AUSTAR

Austar Lifesciences Limited

奧星生命科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6118)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**477,786**	328,474
Gross profit	**126,986**	85,942
Profit/(loss) before income tax	**7,552**	(3,939)
Profit/(loss) attributable to the owners of the Company	**4,169**	(3,725)
Gross profit margin	**26.6%**	26.2%
Basic earnings/(loss) per share (RMB) *(Note)*	**0.01**	(0.01)
Diluted earnings/(loss) per share (RMB)	**0.01**	(0.01)

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total assets	**1,113,009**	1,071,370
Net assets	**489,396**	482,923
Gearing ratio	**4.1%**	5.4%

Note: The calculation of earnings/(loss) per share is based on the profit/(loss) attributable to the owners of the Company for each of the six months ended 30 June 2019 and 2018 and the weighted average number of shares during that period.

INTERIM RESULTS

The board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**" or "**Austar**", together with its subsidiaries, the "**Group**") announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019 ("**Period under Review**"), together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	For the six months ended 30 June **2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Unaudited)
Revenue	*4*	**477,786**	328,474
Cost of sales		**(350,800)**	(242,532)
Gross profit		**126,986**	85,942
Selling and marketing expenses		**(58,334)**	(44,315)
Administrative expenses		**(54,678)**	(35,655)
Net impairment losses on financial and contract assets		**(621)**	(3,805)
Research and development expenses		**(20,093)**	(14,053)
Other income		**7,020**	1,582
Other gains/(losses)		**1,061**	(588)
Operating profit/(loss)		**1,341**	(10,892)
Interest income		**2,688**	2,222
Finance expenses		**(1,530)**	(960)
Finance income – net	*5*	**1,158**	1,262
Share of net profits of investments accounted for using the equity method		**5,053**	5,691
Profit/(loss) before income tax		**7,552**	(3,939)
Income tax (expense)/credit	*6*	**(3,407)**	229
Profit/(loss) for the period		**4,145**	(3,710)
Profit/(loss) attributable to:			
The owners of the Company		**4,169**	(3,725)
Non-controlling interests		**(24)**	15
		4,145	(3,710)
Earnings/(loss) per share attributable to the owners of the Company			
– Basic and diluted (RMB)	*7*	**0.01**	(0.01)
Dividends	*8*	**–**	–

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit/(loss) for the period		**4,145**	(3,710)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**2,325**	1,077
Share of other comprehensive income of investments accounted for using the equity method		**3**	522
Other comprehensive income for the period, net of tax		**2,328**	1,599
Total comprehensive income for the period		**6,473**	(2,111)
Total comprehensive income attributable to:			
The owners of the Company		**6,497**	(2,126)
Non-controlling interests		**(24)**	15
		6,473	(2,111)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	**As at 30 June 2019** **_RMB'000_** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**49,714**	50,569
Right-of-use assets		**88,364**	–
Land use rights		**–**	54,212
Intangible assets		**8,601**	9,012
Deferred income tax assets		**6,239**	7,264
Investments accounted for using the equity method		**52,778**	47,728
Prepayments and other receivables		**10,186**	9,724
Total non-current assets		**215,882**	178,509
Current assets			
Inventories		**139,772**	131,885
Contract assets and other assets		**154,849**	126,235
Trade and notes receivables	*9*	**252,752**	286,133
Prepayments and other receivables		**67,066**	55,127
Pledged bank deposits		**117,101**	96,816
Term deposits with initial terms of over three months		**208**	206
Cash and cash equivalents		**165,379**	196,459
Total current assets		**897,127**	892,861
Total assets		**1,113,009**	1,071,370

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET ***(continued)***

	Note	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,071**	4,071
Reserves		**386,406**	384,078
Retained earnings		**96,984**	92,815
		487,461	480,964
Non-controlling interests		**1,935**	1,959
Total equity		**489,396**	482,923
LIABILITIES			
Non-current liabilities			
Lease liabilities		**21,795**	–
Deferred income		**2,964**	3,511
Deferred income tax liabilities		**8,667**	8,009
Total non-current liabilities		**33,426**	11,520
Current liabilities			
Trade and other payables	*10*	**330,158**	356,077
Contract liabilities		**227,413**	193,977
Lease liabilities		**10,974**	–
Current income tax liabilities		**1,642**	985
Short-term bank borrowings	*11*	**20,000**	25,888
Total current liabilities		**590,187**	576,927
Total liabilities		**623,613**	588,447
Total equity and liabilities		**1,113,009**	1,071,370

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 January 2014 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in providing integrated engineering solutions to pharmaceutical manufacturers and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the People's Republic of China (the "**PRC**", or "**China**"). The ultimate holding company of the Company is Standard Fortune Holdings Limited, a company incorporated in the British Virgin Islands ("**BVI**") with limited liability and wholly owned by Mr. Ho Kwok Keung, Mars, an executive Director and the chief executive officer of the Company ("**Chief Executive Officer**").

The ordinary shares of HK$0.01 each in the share capital of the Company ("**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") since 7 November 2014.

This condensed consolidated interim financial information is presented in thousands of Renminbi Yuan ("**RMB**"), unless otherwise stated, and is approved for issue by the Board on 26 August 2019.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting".

The interim report does not include all the notes of the type normally included in an annual financial report. The condensed consolidated interim financial information should be read in conjunction with the annual report for the year ended 31 December 2018, and any public announcements made by the Company during the interim reporting period.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, except for the adoption of International Financial Reporting Standard ("**IFRS**") 16 effective for the financial year from 1 January 2019.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting IFRS 16 Leases. The impact of the adoption of the leasing standard are disclosed in note 3 below. The other standards did not have any impact on the Group's accounting policies or are not relevant to the Group.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 3(b) below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Impact on the financial statements

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.73%.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of the initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB91,911,000
- prepayments and other receivables – decrease by RMB2,017,000
- lease liabilities – increase by RMB35,682,000
- land use rights – decrease by RMB54,212,000

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

(b) Accounting policies

The Group leases various offices, warehouses, plants and pieces of land. Rental contracts are typically made for fixed periods of 1 to 50 years but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities are measured at the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

(i) Extension and termination options

Extension and termination options are included in a number of offices, warehouses and plants leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4. SEGMENT INFORMATION

The chief operating decision-makers ("**CODM**") have been identified as the Chief Executive Officer, the vice presidents of the Company and the Directors who review the Group's internal reports in order to assess performance and allocate resources regularly.

The CODM considers the business primarily from a product and service perspective, which mainly includes six reportable operating segments: (1) Liquid and Bioprocess System, (2) Clean Room and Automation Control and Monitoring System, (3) Powder and Solid System, (4) GMP Compliance Service, (5) Life Science Consumables, and (6) Distribution and Agency of Pharmaceutical Equipment.

The CODM evaluates the performance of the operating segments based on gross profit. The segment results for the six months ended 30 June 2019 are as follows:

	Liquid and Bioprocess System	Clean Room and Automation Control and Monitoring System	Powder and Solid System	GMP Compliance Service	Life Science Consumables	Distribution and Agency of Pharmaceutical Equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2019 (Unaudited)							
Segment revenue and results							
Segment revenue	228,677	114,508	54,239	19,879	95,267	16,577	529,147
Inter-segment revenue	(23,736)	(19,488)	(3,781)	(95)	(1,083)	(3,178)	(51,361)
Revenue	204,941	95,020	50,458	19,784	94,184	13,399	477,786
Recognised at a point in time	15,434	17,148	21,285	810	94,184	13,399	162,260
Recognised over time	189,507	77,872	29,173	18,974	–	–	315,526
Cost of sales	(173,043)	(72,624)	(32,268)	(10,206)	(53,465)	(9,194)	(350,800)
Segment results							
Gross profit	31,898	22,396	18,190	9,578	40,719	4,205	126,986
Other segment items							
Amortisation	485	294	28	12	–	7	826
Depreciation	3,815	1,043	285	117	178	73	5,511
Net impairment losses on financial and contract assets	1,159	(503)	(243)	(108)	384	(68)	621
Impairment provision of inventories	3,579	439	77	33	(14)	20	4,134
Share of net profits of investments accounted for using the equity method	1,456	626	–	–	2,971	–	5,053

