AUSTAR

奧星

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 2020

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**517,985**	477,786
Gross profit	**137,858**	126,986
Profit before income tax	**18,215**	7,552
Profit attributable to the owners of the Company	**12,782**	4,169
Gross profit margin	**26.6%**	26.6%
Basic earnings per share *(Note)*	**RMB0.02**	RMB0.01
Diluted earnings per share *(Note)*	**RMB0.02**	RMB0.01

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total assets	**1,267,066**	1,174,322
Net assets	**519,153**	502,625
Gearing ratio	**9.9%**	10.2%

Note: The calculation of earnings per share is based on the profit attributable to the owners of the Company for each of the six months ended 30 June 2020 and 2019 and the weighted average number of shares during that period. The Company had no dilutive ordinary shares for each of the six months ended 30 June 2020 and 2019.

INTERIM RESULTS

The board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**" or "**AUSTAR**", together with its subsidiaries, the "**Group**") announces the unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2020 ("**Period under Review**"), together with the comparative figures for the corresponding period in 2019 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**517,985**	477,786
Cost of sales		**(380,127)**	(350,800)
Gross profit		**137,858**	126,986
Selling and marketing expenses		**(61,665)**	(58,334)
Administrative expenses		**(46,277)**	(54,678)
Net impairment losses on financial and contract assets		**(2,217)**	(621)
Research and development expenses		**(22,548)**	(20,093)
Other income		**7,214**	7,020
Other (losses)/gains – net		**(299)**	1,061
Operating profit		**12,066**	1,341
Finance income		**1,938**	2,688
Finance expenses		**(667)**	(1,530)
Finance income – net	*4*	**1,271**	1,158
Share of net profits of investments accounted for using the equity method		**4,878**	5,053
Profit before income tax		**18,215**	7,552
Income tax expense	*5*	**(5,733)**	(3,407)
Profit for the period		**12,482**	4,145
Profit/(loss) attributable to:			
The owners of the Company		**12,782**	4,169
Non-controlling interests		**(300)**	(24)
		12,482	4,145
Earnings per share attributable to the owners of the Company – Basic and diluted (RMB)	*6*	**0.02**	0.01
Dividends	*7*	**–**	–

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Profit for the period		**12,482**	4,145
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**4,176**	2,325
Changes in the fair value of financial assets at fair value through other comprehensive income		**74**	–
Share of other comprehensive income of investments accounted for using the equity method		**(204)**	3
Other comprehensive income for the period, net of tax		**4,046**	2,328
Total comprehensive income for the period		**16,528**	6,473
Total comprehensive income attributable to:			
The owners of the Company		**16,766**	6,497
Non-controlling interests		**(238)**	(24)
		16,528	6,473

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**As at 30 June 2020** ***RMB'000*** **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**50,397**	55,005
Right-of-use assets		**112,956**	90,426
Intangible assets		**26,771**	26,253
Deferred income tax assets		**6,512**	6,558
Investments accounted for using the equity method		**59,803**	57,509
Prepayments and other receivables		**10,800**	10,399
Total non-current assets		**267,239**	246,150
Current assets			
Inventories		**222,661**	163,517
Contract assets and other assets		**229,998**	185,747
Prepayments and other receivables		**54,326**	47,746
Trade and notes receivables	*8*	**242,312**	251,091
Pledged bank deposits		**113,656**	88,778
Term deposits with initial terms of over three months		**161**	209
Cash and cash equivalents		**136,713**	191,084
Total current assets		**999,827**	928,172
Total assets		**1,267,066**	1,174,322

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

	Note	**As at 30 June 2020** ***RMB'000*** **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,071**	4,071
Reserves		**393,544**	389,560
Retained earnings		**113,688**	100,906
		511,303	494,537
Non-controlling interests		**7,850**	8,088
Total equity		**519,153**	502,625
LIABILITIES			
Non-current liabilities			
Lease liabilities		**26,165**	24,988
Deferred income		**412**	1,972
Deferred income tax liabilities		**12,875**	10,950
Total non-current liabilities		**39,452**	37,910
Current liabilities			
Trade and other payables	*9*	**405,505**	378,708
Contract liabilities		**269,595**	222,276
Current income tax liabilities		**2,474**	907
Short-term borrowings	*10*	**20,000**	20,000
Lease liabilities		**10,887**	11,896
Total current liabilities		**708,461**	633,787
Total liabilities		**747,913**	671,697
Total equity and liabilities		**1,267,066**	1,174,322

NOTES TO THE INTERIM CONDENSED CONSOLIDATED 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 ("**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 ("**Mr. Mars Ho**", also the "**Controlling Shareholder**"), Chairman of the Board and Chief Executive Officer of the Company ("**Chief Executive Officer**").

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 interim condensed consolidated financial information is presented in thousands of Renminbi Yuan ("**RMB**"), unless otherwise stated, and is approved for issue by the Board on 27 August 2020.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim report does not include all the notes of the type normally included in an annual financial report. The interim condensed consolidated financial information should be read in conjunction with the annual report for the year ended 31 December 2019, 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 2019, except for the adoption of amended standards as set out below.

Amended standards adopted by the Group

A number of amended standards became applicable for the current reporting period. These amended standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

3. 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.

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 reportable segments based on gross profit.

The segment results for the six months ended 30 June 2020 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 2020 (Unaudited)							
Segment revenue and results							
Segment revenue	229,738	123,808	48,240	23,999	107,725	15,873	549,383
Inter-segment revenue	(13,335)	(13,869)	(158)	(313)	(635)	(3,088)	(31,398)
Revenue	216,403	109,939	48,082	23,686	107,090	12,785	517,985
Recognised at a point in time	56,718	15,429	6,955	1,476	107,090	12,532	200,200
Recognised over time	159,685	94,510	41,127	22,210	–	253	317,785
Cost of sales	(181,443)	(84,183)	(35,978)	(11,792)	(58,959)	(7,772)	(380,127)
Segment results							
Gross profit	34,960	25,756	12,104	11,894	48,131	5,013	137,858
Other segment items							
Amortisation	1,309	315	25	12	–	5	1,666
Depreciation	6,811	3,227	692	340	1,428	180	12,678
Provision for impairment losses on financial and contract assets	86	949	436	212	421	113	2,217
Impairment of inventories	117	522	240	116	482	55	1,532
Share of net profits of investments accounted for using the equity method	2,419	545	–	–	1,914	–	4,878

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
Provision for/(reversal of) impairment losses on financial and contract assets	1,159	(503)	(243)	(108)	384	(68)	621
Impairment 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

A reconciliation of segment gross profit to profit before income tax is provided as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Liquid and Bioprocess System	**34,960**	31,898
Clean Room and Automation Control and Monitoring System	**25,756**	22,396
Powder and Solid System	**12,104**	18,190
GMP Compliance Service	**11,894**	9,578
Life Science Consumables	**48,131**	40,719
Distribution and Agency of Pharmaceutical Equipment	**5,013**	4,205
Total gross profit for reportable segments	**137,858**	126,986
Selling and marketing expenses	**(61,665)**	(58,334)
Administrative expenses	**(46,277)**	(54,678)
Net impairment losses on financial and contract assets	**(2,217)**	(621)
Research and development expenses	**(22,548)**	(20,093)
Other income	**7,214**	7,020
Other (losses)/gains – net	**(299)**	1,061
Finance income – net	**1,271**	1,158
Share of net profits of investments accounted for using the equity method	**4,878**	5,053
Profit before income tax	**18,215**	7,552

The segment assets as at 30 June 2020 and 31 December 2019 are as follows:

