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 2017

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 2017 with the comparative figures for the corresponding period in 2016 are as follows. The interim financial results of the Group for the six months ended 30 June 2017 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, Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Revenue	*(4)*	**611,376**	238,802
Cost of sales		**(476,619)**	(234,729)
Gross profit		**134,757**	4,073
Other income	*(5)*	**18,452**	16,279
Other gains and losses		**(6,360)**	4,626
Interest income on other principal protected deposits		**–**	1,666
Distribution and selling expenses		**(45,824)**	(2,895)
Administrative expenses		**(65,244)**	(25,853)
Other expenses		**(6,034)**	–
Finance costs		**(9,181)**	(6,879)
Share of results of associates		**(1,201)**	–
Share of results of a joint venture		**(5,471)**	–
Profit (loss) before taxation		**13,894**	(8,983)
Taxation	*(6)*	**(6,373)**	(3,999)
Profit (loss) for the period	*(7)*	**7,521**	(12,982)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Cont'd)*
for the six months ended 30 June 2017

	Note	Six months ended 30 June 2017 Unaudited HK$'000	2016 Unaudited HK$'000
Other comprehensive income (expense):			
Item that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation to presentation currency		**39,543**	(3,730)
Item that may be reclassified subsequently to profit of loss:			
Exchange difference arising on translation of foreign operations		**(1,148)**	–
Other comprehensive income (expense) for the period		**38,395**	(3,730)
Total comprehensive income (expense) for the period		**45,916**	(16,712)
Profit (loss) for the period attributable to:			
Owners of the Company		**(8,361)**	(18,047)
Non-controlling interests		**15,882**	5,065
		7,521	(12,982)
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**15,087**	(20,416)
Non-controlling interests		**30,829**	3,704
		45,916	(16,712)
		HK cents	*HK cents*
Loss per share	*(8)*		
Basic		**(0.17)**	(0.36)
Diluted		**(0.17)**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017

	Note	At 30 June 2017 Unaudited *HK$'000*	At 31 December 2016 Audited *HK$'000*
Non-current assets			
Property, plant and equipment		**655,788**	552,204
Deposits for equipment and machineries		**78,507**	76,279
Prepaid lease payments on land use rights		**104,244**	104,378
Investment properties		**5,135**	5,066
Goodwill		**437,833**	217,555
Intangible assets		**322,268**	15,675
Interests in associates		**23,116**	2,601
Interests in a joint venture		**27,288**	32,759
Deferred tax assets		**1,057**	199
Rental deposits		**13,579**	–
Pledged bank deposits		**2,181**	–
		1,670,996	1,006,716
Current assets			
Properties held for sale		**2,224**	2,161
Biological assets		**4,123**	2,743
Inventories		**106,231**	78,488
Trade and bills receivables	*(10)*	**542,157**	347,989
Other receivables, deposits and prepayments		**144,782**	141,028
Loans receivable		**50,686**	167,264
Financial assets at fair value through profit or loss		**154,524**	120,504
Prepaid lease payments on land use rights		**3,151**	1,499
Amount due from an intermediate holding company		**–**	89,385
Amount due from a joint venture		**131**	131
Amount due from an associate		**4,827**	–
Amounts due from other related parties		**174,668**	168,865
Restricted bank deposit		**2,596**	2,518
Pledged short-term bank deposits		**288,877**	421,416
Time deposits with original maturity between 4 to 12 months		**–**	22,347
Cash and cash equivalents		**410,889**	581,137
		1,889,866	2,147,475