The segment results for the six months ended 30 June 2018 are as follows:

	Liquid and Bioprocess System *RMB'000*	Clean Room and Automation Control and Monitoring System *RMB'000*	Powder and Solid System *RMB'000*	GMP Compliance Service *RMB'000*	Life Science Consumables *RMB'000*	Distribution and Agency of Pharmaceutical Equipment *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2018 (Unaudited)							
Segment revenue and results							
Segment revenue	138,226	68,144	42,610	20,029	92,915	7,627	369,551
Inter-segment revenue	(20,173)	(6,293)	(1,504)	(3,036)	(8,411)	(1,660)	(41,077)
Revenue	118,053	61,851	41,106	16,993	84,504	5,967	328,474
Recognised at a point in time	30,669	10,003	12,449	1,842	84,504	5,967	145,434
Recognised over time	87,384	51,848	28,657	15,151	–	–	183,040
Cost of sales	(105,454)	(48,350)	(29,555)	(7,970)	(47,368)	(3,835)	(242,532)
Segment results							
Gross profit	12,599	13,501	11,551	9,023	37,136	2,132	85,942
Other segment items							
Amortisation	522	37	24	10	–	3	596
Depreciation	2,396	910	337	139	199	42	4,023
Net impairment losses on financial and contract assets	3,094	255	155	589	(278)	(10)	3,805
Impairment provision of inventories	3,080	358	132	–	837	130	4,537
Share of net profits of investments accounted for using the equity method	1,047	2,299	–	–	2,345	–	5,691

A reconciliation of segment gross profit to profit/(loss) before income tax is provided as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Liquid and Bioprocess System	**31,898**	12,599
Clean Room and Automation Control and Monitoring System	**22,396**	13,501
Powder and Solid System	**18,190**	11,551
GMP Compliance Service	**9,578**	9,023
Life Science Consumables	**40,719**	37,136
Distribution and Agency of Pharmaceutical Equipment	**4,205**	2,132
Total gross profit for reportable segments	**126,986**	85,942
Selling and marketing expenses	**(58,334)**	(44,315)
Administrative expenses	**(54,678)**	(35,655)
Net impairment losses on financial and contract assets	**(621)**	(3,805)
Research and development expenses	**(20,093)**	(14,053)
Other income	**7,020**	1,582
Other gains/(losses)	**1,061**	(588)
Finance income – net	**1,158**	1,262
Share of net profits of investments accounted for using the equity method	**5,053**	5,691
Profit/(loss) before income tax	**7,552**	(3,939)

The segment assets as at 30 June 2019 and 31 December 2018 are as follows:

	As at 30 June 2019		As at 31 December 2018	
	Total assets	**Investments accounted for using the equity method**	Total assets	Investments accounted for using the equity method
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Liquid and Bioprocess System	**325,672**	**13,619**	306,283	12,164
Clean Room and Automation Control and Monitoring System	**211,970**	**22,539**	185,321	21,923
Powder and Solid System	**68,788**	**–**	65,426	–
GMP Compliance Service	**26,154**	**–**	24,256	–
Life Science Consumables	**123,829**	**16,620**	87,610	13,641
Distribution and Agency of Pharmaceutical Equipment	**16,606**	**–**	11,673	–
Total segment assets	**773,019**	**52,778**	680,569	47,728
Unallocated				
Deferred income tax assets	**6,239**		7,264	
Headquarter assets	**333,751**		383,537	
Total assets	**1,113,009**		1,071,370	

Geographical information

The following table presents information on revenue of the Group by geographical regions.

Revenue	**For the six months ended 30 June**	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**437,956**	302,246
Other locations	**39,830**	26,228
	477,786	328,474

5. FINANCE INCOME – NET

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses	**(1,307)**	(772)
– short-term bank borrowings	**(526)**	(772)
– lease liabilities	**(781)**	–
Exchange losses	**(223)**	(188)
Finance expenses	**(1,530)**	(960)
Interest income	**2,688**	2,222
	1,158	1,262

6. INCOME TAX (EXPENSE)/CREDIT

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax expense	**(1,724)**	(1,790)
Deferred income tax (expense)/credit	**(1,683)**	2,019
	(3,407)	229

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from local income tax.

The Group's subsidiaries incorporated in the BVI are exempted from local income tax.

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the relevant periods (2018: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the relevant periods (2018: 15.0%).

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar SJZ**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2014 and renewed its "High and New Technology Enterprise" qualification for another three years in 2018. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2016. During the six months ended 30 June 2019, Shanghai Austar and Austar Hansen are in the process of applying renewal of its "High and New Technology Enterprise" qualification for another three years. The Directors have accrued the income tax at a preferential corporate income tax rate for the period. Hebei Aunity Engineering Consulting Limited met the criteria for Micro and Small Enterprises and was entitled to preferential corporate income tax rate of 20%, and was eligible to have corporate income tax calculated based on 50 percent of taxable income since 2018.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the relevant periods.

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings/(loss) attributable to the owners of the Company (RMB'000)	**4,169**	(3,725)
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic earnings/(loss) per share (RMB)	**0.01**	(0.01)

(b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2019 and 2018, diluted earnings/(loss) per share for the six months ended 30 June 2019 and 2018 are the same as basic earnings/(loss) per share.

8. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2019 (2018: Nil).

9. TRADE AND NOTES RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables *(Note b)*	**231,060**	227,222
Notes receivable *(Note a)*	**42,011**	80,115
	273,071	307,337
Less: loss allowance	**(20,319)**	(21,204)
	252,752	286,133

Notes:

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2018: within six months).

(b) The ageing analysis of gross trade receivables (including amounts due from related parties of trading in nature) based on sales contracts at the respective balance sheet dates is as follows:

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Within 6 months	**125,504**	141,334
6 months to 1 year	**41,374**	20,817
1 to 2 years	**38,888**	43,624
2 to 3 years	**14,750**	8,581
Over 3 years	**10,544**	12,866
	231,060	227,222

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Trade payables	**191,266**	215,007
Notes payable	**23,505**	25,934
Payroll and welfare payable	**35,630**	37,622
Taxes other than income taxes payable	**9,391**	12,845
Warranty provision	**6,476**	6,250
Accrued expense	**19,530**	18,923
Others	**44,360**	39,496
	330,158	356,077

(a) The ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Within 6 months	**170,122**	194,042
6 months to 1 year	**9,728**	9,231
1 to 2 years	**4,432**	5,127
2 to 3 years	**2,440**	2,143
Over 3 years	**4,544**	4,464
	191,266	215,007

(b) As at 30 June 2019 and 31 December 2018, the carrying amounts of trade payables are approximated at their fair values.

11. SHORT-TERM BANK BORROWINGS

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Bank borrowings		
– Secured *(Note)*	**20,000**	20,000
Notes discounted with recourse	**–**	5,888
	20,000	25,888

Note:

As at 30 June 2019, secured short-term bank borrowings are denominated in RMB, secured by the Group's buildings and land use rights. For the six months ended 30 June 2019, the short-term bank borrowings bears interest rate from 4.57% to 4.79% (2018: 4.35% to 4.79%) per annum and is repayable within one year.

12. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Property, plant and equipment	**1,563**	1,688
Intangible assets	**297**	537
	1,860	2,225

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2019, increasing expectations on the drug product quality and new technologies provide unprecedented opportunities and huge challenges to the global pharmaceutical industry.

For PRC regulatory activities, the National Medical Products Administration (NMPA) of China continues to adhere to the "Four Most Stringent Rules". The latest "Vaccine Administration Law" will come into effect on 1 December 2019. Chinese regulations and policies have more extensions on the drug registration and approval process. Other important updates include: deepening the reform of evaluation and approval policies, generic-quality consistency evaluation (GQCE), the implementation of drug life-cycle governance, the "4+7" drug procurement, the Market Authorisation Holder (MAH) mechanism and incentives to China-US dual-country drug application. All of the above policies are regarded by the Company as positive directive driving forces for its business growth.