	As at 30 June 2020		As at 31 December 2019	
	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	**470,576**	**16,962**	354,973	17,369
Clean Room and Automation Control and Monitoring System	**258,774**	**22,535**	255,540	21,517
Powder and Solid System	**82,840**	**–**	70,490	–
GMP Compliance Service	**28,130**	**–**	32,586	–
Life Science Consumables	**143,560**	**20,306**	136,658	18,623
Distribution and Agency of Pharmaceutical Equipment	**6,004**	**–**	28,085	–
Total segment assets	**989,884**	**59,803**	878,332	57,509
Unallocated				
Deferred income tax assets	**6,512**		6,558	
Headquarter assets	**270,670**		289,432	
Total assets	**1,267,066**		1,174,322	

Geographical information

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

	For the six months ended 30 June	
Revenue	**2020**	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**478,807**	437,956
Other locations	**39,178**	39,830
	517,985	477,786

4. FINANCE INCOME – NET

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses		
– Short-term bank borrowings	**(474)**	(526)
– Lease liabilities	**(403)**	(781)
– Loan from a non-controlling shareholder of a subsidiary	**(34)**	–
Exchange gains/(losses)	**244**	(223)
Finance costs	**(667)**	(1,530)
Finance income		
– Bank deposits	**1,678**	2,442
– Loan to PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**")	**260**	246
	1,938	2,688
	1,271	1,158

5. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax expense	**3,794**	1,724
Deferred income tax expense	**1,939**	1,683
	5,733	3,407

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 under the International Business Companies Acts or, as the case may be, BVI Business Companies Act of 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 six months ended 30 June 2020 (2019: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 30.0% of the estimated assessable profit for the six months ended 30 June 2020 (2019: 30.0%).

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 2019. During the six months ended 30 June 2020 and 2019, 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% of taxable income.

6. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit 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	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to the owners of the Company *(RMB'000)*	**12,782**	4,169
Weighted average number of ordinary shares in issue *(Thousands)*	**512,582**	512,582
Basic earnings per share *(RMB)*	**0.02**	0.01

(b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2020 and 2019, diluted earnings per share for the six months ended 30 June 2020 and 2019 are the same as basic earnings per share.

7. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2020 (2019: nil).

8. TRADE AND NOTES RECEIVABLES

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables *(Note b)*	**219,676**	226,963
Notes receivable *(Note a)*	**46,369**	47,116
	266,045	274,079
Less: loss allowance	**(23,733)**	(22,988)
	242,312	251,091

Notes:

(a) The notes receivable are bank acceptance with maturity dates within six months (2019: 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 2020	As at 31 December 2019
	RMB'000	*RMB'000*
Within 6 months	**121,913**	143,827
6 months to 1 year	**38,003**	17,536
1 to 2 years	**23,533**	29,576
2 to 3 years	**25,850**	26,767
Over 3 years	**10,377**	9,257
	219,676	226,963

9. TRADE AND OTHER PAYABLES

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**268,289**	236,504
Notes payable	**29,801**	25,244
Payroll and welfare payable	**38,848**	37,856
Taxes other than income taxes payable	**8,632**	3,510
Warranty provision	**6,836**	12,422
Accrued expense	**25,873**	29,883
Employee payable	**1,661**	5,533
Loan from a non-controlling shareholder of a subsidiary *(Note a)*	**1,627**	1,563
Others	**23,938**	26,193
	405,505	378,708

Notes:

(a) As at 30 June 2020, the loan from a non-controlling shareholder of a subsidiary is unsecured, bears interest at 5% per annum and repayable on demand.

(b) 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 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 6 months	**240,150**	206,632
6 months to 1 year	**14,893**	14,597
1 to 2 years	**6,399**	7,550
2 to 3 years	**1,371**	2,735
Over 3 years	**5,476**	4,990
	268,289	236,504

(c) As at 30 June 2020 and 31 December 2019, the carrying amounts of trade payables are approximated at their fair values.

10. SHORT-TERM BORROWINGS

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bank borrowings, secured *(Note (a))*	**20,000**	20,000

Note:

(a) As at 30 June 2020, secured short-term bank borrowings are denominated in RMB, secured by the Group's buildings and right-of-use assets. For the six months ended 30 June 2020, the short-term bank borrowings bear interest rate of 4.57% (2019: 4.57% to 4.79%) per annum and is repayable within one year.

11. COMMITMENTS

Capital commitments

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

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**2,364**	1,631
Intangible assets	**333**	611
	2,697	2,242

MARKET REVIEW

In 2020, due to the outbreak of Coronavirus Disease 2019 ("**COVID-19**"), population movement has been under severe restrictions which has affected social/productive activities and brought about challenges to production in the pharmaceutical industry.

Global investment is expected to slow down amidst the pandemic and post-pandemic periods. In the life sciences industry, the short-term negative impact on investment is obviously foreseeable due to the barriers of difficult face-to-face communications, slower funding activities and stricter travel restrictions. It is believed that, in the post-pandemic period, much more significant investment would be poured onto the life sciences and biopharmaceutical sectors due to increased health concerns and awareness not only from the public but also from the government and private sectors. An eagerness for searching better means of well-being and health is expected to be imbedded in the people's minds for many years to come.

Some countries have been asking for more independence on biopharmaceuticals and therapeutics, especially on supply chain, thus creating a demand for more equipment and systems to be installed and more facilities to be built. It would be becoming new driving forces for fixed assets investment growth in the pharmaceutical industry.

The urgent demand for the discovery, development and manufacturing of COVID-19 vaccines is driving all key health institutions of large countries and developed countries to allocate resources to be the earliest launcher of such vaccine as their ultimate mission. Such strong messages of requests on projects, products and services in various countries are clearly heard in the last few months.

International GMP inspection activities have been hindered by the pandemic, which led to changes in the decisions and arrangements of domestic companies for EU/US inspection preparation. Thus, the immediate demand for hiring external high-end consultation has been reduced. However, the needs of improving public health management system and the awareness of biosafety are increasing, therefore stimulating relevant business growth in such specific biological safety field.

For regulatory activities in the PRC, the government encourages the launching of Coronavirus vaccine-related research and development (R&D) and manufacturing projects through support policies. On 18 June 2020, the PRC National Health Commission, Ministry of Science and Technology, Ministry of Industry and Information Technology, State Administration of Market Supervision and National Medical Products Administration (NMPA) jointly issued "The General Requirements for Biosafety in Vaccine Production Workshop", a temporary emergency standard to regulate the biosafety requirements of the Coronavirus vaccine production, with the intention to guide the production of the new Coronavirus vaccine. These types of projects will have to be completed in short project periods and would have to meet stringent and strict biosafety standards. Thus, the companies investing in the Coronavirus vaccine may need support from external professional resources to fulfil such difficult tasks.

In order to enhance the PRC "Drug Administration Law" and "Vaccine Administration Law", the NMPA has released a few major appendices setting out higher requirements on clinical research, product registration and manufacturing, which include new standards for biological products and blood products in the first half year of 2020. During the same period, the NMPA has issued the new requirement of "Drug Record and Data Management (Trial)" to align the regulatory requirement on data integrity with the mainstream counterparts. These newly released regulations have opened a wider window for the compliance consulting opportunities of quality system improvement, execution of qualification and validation, computerised system validation and data integrity, which the Group has the knowledge and the services to support with.

The PRC Ministry of Agriculture and Rural Affairs issued the "Good Manufacture Practice for Veterinary Drug (revised in 2020)" and special quality management requirements for five categories of veterinary drug production, which took into effect on 1 June 2020. The issuance of such regulations would definitely improve quality status of veterinary drug. In turn, suppliers like the Company might benefit from their facility upgrade and new facility constructions.