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*

at 30 June 2017

	Note	At 30 June 2017 Unaudited HK$'000	At 31 December 2016 Audited HK$'000
Current liabilities			
Trade and bills payables	(11)	**279,970**	175,428
Other payables and deposits received		**114,911**	86,346
Amount due to an intermediate holding company		**13,881**	24,230
Amounts due to other related parties		**41,614**	9,528
Tax liabilities		**89,199**	91,385
Bank and other borrowings due within one year		**783,778**	916,313
Obligations under finance lease		**1,801**	–
Obligation arising from a put option to non-controlling shareholder		**82,105**	–
Deferred income		**120,092**	–
Provision for financial guarantee		**24,976**	–
		1,552,327	1,303,230
Net current assets		**337,539**	844,245
Total assets less current liabilities		**2,008,535**	1,850,961
Capital and reserves			
Share capital		**9,900**	9,900
Share premium and reserves		**1,135,895**	1,115,934
Equity attributable to owners of the Company		**1,145,795**	1,125,834
Non-controlling interests		**510,684**	517,229
Total equity		**1,656,479**	1,643,063
Non-current liabilities			
Bank and other borrowings due after one year		**168,244**	163,128
Deferred taxation		**112,809**	44,770
Obligations under finance lease		**2,327**	–
Provision of reinstatement cost		**18,389**	–
Deferred income		**50,287**	–
		352,056	207,898
		2,008,535	1,850,961

Notes:

(1) Review by auditor

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 has been reviewed by our auditor, Deloitte Touche Tohmatsu, 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") and an unmodified review conclusion has been issued.

(2) Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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").

(3) Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and biological assets that are measured at fair values and fair value less cost to sell at the end of each reporting period, and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

(I) Upon completion of the acquisition of 51% equity interest in TFKT True Holdings and 29% equity interest in True Yoga Holdings Limited, the Group adopts the following new accounting policies in this interim period.

Revenue recognition

Monthly fees received for membership are recognised as revenue on straight-line basis over the service usage period. Instalments received in advance for prepaid packages are recorded as deferred income.

Revenue from trial classes is recognised when the trial class is provided.

Revenue from personal training classes is recognised when the personal training class is provided.

Revenue from registration and processing fee is recognised when service package contract is entered with customer.

Obligation arising from a put option on shares of a subsidiary written to non-controlling shareholders

Put option written to non-controlling shareholders, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in a subsidiary is treated as a derivative financial instrument and is recognised at fair value upon initial recognition. Any changes of fair value in subsequent reporting dates are recognised in profit or loss.

The gross financial liability arising from the put option is recognised when contractual obligation to purchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell the shares to the Group. The liability for the share redemption amount is initially recognised and measured at present value of the estimated purchase price with the corresponding debit to the non-controlling interests. In subsequent periods, effective interest on the estimated gross obligation under the written put option is recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Provision of reinstatement cost

A provision for reinstatement cost is made for the estimated costs of dismantlement, removal or restoration of plant and equipment arising from the acquisition or use of assets, which are capitalised and included in the cost of plant and equipment.

(II) In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

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

The application of these amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

(4) Revenue and segment information

Revenue represents the sales amount from (1) manufacturing and sales of prescription drugs and laboratory related products, (2) manufacturing and sales of cement and clinker, and trading of cement, and (3) operating of fitness centres and provision of consultation services for fitness and health activities, net of discount and sales related tax.

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Manufacture and sales of prescription drugs and laboratory related products	**144,292**	–
Manufacture and sales of cement and clinker	**141,759**	88,675
Trading of cement	**292,546**	150,127
Operating of fitness centres and provision of consultation services for fitness and health activities	**32,779**	–
	611,376	238,802

During the second half of the year ended 31 December 2016 and the six months ended 30 June 2017, the Group acquired new businesses of medical, pharmaceutical and health business and fitness business, respectively. The management of the Company had reassessed the Group's operations and measurement of financial performance assessment and identified (1) cement business; (2) medical, pharmaceutical and health business; and (3) fitness business as three separate operating and reportable segments of the Group. Accordingly, the comparative information for the six months ended 30 June 2016 has been represented to conform with the current period's presentation.

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

- Cement business – manufacture and sales of cement and clinker, trading of cement and provision of technical services, if any.

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

- Fitness business – operate fitness centres and provide consultation services for fitness and health activities.