Market outlook for the Company has been positive for the first half of 2019. The "4+7" drug procurement policies have been vigorously implemented in 2019 with the intention of reducing the drug prices and excessive medical treatment and tackling of corruption chain in the pharmaceutical industry. The introduction of this policy triggered a huge earthquake in the industry: the successful bidding prices were drastically reduced, thus resulting in reshuffling of the pharmaceutical market, where small and medium-sized pharmaceutical companies struggled for survival and the large-scale innovative pharmaceutical companies benefited from the policy. This policy perfectly fits the Company's strategies as, for years, the Company has been targeting high-end large-scale pharmaceutical companies as the Company's preferred customers.

The vaccine market classification policy in the vaccine industry in China and the vaccine manufacturers will gradually adopt the World Health Organization (WHO) pre-qualification process, which will help the Company's further expansion of business in the vaccine field. In June 2019, the PRC Vaccine Administration Law was issued and is scheduled to be implemented in December 2019. This law, which will implement the entire life-cycle process of the vaccine from research and development, manufacture to distribution, will further accelerate the scale and intensification of change in the vaccine industry.

Digital transformation in the pharmaceutical industry is no more a preferred option, but the only way to survive in the long-run under stricter data-integrity regulatory environment and increased production costs including labour costs and energy costs. Digital transformation can help achieve cost savings, while also attracting more young generation talents in the recruitment process.

BUSINESS REVIEW

For the Period under Review, the Company has recorded significant growth of approximately 37.6% of order-in-take and 45.5% of revenue as compared to that of the corresponding period last year. Thanks to the determination and efforts of reorganisation which was launched around 3 years ago, the Company now gradually benefits from the positive results from such organisation restructuring.

The transformation by upgrading the competence and knowledge of the various business segments of the Group requires further recruitment and engagement of world-class talents and consultants during the period, which may impact some of our profit margins; however, it is expected that result from long-term performance will come out of such initiatives. With our corporate strategies and commitment on our visions and strategies, our Group is still aggressive in investing in human resources, geographical expansion and enhancing product and application solution competences, with the intention to bring about more satisfactory business results for our shareholders.

The Group has been undergoing a serious review on its product lines and trying to find new technical solutions by combining various product lines together to offer the most cost-effective integrated solutions. Product-line restructuring will continue to facilitate application and solution offerings, and such restructuring will bring about competence improvement and enable the Group to be more resilient under tougher competitive circumstances. The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life-science process technology and applications and industry regulatory rules and practices, being able to help customers to address issues in quality, compliance and operation excellence. Our vision statement which was revised and presented to the public in 2018 remains valid as our business guiding principles for the Group's business segments to establish their own strategies.

The Group maintains as a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and emerging countries. The Group dedicates to provide equipment-engineering-service-consumables turnkey solutions and to promote industry advancement and create value for the pharmaceutical industry in the PRC. The Group's main business can be categorised into six segments, namely, (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. The Group's ability to provide comprehensive services and products across these business segments in different stages of a pharmaceutical product lifecycle enables the Group to solidify its working relationships with its customers. A new business synergy function has been established and is now still under development, which is expected to be in full operation in 2020 with the mission for facilitating business product line integration and incubation.

Order-in-take

Set out below is a breakdown of value of the Group's order-in-take (value-added-tax ("**VAT**") included) by business segment:

	For the six months ended 30 June				
	2019		2018		Change
Order-in-take by business segment	***RMB'000***	*%*	*RMB'000*	*%*	*%*
Liquid and Bioprocess System	**273,983**	**39.1%**	230,928	45.3%	18.6%
Clean Room and Automation Control and Monitoring System	**183,076**	**26.1%**	75,952	14.9%	141.0%
Powder and Solid System	**56,197**	**8.0%**	58,741	11.5%	(4.3%)
GMP Compliance Service	**46,965**	**6.7%**	15,547	3.0%	202.1%
Life Science Consumables	**127,300**	**18.1%**	120,768	23.7%	5.4%
Distribution and Agency of Pharmaceutical Equipment	**14,183**	**2.0%**	8,159	1.6%	73.8%
Total	**701,704**	**100.0%**	510,095	100.0%	37.6%

During the Period under Review, the total order-in-take amounted to approximately RMB701.7 million, representing a substantial increase of approximately 37.6% from approximately RMB510.1 million for the six months ended 30 June 2018, which was attributable to the increase in order-in-take amount of the business segments of Clean Room and Automation Control and Monitoring System, Liquid and Bioprocess System, GMP Compliance Service, Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment, but slightly offset by the decrease in order-in-take amount of the business segment of Powder and Solid System.

Liquid and Bioprocess System

Through past several years' persistent endeavours, focusing on biopharmaceutical projects, and strongly supported by experienced key account managers, the Group gained market recognition and dominant position in the Liquid and Bioprocess System field. Meanwhile, the Group has maintained a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in the PRC. During the Period under Review, the order-in-take amount of the business segment of Liquid and Bioprocess System increased by approximately RMB43.1 million or 18.6% from approximately RMB230.9 million for the six months ended 30 June 2018 to approximately RMB274.0 million for the Period under Review. The Group will endeavor to pursue sustainable developments, strive for high-end market in the PRC, and seek more opportunities in overseas market, supported by partnership with H+E GmbH ("**H+E**") and the new non-wholly owned subsidiary H+E Pharma GmbH ("**H+E Pharma**") with the manufacturing facility in Dresden, Germany.

Clean Room and Automation Control and Monitoring System

Through building unique competence by integrating new technology, continuous improved automation control system and its partner's latest equipment and software, the Group successfully secured its market share and experienced a high-speed growth in system turnkey engineering projects. During the Period under Review, the order-in-take amount of the business segment of the Clean Room and Automation Control and Monitoring System increased substantially by approximately RMB107.1 million or 141.0% from approximately RMB76.0 million for the six months ended 30 June 2018 to approximately RMB183.1 million for the Period under Review. Corresponding to the new technology trend, the Group will devote to develop Pharma IT business as a system integrator or consultant to offer comprehensive automation and digitalisation systems and services.

Powder and Solid System

After the establishment of a new oral solid dosage (OSD) product line in 2015, the Group's self-developed equipment has gradually gained market recognition. However, facing the keen market competition, the order-in-take amount of the business segment of Powder and Solid System decreased slightly by approximately RMB2.5 million or 4.3% from approximately RMB58.7 million for the six months ended 30 June 2018 to approximately RMB56.2 million for the Period under Review. This business unit will leverage all kinds of internal resources to capture more business opportunities.

GMP Compliance Service

Driven by government regulations and policies, there are strong demand for GMP compliance service. During the Period under Review, through continuous improvement in the consulting service strength, the order-in-take amount of the business segment of GMP Compliance Service has an outstanding increase by approximately RMB31.4 million or 202.1% from approximately RMB15.5 million for the six months ended 30 June 2018 to approximately RMB47.0 million for the Period under Review. The Group will continue to enhance the market recognition and reputation through providing high quality service and get further strong support from more international advisors.

Life Science Consumables

During the Period under Review, the Group continued to provide consumable service solutions including single use consumable system to customers. The order-in-take amount of the business segment of Life Science Consumables increased by approximately RMB6.5 million or 5.4% from approximately RMB120.8 million for the six months ended 30 June 2018 to approximately RMB127.3 million for the Period under Review. The Group has recruited talents for sales and business development in the business of laboratory instruments, which will be another strong contributor to drive the further growth of this business segment.

Distribution and Agency of Pharmaceutical Equipment

During the Period under Review, together with its joint ventures and overseas business partners, engagement in the distribution of various types of high-end pharmaceutical equipment led to the increase in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB6.0 million or 73.8% from approximately RMB8.2 million for the six months ended 30 June 2018 to approximately RMB14.2 million for the Period under Review.