In the first half year of 2020, the Group had not observed and experienced any material commitment deterioration on investments in innovative drugs and biologics in the market, even though the barriers on communication and restrictions on travelling brought on by pandemic situation might have slowed down such processes. Nonetheless, a close monitoring of this issue shall be required as to how the investment moment will be changing in the post-pandemic era. With the model of utilising international funds and combining top research talents in China and the United States to develop new drugs proven to be feasible, the emerging countries (in particular China with abundant human resources) will have the ability to achieve rapid innovative drug research with global standards and cost-effectiveness. Whether the worsening relations of the United States-China would have affected the flow of drug research still has to be observed.

The "4+7" drug procurement policy of the PRC, favouring in general those companies with huge manufacturing facilities, perfectly fits the Company's strategies as, for years, the Company has been targeting high-end large-scale pharmaceutical companies as its preferred customers. A recent direction is that pharmaceutical bulk chemical or active pharmaceutical ingredients (API) manufacturers tend to produce formulated drugs, and formulation drug manufacturers are looking for opportunities to build up their own raw material API research and manufacturing facilities. This recent development has created more business opportunities for the Company as more research and manufacturing facilities with large capacities have to be constructed.

BUSINESS REVIEW

The year 2020 has been tough after the Chinese New Year because of the COVID-19 outbreak. In any case, for the Period under Review, the Group has still been able to achieve a growth of approximately 8.4% of revenue and approximately 3.5% of order-in-take as compared to that of the corresponding period last year. We believe that if there were no COVID-19 outbreak, the Group would have been able to achieve a much significant interim year-to-year growth, as the travel restrictions and communication barriers caused by the COVID-19 pandemic have caused temporary disruptions in project execution which in turn resulted in decreased revenue recognition and delays in bidding and order contract negotiation. Our sales and project execution team from April to June 2020 have made great contributions to the Group as they have been able to capture orders of several COVID-19 vaccine research and manufacturing facilities and deliver our products and execute projects under such virus-threatening inconvenient working conditions.

With our corporate strategies and the enhancement of product and technology application competences, it is believed that the growth pattern and momentum are going to continue under the present and foreseeable future market environment. In particular in the post-COVID-19 era, it is believed that more capital expenditure (CAPEX) investment, no matter in the public sector or the private sector, would be deployed into the life sciences industry. Vaccine drug development and manufacturing are expected to be booming. The Group's skill and knowledge sets developed for building BSL-3 vaccine research and manufacture facility and related equipment and systems in the past years and especially during the last few months are expected to be benefiting to the Company's competence elements of the biosafety-related and vaccine industry. The super skills developed in this COVID-19 period to complete COVID-19 vaccine projects under an extremely tight schedule under tough environment would be an asset to our project execution team, and it is expected that the project profit margin would improve.

In the light of the impact brought about by COVID-19 in early 2020, the Group has initiated a quickest response mechanism for the maintenance of stable business operation. Based on the Group's rapid early warning system and efficient organisation system, the Group has made quick response to personnel health management and operation adjustment, by announcing our "NO ONE INFECTED" initiative at the end of January, there were "0" cases of infections and suspected-infections among the Group's employees and including their family members, which ensured a minimum impact caused by this global pandemic health crisis.

To secure the driving elements of growth momentum for the coming few years, the Group has identified some key initiatives for change and improvement, namely Global Expansion Strategies, AUSTAR Transformation Initiatives, Technology-Application Focus Branding, Knowledge Acquisition Enhancement and Core-Product Manufacturing. All these initiatives for growth will consume additional resources and expenses which in return may impact the net profit margin, however, it is expected that favourable results from long-term performance will come out from such initiatives. With our corporate strategies and commitment on our visions and strategies, the Group is still taking an aggressive stance 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 its shareholders.

The Group is positioning itself as a technology-based pharmaceutical solution provider with system integration capability to offer in the life science industry focusing on the pharmaceutical, biologics, pharmaceutical bulk chemical sectors and expanding to medical device, research laboratory animal, animal health sectors with products and services from consulting services, consumables, instruments, equipment, process systems, utility systems to turnkey solutions.

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 and global investment environment and pharmaceutical industry challenges.

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				
	2020		2019		Change
Order-in-take by business segment	***RMB'000***	*%*	*RMB'000*	*%*	*%*
Liquid and Bioprocess System	**329,353**	**45.3%**	273,983	39.1%	20.2%
Clean Room and Automation Control and Monitoring System	**146,256**	**20.1%**	183,076	26.1%	(20.1%)
Powder and Solid System	**71,221**	**9.8%**	56,197	8.0%	26.7%
GMP Compliance Service	**21,859**	**3.0%**	46,965	6.7%	(53.5%)
Life Science Consumables	**148,051**	**20.4%**	127,300	18.1%	16.3%
Distribution and Agency of Pharmaceutical Equipment	**9,849**	**1.4%**	14,183	2.0%	(30.6%)
Total	**726,589**	**100.0%**	701,704	100.0%	3.5%

During the Period under Review, the total order-in-take amounted to approximately RMB726.6 million, representing a slight increase of approximately 3.5% from approximately RMB701.7 million for the six months ended 30 June 2019, which was attributable to the increase in order-in-take amount of the business segments of Liquid and Bioprocess System, Powder and Solid System and Life Science Consumables, but offset by the decrease in order-in-take amount of the business segments of Clean Room and Automation Control and Monitoring System, GMP Compliance Service and Distribution and Agency of Pharmaceutical Equipment.

Liquid and Bioprocess System

Through several years of persistent endeavours, focusing on biopharmaceutical projects of the high-end large-scale pharmaceutical companies, and strongly supported by experienced key account managers and products with high quality, the Group has not only gained a sustainable significant increase of order-in-take, but also market recognition and dominant position in the Liquid and Bioprocess System field. Meanwhile, the Group successfully acquired several projects relating to COVID-19 vaccine R&D facilities in the PRC, including the business of Liquid and Bioprocess System. During the Period under Review, the order-in-take amount of the business segment of Liquid and Bioprocess System increased by approximately RMB55.4 million or 20.2% from approximately RMB274.0 million for the six months ended 30 June 2019 to approximately RMB329.4 million for the Period under Review. The Group will endeavor to pursue sustainable

developments, strive for the high-end market in the PRC, and seek more opportunities in the overseas market, supported by the Group's dedicated sales team in Europe, and the non-wholly owned subsidiary H+E Pharma GmbH ("**H+E Pharma**") with its manufacturing facility in Dresden, Germany.

Clean Room and Automation Control and Monitoring System

During the Period under Review, due to the keen market competition on low margin clean room enclosure components and systems, and the slower-than-expected pace of overseas market expansion under the influence of COVID-19, the order-in-take amount of the business segment of the Clean Room and Automation Control and Monitoring System decreased by approximately RMB36.8 million or 20.1% from approximately RMB183.1 million for the six months ended 30 June 2019 to approximately RMB146.3 million for the Period under Review. The Group will sustainably focus on building unique competence by integrating new technology, continuous improved automation control system and its partner's latest equipment and software.

Powder and Solid System

Through several years of continuous improvement in the core values of product and technology upgrade, the Group gained a market recognition for its good quality, and experienced a high-speed growth during the Period under Review. The order-in-take amount of the business segment of Powder and Solid System increased by approximately RMB15.0 million or 26.7% from approximately RMB56.2 million for the six months ended 30 June 2019 to approximately RMB71.2 million for the Period under Review. The Group will leverage all kinds of its internal resources for equipment and technology integration and external experts to upgrade the technology, and will be driven by the plan to establish a new manufacturing facility in the United Kingdom to capture more business opportunities in the overseas market.

GMP Compliance Service

For the past few years, the Group has built up a good reputation in the GMP Compliance Service field through providing high quality service by combining the Group's Technical Advisory Committee and global technical resources. However, international GMP inspection activities have been hindered by the pandemic. During the Period under Review, the order-in-take amount of the business segment of GMP Compliance Service decreased by approximately RMB25.1 million or 53.5% from approximately RMB47.0 million for the six months ended 30 June 2019 to approximately RMB21.9 million for the Period under Review. Driven by new regulations and policies, it is expected that there will be strong demand for GMP compliance service. The Group will continue to provide high quality service, get further strong support from more international advisors, and capture more business opportunities.