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

(4) Revenue and segment information *(Cont'd)*

Segment revenue and results

Analysis of the Group's segment revenue and results for the six months ended 30 June 2017 and 2016 is as follows:

	Cement business		**Medical, pharmaceutical and health business**		**Fitness business**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue from external customers	**434,305**	238,802	**144,292**	–	**32,779**	–	**611,376**	238,802
Segment results	**29,614**	8,134	**7,824**	–	**3,467**	–	**40,905**	8,134
Unallocated corporate income							**484**	195
Unallocated corporate expenses							**(18,314)**	(10,433)
Finance costs							**(9,181)**	(6,879)
Profit (loss) before taxation							**13,894**	(8,983)

There was no inter-segment sales during the six months ended 30 June 2017 and 30 June 2016. The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit (loss) from each segment without allocation of unallocated corporate income and expenses, and finance costs. This is the measure reported to the chief operating decision makers of the Company for the purposes of resource allocation and performance assessment.

(5) Other income

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Interest income from banks	**2,996**	3,713
Interest income from loans receivable	**2,851**	4,696
Interest income from a non-controlling shareholder of the Group's subsidiary	**3,140**	3,716
Rental income	**2,069**	–
Subsidy and government grant	**1,342**	344
Sundry income	**6,054**	3,810
	18,452	16,279

(6) Taxation

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	HK$'000	*HK$'000*
The (charge) credit comprises:		
Current tax		
– The People's Republic of China ("PRC") Enterprise Income Tax	**(3,043)**	(3,959)
Underprovision in prior years		
– PRC Enterprise Income Tax	**–**	(58)
Deferred tax	**(3,330)**	18
	(6,373)	(3,999)

(7) Profit (loss) for the period

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Profit (loss) for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**1,448**	132
Depreciation of investment properties	**78**	–
Depreciation of property, plant and equipment	**20,800**	10,534
Total amortisation and depreciation	**22,326**	10,666
Allowance for doubtful debts	**3,095**	–
Cost of inventories recognised as expenses	**446,212**	234,729
Release of prepaid lease payments on land use rights	**1,562**	93
Net loss (gain) on disposal and write-off of property, plant and equipment	**478**	(6,585)
Net foreign exchange loss	**1,577**	6
Property rental income net of negligible outgoing expenses	**(2,069)**	–
Operating lease rentals in respect of premises	**11,195**	688

(8) Loss per share

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

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the period attributable to owners of the Company) (2016: basic loss per share)	**8,361**	18,047

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Number of shares		
Weighted average number of ordinary shares for the purposes of		
– basic loss per share	**4,945,757,735**	4,950,000,000
– diluted loss per share	**4,945,757,735**	N/A

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

The computation of the diluted loss per share for the period ended 30 June 2017 does not assume the exercise of the Company's share options as such would result in a decrease in loss per share.

No diluted loss per share has been presented for the period ended 30 June 2016 as there was no outstanding potential ordinary share during the period and as at 30 June 2016.

(9) Dividend

No dividend was paid, declared or proposed during the current period (2016: Nil).

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

(10) Trade and bills receivables

The Group has a policy of allowing its trade customers credit periods normally within 1 year. The aged analysis of trade and bills receivables, net of allowance for bad and doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	At 30 June 2017 Unaudited *HK$'000*	At 31 December 2016 Audited *HK$'000*
0 to 90 days	**271,113**	206,377
91 to 180 days	**252,194**	93,456
181 to 365 days	**18,409**	36,812
Over 1 year	**441**	11,344
	542,157	347,989

(11) 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 2017 Unaudited *HK$'000*	At 31 December 2016 Audited *HK$'000*
0 to 90 days	**148,939**	65,230
91 to 180 days	**79,256**	50,373
181 to 365 days	**46,863**	54,833
Over 1 year	**4,912**	4,992
	279,970	175,428

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The revenue of the Group for the six months ended 30 June 2017 was HK$611.4 million (2016: HK$238.8 million), representing an increase of 156.0% compared to the same period of last year. The profit for the period of the Group was HK$7.5 million (2016: loss of HK$13.0 million). The basic loss per share amounted to HK0.17 cents (2016: HK0.36 cents).