Backlogs

Set out below is a breakdown of the Group's closing value of backlogs (VAT excluded) and the corresponding number of contracts by business segment as at 30 June 2019:

	As at 30 June 2019			
Backlogs by business segment	*Number of Contracts*	*%*	*RMB'000*	*%*
Liquid and Bioprocess System	352	33.5%	347,834	43.7%
Clean Room and Automation Control and Monitoring System	301	28.6%	252,512	31.7%
Powder and Solid System	121	11.5%	72,894	9.2%
GMP Compliance Service	109	10.4%	78,282	9.8%
Distribution and Agency of Pharmaceutical Equipment	168	16.0%	44,146	5.6%
Total	1,051	100.0%	795,668	100.0%

PRODUCTION, EXECUTION AND ORGANISATION

A new facility of our joint venture, PALL-AUSTAR Lifesciences Limited, for providing single-use bioprocess bag material to our biologic's customers, is under construction and scheduled to be ready for use in 2020. It is expected that with this new facility, a significant increase in production capacity can help to relieve the pressure of supply and will definitely become a reliable and strong component vendor to the Group's single-use system engineering business.

The facility expansion plan of the Group's associate, ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**"), in Wehr, Germany is going on with the completion milestone scheduled to be at the end of 2019. It is planned that our integrated freeze-dryer equipment can be tested and run under a new factory-acceptance-test facility inside ROTA's facility.

Our joint venture STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited ("**STERIS-AUSTAR**"), which had received a significant increase in backlogs and order-in-take over the last two years, will be benefiting from the Group's manufacturing site movement plan in Shanghai, China, scheduled to be executed in 2020. The additional manufacturing space from the plan is important for the growth of STERIS-AUSTAR as STERIS Corporation, our joint venture partner, agreed to license a new product to STERIS-AUSTAR.

Our Group has entered into joint venture arrangements with, among other parties, H+E, a German company, in relation to the establishment of the joint venture H+E Pharma, a company established in Stuttgart, Germany, to take over the existing Pharma-related business from H+E including services and manufacturing of purified water and highly purified water equipment. In connection with such joint venture arrangement, the Group obtained a manufacturing facility in Dresden, Germany with capacity for manufacturing stainless steel skids including water treatment equipment, bioprocess equipment and gradually with freeze-dryer assembling with further additional competence elements and extended facilities in the area. This facility will support our business development strategies in Europe to offer alternative solutions to our customers in Europe and its neighboring regions.

A LEAN manufacturing system establishment initiated in December 2018 has triggered a continuous improvement culture in three production sites of the Group in the PRC. With its production process improvement by implementing VSM (value-stream mapping), by setting project teams focused on QCD (Quality, Cost & Delivery) and new interpretation of seemingly conventional production tool, 5S (SEIRI, SEITON, SEISO, SEIKETSU, SHITSUKE). It is believed that LEAN trainings and improvement activities will last for years, which will further improve the whole operation system and can provide better products and service to customers with shorter lead time and better quality. IT-based production systems will be implemented for further improvement on management system especially on visual management and simplification of internal working process. The Group's two main manufacturing centres in Shanghai and Shijiazhuang will be further harmonised to cooperate with each other to fulfil customer needs.

Our Engineering Project Execution Centre has been continuously taking actions on improvement of knowledge and work process, which include: (1) updating the installation instructions and commissioning standard operating procedures (SOPs) to shorten project periods and save project costs; (2) continuously advancing the software standardisation and optimising the basic modules of software system to improve control precision; (3) launching of equipment life cycle management service by the technical maintenance and service team gradually for all equipment including installation, commissioning, equipment validation, user training, spare parts replacing, calibration, preventive maintenance, system upgrade and other services, of which the initiative started with STERIS vaporized hydrogen peroxide (VHP) sterilizers and washing machines; (4) establishing a Q&A database on HTML helpdesk for project sites to help engineers solve problems more effectively and conveniently onsite; (5) updating the material codes system to help engineers shorten the order placing period; and (6) completing 83 external and internal trainings in the first half of 2019. Apart from technical trainings, several trainings regarding management, finance and legal knowledge were arranged for project execution staff.

RESEARCH AND DEVELOPMENT

As at 30 June 2019, the Group has obtained 221 registered patents. During the Period under Review, the Group obtained 25 registered patents including 4 invention patents and applications for 25 patents are currently in progress.

The Group came to a strategic partnership agreement with Siemens for enhancing pharmaceutical industry digitalisation with the Group as the first company in the pharmaceutical industry in our region to support Siemens' Mindsphere, the cloud-based IoT (Internet of Things) operating system. The Group has been developing a new Facility Equipment Management System to facilitate the exploration of data utilisation of facility and equipment of the Group's customers.

The AusMill brand milling equipment with more options are still under further technical development and after further standardisation, the Group expected to launch this product-line to Europe and other emerging countries soon next year.

Vacuum Conical Dryer for active pharmaceutical ingredients (APIs) was developed and more than 30 sets of such new me-better equipment have been sold out. This vacuum conical dryer is one of the key equipment for manufacturing pharmaceutical bulk chemicals including APIs, recipients and intermediates.

All key process analytical technology (PAT) instruments and devices were installed and integrated in the wet-granulation pilot laboratory equipment to generate data for process development. The formulation process laboratories with soft capsule, dry granulation & wet granulation, and particle-sizing equipment can offer value-added services to our OSD equipment and system delivery.

New technical features including advanced cooling control system have been applied in our freeze-dryer design and have already been applied in one project. The services of the new freeze-dryer research and development (R&D) laboratory partnership with scholars in University of Erlangen-Nuremberg are officially launched. Freeze-drying process tests assigned by customers have embarked on its ambitious journey to be the world-class biologics freeze-dryer and protein-product stability laboratory.

Clean-room partition system with high-pressure-lamination material developed in the first half of 2019 will offer more options for customers for stricter technical environment. The R&D for energy-saving components and devices for Heating Ventilation and Air Conditioning (HVAC) will be enhanced with a specialist with profound energy-saving and sustainability background has been recently recruited.

SALES AND MARKETING

In 2019, a dedicated team in Europe for sales, marketing and business development is being established to cope with the project enquiries in the region of Europe, Middle East and North Africa.

The China sales team is focusing in China market with more experienced key account managers on board to support the growth of the Group's business in China. Product-line managers and SMEs (Specific Matter Experts) are supporting territory sales representatives for technical support and proposal preparation and presentation. Technology Application Teams with its cross-product-line SMEs are deploying and supporting both product-line managers and SMEs for proposal presentation of sophisticated projects requiring more comprehensive competence and knowledge in a certain application, irrespective of regions and territories.

Due to the nature of the product application, sales teams from different product lines have evolved gradually into specific sector customer-focused sales teams, which are able to support customer contacts for different product lines. This synergy and partnership sales model was started in 2018 and is being strengthened in 2019 with more SMEs involved. It is expected that this sales model will create synergetic order-in-take results in the coming years.

The Company organised a Bioprocess and Bio Technologies Seminar held in Seoul, South Korea in April 2019 with world-class speakers from the Company's TAC (Technical Advisory Committee), and CEO forum to bring together top Korean biologics senior management to attend. Two consecutive seminar road shows "New Technologies-Solid Dosage Drug on Continuous Manufacturing & High Containment" were organised by the Company in March 2019 at Suzhou and Zhuhai, PRC, supported by 6 speakers from Europe, the United States and Japan.

The Company participated as exhibitors in those classical marketing events like CIPM, CPHI, API China in China and participated in a number of conferences with our speakers and exhibits in 2019.

The Company has been adopting nine separate WeChat official accounts to share our knowledge with the industry. More than 110 technical articles were posted in the first half of 2019 in different social media under the subjects of quality system, process technologies and energy efficiency.

PROSPECTS

Increase the market share in PRC and emerging countries.