Life Science Consumables

After several years' effort on the integration of various products and services, the Group was able to offer a complete solution of Washing, Disinfection and Sterilization. This unique competence has made the business segment of Life Science Consumables to continue to keep a stable increase in the order-in-take amount by approximately RMB20.8 million or 16.3% from approximately RMB127.3 million for the six months ended 30 June 2019 to approximately RMB148.1 million for the Period under Review. The Group will continue to launch more diversified life science consumables and services with the latest technology to its customers. The single-use bioprocess bag material capacity expansion brought by the new facility of PALL-AUSTAR JV in the near future, is expected to drive the single-use system engineering business intensively. This segment still has a huge potential growth after the rapid growth in the past several years.

Distribution and Agency of Pharmaceutical Equipment

During the Period under Review, the business segment of Distribution and Agency of Pharmaceutical Equipment was hindered by the pandemic. The order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB4.3 million or 30.6% from approximately RMB14.2 million for the six months ended 30 June 2019 to approximately RMB9.8 million for the Period under Review. The Group will continue to engage in the distribution of various types of high-end pharmaceutical equipment together with its joint ventures and overseas business partners.

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 2020:

		As at 30 June 2020		
Backlogs by business segment	*Number of Contracts*	*%*	*RMB'000*	*%*
Liquid and Bioprocess System	328	31.6%	498,027	48.8%
Clean Room and Automation Control and Monitoring System	241	23.2%	289,551	28.4%
Powder and Solid System	114	11.0%	105,969	10.4%
GMP Compliance Service	109	10.5%	71,176	7.0%
Distribution and Agency of Pharmaceutical Equipment	247	23.7%	56,269	5.4%
Total	1,039	100.0%	1,020,992	100.0%

PRODUCTION, EXECUTION AND ORGANIZATION

The Group is building up its global organisation structure. In Europe, the Group has already set up subsidiaries in Luxembourg, Germany and Italy in preparation for a more aggressive approach on manufacturing and engineering execution capacity expansion.

The Group has also established a subsidiary in the United Kingdom with visions and strategies to offer high-end barrier-technology related equipment for global biosafety and containment-concerned customers. The Group's STIW (Sterility Test Isolator Workstation) products are scheduled for delivery by the end of 2020. The STIW will have fully integrated, on-board vaporized hydrogen peroxide (VHP) VHP biodecontamination capability utilising a STERIS M100 VHP generator. The plan to establish a manufacturing facility is under progress.

The Group's non-wholly owned subsidiary, H+E Pharma, and its wholly-owned assembly plant S-Tec GmbH in Dresden, Germany, have successfully commenced business operations in the first half year of 2020, however the construction plans of the new facility intended for bioreactors and process skids assembly is being re-planned. Its service team was reconsolidated in February 2020 to offer services to existing European customers.

The new facility of our joint venture, PALL-AUSTAR JV, for providing single-use bioprocess bag material to our biologic's customers is under installation and commissioning, and such new facility is expected to be ready for use in the third quarter of 2020 after a delay of one quarter due to COVID-19. 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 was completed in March 2020, and the company's integrated freeze-dryer equipment is planned with new factory-acceptance-test work stations inside ROTA's expanded facility.

In 2019, subsidiaries in India and Malaysia were established with leaders on board to pursue the objectives of establishing technical and commercial competence gradually in the Asia region. During the first half of 2020, as affected by COVID-19, most of the sales projects that should have been decided during the first half of the year have been postponed to the second half of the year, and active pipeline and numbers of quotations have increased compared to previous year.

Under the LEAN manufacturing guidance, progress for this year will be made on TFM (Total flow management), 3P (Production Preparation Process) and Moonshine Engineering to improve supply chain efficiency through conducting gap analysis and establishing individual development plans (IDP) to improve employee skills and acquire corresponding knowledge for the purpose of developing more multi-skilled workers. In terms of data Integrity, self-assessment and examination were conducted for improvement on constant management of production activities and related documents.

The Group's project execution center has continued on with project site work during the pandemic period immediately after obtaining approvals from the authorities, and strict on-site employee safety protection and control measures were established to ensure staff safety and to achieve high-quality and on -time project delivery.

The Group successfully acquired four projects relating to COVID-19 vaccine R&D facilities, in which typically clean utilities, automation control systems, biosafety isolators, bioprocess preparation system and clean room system are provided varying from project to project. Two COVID-19 vaccine project had been successfully completed, all of which having passed the acceptance inspection by the PRC National Institute for Construction and Research and the NMPA.

The Building Information Modeling (BIM) software was implemented in 2020, which increased working efficiency for project execution, reduced errors and improved the system appearance. Through continuous software standardisation and optimisation of design process, the standard working hour for commissioning has been reduced. A whole process simulation factory acceptance test (FAT) was conducted and system bugs could be found and fixed in an early stage which would result in time-saving during on-site installation and commissioning.

SALES AND MARKETING

A dedicated team in Europe for sales, marketing and business development is being established to cope with the project enquires in the region of Europe, Middle East and North Africa. The China sales team is focusing in China market with more key account managers to support the business growth, SMEs (Specific Matter Experts) and technology application team are supporting territory sales for technical support and proposal preparation and presentation.

For the purpose of enhancing the Group's global presence and providing professional support to marketing and commercial issues, AUSTAR Commercial Competence Platform was established in March 2020 with six professional function roles, namely brand strategy, event organization, marketing collaterals, communications, business development and knowledge management, with each role to facilitate the Group's global business growth and having their mission, vision and strategies under the following principles:

Mission:

- Through integrating and harmonising related function capabilities to provide professional commercial and market affairs management and support the continuous global expansion of the Group's business.

Vision:

- Strengthening the Group's brand global presence through public information balancing, global brand consistency management and visual and user experience improvement.

- Upgrading the quality and efficiency of each function role performance through overall management coordination.

- Establishing and continuous improving the platform's professional capabilities in the fields of commercial and market affairs.

Based on a more precise business positioning as a leading technology-based pharmaceutical engineering solution provider, in the second quarter of 2020, a new Group image and website were formally released and started a new era of business development, where related marketing materials are being updated based on the new visual identity.

In February 2020, AUSTAR participated in an international trade fair, Asia Pharma Expo 2020 in Bangladesh. Due to the outbreak of COVID-19 early this year, other off-line events have been postponed or cancelled. Responding to the challenges of communication with clients caused by the pandemic, the Group had increased the use of online communication tools to share information and knowledge with clients of different countries and regions, of which 55 webinars were organised covering topics of Clean Utility, Clean Room/Ventilation and Air Conditioning (HVAC)/ Environmental Monitoring System (EMS), Building Management System (BMS), Filling, freeze-drying and inspection, Regulatory compliance and operation excellence, Containment Technology, Cleaning, sterilization and disinfection, Biosafety technology and facilities, Pharmaceutical automation and digitalization, Biopharma process and technology, and Pharmaceutical formulation technology.

Workshops with government and design institutes were organized to increase their awareness of AUSTAR's pharmaceutical technology capability and create opportunities for business cooperation.

An online electronic material sharing platform on our website is under construction for the purpose of environmental protection-reducing paper printing, and facilitating the spread of technology and product materials. It is expected that audiences from worldwide could read online and download materials from the website later this year.

Digital marketing is a long term approach for business promotion. In March 2020, AUSTAR established official accounts in Facebook, Twitter and Instagram to share business information and increase AUSTAR's brand awareness in the global market. The ten WeChat public accounts with various technology application themes to share our views and knowledge in the industry have been working efficiently where 64 technology messages and 12 company news have been released for the first half year of 2020.