The Group recorded a net profit for the six months ended 30 June 2017 as compared to the net loss for the six months ended 30 June 2016. Such turnaround was primarily attributable to (i) the increase in revenue and profit generated by the cement business of the Group under the rising cement market in the PRC during the period as compared to the loss for the corresponding period in 2016; (ii) the profit generated by the medical, pharmaceutical and health business of the Group following the Group's acquisition of 60% equity interest in 同方藥業集團有限公司 Tongfang Pharmaceutical Group Co., Ltd* (formerly known as 北京紫光製藥有限公司 Beijing Ziguang Pharmaceutical Co., Ltd.*) ("Tongfang Pharmaceutical") and its subsidiaries in July 2016; and (iii) the profit generated by the fitness business of the Group following the Group's acquisition of 51% and 29% of the issued share capital in TFKT True Holdings and True Yoga Holdings Limited, respectively, in May 2017 (the "Acquisition").

For the six months ended 30 June 2017, the Group recorded significant increases of HK$42.9 million and HK$39.3 million in distribution and selling expenses and administrative expenses, respectively. Such increments were mainly attributable to the Group's acquisitions of the medical, pharmaceutical and health business and fitness business in July 2016 and May 2017, respectively.

Business Review

Cement Business

For the six months ended 30 June 2017, the Group's revenue generated from its cement business was HK$434.3 million (2016: HK$238.8 million), representing an increase of 81.9% as compared to the same period of last year. The increase in revenue from the cement business was mainly due to unforeseen recovery of cement market in the PRC, which resulted in higher average sales prices and sales volumes of the Group's cement products compared to the same period of last year. For the six months ended 30 June 2017, the Group's sales volume of cement and clinker was 1,538,000 tons (2016: 1,122,000 tons), representing an increase of 37.1% as compared to the same period of last year.

For compliance with environmental regulations, the cement industry in the PRC will require incurring additional expenses. The cement entities of the Group have been actively initiating in the recycling economy, and persist in the philosophy of innovation to forge ahead with innovation in management and industry. In the future, the Group will pursue research and development projects as a high-tech enterprise, and put into practice the governance philosophy of "safety, environmental protection, high efficiency, low consumption and harmony".

Medical, Pharmaceutical and Health Business

2017 is a year of changes for the medical industry in the PRC. In January, the National Health and Family Planning Commission of the PRC (a supervisory department of pharmaceutical, medical and health management of the PRC) issued the implementation plan for the Two-Invoice System in respect of medicine circulation, marking that the system will be put in place nationwide. As required in the document, all provinces and municipalities shall introduce a written proposal of the Two-Invoice System at provincial level in 2017 and the system shall be fully implemented across the country from 2018 onwards. Besides, the Ministry of Human Resources and Social Security of the PRC released a new version of the medical insurance catalog on 23 February 2017. This represented the first substantial update to the national drug catalog for medical insurance schemes in eight years. It also permitted negotiating market entry for medical insurance drugs. In other words, drug tendering will be reactivated from years of lethargy, and is expected to resume in most of the provinces in 2017. Moreover, many other policies, such as consistency assessment on generic drugs and reform on drug registration system, have materially changed the competitive landscape of the medical industry.

1. *Tongfang Pharmaceutical*

   Tongfang Pharmaceutical is principally engaged in the production and sales of chemical drugs. Its key products are prescription drugs for gynecological and local anesthesia purposes. For the six months ended 30 June 2017, Tongfang Pharmaceutical recorded an operating revenue of RMB61.6 million, representing a growth of 77.5% from RMB34.7 million for the corresponding period of 2016. Gross profit for the six months ended 30 June 2017 amounted to RMB52.0 million, representing an increase of 83.1% from RMB28.4 million for the corresponding period of 2016.

