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 2018

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**328,474**	244,852
Gross profit	**85,942**	45,503
Loss before income tax	**(3,939)**	(26,894)
Loss attributable to the owners of the Company	**(3,725)**	(25,097)
Gross profit margin	**26.2%**	18.6%
Basic loss per share (RMB) *(Note)*	**(0.01)**	(0.05)
Diluted loss per share (RMB)	**(0.01)**	(0.05)

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total assets	**936,876**	881,567
Net assets	**472,324**	480,387
Gearing ratio	**4.2%**	4.2%

Note: The calculation of loss per share is based on the loss attributable to the owners of the Company for each of the six months ended 30 June 2018 and 2017 and the weighted average number of shares during that period.

INTERIM RESULTS

The board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**" or "**Austar**", together with its subsidiaries, the "**Group**") announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018 ("**Period under Review**"), together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

		For the six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**328,474**	244,852
Cost of sales		**(242,532)**	(199,349)
Gross profit		**85,942**	45,503
Selling and marketing expenses		**(44,315)**	(40,726)
Administrative expenses		**(35,655)**	(28,983)
Net impairment losses on financial and contract assets		**(3,805)**	–
Research and development expenses		**(14,053)**	(12,397)
Other income		**1,582**	2,206
Other (losses)/gains		**(588)**	1,748
Operating loss		**(10,892)**	(32,649)
Interest income		**2,222**	2,362
Finance expenses		**(960)**	(148)
Finance income – net	*5*	**1,262**	2,214
Share of net profits of investments accounted for using the equity method		**5,691**	3,541
Loss before income tax		**(3,939)**	(26,894)
Income tax credit	*6*	**229**	1,797
Loss for the period		**(3,710)**	(25,097)
(Loss)/profit attributable to:			
The owners of the Company		**(3,725)**	(25,097)
Non-controlling interests		**15**	–
		(3,710)	(25,097)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 30 June **2018** ***RMB'000*** **(Unaudited)**	 2017 *RMB'000* (Unaudited)
Loss for the period		**(3,710)**	(25,097)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**1,077**	(7,467)
Share of other comprehensive income of investments accounted for using the equity method		**522**	1,351
Other comprehensive income for the period, net of tax		**1,599**	(6,116)
Total comprehensive income for the period		**(2,111)**	(31,213)
Total comprehensive income attributable to:			
The owners of the Company		**(2,126)**	(31,213)
Non-controlling interests		**15**	–
		(2,111)	(31,213)
Loss per share attributable to the owners of the Company – Basic and diluted (RMB)	*7*	**(0.01)**	(0.05)
Dividends	*8*	**–**	–

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**42,245**	41,868
Land use rights		**5,575**	5,650
Intangible assets		**6,195**	6,469
Deferred income tax assets		**9,510**	8,257
Investments accounted for using the equity method		**43,200**	39,608
Prepayments and other receivables		**9,089**	8,464
Other non-current assets		**16,295**	16,295
Total non-current assets		**132,109**	126,611
Current assets			
Inventories		**133,589**	77,120
Contract assets		**120,331**	–
Amounts due from customers for contract work		–	115,157
Trade and notes receivables	*9*	**192,772**	209,948
Prepayments and other receivables		**52,430**	35,338
Pledged bank deposits		**47,663**	7,870
Term deposits with initial terms of over three months		**205**	203
Cash and cash equivalents		**257,777**	309,320
Total current assets		**804,767**	754,956
Total assets		**936,876**	881,567

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

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,071**	4,071
Reserves		**377,309**	375,657
Retained earnings		**88,983**	98,713
		470,363	478,441
Non-controlling interests		**1,961**	1,946
Total equity		**472,324**	480,387
LIABILITIES			
Non-current liabilities			
Deferred income		**1,850**	555
Deferred income tax liabilities		**7,894**	8,963
Total non-current liabilities		**9,744**	9,518
Current liabilities			
Trade and other payables	*10*	**245,729**	298,006
Contract liabilities		**187,684**	–
Amounts due to customers for contract work		–	72,734
Current income tax liabilities		**1,395**	922
Short-term bank borrowings	*11*	**20,000**	20,000
Total current liabilities		**454,808**	391,662
Total liabilities		**464,552**	401,180
Total equity and liabilities		**936,876**	881,567

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

The Company is an investment holding company and its subsidiaries are principally engaged in providing integrated engineering solutions to pharmaceutical manufacturers and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the People's Republic of China ("**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**"), an executive Director and the chief executive officer of the Company ("**Chief Executive Officer**").

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

This condensed consolidated interim financial information is presented in thousands of Renminbi Yuan ("**RMB**"), unless otherwise stated, and is approved for issue by the Board on 27 August 2018.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9 and IFRS 15 effective for the financial year beginned on 1 January 2018.

(a) New and amended standards adopted by the Group.

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and

- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 3 below. The other amendments and interpretations to existing standards that are effective for the financial year beginned on 1 January 2018 do not have a material impact or are not relevant to the Group.

(b) Impact of standards issued but not yet applied by the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB12,628,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

The Group is in the process of assessing the impact of IFRS16.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

IFRS 9 was generally adopted without restating comparative information. The Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings in 2018. Comparative figures have not been restated.