RESEARCH AND DEVELOPMENT

As at 30 June 2020, the Group has obtained 251 registered patents. During the Period under Review, the Group obtained 23 new authorised patents, and applications for 55 patents are currently in progress.

The "AUSTAR Facility Equipment Management System" connecting to MindSphere, a SIEMENS industrial cloud platform, is expected to be officially launched in industrial application by the end of 2020. Such system could collect device status data, realise functions like remote operation and maintenance, and perform predictive maintenance to facilitate the exploration of data utilisation of facility and equipment.

The Group together with Thermo Fisher will jointly promote the pharmaceutical laboratory information system which aims to improve laboratory operation efficiency and performance while meeting laboratory compliance.

In early 2020, REMOIIS (Research & Manufacturing Operation Information Integrated System), an intelligent information control platform was established under the mission of helping pharmaceutical enterprises to achieve digital management and operation transformation to realise stable, efficient and compliant automated production process and intelligent management, and build digital production sites with the concept of operation excellency. The visions of REMOIIS platform are as below:

1. Through integrating technologies of leading digital partners and AUSTAR's capability in compliance, process system, engineering services to establish a comprehensive digital management platform.

2. To break the situation of "Information Island" through intelligent means to ensure product quality consistency and reliability with consideration of different process characteristics of biological, pharmaceutical, vaccine and traditional Chinese medicine.

3. Providing customised digital research and manufacturing integrated solutions with the concept of operation excellence.

Liquid filling machine and containment strategy were under development for highly toxic and highly potent medicine products. A new sterile isolator with support with overseas experts has extended its market to Europe. The isolator for P3 laboratory was developed and applied in projects which supported the research of coronavirus vaccine and enhanced the improvement of industry.

In the field of Powder and Solid System equipment, AusMill CMA-100 hammer mill has been developed; ACT-140 and ACT-180 API bulk automatic sealing machines were optimised.

For the wet granulation line, improvements have been implemented to special issues and technical difficulties, combining with integrated process analytical technology (PAT) technology to facilitate our technical ability in this area.

Cooperation with Tianjin University on "Indoor Air Quality Control" has been established to carry out the "Numerical Simulation evaluation of Ventilation and Negative Pressure Isolation" – a computational fluid dynamics (CFD) simulation study in BSL-3 laboratory, which will greatly enhance the Group's technical solution capability in BSL3 workshop/laboratory area.

A single-use vial filling system integrated with isolator are under development in partnership with ROTA, aiming to satisfy the needs of highly toxic and activity bio-product clients.

Following the completion of the R&D project of cleanroom garment validation in the first half of 2020, the Life Sciences Consumables business unit will continuing to put its efforts in launching a cleanroom garment OEM project and developing a garment management software system to build up a cleanroom garment business life cycle model and provide technical support to target markets.

PROSPECTS

Increasing the market share in the PRC and the emerging countries

Due to the outbreak of COVID-19, a short-term negative impact was observed in which business growth for the first three months of 2020 was slowed-down as a result of difficult face-to-face communications and travel restrictions in China. Thereafter, thanks to China's appropriate control measures, the industry gradually recovered to a certain extent that allowed project execution to be carried out and business orders in relation to COVID-19 had greatly increased. It is believed that the growth of sales will be able to maintain good momentum for a long period in the PRC due to the increasing demands for improvements in public health management capability, and also the urgent need of a COVID-19 vaccine. Looking forward, it is believed that much more significant investments would be poured onto the life sciences and biopharmaceutical sectors which would bring more orders to the Group.

The growth in the biopharmaceutical and pharmaceutical market in China will give the Group sufficient project experiences for consolidating a concrete foundation for building core competence elements including products, technologies, project execution capability, knowledge and expertise, and the establishment of the sales and business team in Europe, the Middle East and North Africa will bring to the Group additional sales and business opportunities. A temporary impact on the market of the emerging countries is obvious in the first half of this year. The prospects in post-pandemic era is optimistic as more vaccine facilities will be constructed. Health concerns and awareness from the public will lead to governments to reallocate more resources to the healthcare and life sciences sectors. The new teams of the Group in the South East Asia and the Middle East have been doing their best in this pandemic as new means of communications such as webinars and on-line meetings shall have to be adopted to maintain good contacts with customers and agents. A significant pipeline of projects is under discussion and preparation which hopefully can turn out to become fruitful orders in the coming months and years.

COVID-19 brought about the awareness of biosafety, and one of the key elements in biosafety is to ensure the facility is designed and maintained with proper decontamination concept, design, consumable, equipment, and process installed. Biosafety technology and facilities, one of our 12 technology applications, is focusing on this area, with internal SMEs, external consultants, and the Technical Advisory Committee (TAC) working together for customised solutions. Decontamination related to Washing, Disinfection and Sterilization, as one of our key technical competence, will be helping biosafety-concerned customers in controlling their containment risks. All these existing knowledge and competence will be further expanded to cater for the growing demands of life sciences in the post-pandemic era.

Improving services and product offerings

The Group has been developing 12 technology applications in our competence and knowledge model and individual specific technology application teams are being gradually established step by step in the following two to three years. In the first half year of 2020, five technology application teams have been established, namely Biopharma process and technology, Containment technology, Cleanroom/HVAC/EMS/BMS, Filling, freeze-drying and inspection, and Biosafety technology and facilities. Regular workshops were held for the purpose of better unification of technology capabilities of individual product lines into comprehensive technology solutions.

The Group is in preparation of undergoing a restructuring of all its services scattered in the different product lines into a harmonised portfolio of services. As a growth point for future business, serious actions have been taken, and together with key service business staff on board, the ultimate target is to achieve service professionalism, wider differentiation from the competitors, better unification of scattered services with customised service plan and more efficient communications between our Group and our customers. The service business teams will follow the below mission and visions as guiding principles:

Mission:

- Helping clients to solve their operation problems and enhancing cooperation relationship through professional product equipment life cycle management services.

- Integrating AUSTAR's current services and developing new services to form a unified force.

- Expanding AUSTAR's comprehensive service capability in the pharmaceutical industry, enhancing brand image and promoting overall business performance.

Visions:

- Improving the overall technical processes of product equipment life cycle service management, design scheme, quotation, and execution to European and American Levels in the coming 3-5 years.

- Developing equipment and system service business in the regions of India, Indonesia, Russia, and the Middle East.

- Establishing an expert image in developing countries in respect of equipment, system engineering and product life cycle management.

Liquid and Bioprocess system

Due to timing of the year and mainly as a result of the COVID-19 pandemic impact, for the first three months of 2020 the order-in-take and revenue was slow moving. However since the end of March 2020, a wave of project orders in relation to the COVID-19 vaccine increased in an overwhelming manner, such momentum being supported by large government funding and policies. As a result, the sales order of this business in the first half of 2020 has reached a historic level with around a 20% increase as compared to the corresponding period last year. In the second half of the year, the market might revert to a more rational manner, but the vaccine industry will maintain as a hot spot with strong pipelines of COVID-19 vaccines and other vaccine projects. These projects, with an expected extremely short delivery times, are pushing the Group to become more flexible in our management process and to adjust accordingly to adapt with during such emergency occasions.

The Group has obtained orders for bioprocess preparation systems for COVID-19 vaccine projects in China in the first half of this year. It is expected that more COVID-19 vaccine bioprocess preparation system projects can be acquired in the coming months.

The Group expects that the sales can still maintain a good momentum for the next six months in the PRC, and also expects that the sales will re-gain its momentum in the South East Asia as many projects were stuck in the pipeline due to the impact of COVID-19. The same situation may apply to the Middle East and North Africa.

With more and more experience gained from project execution in the past several years, we believe that the business units of Clean Utilities System Engineering and Bioprocess System Engineering are able to develop more solid technical competence and the offerings would become more specific and more adaptable to specific needs, and as a result, more market opportunities and competence upgrade are foreseeable.