In the first half of 2019, STERIS Corporation granted the Group's wholly-own subsidiary in India the exclusive rights for the sales of water for injection and pure-steam. It will allow the Company to act as water system integrator with STERIS products in India.

Initiating establishment of a sales marketing and business development team in Europe with the disciplines of clean utilities, bioprocess equipment and systems, clean room systems and integrated fill and finish are in progress. This initiative is part of our global expansion strategies. It allows additional sales and business development resources to explore more market opportunities for Europe, Middle East and North Africa.

After some years of study on this market, the Group has decided to choose to develop our own team in Russia with our own subsidiary instead of forming a joint venture in Russia and the Commonwealth of Independent States (CIS) countries.

During the Period under Review, there have been some significant breakthrough for orders of product-lines freeze-dryers and clean room system engineering. It is believed that our market share of these two product lines will have a faster improvement.

By the efforts of sales organisation consolidation and further integration of products, the order-in-take significantly increased in the first half of 2019 compared to the same period in 2018. The efforts and team resources invested in the last few years and to be invested in the years to come, in a number of product lines now in incubation phases will gradually mature to offer new streams of revenues for the Group.

Improve services and product offerings

The Group has been developing 12 technology applications in our competence and knowledge model. Of our plan as indicated in our Annual Report 2018, individual specific technology application teams are being gradually established step-to-step to cover all 12 technology applications within 2 to 3 years. Each of the individual application team would formalise their mission, visions and strategies under the following guiding principles:

Mission:–

1. To help connect the scattered but related product lines onto one package of products with one key application concept.

2. To solve the customers' issues of quality, process, compliance and operational excellence.

3. To increase Austar's technological competence level and thus improve Austar's overall competitiveness as a key transformation initiative.

Visions:–

1. Through the new value propositions from the technology application team's efforts, business results of more than 50% can be achieved than by proposing a single solution.

2. Creating technological and commercial value to customers, staff and vendors through specific technology applications.

3. Branding as a global technology application leader in 5 to 8 years.

Tactics and Strategic Goals:–

1. Using 4-level from Components/Software, Equipment, Systems to Application Solutions/Facility to create partnership alliance among the sub-business units of the Group, vendors, suppliers and partners.

2. To become a technology application regional leader in 3 years and global leader in 5 to 8 years.

3. For 2019 – team establishment with common shared value and objectives with formalised cooperation structure and mechanism including meeting management and incentive scheme.

The Group has its uniqueness in product offerings with the following capacities:–

1. Offering complete products and service by meeting the regulatory compliance requirements for instance, in solving the customers' contamination control regulatory requirements, consumables, equipment, services are integrated to offer unique solutions to the customers.

2. Offering an integrated solution from the component/software level, to equipment level, to system level to tackle with an application issue – for instance as for containment application, components like flexible containment vessels, valves, to equipment level such as isolator and powder transfer equipment, are integrated to complete the OSD system under one roof.

3. Offering an integrated solution by integrated application technologies – for instance, combining the knowledge of HVAC, VHP, Environmental Monitoring System (EMS), Building Management System (BMS) and energy saving to offer an integrated and automated building solution.

The service business would be one of the key growth elements within our business portfolios. Serious action has been done to make preparation and planning for restructuring all services scattered around in different product lines in various business segments onto a harmonised portfolio of services. Ultimately, our goal is to achieve service professionalism, wider differentiation from competitors, better unification of scattered services with customised service plan and more efficient communications between our Group and our customers.

Liquid and Bioprocess System

H+E Pharma, our joint venture with H+E, will help contribute to the Company's visions on our global expansion strategies implementation in the scope of clean utilities system, by leveraging the Company's competitive edges of project management, automation and validation in life sciences industry and H+E's pretreatment and purified equipment technology, after-sales services and manufacturing capacities. With the establishment of such joint venture and the Company's commitment and visions, the Group together with our partners in Europe, will be able to offer better services and systems to our customers in Europe with high customer satisfaction.

The business units of Critical Utilities System Engineering and Bioprocess System Engineering were established as a result of the restructuring of this business segment. With the Critical Utilities System Engineering business unit, our mid-long term objectives are to bring our presently regional champion business unit onto the highest global. With the Bioprocess System Engineering business unit, our goal is to become a global top-tier bioprocess equipment and system supplier. Such goals are foreseeable as the competence and knowledge acquisition are possible only when a supplier is able to acquire a significant number of projects to gain the experience and competence from, as we have much more projects in the region than other global top-tier suppliers.

During the Period under Review, the Company received orders from a monoclonal antibody biologics customer with a total package of more than US$10 million with hybrid concept applied with single-use disposable and stainless steel bioprocess skids, whereas its project initiated from the process flow diagram consulting approach. This project is under execution phase and it is believed that this project would be acting as the benchmark in this industry in this region. The Company also completed execution of a sophisticated clean utilities system project for a reputed NASDAQ public-listed biologics company in the first half of 2019. It is believed that the Group's dominant position on its clean utilities system in our region can be maintained with solid customer base and customer satisfaction.

Clean Room and Automation and Monitoring System

Utility automation control system is one of the key strength of the Group. Combining proprietary space disinfection technology VHP of the Group's partner with the Group's exploring energy saving technologies and leading utility automation control system such as BMS/EMS onto clean room enclosure system, the Group offers to the market a very unique solution from a single supplier.

Building Information Modeling (BIM) technology has been used to apply on a project to enable a possible Twin-Digital concept to be realised. The strategic partnering with Siemens to offer Siemens' Mindsphere, the cloud-based IoT operating system, can assist the Company's customers to connect their equipment and systems onto this industrial digital platform allowing exploration of more digitisation opportunities.

In 2019, the Group, empowered with our new brand Pharma LeanTec, secured its first contract of LEAN-based manufacturing digitalisation consulting service by partnering with one LEAN professional consulting company. The Group also expects that by the end of 2019 to consolidate a partnership with one reputed European company in the cooperation of offering Manufacturing Execution System in the pharmaceutical industry. All the above actions are part of our Pharma IT business initiative allowing us to act as a system integrator or consultant to offer comprehensive automation and digitalisation systems and services to customers addressing their compliance, quality assurance, and operation excellence issues.

Powder and Solid System

In 2019, the Powder and Solid System business segment will focus in the API sector by offering facility and process consulting in the first place to gain customer trust. Leveraging on the Group's internal resources from compliance, facility design, automation controls and containment technologies, this business unit will be quoting more system turnkey engineering projects than equipment alone.

With its core knowledge of containment technology, this business segment will create better value to customers involved in highly toxic and/or highly potent drugs and will continue to focus to serve the market of oncology and hormone related drugs.

The increasing sales orders of milling equipment and drying equipment strengthens this business segment, and supported by TAC (Technical Advisory Committee) advisors and manufacturing consultants involved, and it is expected to improve these equipment to world-class level. The Group's self-developed AusMill brand particle-sizing equipment has gradually gained market recognition; its unique mechanical design has a prominent performance in handling materials with high hardness and has successfully solved difficult technical problems.

GMP Compliance Service

There is a strong demand for greenfield project consulting from technology transfer process compliance, validation and quality management system due to a number of positive prevailing market driving elements.

Pharmaceutical Quality System (PQS) based on ICH Q10 consulting service is in high demand as well. This service is one of the strengths of this business segment. The service can be expanded into different scenarios such as manufacturing quality system, technology transfer quality system and pilot plant quality system. Cross-containment assessment services can be offered to customers involved in multi-product facilities especially contract development and manufacturing organisation (CDMO) for biologics and high potent drug products. Such compliance consulting can cover facility layout/product line assessment, Occupational Exposure Limit (OEL)/Occupational Exposure Band (OEB) analysis, Permitted Daily Exposure (PDE)/residue analysis, cleaning risk-based assessment and cleaning validation.

Life Science Consumables

The service element of the Washing, Disinfection and Sterilization business unit has been supporting the further growth of this business segment. Compliance with the current Europe GMP rules can be properly met only with the competence to support customers to cope with their contamination control strategies as a whole.

