>345,390</u>	<u>113,127</u>	<u>458,517</u>	<u>332,721</u>	<u>97,984</u>	<u>430,705</u>
Geographical markets						
Mainland China	330,625	—	330,625	325,828	—	325,828
Singapore	—	95,010	95,010	—	77,486	77,486
Taiwan	—	18,117	18,117	—	20,498	20,498
Others	14,765	—	14,765	6,893	—	6,893
Total	<u>345,390</u>	<u>113,127</u>	<u>458,517</u>	<u>332,721</u>	<u>97,984</u>	<u>430,705</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:

- Pharmaceutical business — manufacture and sales of prescription drugs, including chemical 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 for the six months ended 30 June 2024 and 2023 is as follows:

	Pharmaceutical business		Fitness business		Total	
	2024	2023	2024	2023	2024	2023
	<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>345,390</u>	<u>332,721</u>	<u>113,127</u>	<u>97,984</u>	<u>458,517</u>	<u>430,705</u>
Segment results (<i>note</i>)	60,478	108,475	(38,544)	(52,115)	21,934	56,360
Unallocated corporate income					2,658	1,384
Unallocated corporate expenses					<u>(20,920)</u>	<u>(15,621)</u>
Profit before taxation					<u>3,672</u>	<u>42,123</u>

Note: The segment results of pharmaceutical business included a gain on disposal of subsidiaries of HK\$110,491,000 recognised in the condensed 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 2024 and 2023. 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.

(5) Taxation

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The charge (credit) comprises:		
Current tax		
— People's Republic of China (the "PRC")		
Enterprise Income Tax	10,204	21,856
Dividend Withholding Income Tax	—	2,825
— Taiwan Corporate Income Tax	2,717	3,075
	<u>12,921</u>	<u>27,756</u>
Under provision in prior years		
— PRC Enterprise Income Tax	1,388	—
	<u>1,388</u>	<u>—</u>
Deferred tax	<u>(6,105)</u>	<u>(7,011)</u>
	<u><u>8,204</u></u>	<u><u>20,745</u></u>

(6) (Loss) profit for the period

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in administrative expenses)	3,262	3,482
Depreciation of investment property (included in administrative expenses)	894	966
Depreciation of property, plant and equipment (included in cost of sales and services, distribution and selling expenses and administrative expenses)	12,784	19,580
Depreciation of right-of-use assets (included in cost of sales and services and administrative expenses)	32,745	33,752
Total amortisation and depreciation	<u>49,685</u>	<u>57,780</u>
Cost of inventories recognised as expenses	76,631	81,170
Net (gain) loss on disposal and write-off of property, plant and equipment	(11)	366
Net foreign exchange loss	5,580	871
Research and development expenses (included in other expenses)	4,079	13,638
Sales promotion expenses (included in distribution and selling expenses)	192,789	208,868
Property rental income, net of negligible outgoing expenses	(1,823)	(1,857)
Lease payments for short-term leases and low-value assets	124	150
Impairment loss on intangible assets (included in other gains and losses)	<u>13,559</u>	<u>—</u>

(7) Earnings per share

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

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the purposes of basic earnings per share attributable to owners of the Company	<u>4,745</u>	<u>39,138</u>
	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic 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 of the Company.

No diluted earnings per share is presented for the six months ended 30 June 2024 and 2023 as there was no potential ordinary share in issue for the six months ended 30 June 2024 and 2023.

(8) Dividend

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (2023: Nil). No dividend was paid, declared or proposed during the current period (2023: Nil).