Offering bioprocess and clean utilities equipment made in Germany with support from H+E Pharma and S-Tec GmbH would be helpful for the Group to partner with other companies to offer complete process and systems in some countries which preferred European manufacturing sites for quality and site expectations.

Clean Utilities Systems engineering typically are being offered to biologics companies but more projects are coming up from the APIs and Oral Solid Dosage (OSD) sectors, due to rising expectations in quality.

Powder and Solid System

Business extensions from formulations to API manufacturing, and from existing API to formulations manufacturing, are still one of the key trends in the pharmaceutical industry development in China in 2020. Business extensions from Contract Research Organisation (CRO) to Contract Development and Manufacturing Organisation (CDMO), from Contract Manufacturing Organisation (CMO) to CDMO, and from conventional pharmaceutical companies to CDMO will continue to develop following the development trends of the previous year. The demand for projects seeking profit margin improvement from automation upgrading, continuous manufacturing and streamlined production system is growing rapidly. Development of innovative drugs will bring CAPEX investment, and the pharmaceutical market will be further optimised with more sophisticated and advanced APIs and OSD facilities to be built.

The success of the Powder and Solid System business segment is heavily dependent on its knowledge-set of containment application technology, material handling technology and formulation process system engineering and supported by the fundamental knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering.

The successful installation of one wet milling preparation system embedded with one German partner equipment was an important milestone for this business segment to be able to offer particle-sizing system to drug formulation development companies and generic companies.

One BSL-3 isolator was manufactured and delivered and tested successfully at one COVID-19 facility. We have been getting new orders of such BSL-3 isolators since the first one was installed. The Group's knowledge in sterility and containment will enable us to differentiate from our competitors.

Clean Room and Automation and Monitoring System

In January 2020, the Group and Net-Pharma Group in Spain entered into a strategic cooperation agreement in engineering design and project execution. With the support of our European team, it is expected that the response speed and project cost advantages will largely improve in some territories in our global market.

The Group's clean room engineering business covers various aspects in the life sciences sector such as vaccine facilities, laboratory animal facilities and research laboratories, medical device facilities, OSD facilities and soft capsule facilities. Through the integration of technical competence of HVAC, sterilization technology and automation controls, we aim to be a turnkey solution provider integrating engineering design, equipment and systems, site installation and Good Engineering Practice (GEP) project management.

In the first half of the year, this business segment successfully installed a ABSL-3 biosafety-concerned laboratory animal facility as a turnkey clean room engineering project. The Group was able to acquire orders of clean utilities, space disinfection and its automation control systems, building and environmental monitoring systems in nearly all the key COVID-19 vaccine facility projects.

Consolidating the concept of "LEAN Manufacturing Digitalisation" and aiming to be a complete life cycle automation and digital solution provider for pharmaceutical enterprises, the Group's digitalisation business has entered into strategic cooperation agreements with key industry players like SIEMENS in collaboration on cloud-based IoT (Internet of Things) platform and Werum IT in collaboration on providing customers with world-leading biotechnology Manufacturing Execution Systems (MES) solutions.

Digitalisation Technology-related business will offer pharmaceutical research and manufacturers consulting services to help them address issues on performance, quality and compliance with the assistance of IT tools including the integration and individual implementation of software covering automation control engineering, MES, Warehouse Management System (WMS), GMP related software applications, Laboratory Information Management System (LIMS) and enterprise resource planning (ERP) IT. The Group believes that this business segment with the basic skillset such as automation control engineering and software implementation will act as a founding stone for the REMOIIS platform. The Company has acquired technical competence in pharmaceutical MES as an important information system to be linked to ERP and automation systems. The REMOIIS platform which offer unique, flexible and versatile solutions to customers was established in early 2020. This platform can allow us to integrate automation control and informatisation capabilities to facilitate pharmaceutical companies to build and become world-class informatised research and manufacturing enterprises with multifunctional, multi-products and modular design concept. Based on the "intelligent factory software and hardware integration" solution, staking the industrial Internet cloud platform as the core carrier and linking world-leading technical partners to form a new manufacturing ecology of "smart manufacturing + cloud", the business has a vision to become an industry leader in the intelligent pharmaceutical research and manufacturing operation information system in Asia. Following the release of the PRC national procurement policy, the digitalisation business can help pharmaceutical companies on automation upgrading, production costs saving and increase productivity.

The release of Annex 3 Biological Products, Good Manufacturing Practices (2010), National Medical Products Administration, represent the further strengthening of supervision of the authenticity, integrity and traceability of data. The construction of information system for vaccine production enterprises will become the next key trend.

GMP Compliance Service

The service scope of GMP Compliance Service business segment has been expanded to cover other GXP services, like Good Clinical Practice (GCP) data integrity consulting services to cover more sectors over the whole drug product life cycle.

For existing and new projects in China, China's local resources will be more preferred than international players for reasons of faster responses and lower costs. Considering more cost-effective budget control by customers, it is expected that more customer demand in employing a relevant local capable project management team to ensure the quality of project implementation will become increasingly prominent, which may give more Good Engineering Practice project management service business leads to the Group.

Technology transfer will keep its vibe for the next few years following the future positive impact of the PRC Drug Administration Law, and will provide opportunities for the Group to offer technology transfer service support and will create opportunities for CAPEX and engineering consulting services as a result.

The improvement of regulatory standards for biological products and blood products will have a significant impact on companies that manufacture biologics such as vaccines, monoclonal antibodies (mAbs) and blood products. It is expected that improvement of the quality system shall become an agenda of our customers.

This business segment is investigating and developing more competence to support customers' digitalisation projects with compliance and GXP related concerns. It would help the Group's new REMOIIS platform to ascertain the regulatory GXP compliance.

Commissioning Validation Qualification services are dependent on CAPEX investment to a certain extent. This business segment has been searching for more new services and expanding those existing services less dependent on new investment projects. Consulting on tech-transfer and pharmaceutical quality management systems can lead to building up of customer trust and helping the Group's other business segments to develop business relations with existing customers.

Life Science Consumables

The COVID-19 outbreak in 2020 has brought about the awareness of biosafety. One key element for biosafety measures is to ensure that the facilities are designed and maintained with proper decontamination concept, design, consumable, equipment and process installed. The core-competence of this business segment is decontamination related to Washing, Disinfection and Sterilization.

The growth momentum is evident with the first half-year results of 2020 along its growth path as this business segment further leverages its knowledge and experience from the biopharmaceutical sector, its core sector, onto other sub-sectors of the life sciences industry.

In the first half of this year, an exclusive agency cooperation agreement was entered into for its entire line of clean room gloves. Leveraging our knowledge in pharmaceutical clean room contamination control to empower compliance and application value to such products will support the Group's business development strategy in other territories than China. Meanwhile, a clean room garment ODM project has been launched, which is expected to offer more choices including our own branded products in line with the customers' diversified demands. Clean room garment life cycle management services, as a strong supplement, is expected to improve user experiences.

The service business concept based on contamination control strategy is helping this business segment in the application of Washing, Disinfection and Sterilization, and opening a page of opportunities for further growth by offering gap analysis services and supporting services for overall decontamination of facilities.