A strong pipeline of products in the aspects of laboratory packages, biosafety, animal vaccines and laboratory instruments being heavily invested with more human resources for sales and business development. A strong growth in the business segment is foreseeable in coming years.

RESULTS OF OPERATIONS

Revenue

The Group provides its services and products under six business segments, namely, (1) Liquid and Bioprocess System, the major types of which include pharmaceutical water system, and liquid preparation and bioprocess system; (2) Clean Room and Automation Control and Monitoring System, the major types of which include clean room enclosure system, and automation control and monitoring system; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment.

For the Period under Review, the Group's total revenue amounted to approximately RMB477.8 million, representing an increase of approximately 45.5% from the corresponding period in 2018, primarily due to the increase in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Life Science Consumables, Powder and Solid System, Distribution and Agency of Pharmaceutical Equipment, and GMP Compliance Service.

The following table sets forth, for the six months ended 30 June 2019 and 2018, the breakdown of the Group's revenue by business segment:

	For the six months ended 30 June				
	2019		2018		Change
Revenue by business segment	***RMB'000***	**%**	*RMB'000*	%	%
	(Unaudited)		(Unaudited)		
Liquid and Bioprocess System	**204,941**	**42.9%**	118,053	36.0%	73.6%
Clean Room and Automation Control and Monitoring System	**95,020**	**19.9%**	61,851	18.8%	53.6%
Powder and Solid System	**50,458**	**10.6%**	41,106	12.5%	22.8%
GMP Compliance Service	**19,784**	**4.1%**	16,993	5.2%	16.4%
Life Science Consumables	**94,184**	**19.7%**	84,504	25.7%	11.5%
Distribution and Agency of Pharmaceutical Equipment	**13,399**	**2.8%**	5,967	1.8%	124.6%
Total	**477,786**	**100.0%**	328,474	100.0%	45.5%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased substantially by approximately RMB86.9 million or 73.6% from approximately RMB118.1 million for the six months ended 30 June 2018 to approximately RMB204.9 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2018 and the increase in the order-in-take for the Period under review, which part of amount were recognised as revenue during the Period under Review, and improved project execution efficiency.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB33.2 million or 53.6% from approximately RMB61.9 million for the six months ended 30 June 2018 to approximately RMB95.0 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2018 and the increase in the order-in-take for the Period under review, parts of which were recognised as revenue.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB9.4 million or 22.8% from approximately RMB41.1 million for the six months ended 30 June 2018 to approximately RMB50.5 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2018, which part of amount were recognised as revenue during the Period under Review.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB2.8 million or 16.4% from approximately RMB17.0 million for the six months ended 30 June 2018 to approximately RMB19.8 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2018, which part of amount were recognised as revenue during the Period under Review, and improved project execution efficiency.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB9.7 million or 11.5% from approximately RMB84.5 million for the six months ended 30 June 2018 to approximately RMB94.2 million for the Period under Review, which was mainly attributable to the continuous launching of more diversified life science consumables and services with latest technology.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB7.4 million or 124.6% from approximately RMB6.0 million for the six months ended 30 June 2018 to approximately RMB13.4 million for the Period under Review. The Group will continue to explore and distribute the various types of high-end pharmaceutical equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June				
	2019		2018		Change
Revenue by geographical regions	***RMB'000***	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Mainland China	**437,956**	**91.7%**	302,246	92.0%	44.9%
Other locations	**39,830**	**8.3%**	26,228	8.0%	51.9%
Total	**477,786**	**100.0%**	328,474	100.0%	45.5%

The Group derived revenue mainly from the business operations in the Mainland China, which accounted for approximately 91.7% of the total revenue for the Period under Review (2018: approximately 92.0%).

Cost of sales

The Group's cost of sales increased by approximately RMB108.3 million or 44.6% from approximately RMB242.5 million for the six months ended 30 June 2018 to approximately RMB350.8 million for the Period under Review. Such increase mainly reflected the increase in revenue as compared to the same period in 2018.

Gross profit and gross margin

The Group's gross profit increased by approximately RMB41.0 million or 47.8% from approximately RMB85.9 million for the six months ended 30 June 2018 to approximately RMB127.0 million for the Period under Review. The gross profit margin increased slightly from approximately 26.2% for the six months ended 30 June 2018 to approximately 26.6% for the Period under Review, which was attributable to the increase in gross profit margin from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, and Powder and Solid System.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by business segment for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June					
	2019			2018		
Gross profit and gross profit margin by business segment	***RMB'000*** **(Unaudited)**	*%*	**Gross profit margin** *%*	*RMB'000* (Unaudited)	*%*	Gross profit margin *%*
Liquid and Bioprocess System	**31,898**	**25.1%**	**15.6%**	12,599	14.7%	10.7%
Clean Room and Automation Control and Monitoring System	**22,396**	**17.6%**	**23.6%**	13,501	15.7%	21.8%
Powder and Solid System	**18,190**	**14.3%**	**36.0%**	11,551	13.4%	28.1%
GMP Compliance Service	**9,578**	**7.6%**	**48.4%**	9,023	10.5%	53.1%
Life Science Consumables	**40,719**	**32.1%**	**43.2%**	37,136	43.2%	43.9%
Distribution and Agency of Pharmaceutical Equipment	**4,205**	**3.3%**	**31.4%**	2,132	2.5%	35.7%
Total	**126,986**	**100.0%**	**26.6%**	85,942	100.0%	26.2%

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System increased by approximately RMB19.3 million or 153.2% from approximately RMB12.6 million for the six months ended 30 June 2018 to approximately RMB31.9 million for the Period under Review.

The gross profit margin from the business segment of Liquid and Bioprocess System increased from approximately 10.7% for the six months ended 30 June 2018 to approximately 15.6% for the Period under Review, which was mainly attributable to the improved project execution management, cost control measures, and project execution efficiency driven by continuously improvement of engineers' knowledge and experience, and work progress.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB8.9 million or 65.9% from approximately RMB13.5 million for the six months ended 30 June 2018 to approximately RMB22.4 million for the Period under Review. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System increased from approximately 21.8% for the six months ended 30 June 2018 to approximately 23.6% for the Period under Review, which was mainly attributable to the unique competence of the Group by integrating new technology, continuous improved automation control system and its partner's latest equipment and software.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB6.6 million or 57.5% from approximately RMB11.6 million for the six months ended 30 June 2018 to approximately RMB18.2 million for the Period under Review. The gross profit margin from the business segment of Powder and Solid System increased from approximately 28.1% for the six months ended 30 June 2018 to approximately 36.0% for the Period under Review, which was mainly attributable to continual improvement in overall project control.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB0.6 million or 6.2% from approximately RMB9.0 million for the six months ended 30 June 2018 to approximately RMB9.6 million for the Period under Review. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 53.1% for the six months ended 30 June 2018 to approximately 48.4% for the Period under Review, which was resulted from undertaking of some projects with a lower gross profit margin. The Group will keep on providing high quality service and improve cost control management.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB3.6 million or 9.6% from approximately RMB37.1 million for the six months ended 30 June 2018 to approximately RMB40.7 million for the Period under Review. The gross profit margin from the business segment of Life Science Consumables decreased slightly from approximately 43.9% for the six months ended 30 June 2018 to approximately 43.2% for the Period under Review, which was mainly due to the Group's effort to gain more market share with an acceptable lower gross profit margin as a result of more market competition.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB2.1 million or 97.2% from approximately RMB2.1 million for the six months ended 30 June 2018 to approximately RMB4.2 million for the Period under Review. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 35.7% for the six months ended 30 June 2018 to approximately 31.4% for the Period under Review.

Other income

Other income increased by approximately RMB5.4 million or 343.7% to approximately RMB7.0 million for the Period under Review from approximately RMB1.6 million for the six months ended 30 June 2018, mainly due to the increase in subsidies granted by local government authorities of the PRC during the Period under Review.