   In 2017, Tongfang Pharmaceutical and its subsidiaries continue to focus on budgeting and Key Performance Indicators control, as well as fully strengthening its information-based management. Benefiting from the abovementioned Two-Invoice System and updated medical insurance catalog, Tongfang Pharmaceutical aims to upgrade itself, both internally and externally, to a new higher level. On the sales front, Tongfang Pharmaceutical has appointed external sales agency and accurately captures the direction of national policies to promote market expansion. In tandem with deepening and solidifying its existing key markets, Tongfang Pharmaceutical has successively won tenders in the relaunching provinces during the first half of the year, which have laid a foundation for the sustainable and rapid growth in the future.

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

   Shaanxi Life Care is principally engaged in business in the Chinese medicine-related fields, including the planting, manufacturing and distribution of Chinese medicines and operating a production facility in Baoji, Shaanxi. It recorded an operating revenue of RMB29.9 million for the six months ended 30 June 2017, representing a growth of 9.1% from that of RMB27.4 million for the corresponding period of 2016. Gross profit for the six months ended 30 June 2017 amounted to RMB10.4 million, representing an increase of 35.1% from that of RMB7.7 million for the corresponding period of 2016.

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

On the other hand, the modern Chinese medicine industrial park project in Baoji, Shaanxi is in progress as scheduled, and has now entered into the construction and bidding stage.

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 sale of Active Pharmaceutical Ingredients ("API") and intermediate for API in Chongqing Changshou Chemical Industrial Park. It recorded an operating revenue of RMB20.4 million for the six months ended 30 June 2017, representing a drop of 43.8% from that of RMB36.3 million for the corresponding period of 2016. Gross profit for the six months ended 30 June 2017 amounted to RMB3.6 million, representing a decrease of 50.0% from that of RMB7.2 million for the corresponding period of 2016.

The performance of Chongqing Kangle for the six months ended 30 June 2017 was impacted by the external environment, with its foreign trade business showing a significant decline compared to the corresponding period of 2016. Furthermore, sales to individual key customers in the PRC were terminated due to restructuring and some other reasons. Chongqing Kangle has conducted analysis on its current condition from market, production and quality perspectives, and has also taken corresponding measures, which include exploring new customer base, verification and registration of new products, etc. Meanwhile, the Phase II construction will be ready for use by the end of the year, and the new products under research and development are expected to obtain approval from the China Food and Drug Administration in the second half of the year. Thus, it is envisaged that the performance of Chongqing Kangle will improve in the second half of the year, and growth can be sustained for a period of time.

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

SPF is principally engaged in the supply of standardized laboratory animals and animal indigenous raw materials. It recorded an operating revenue of RMB14.7 million for the six months ended 30 June 2017, representing a growth of 70.9% from that of RMB8.6 million for the corresponding period of 2016. Gross profit for the six months ended 30 June 2017 amounted to RMB6.7 million, representing an increase of 59.5% from that of RMB4.2 million for the corresponding period of 2016.

As the Phase III construction of SPF turned into fixed assets in 2016, SPF has gradually reached the expected production capacity in 2017. Going forward, it is the strategy of SPF to capitalise its existing resources to expand its business streams. It will take advantage of its strengths in technology, product and capital, and focus on laboratory animals and animal indigenous drugs to achieve fast expansion and build a business layout regarding peripheral services and products.

In 2017, Tongfang Pharmaceutical continues its effort in developing a full value-chain biopharmaceutical enterprise. Based on its focused and innovation-driven strategy, it has proactively built a business network that covers every aspect of biopharmaceutical sector such as biotechnology services, research and development of new drugs, active pharmaceutical ingredients and intermediates, chemical generic medicines, prescribed Chinese medicines and medicine circulation. As Tongfang Pharmaceutical is in its rapid development stage, in order to accommodate the above strategic network, Tongfang Pharmaceutical will diversify its resources into multiple areas, ranging from research and development, infrastructure development, market expansion, building business channels, staff organisational structure, to mergers and acquisitions and reorganisation. Besides, the Group, together with Dr. Ding Sheng, the co-founder of the School of Pharmaceutical Sciences of Tsinghua University, has invested into a research focusing on immunology and small molecules, any finding of which will be critical to the drug discovery and treatment for cancers and infectious diseases.