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 RMB518.0 million, representing an increase of approximately 8.4% from the corresponding period in 2019, primarily attributable 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 and GMP Compliance Service, but partially offset by the business segments of Powder and Solid System, and Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the six months ended 30 June 2020 and 2019, the breakdown of the Group's revenue by business segment:

	For the six months ended 30 June				
	2020		2019		Change
Revenue by business segment	***RMB'000***	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Liquid and Bioprocess System	**216,403**	**41.8%**	204,941	42.9%	5.6%
Clean Room and Automation Control and Monitoring System	**109,939**	**21.2%**	95,020	19.9%	15.7%
Powder and Solid System	**48,082**	**9.3%**	50,458	10.6%	(4.7%)
GMP Compliance Service	**23,686**	**4.6%**	19,784	4.1%	19.7%
Life Science Consumables	**107,090**	**20.7%**	94,184	19.7%	13.7%
Distribution and Agency of Pharmaceutical Equipment	**12,785**	**2.4%**	13,399	2.8%	(4.6%)
Total	**517,985**	**100.0%**	477,786	100.0%	8.4%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased by approximately RMB11.5 million or 5.6% from approximately RMB204.9 million for the six months ended 30 June 2019 to approximately RMB216.4 million for the Period under Review. The increase was mainly attributable to the new contribution of revenue from the non-wholly owned subsidiary H+E Pharma.

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 RMB14.9 million or 15.7% from approximately RMB95.0 million for the six months ended 30 June 2019 to approximately RMB109.9 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2019, parts of which were recognised as revenue during the Period under Review.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System decreased slightly by approximately RMB2.4 million or 4.7% from approximately RMB50.5 million for the six months ended 30 June 2019 to approximately RMB48.1 million for the Period under Review. The decrease was mainly due to prolonged executed time for certain projects undertaken by the Group resulting a decrease in revenue as compared with the corresponding period in 2019.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB3.9 million or 19.7% from approximately RMB19.8 million for the six months ended 30 June 2019 to approximately RMB23.7 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2019, 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 RMB12.9 million or 13.7% from approximately RMB94.2 million for the six months ended 30 June 2019 to approximately RMB107.1 million for the Period under Review, which was mainly attributable to the continuous launching of more diversified life science consumables and services with the latest technology.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased slightly by approximately RMB0.6 million or 4.6% from approximately RMB13.4 million for the six months ended 30 June 2019 to approximately RMB12.8 million for the Period under Review. The Group will continue to explore and distribute 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 2020 and 2019:

	For the six months ended 30 June				
	2020		2019		Change
Revenue by geographical regions	***RMB'000***	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Mainland China	**478,807**	**92.4%**	437,956	91.7%	9.3%
Other locations	**39,178**	**7.6%**	39,830	8.3%	(1.6%)
Total	**517,985**	**100.0%**	477,786	100.0%	8.4%

The Group derived revenue mainly from the business operations in the Mainland China, which accounted for approximately 92.4% of the total revenue for the Period under Review (2019: approximately 91.7%).

Cost of sales

The Group's cost of sales increased by approximately RMB29.3 million or 8.4% from approximately RMB350.8 million for the six months ended 30 June 2019 to approximately RMB380.1 million for the Period under Review. Such increase was in line with the increase in revenue as compared to the same period in 2019.

Gross profit and gross margin

The Group's gross profit increased by approximately RMB10.9 million or 8.6% from approximately RMB127.0 million for the six months ended 30 June 2019 to approximately RMB137.9 million for the Period under Review. The gross profit margin maintained at a stable level of approximately 26.6% for the six months ended 30 June 2019 and the Period under Review, which was attributable to the increase in gross profit margin from the business segments of Liquid and Bioprocess System, GMP Compliance Service, Life Science Consumables, and Distribution and Agency of Pharmaceutical Equipment, but partially offset by the business segments of Powder and Solid System and Clean Room and Automation Control and Monitoring 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 2020 and 2019:

	For the six months ended 30 June					
	2020			2019		
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	**34,960**	**25.4%**	**16.2%**	31,898	25.1%	15.6%
Clean Room and Automation Control and Monitoring System	**25,756**	**18.7%**	**23.4%**	22,396	17.6%	23.6%
Powder and Solid System	**12,104**	**8.8%**	**25.2%**	18,190	14.3%	36.0%
GMP Compliance Service	**11,894**	**8.6%**	**50.2%**	9,578	7.6%	48.4%
Life Science Consumables	**48,131**	**34.9%**	**44.9%**	40,719	32.1%	43.2%
Distribution and Agency of Pharmaceutical Equipment	**5,013**	**3.6%**	**39.2%**	4,205	3.3%	31.4%
Total	**137,858**	**100.0%**	**26.6%**	126,986	100.0%	26.6%

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System increased by approximately RMB3.1 million or 9.6% from approximately RMB31.9 million for the six months ended 30 June 2019 to approximately RMB35.0 million for the Period under Review. The gross profit margin from the business segment of Liquid and Bioprocess System increased from approximately 15.6% for the six months ended 30 June 2019 to approximately 16.2% for the Period under Review. The Group focused on project execution management improvement by introducing new management software to reduce errors throughout the project execution process, and made continuous improvement of project execution efficiency driven by the engineers' knowledge and experience.

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 RMB3.4 million or 15.0% from approximately RMB22.4 million for the six months ended 30 June 2019 to approximately RMB25.8 million for the Period under Review. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System kept a stable level with a slight decrease from approximately 23.6% for the six months ended 30 June 2019 to approximately 23.4% for the Period under Review. The Group will continuously make better control over cost management through implementing LEAN-based manufacturing management.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System decreased by approximately RMB6.1 million or 33.5% from approximately RMB18.2 million for the six months ended 30 June 2019 to approximately RMB12.1 million for the Period under Review. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 36.0% for the six months ended 30 June 2019 to approximately 25.2% for the Period under Review, which was mainly resulting from the undertaking of projects with a relatively lower gross profit margin in light of the keen market competition.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB2.3 million or 24.2% from approximately RMB9.6 million for the six months ended 30 June 2019 to approximately RMB11.9 million for the Period under Review. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 48.4% for the six months ended 30 June 2019 to approximately 50.2% for the Period under Review. The Group will keep on providing high quality service and improving cost control management.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB7.4 million or 18.2% from approximately RMB40.7 million for the six months ended 30 June 2019 to approximately RMB48.1 million for the Period under Review. The gross profit margin from the business segment of Life Science Consumables increased from approximately 43.2% for the six months ended 30 June 2019 to approximately 44.9% for the Period under Review, which was mainly attributable to the products cost control in procurement.

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 RMB0.8 million or 19.2% from approximately RMB4.2 million for the six months ended 30 June 2019 to approximately RMB5.0 million for the Period under Review. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 31.4% for the six months ended 30 June 2019 to approximately 39.2% for the Period under Review, which was mainly attributable to the increase in amount of technical service provided for pharmaceutical equipment which had higher gross profit margin.

Other income

Other income increased by approximately RMB0.2 million or 2.8% to approximately RMB7.2 million for the Period under Review from approximately RMB7.0 million for the six months ended 30 June 2019, mainly attributable to the increase in subsidies granted by local government authorities of the PRC during the Period under Review.

Other (losses)/gains – net

The Group recorded other losses of approximately RMB0.3 million for the Period under Review as compared to other gains of approximately RMB1.1 million for the six months ended 30 June 2019, mainly due to the increase of exchange losses recognised as other losses with the amount of approximately RMB0.4 million and the decrease of 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 RMB3.3 million or 5.7% to approximately RMB61.7 million for the Period under Review from approximately RMB58.3 million for the six months ended 30 June 2019. The increase was primarily due to the increase in staff costs by a total amount of approximately RMB10.1 million, but partially offset by the decrease in travel expenses by a total amount of approximately RMB5.3 million and marketing expenses by a total amount of approximately RMB1.5 million, because of the travel restrictions and the reduction of marketing activities caused by the COVID-19 outbreak.

Administrative expenses

Administrative expenses decreased by approximately RMB8.4 million or 15.4% to approximately RMB46.3 million for the Period under Review from approximately RMB54.7 million for the six months ended 30 June 2019, mainly due to the decrease in impairment of inventories by a total amount of approximately RMB2.6 million, travelling and office expenses by a total amount of approximately RMB1.4 million, and expenses from accrued liabilities caused by contracts with negative gross profit by a total amount of approximately RMB4.6 million.