Other gains/(losses)

The Group recorded other gains of approximately RMB1.1 million for the Period under Review as compared to other losses of approximately RMB0.6 million for the six months ended 30 June 2018, mainly attributable to project lawsuit compensation recognised as other gains with the amount of approximately RMB1.1 million for the Period under Review.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB14.0 million or 31.6% to approximately RMB58.3 million for the Period under Review from approximately RMB44.3 million for the six months ended 30 June 2018. The increase was primarily due to the increase in staff costs by a total amount of approximately RMB10.1 million, travel expenses by a total amount of approximately RMB1.8 million and after-sale service by a total amount of approximately RMB0.9 million.

Administrative expenses

Administrative expenses increased by approximately RMB19.0 million or 53.4% to approximately RMB54.7 million for the Period under Review from approximately RMB35.7 million for the six months ended 30 June 2018, mainly due to the increase in staff costs by a total amount of approximately RMB10.1 million, and depreciation and amortisation by a total amount of approximately RMB2.7 million.

Research and development expenses

As at 30 June 2019, the Group had 63 research and development personnel which accounted for approximately 5.2% of the Group's total number of employees. During the Period under Review, the Group cooperated with well-known academic institutions in order to upgrade the Group's technology level, and executed more research and development activities. The Group's research and development expenses increased by approximately RMB6.0 million or 43.0% from approximately RMB14.1 million for the six months ended 30 June 2018 to approximately RMB20.1 million for the Period under Review, mainly due to the increase of staff costs and materials consumed in more research projects. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Finance income – net decreased from approximately RMB1.3 million for the six months ended 30 June 2018 to approximately RMB1.2 million for the Period under Review, mainly due to the increase of interest expense from lease liabilities of approximately RMB0.8 million, but partially offset by the increase of interest income of approximately RMB0.5 million and the decrease of interest expense from short-term bank borrowing of approximately RMB0.2 million during the Period under Review.

Share of net profits of investments accounted for using the equity method

The Group's share of net profits of investments accounted for using the equity method decreased by approximately RMB0.6 million, from approximately RMB5.7 million for the six months ended 30 June 2018 to approximately RMB5.1 million for the Period under Review, primarily due to the decrease in profit contribution from the Group's investments in an associate, ROTA.

Profit/(loss) before income tax

The Group recorded profit before income tax of approximately RMB7.6 million for the Period under Review as compared to a loss before income tax of approximately RMB3.9 million for the six months ended 30 June 2018, which was primarily attributable to the factors as described above in this section.

Income tax (expense)/credit

The Group recorded an income tax expense of approximately RMB3.4 million for the Period under Review as compared to an income tax credit of approximately RMB0.2 million for the six months ended 30 June 2018, which was mainly due to the decrease of deferred income tax credit of approximately RMB3.7 million.

Profit/(loss) for the period

The Group recorded a profit of approximately RMB4.1 million for the Period under Review as compared to a loss of approximately RMB3.7 million for the six months ended 30 June 2018, which was primarily due to the factors described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

The following table summarises the Group's unaudited condensed consolidated interim statement of cash flows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(14,361)**	(46,431)
Net cash used in investing activities	**(6,386)**	(4,146)
Net cash used in financing activities	**(10,110)**	(778)
Net decrease in cash and cash equivalents	**(30,857)**	(51,355)

For the Period under Review, the Group had net cash used in operating activities of approximately RMB14.4 million mainly due to:

i. the increase in prepayments and other receivables of approximately RMB11.9 million;

ii. the increase in inventories of approximately RMB7.9 million;

iii. the increase in contract assets and other assets of approximately RMB28.6 million; and

iv. the decrease in trade and notes receivables of approximately RMB33.4 million

For the Period under Review, the Group had net cash used in investing activities of approximately RMB6.4 million, which was mainly spent on purchase of property, plant and equipment of approximately RMB5.9 million and intangible assets of approximately RMB0.5 million.

For the Period under Review, the Group had net cash used in financing activities of approximately RMB10.1 million mainly in principal elements of lease payments of approximately RMB3.2 million, net repayments of short-term borrowings of approximately RMB5.9 million, and interest paid for bank borrowings of approximately RMB0.5 million.

Net current assets

The Group's net current assets had decreased by approximately RMB9.0 million from approximately RMB315.9 million as at 31 December 2018 to approximately RMB306.9 million as at 30 June 2019.

As at 30 June 2019, the Group's total current assets amounted to approximately RMB897.1 million, which was an increase of approximately RMB4.3 million as compared with approximately RMB892.9 million as at 31 December 2018. The increase was primarily due to the factors set out below, but was partially offset by the decrease in trade and notes receivables of approximately RMB33.4 million and cash and cash equivalents of approximately RMB31.1 million:

i. the increase in contracts assets and other assets of approximately RMB28.6 million, and pledged bank deposits of approximately RMB20.3 million; and

ii. the increase in the prepayments and other receivables of approximately RMB11.9 million, and inventories of approximately RMB7.9 million, which are mainly due to the business expansion.

As at 30 June 2019, the Group's total current liabilities amounted to approximately RMB590.2 million, which was an increase of approximately RMB13.3 million as compared with approximately RMB576.9 million as at 31 December 2018. The increase was primarily due to the increase in contract liabilities in the amount of RMB33.4 million and lease liabilities in the amount of RMB11.0 million; but was partially offset by the decrease in trade and other payables in the amount of approximately RMB25.9 million and short-term bank borrowings in the amount of approximately RMB5.9 million.

Borrowings and gearing ratio

As at 30 June 2019, the total interest-bearing bank borrowings amounted to RMB20.0 million, bearing interest rates from 4.57% to 4.79% per annum (2018: 4.35% to 4.79% per annum).

The Group's gearing ratio decreased to approximately 4.1% as at 30 June 2019 from approximately 5.4% as at 31 December 2018, which is mainly attributable to the decrease of notes discounted with resource of approximately RMB5.9 million. The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 30 June 2019, in additional to the pledged bank deposits of approximately RMB117.1 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB6.7 million and approximately RMB5.4 million respectively (31 December 2018: approximately RMB7.1 million and approximately RMB5.5 million respectively) which are pledged as security for interest-bearing bank borrowings with a carrying value of RMB20.0 million (31 December 2018: RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

Interim dividend

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2019 (2018: Nil).

CAPITAL STRUCTURE

As at 30 June 2019, the Group had shareholders' equity of approximately RMB487.5 million (31 December 2018: approximately RMB481.0 million).

HUMAN RESOURCES

As at 30 June 2019, the Group had 1,222 full-time employees for R&D, sales and marketing, administration, project management and execution and manufacturing, representing an increase of approximately 7.4% as compared with 1,138 employees as at 31 December 2018. The main increase is from R&D, project management and manufacturing departments. During the Period under Review, the employee costs (including Directors' remuneration) were approximately RMB108.6 million, which was an increase of approximately 39.1% as compared with approximately RMB78.0 million for the six months ended 30 June 2018.

Employee costs of the Group increased mainly due to the Group's increase in number of employees for the purpose of expanding the Group's operational scale and the Group's efforts in ensuring the attractiveness of its employee remuneration packages and granting of performance-based bonuses in accordance with the Group's remuneration policy.

The Group regularly reviews its remuneration policies and employee benefits with reference to market practices and performance of individual employees. The remuneration of the employees and the Directors are determined by reference to their respective responsibilities, professional qualification, industry experience and performance. The emolument policy of the Directors is decided by the remuneration committee of the Board. The Group has formulated provisions and rules on employees' training, such as the "Training and Development Control Procedures" and the "Training Management Control Procedures", detailing the implementation of training and accountability in training. In addition, in the "Staff Handbook", the Group divides training into orientation, overseas training, management training, professional skills training and corporate culture training.

CAPITAL COMMITMENTS

Capital expenditure of property, plant and equipment and intangible assets which has been contracted for but not yet incurred as of 30 June 2019 amounted to approximately RMB1.9 million (31 December 2018: approximately RMB2.2 million).