In the first half of 2017, Tongfang Pharmaceutical maintained sound momentum of development, and was benefited from industrial network and economies of scale. We expect Tongfang Pharmaceutical will soon step into a stage of rapid development, bringing us greater returns.

Fitness Business

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

The Asia-Pacific, home to nearly half of the world's population, is the world's largest potential market for the health club and fitness industry. At present, it serves 17 million members at 31,000 health clubs across 14 markets (excluding the Middle East), where the industry revenue totals US$14.4 billion in the region.

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

The Group's revenue in its fitness business segment for the period since the completion of the Acquisition was HK$32.8 million, which was attributable to (i) operation of fitness and wellness groups comprising mainly fitness, yoga, spa and aesthetics groups in Singapore and PRC; and (ii) franchise fee income.

Financial Review

Liquidity and Financing

On 22 December 2014, additional shares of the Company were issued in an open offer (the "Open Offer") to raise gross proceeds of approximately HK$495.0 million. Details of the open offer and update on the use of proceeds are set out in the section headed "Use of Proceeds from Open Offer" in this announcement.

Except for the proceeds raised from the Open Offer, the Group's capital expenditure, daily operations and investments during the six months ended 30 June 2017 were mainly funded by cash generated from its operations and loans from principal bankers and third parties.

As at 30 June 2017, the Group maintained bank balances and cash reserves of approximately HK$702.4 million (31 December 2016: HK$1,027.4 million), including cash and cash equivalents of approximately HK$410.9 million, pledged short-term bank deposits of approximately HK$288.9 million and restricted bank deposit of approximately HK$2.6 million (31 December 2016: cash and cash equivalents of approximately HK$581.1 million, pledged short-term bank deposits of approximately HK$421.4 million, time deposits with original maturity between 4 to 12 months of approximately HK$22.3 million and restricted bank deposit of approximately HK$2.5 million).

As at 30 June 2017, the Group had outstanding borrowings of approximately HK$783.8 million repayable within one year (31 December 2016: HK$916.3 million) and outstanding borrowings of approximately HK$168.2 million repayable after one year (31 December 2016: HK$163.1 million). The Group's outstanding borrowings were denominated in Hong Kong dollars ("HK$"), Renminbi ("RMB"), United States dollars and Singapore dollars ("SGD") as to 62.1%, 32.4%, 5.2% and 0.3%, respectively. Around 82.4% of the Group's outstanding borrowings were charged with interest at floating rates while the remainder were at fixed rates.

The gearing ratio (total borrowings over total assets) of the Group as at 30 June 2017 was as follows:

	At 30 June 2017 Unaudited ***HK$'000***	At 31 December 2016 Audited *HK$'000*
Total borrowings	**952,022**	1,079,441
Total assets	**3,560,862**	3,154,191
Gearing ratio	**26.7%**	34.2%

As at 30 June 2017, a balance amounting to HK$152.0 million (31 December 2016: HK$147.7 million) were included in the amounts due from other related parties, which represent the provision of entrusted loans through a bank to 上海建材（集團）有限公司 (Shanghai Building Material (Group) Company Limited*) (formerly known as 上海建築材料（集團）總公司 (Shanghai Building Material (Group) General Company*)) ("Shanghai Building Material") and the related interest receivable. Details of the transactions were set out in the announcement of the Company dated 26 May 2017.

Financial Management and Policy

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

Risk of Foreign Exchange Fluctuation

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

Pledge of Assets

As at 30 June, 2017, carrying values of property, plant and equipment, prepaid lease payments on land use rights, exchange rate linked structured deposits and bank deposits of approximately HK$55.9 million, HK$8.9 million, HK$46.9 million and HK$291.1 million respectively (31 December 2016: HK$106.0 million, HK$45.7 million, HK$22.4 million and HK$421.4 million), were pledged for banking facilities and bank and other borrowings granted to the Group.