Research and development expenses

As at 30 June 2020, the Group had 45 research and development personnel which accounted for approximately 3.4% 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 RMB2.5 million or 12.2% from approximately RMB20.1 million for the six months ended 30 June 2019 to approximately RMB22.5 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

Net finance income increased from approximately RMB1.2 million for the six months ended 30 June 2019 to approximately RMB1.3 million for the Period under Review, mainly due to the decrease in interest expense from lease liabilities of approximately RMB0.4 million, and interest expense from exchange losses of approximately RMB0.5 million but partially offset by the decrease of interest income of approximately RMB0.8 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 RMB0.2 million, from approximately RMB5.1 million for the six months ended 30 June 2019 to approximately RMB4.9 million for the Period under Review, primarily due to the decrease in profit contribution from the Group's investment in the joint venture PALL-AUSTAR JV by approximately RMB1.1 million, but partially offset by the increase in profit contribution from the Group's investment in the joint venture STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited by approximately RMB1.0 million.

Profit before income tax

The Group recorded profit before income tax of approximately RMB18.2 million for the Period under Review as compared to profit before income tax of approximately RMB7.6 million for the six months ended 30 June 2019, which was primarily attributable to the factors as described above in this section.

Income tax expense

The Group recorded an income tax expense of approximately RMB5.7 million for the Period under Review as compared to an income tax credit of approximately RMB3.4 million for the six months ended 30 June 2019, which was mainly due to the increase of profit before income tax of approximately RMB10.7 million.

Profit for the period

The Group recorded a profit of approximately RMB12.5 million for the Period under Review as compared to a profit of approximately RMB4.1 million for the six months ended 30 June 2019, which was primarily due to the factors described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(8,763)**	(14,361)
Net cash used in investing activities	**(38,696)**	(6,386)
Net cash used in financing activities	**(7,156)**	(10,110)
Net decrease in cash and cash equivalents	**(54,615)**	(30,857)

For the Period under Review, the Group had net cash used in operating activities of approximately RMB8.8 million mainly due to the increase in inventories of approximately RMB59.1 million, contract assets of approximately RMB44.3 million, and prepayments and other receivables of approximately RMB6.6 million, but partially offset by:

i. the increase in contract liabilities of approximately RMB47.3 million and trade and other payables of approximately RMB26.8 million;

ii. the profit for the year of approximately RMB12.5 million; and

iii. the decrease in trade and notes receivables of approximately RMB8.8 million.

For the Period under Review, the Group had net cash used in investing activities of approximately RMB38.7 million, which was mainly for the payment of land use right of approximately RMB39.3 million and the purchase of property, plant and equipment of approximately RMB2.4 million, but partially offset by dividend received from a joint venture of approximately RMB2.9 million and proceeds from disposal of property, plant and equipment of approximately RMB0.2 million.

For the Period under Review, the Group had net cash used in financing activities of approximately RMB7.2 million mainly in principal elements of lease payments of approximately RMB6.2 million, and interest paid for bank borrowings of approximately RMB0.9 million.

Net current assets

The Group's net current assets had decreased by approximately RMB3.0 million from approximately RMB294.4 million as at 31 December 2019 to approximately RMB291.4 million as at 30 June 2020.

As at 30 June 2020, the Group's total current assets amounted to approximately RMB999.8 million, which was an increase of approximately RMB71.7 million as compared with approximately RMB928.2 million as at 31 December 2019. 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 RMB8.8 million and cash and cash equivalents of approximately RMB54.4 million:

i. the increase in contracts assets and other assets of approximately RMB44.3 million, and pledged bank deposits of approximately RMB24.9 million; and

ii. the increase in the prepayments and other receivables of approximately RMB6.6 million, and inventories of approximately RMB59.1 million, which are mainly due to the business expansion.

As at 30 June 2020, the Group's total current liabilities amounted to approximately RMB708.5 million, which was an increase of approximately RMB74.7 million as compared with approximately RMB633.8 million as at 31 December 2019. The increase was primarily due to the increase in contract liabilities in the amount of RMB47.3 million and trade and other payables in the amount of approximately RMB26.8 million, and current income tax liabilities in the amount of RMB1.6 million; but was partially offset by the decrease in current lease liabilities in the amount of approximately RMB1.0 million.

Borrowings and gearing ratio

As at 30 June 2020, the total interest-bearing bank borrowings amounted to RMB20.0 million, bearing interest rates of 4.57% per annum (2019: 4.57% to 4.79% per annum).

The Group's gearing ratio decreased to approximately 9.9% as at 30 June 2020 from approximately 10.2% as at 31 December 2019, which is mainly attributable to the increase of total equity of approximately RMB16.5 million principally as a result of increase in retained earnings. The ratio is calculated based on the total debts as of the respective dates divided by total capital as of the respective dates and multiplied by 100%.

Pledged assets

As at 30 June 2020, in addition to the pledged bank deposits of approximately RMB113.7 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB6.0 million and approximately RMB5.3 million respectively (31 December 2019: approximately RMB6.4 million and approximately RMB5.4 million respectively) which are pledged as security for interest-bearing bank borrowings with a carrying value of RMB20.0 million (31 December 2019: RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

Interim dividend

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2020 (2019: Nil).

CAPITAL STRUCTURE

As at 30 June 2020, the Group had shareholders' equity of approximately RMB519.2 million (31 December 2019: approximately RMB502.6 million).

HUMAN RESOURCES

As at 30 June 2020, the Group had 1,325 full-time employees for R&D, sales and marketing, administration, project management and execution and manufacturing, representing an increase of approximately 1.0% as compared with 1,312 employees as at 31 December 2019. 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 RMB137.7 million, which was an increase of approximately 26.9% as compared with approximately RMB108.6 million for the six months ended 30 June 2019.

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 2020 amounted to approximately RMB2.7 million (31 December 2019: approximately RMB2.2 million).

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various foreign currency exposures, primarily with respect to Euro, US dollar 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.

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 2020, 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 2020**		**Unutilised amount as at 30 June 2020**		**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	78.5	49.5	84.6	77.2	*Note 1*
Development of the Songjiang Production Centre	14.2%	58.4	45.4	35.3	24.2	23.1	21.2	*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	44.7	29.6	37.7	34.4	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	266.4	187.2	145.4	132.8	

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. The Group has paid all the expenses for the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Land**"), and obtained the land use right certificate during the Period under Review. 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 under review and in the progress of rescheduling. It is expected that the unutilised Net Proceeds of approximately RMB77.2 million (equivalent to approximately HK$84.6 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. During the Period under Review, the Group has successfully acquired a new parcel of land located also in the Songjiang area and obtained the land use right certificate for the construction of new facilities in preparation for the relocation of the existing facilities in Songjiang area. The development plans of the Group's Songjiang Production Centre on such land set out in the section headed "Business" in the Prospectus have been under review and in the progress of rescheduling. It is expected that the unutilised Net Proceeds of approximately RMB21.2 million (equivalent to approximately HK$23.1 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 as at 30 June 2020 of approximately HK$145.4 million has been deposited into the banks.

IMPACT OF THE COVID-19 OUTBREAK

The outbreak of COVID-19 brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the Group's financial performance and position mainly in the growth of revenue. Since the outbreak of COVID-19, the Group has kept continuous attention on the situation of the COVID-19 and has actively reacted to its impact on the financial performance and position of the Group. As at the date on which this interim condensed consolidated financial information was authorised for issue, there is no material impact on the Group's financial performance and position arising from the outbreak of COVID-19.

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 Rules Governing the Listing of Securities on the Stock Exchange ("**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, 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 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 interim condensed consolidated 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 2020 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, 27 August 2020

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.