(9) Trade receivables

Other than the trade receivables in relation to the payment to be settled through credit cards for customers in fitness business, the Group has a policy of allowing 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 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <i>HK\$'000</i> (Audited)
0 to 90 days	103,026	68,363
91 to 180 days	28,952	28,465
181 to 365 days	9,408	6,530
Over 1 year	2,154	3,160
	<u>143,540</u>	<u>106,518</u>

(10) 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 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <i>HK\$'000</i> (Audited)
0 to 90 days	4,188	3,366
91 to 180 days	399	6
181 to 365 days	60	1,010
Over 1 year	2,276	2,292
	<u>6,923</u>	<u>6,674</u>

(11) Contingencies

- (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 Company and Fester Global 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. There was no material progress for the 2019 Legal Proceedings during the period and 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 these interim condensed consolidated financial statements. 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.

On 19 February 2024, the 2019 Legal Proceedings and the 2021 Legal Proceedings were ordered to be tried before the same judge and be heard at the same time or immediately after another as the trial judge may direct. As in the case of the 2019 Legal Proceedings, there was no material progress for the 2021 Legal Proceedings during the period and 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 these interim condensed consolidated financial statements. 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 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2024, the Group's was principally engaged in the (i) manufacturing and sales of prescription drugs, including chemical drugs 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.

Financial Results

For the six months ended 30 June 2024, the Group's revenue and gross profit amounted to approximately HK\$458.5 million and HK\$277.1 million (2023: approximately HK\$430.7 million and HK\$247.3 million) respectively, representing an increase of approximately 6.5% and 12.1% as compared with the corresponding period of 2023. The increase in revenue and gross profit was mainly attributable to the following reasons:

- For the pharmaceutical business segment, Tongfang Pharmaceutical Group., Ltd.* (同方藥業集團有限公司) (“Tongfang Pharmaceutical”) introduced a more effective marketing initiative to promote the growth of both revenue and gross profit, and at the same time it offset i) the negative effect on revenue of Chongqing Kangle Pharmaceutical Co., Ltd.* (重慶康樂製藥有限公司) (“Chongqing Kangle”) due to the shrinking customer demand; and ii) the effect on completion of the disposal of the entire equity interest held in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.* (陝西紫光辰濟藥業有限公司) (“Shaanxi Life Care”) and its subsidiaries (collectively, “Shaanxi Life Care Group”) on 9 May 2023 (“Disposal Date”), after which the Group ceased to have any beneficial interests in Shaanxi Life Care Group; 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.

The Group's net loss for the six months ended 30 June 2024 was approximately HK\$4.5 million (2023: net profit of approximately HK\$21.4 million). Basic earnings per share was approximately HK0.09 cents (2023: approximately HK0.7 cents). A one-off gain of approximately HK\$110.5 million from the disposal of the Group's entire equity interest held in Shaanxi Life Care Group was recorded in the previous period, while no such gain was recorded in the current period, which serves as the main reason for the Group's turnaround from net profit to net loss. This offsets growth of the revenue and gross profit of the Group, as well as the positive effect to the results brought by the consistently effective cost reduction.

Business Review

Pharmaceutical Business

For the six months ended 30 June 2024, the revenue and gross profit of the Group's pharmaceutical business were approximately HK\$345.4 million and HK\$264.4 million (2023: approximately HK\$332.7 million and HK\$247.7 million) respectively, representing an increase of approximately 3.8% and 6.8% to the corresponding period of 2023. The main reason for the increase is the adoption of a more effective marketing initiative by Tongfang Pharmaceutical, which boosted both revenue and gross profit.

For the six months ended 30 June 2024, the results of the pharmaceutical business segment of the Group recorded a profit of approximately HK\$60.5 million (2023: approximately HK\$108.5 million). The decrease in profit was mainly due to the one-off gain of approximately HK\$110.5 million from the disposal of the entire equity interest in Shaanxi Life Care held by Tongfang Pharmaceutical on 9 May 2023, but no such gain is recorded in the current period. This offsets the growth in revenue and gross profit of Tongfang Pharmaceutical, as well as the positive effect brought by the general cost reduction in the pharmaceutical business.

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 2024, Tongfang Pharmaceutical recorded revenue and gross profit of approximately RMB278.7 million and RMB235.9 million (2023: approximately RMB231.4 million and RMB205.5 million), respectively. The revenue and gross profit recorded an increase of approximately 20.5% and 14.8% as compared with the corresponding period of 2023 respectively.