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro and Hong Kong dollar. Foreign exchange risk arises from the ending balances of the internal borrowings among the Group's subsidiaries which have different functional currencies, the foreign currencies held by the Group's subsidiaries and offices and the sales of the Group's products and services to overseas customers who settle payments in foreign currencies. The Directors do not consider the foreign exchange rate risks as material to the Group and therefore, did not carry out any financial instruments such as forward currency exchange contracts to hedge the risks.

EVENT AFTER THE REPORTING PERIOD

On 3 July 2019, Austar Biosciences GmbH, an indirect wholly-owned subsidiary of the Company, entered into the investment agreement ("**Investment Agreement**") with, among other parties, H+E in relation to the formation of a joint venture in Germany, namely H+E Pharma ("**Establishment of the Joint Venture**") to carry out business regarding development, engineering, production, sale of systems and parts for systems, maintenance and other services for Purified Water and Highly Purified Water equipment requested by manufacturers and/or providers of medicinal drug products and other products and services in the pharmaceutical and life sciences industries and other customers in the life sciences industries. At the same time of the entering into of the Investment Agreement, H+E and H+E Pharma entered into the engineering framework agreement for the provision of the engineering and construction services and non-engineering services regarding the construction and development of apparatuses and plants for producing, storage and distribution of Purified Water and Highly Purified Water by H+E to H+E Pharma; and H+E and S-Tec GmbH ("**S-Tec**") entered into the pre-assembly and assembly framework agreement for the provision of the pre-assembly and assembly services regarding equipment and plants for the purification and treatment of water and other liquids for non-pharmaceutical applications by S-Tec to H+E (collectively, the "**Service Framework Agreements**"). Upon completion of the Establishment of the Joint Venture, each of H+E Pharma and S-Tec has become an indirect non-wholly owned subsidiary of the Company whereby S-Tec has become a wholly-owned subsidiary of H+E Pharma, and H+E Pharma is owned as to 51% by the Group and as to 49% by H+E. As H+E has become a connected person of the Company by virtue of its 49% interest in H+E Pharma under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), the transactions contemplated under the Service Framework Agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. For details, please refer to the announcements of the Company dated 3 July 2019 and 5 July 2019.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was incorporated in the Cayman Islands on 9 January 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

On 7 November 2014, the Shares were first listed on the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). The net proceeds received by the Company from the IPO amounted to approximately HK$411.8 million (after deducting underwriting commissions and all related expenses) ("**Net Proceeds**").

The Company has, and will continue to utilise the Net Proceeds for the purposes consistent with the section headed "Future plans and use of proceeds" as set out in the prospectus of the Company dated 28 October 2014 ("**Prospectus**"). As at 30 June 2019, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	**Proposed percentage of utilisation**	**Proposed utilisation amount**		**Utilised amount up to 30 June 2019**		**Unutilised amount as at 30 June 2019**		**Expected timeline for the unutilised Net Proceeds**
		HK$ in million	*RMB in million*	*HK$ in million*	*RMB in million*	*HK$ in million*	*RMB in million*	
Establishment of the Shijiazhuang R&D and Production Centre	39.6%	163.1	126.7	55.7	32.6	107.4	94.1	*Note 1*
Development of the Songjiang Production Centre	14.2%	58.4	45.4	–	–	58.4	45.4	*Note 2*
Expansion of sales and marketing network	6.8%	28.0	21.8	28.0	21.8	–	–	N/A
Research and development activities	9.5%	39.1	30.4	39.1	30.4	–	–	N/A
Potential acquisition of interests in companies possessing critical product technologies in the pharmaceutical equipment, process system and service market	20%	82.4	64.0	29.9	18.0	52.5	46.0	Subject to any potential targets identified
Working capital and other general corporate purposes	9.9%	40.8	31.7	40.8	31.7	–	–	N/A
Total	100.0%	411.8	320.0	193.5	134.5	218.3	185.5	

Notes:

1. Establishment of the Shijiazhuang R&D and Production Centre - The Company had planned to use approximately RMB126.7 million (equivalent to approximately HK$163.1 million) of the Net Proceeds for establishment of the Shijiazhuang R&D and Production Centre. As the process in the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Land**") by the Group is slower than expected and accordingly, the development plans of the Group's Shijiazhuang R&D and Production Centre on such land set out in the section headed "Business" in the Prospectus have been lagging behind schedule. On 18 September 2018, the Group by a successful bid won the public tender of the Land and administrative work to obtain the necessary approvals and land use right certificates are in process. It is expected that the unutilised Net Proceeds of approximately RMB94.1 million (equivalent to approximately HK$107.4 million) allocated for the establishment of the Shijiazhuang R&D and Production Centre will be utilised in accordance with the development plans as set out in the section headed "Business" in the Prospectus but subject to rescheduling due to the reasons above.

2. Development of the Songjiang Production Centre - The Company had planned to use approximately RMB45.4 million (equivalent to approximately HK$58.4 million) of the Net Proceeds for development of the Songjiang Production Centre. As at the date of this announcement, the Group is actively searching for suitable potential location for the development of the Songjiang Production Center. The schedule of development plan of the Songjiang Production Centre was delayed due to that the local government is making a long-term plan of the whole Songjiang area development. It is expected that the unutilised Net Proceeds of approximately RMB45.4 million (equivalent to approximately HK$58.4 million) allocated for development of the Songjiang Production Centre will be utilised in accordance with the development plan as set out in the section headed "Business" in the Prospectus but subject to rescheduling due to the reasons above.

The Company intends to continue to apply the Net Proceeds in the manner consistent with that mentioned above. Nonetheless, the Directors will constantly evaluate the Group's business objectives and may change or modify the plans against changing market conditions to ascertain the business growth of the Group.

The unutilised Net Proceeds of approximately HK$218.3 million has been deposited into the banks.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the Period under Review, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code ("**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules.

Save for the deviation from code provision A.2.1 of the Corporate Governance Code as described below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the Period under Review and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

Code provision A.2.1 of the Corporate Governance Code requires the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ho Kwok Keung, Mars assumes the role of both the chairman of the Board and the Chief Executive Officer. The Board believes that vesting both the roles of chairman of the Board and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority of the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently. In addition, the Board is of the view that the balanced composition of executive and non-executive Directors (including the independent non-executive Directors) on the Board and the various committees of the Board (primarily comprising independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding its Directors' securities transactions. The Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period under Review.

AUDIT COMMITTEE

The Board established the audit committee ("**Audit Committee**") on 21 October 2014 which comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one non-executive Director, namely, Madam Ji Lingling. Mr. Cheung Lap Kei is the chairman of the Audit Committee. None of them is a member of the former or existing auditors of the Company. Details of the terms of reference of the Audit Committee are set out on the Company's website and the website of the Stock Exchange.

The primary duties of the Audit Committee are to review and supervise the Group's financial report process and internal control and risk management systems, and to formulate or review policies relating to anti-bribery compliances by ensuring regular management review of relevant corporate governance measures and its implementation and to communicate with external auditors on the audit procedures and accounting issues.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the Period under Review, which has also been reviewed by the Company's auditor, PricewaterhouseCoopers.

PUBLICATION OF INTERIM REPORT

The Company's interim report for the six months ended 30 June 2019 will be published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.austar.com.hk and will be despatched to the Company's shareholders in due course.

APPRECIATION

The Company would like to take this opportunity to thank all of its valued shareholders and various stakeholders for their continuous support. Also, the Company would like to express its appreciation to all the staff for their efforts and commitments to the Group.

On behalf of the Board
Austar Lifesciences Limited
Ho Kwok Keung, Mars
Chairman and Chief Executive Officer

Hong Kong, 26 August 2019

As at the date of this announcement, the executive Directors are Mr. Ho Kwok Keung, Mars, Mr. Ho Kin Hung, Mr. Chen Yuewu and Madam Zhou Ning; the non-executive Director is Madam Ji Lingling; and the independent non-executive Directors are Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Leung Oi Kin.