Material Acquisitions

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

Material Capital Commitments and Investments

As announced by the Company on 15 February 2012, Shanghai Allied Cement Co., Ltd ("Shanghai SAC") entered into the《關於建設「白龍港項目」合作協議》(Bailonggang Project Construction Cooperation Agreement*) and the《關於設立合資公司(原則)協議》(Principle Agreement for the Establishment of the Joint Venture Company*) on 13 February 2012 with Shanghai Building Material, a state-owned enterprise, for the purpose of setting up a joint venture company (the "JV Company") to operate and manage the development of new cement production facilities at Bailonggang, Pudong, Shanghai (the "Bailonggang Project") after the relevant government approvals for the Bailonggang Project being obtained. The setting up of the JV Company constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The 50% share of registered capital of the JV Company amounting to RMB400 million (equivalent to approximately HK$460.0 million (31 December 2016: HK$446.9 million)) will be contributed and funded by internal resources of the Group. Details of the transaction were set out in the announcements of the Company dated 15 February 2012 and 30 January 2014, respectively and the circular of the Company dated 16 March 2012.

As announced by the Company on 3 October 2012, Shanghai SAC entered into three purchase agreements on 28 September 2012 for the purchases of certain equipment and machineries at the aggregate consideration of RMB380 million (equivalent to approximately HK$437.0 million (31 December 2016: HK$424.6 million)), for future use in the Bailonggang Project. The Company does not intend to retain such equipment and machineries for its own use. Up to 30 June 2017, Shanghai SAC has settled the first installment of the total consideration under the three respective agreements in an aggregate amount of RMB68.3 million (31 December 2016: RMB68.3 million) (equivalent to approximately HK$78.5 million (31 December 2016: HK$76.3 million)). Details of the transaction were set out in the announcement and circular of the Company dated 3 October 2012 and 15 November 2012, respectively.

Event after the End of the Reporting Period

In July 2017, the Group further injected US$5,000,000 (equivalent to HK$38,750,000) in TFKT True Holdings pursuant to the sales and purchase agreement signed in May 2017. Consequently, the Group's shareholding in TFKT True Holdings was increased from 51% to 54%.

Employees

As at 30 June 2017, the Group had 2,174 (31 December 2016: 1,064) employees. The Group maintains a policy of paying competitive remuneration packages and employees are also rewarded salary and bonus on a performance related basis. In addition, share options and awarded shares may also be granted to eligible employees. The purpose of the schemes is to provide incentives to the selected employees to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract and retain human resources that are valuable to the Group.

Outlook

Cement Business

For the foreseeable future, the Group expects the cement industry to continue to be operated under uncertainty. Despite of the steady growth of fixed asset investment in the first half of 2017, as a result of the adjustment and control measures implemented in the property sector of the PRC, property investment is expected to slow down in the second half of 2017, and the demand for cement in PRC is unlikely to keep up.

In the future, the supply-side reform for the cement industry in the PRC would be continued, it is expected that the target of reducing overcapacity would be reached by 2020. In regard to the growing concerns of environmental protection issues, the PRC environmental regulatory framework will become increasingly stringent. The cement industry in the PRC may require incurring additional expenses for compliance purposes. The Group should consider the direction to meet the challenges.

Medical, Pharmaceutical and Health Business

Under the dual impact of policy and economic environment, the competitive landscape, operating mode and other material respects, the PRC pharmaceutical industry will be greatly influenced. The changes of policies and regulations bring direct challenges to the Company's capabilities in funding, research and development, management and emergency response. In this wave of reform, Tongfang Pharmaceutical will capture the direction of policies and grasp opportunities to be brought by the reform. As an overall strategy, it is focused on the market forefront, further exploring its own strengths, reinforcing internal management and leading the market segment. Coupled with its advantages and scientific management approach, it will create greater value to the Group.