A good sales performance is witnessed for Tongfang Pharmaceutical in the first half of the year, and we are beginning to see the results of the more comprehensive and effective marketing initiative. At the later stage, we will continue to strengthen the internal management, promote the research and development of new products in an active manner, spare no effort on exploring emerging markets, and boost the production and sales steadily.

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 2024, Chongqing Kangle recorded revenue and gross profit of approximately RMB40.2 million and RMB10.2 million (2023: approximately RMB46.2 million and RMB8.8 million) respectively. The revenue recorded a decrease of approximately 12.9% as compared with the corresponding period of 2023, while the gross profit recorded an increase of 16.2%.

In the first half of 2024, Chongqing Kangle is not able to break away from the effect of the shrinking of market demand completely, but it has increased its gross profit through the launch of new products with higher margin. Chongqing Kangle is currently searching for new customers and orders proactively, and is also exploring new markets in an active manner, striving for a turnaround in its results in the second half of 2024.

3. *Shaanxi Life Care*

Shaanxi Life Care Group is principally engaged in the manufacturing and sales of Chinese medicine products. The Group completed the disposal of its entire equity interest held in Shaanxi Life Care Group on the Disposal Date. Upon completion, the Group ceased to have any beneficial interests in Shaanxi Life Care Group. As of the Disposal Date, Shaanxi Life Care Group recorded revenue and gross profit of approximately RMB21.6 million and RMB9.7 million respectively.

Fitness Business

The revenue of the Group’s fitness business for the six months ended 30 June 2024 was approximately HK\$113.1 million (2023: HK\$98.0 million), which includes royalty fee income of approximately HK\$18.1 million (2023: HK\$20.5 million). For the six months ended 30 June 2024, the results of the Group’s fitness business segment recorded a loss of approximately HK\$38.5 million (2023: HK\$52.1 million).

The increase in revenue and the narrowing of loss were primarily attributable to the successful recovery from COVID-19 pandemic in Singapore by adopting market-oriented pricing strategies, taking more effective marketing activities and providing better services. These favourable changes offset the negative impact of rising costs, lower royalty fee income and impairment loss on intangible assets.

Financial Review

Liquidity and Financing

The Group's capital expenditure, daily operations and investments during the six months ended 30 June 2024 were mainly funded by cash generated from its operations and loans from principal bankers.

As at 30 June 2024, the Group maintained bank balances and cash reserves of approximately HK\$68.7 million (31 December 2023: approximately HK\$77.7 million), all of which were cash and cash equivalents.

As at 30 June 2024, the Group had outstanding borrowings repayable within one year of approximately HK\$43.3 million (31 December 2023: outstanding borrowings repayable within one year of approximately HK\$39.5 million and outstanding borrowings repayable after one year of approximately HK\$12.8 million). As at 30 June 2024, 45.3% of the Group's outstanding borrowings were denominated in Renminbi ("RMB") and 54.7% in Singapore dollars ("SGD"). Approximately 40.1% 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 2024 was as follows:

	At 30 June 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <i>HK\$'000</i> (Audited)
Total borrowings	<u>43,281</u>	<u>52,347</u>
Total assets	<u>1,691,887</u>	<u>1,727,335</u>
Gearing ratio	<u>2.6%</u>	<u>3.0%</u>

Financial Management and Policy

The Group's financial policy aims at minimising the Group's financial risk exposure. Our policy is not to engage in speculative derivative financial transactions and not to invest current 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 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 2024, the Group's bank borrowings of HK\$28,199,000 (31 December 2023: HK\$28,824,000) and lease liabilities of HK\$306,000 (31 December 2023: HK\$1,076,000) were secured by the following:

	At 30 June 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <i>HK\$'000</i> (Audited)
Buildings and structures	11,821	1,835
Right-of-use assets	3,066	4,454
Bank balance	46	129
	<u>14,933</u>	<u>6,418</u>

Material Capital Commitments and Investments

The Group had the following capital commitments:

	At 30 June 2024 <i>HK\$'000</i> (Unaudited)	At 31 December 2023 <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>3,579</u>	<u>16,883</u>

Employees

As at 30 June 2024, the Group had 717 (31 December 2023: 720) employees. The staff costs (including Directors' emoluments and retirement benefits scheme contributions) of the Group's were approximately HK\$75,099,000 (30 June 2023: approximately HK\$81,232,000). 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 and the share award scheme adopted by the Company from time to time, respectively. The purposes of the schemes are to provide incentives for the selected employees to contribute to the Group, to enable the Group to recruit and retain high-calibre employees, and to attract and retain human resources that are valuable to the Group.

OUTLOOK

Pharmaceutical Business

In the first half of 2024, the complexity and uncertainties of the global economy have not only brought uncertainties to the macro economy of the PRC, but have also had effects on the pharmaceutical business of the Group that cannot be neglected. The Group faces such grim situation with a positive attitude, where we carried out an in-depth analysis on the current market environment and comprehensive research on both internal and external factors, and enhance the market competitiveness of our products through strengthened internal management and differentiated competitive strategies. The Group is also actively exploring new business models to adapt to the ever-changing market environment.

The Group will continue to face the opportunities and challenges in the future with an open and innovative mind, and will enhance our risk appetite and ability for sustainable development through a multi-dimension strategic layout.

Fitness Business

Looking ahead to the second half of 2024, the outlook for the fitness business in Singapore remains promising. Although the landscape of fitness industry is evolving rapidly, the Group's ongoing strategic initiatives will allow us to solidify our business positioning.

Navigating the rest of the year requires a proactive approach to stay ahead of the competition and manage potential challenges. The Group's fitness business will continuously innovate the offerings, incorporating the latest industry-wide trends and best practices. The Group will also keep offering different membership solutions for different customer needs, and is in the process of working on diversified class offerings, catering to various members' interests.

Relying on the solid foundation built up during the first half of 2024, the Group’s fitness business in Singapore will achieve greater breakthroughs in the future.

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 2024 (2023: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2024, 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 C1 to the Listing Rules, except for the deviation from code provision C.2.1 of the CG code as follows:

Under code provision C.2.1 of the CG code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wang Feifei serves as both the chairman of the Board and the president of the Group performing the roles and functions of chief executive (the “President”). The Board believes that vesting the roles of both the chairman of the Board and the President in the same person can facilitate the execution of the Group’s business strategies and improve its operational effectiveness. Taking into account the diverse backgrounds and experience of the non-executive Director and independent non-executive Directors, the Board considers that the balance of power and authority, accountability and independent decision making will not be impaired under the current arrangement. In addition, the Audit Committee, which consists of all independent non-executive Directors, has free and direct access to the Company’s external auditors and independent professional advisers when it considers necessary. Therefore, the Board considers that the deviation from the code provision C.2.1 of the CG Code is appropriate under such circumstance.

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 2024. 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 2024, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

EVENTS AFTER THE REPORTING PERIOD

There were no major subsequent events occurred since 30 June 2024 and up to the date of this announcement.

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 2024 (the "2024 Interim Report") will be 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 2024 interim financial results set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2024 to be included in the 2024 Interim Report.

By Order of the Board
Kontafarma China Holdings Limited
Wang Feifei
Chairman

Hong Kong, 28 August 2024

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Wang Feifei (Chairman and President), Ms. Qiao Linna, Ms. Guo Zixiu (Financial Controller) and Mr. Liu Jiankun; one non-executive Director, namely Mr. Huang Yu; and three independent non-executive Directors, namely Dr. Tang Lai Wah, Dr. Ho Ho Ming and Mr. Yao Xiaomin.

* *For identification purpose only*