In recent years, Tongfang Pharmaceutical has taken advantage of its core competitive strengths in the industry, to actively explore new approaches and new business model for the research and development of new drugs. It has laid out an overall plan for implementing its strategies in research and development, ranging from innovation in business model to talent recruitment, and further to close collaboration with the schools of Tsinghua University, which demonstrated its leading position in practices of sciences. Moreover, Tongfang Pharmaceutical has planned to introduce new products both in long term and short term. It takes the new version of the medical insurance catalog as the entry point for exploring market potential, and conducts research and development exercises on frontier compounds and treatments that comprehensively cover all aspects across its industrial chain including preparations and APIs. In doing so, Tongfang Pharmaceutical shall have the core to support the rapid growth in the coming decade or further.

Fitness Business

During the first half of 2017, the markets have generally seen new clubs opened by several competitors as demand continues to grow and stay strong, being led by the increased awareness of a healthy lifestyle. In particular, the PRC continues to see strong growth potential with a growing awareness and demand for fitness centers in urban city areas. The fitness market is seeing enormous growth with many chains looking to expand their club presence in the key cities of Beijing, Shanghai and Guangzhou. The growing fitness trend has also brought about many new concepts and small fitness studio concepts opening up which provide small group training classes for groups of 8 to 20 people at a time. The growth of these small fitness studios is helping to raise the awareness of fitness as many of these studios are located in shopping malls and on high street locations in the cities.

Based on the industry data from *IHRSA 2015 Global Report and 2015 Asia-Pacific Report*, the Group continues to see opportunities for expansion as the membership base continues to grow with the penetration rate of each market increasing due to the opening of new clubs in all markets. The current trend will see Asia's penetration rates tracking the growth of the more matured European and American markets.

The Group plans to set up a corporate headquarter and club in the PRC. Brand awareness will be created by utilizing various social media platforms, through the engagement of a local social media marketing company. The management will also identify locations for flagship clubs in PRC's major cities and possible locations for franchised clubs in each city, followed by the identification of potential acquisition club chains in the second and third-tier cities of China. The Group will also research on the possibilities of taking over and rebranding existing clubs and apartment complex fitness centres. As well as to explore the likelihood of setting up fitness centres in industrial parks where there is demand from the operators, either by way of a franchise business model or as the corporation's fitness center managed by the Group.

USE OF PROCEEDS FROM OPEN OFFER

On 22 December 2014, the Company completed the Open Offer to raise approximately HK$495.0 million (before costs and expenses) by way of the Open Offer of 330,000,000 new ordinary shares of the Company (the "Offer Shares") at a subscription price of HK$1.5 per Offer Share on the basis of one Offer Share for every two ordinary shares of the Company held on the record date, 28 November 2014, on the terms pursuant to the underwriting agreement dated 7 November 2014 (the "Underwriting Agreement") entered into among the Company, China Health Management Investment Limited and First Shanghai Securities Limited in respect of the underwriting and other arrangement in respect of the Open Offer. Details of the Open Offer and the completion of the Open Offer are set out in the Company announcements dated 7 November 2014 and 22 December 2014 and the Company's listing document dated 1 December 2014. The net proceeds raised upon completion after deduction of relevant costs and expenses were approximately HK$487.3 million. It was intended that the entire amount of the net proceeds would be applied by the Group in the funding of the development of and/or investment in pharmaceutical and health business.

As at 30 June 2017, all the net proceeds from the Open Offer had been utilised in the following manner:

(i) as to approximately HK$338.9 million in the settlement of the consideration for the acquisition of 60% equity interest in Tongfang Pharmaceutical completed in July 2016;

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

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

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 2017 (2016: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2017, the Company has complied with the 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 have 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 2017. 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 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares, except that the trustee of the share award scheme of the Company as adopted on 20 September 2016 (the "Share Award Scheme") purchased on the Stock Exchange a total of 6,756,000 shares of the Company pursuant to the trust deed of the Share Award Scheme.

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 2017 ("2017 Interim Report") will be despatched to the Shareholders and made available on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.tfkf.com.hk) in due course. The 2017 interim financial results set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2017 to be included in the 2017 Interim Report.

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

Hong Kong, 30 August 2017

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Huang Yu (Chairman), Mr. Ng Qing Hai (Managing Director) and Mr. Zhang Yi and three independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.

* *For identification purposes only*