(i) The impact of adoption IFRS 9

At the date of initial application of IFRS 9 (1 January 2018), the Company's management has assessed which business models apply to the financial assets held by the Group and the application of IFRS 9 does not have material impact on the classification, recognition and measurement of financial assets held by the Group.

The application of IFRS 9 does not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. The Group applies the IFRS 9 simplified approach to trade receivables and contract assets.

(ii) ***The impact of adoption IFRS 15***

The following tables show the adjustments recognised for each affected individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Balance sheet (extract)	**As at 31 December 2017 As previously stated**	**Reclassifications under IFRS 15**	**Adjustments under IFRS 15**	**As at 1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Investments accounted for using the equity method	39,608	–	(1,608)	38,000
Current assets				
Inventories	77,120	–	18,344	95,464
Contract assets	–	115,714	(3,001)	112,713
Amounts due from customers for contract work	115,157	(115,157)	–	–
Trade and notes receivables	209,948	–	(2,940)	207,008
Total assets	881,567	557	10,795	892,919
Non-current liabilities				
Deferred income tax liabilities	8,963	–	(303)	8,660
Current liabilities				
Trade and other payables	298,006	(49,398)	(317)	248,291
Contract liabilities	–	122,689	17,367	140,056
Amounts due to customers for contract work	72,734	(72,734)	–	–
Total liabilities	401,180	557	16,747	418,484
Equity				
Reserves	375,657	–	53	375,710
Retained earnings	98,713	–	(6,005)	92,708
Total equity	480,387	–	(5,952)	474,435

Balance sheet (extract)	Results without the adoption of IFRS 15	Effects of the adoption of IFRS 15	Results as reported
	As at 30 June 2018		
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Investments accounted for using the equity method	**45,811**	**(2,611)**	**43,200**
Deferred income tax assets	**9,110**	**400**	**9,510**
Current assets			
Inventories	**94,953**	**38,636**	**133,589**
Trade and notes receivables	**197,824**	**(5,052)**	**192,772**
Contract assets	**–**	**120,331**	**120,331**
Amounts due from customers for contract work	**127,588**	**(127,588)**	**–**
Total assets	**912,760**	**24,116**	**936,876**
Non-current liabilities			
Deferred income tax liabilities	**8,465**	**(571)**	**7,894**
Current liabilities			
Trade and other payables	**312,862**	**(67,133)**	**245,729**
Contract liabilities	**–**	**187,684**	**187,684**
Amounts due to customers for contract work	**85,146**	**(85,146)**	**–**
Total liabilities	**429,718**	**34,834**	**464,552**
Equity			
Reserves	**377,283**	**26**	**377,309**
Retained earnings	**99,727**	**(10,744)**	**88,983**
Total equity	**483,042**	**(10,718)**	**472,324**

Statement of income and comprehensive income (extract)	For the six months ended 30 June 2018 Results without the adoption of IFRS 15 *RMB'000*	Effects of the adoption of IFRS 15 *RMB'000*	Results as reported *RMB'000*
Revenue	**353,747**	**(25,273)**	**328,474**
Cost of sales	**(263,401)**	**20,869**	**(242,532)**
Gross profit	**90,346**	**(4,404)**	**85,942**
Share of net profits of investments accounted for using the equity method	**6,694**	**(1,003)**	**5,691**
Profit/(loss) before income tax	**1,468**	**(5,407)**	**(3,939)**
Income tax (expense)/credit	**(439)**	**668**	**229**
Profit/(loss) for the period	**1,029**	**(4,739)**	**(3,710)**
Profit/(loss) attributable to:			
The owners of the Company	**1,014**	**(4,739)**	**(3,725)**
Non-controlling interests	**15**	**–**	**15**
	1,029	**(4,739)**	**(3,710)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences	**1,104**	**(27)**	**1,077**
Other comprehensive income for the period, net of tax	**1,626**	**(27)**	**1,599**
Total comprehensive income for the period	**2,655**	**(4,766)**	**(2,111)**
Total comprehensive income attributable to:			
The owners of the Company	**2,640**	**(4,766)**	**(2,126)**
Non-controlling interests	**15**	**–**	**15**
	2,655	**(4,766)**	**(2,111)**

(b) Accounting policies

(i) IFRS 9 Financial Instruments

Classification

IFRS 9 has three financial asset classification categories for investments in debt instruments:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income; and
- those to be measured subsequently at fair value through profit or loss.

Classification depends on the entity's business model for managing the debt instruments and the debt instruments' contractual cash flow characteristics.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Measurement

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Impairment

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(ii) IFRS 15 Revenue from Contracts with Customers

Revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;

- creates and enhances an asset that the customer controls as the Group performs; or

- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Presentation of contract assets and liabilities

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 15:

- contract assets recognised in relation to construction contracts were previously presented as amounts due from customers for contract work

- contract liabilities recognised in relation to construction contracts were previously presented as amounts due to customers for contract work and deposits received and advances from customers

- Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

4. SEGMENT INFORMATION

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

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

The CODM evaluates the performance of the operating segments based on gross profit. The segment results for the six months ended 30 June 2018 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 2018 (Unaudited)							
Segment revenue and results							
Segment revenue	138,226	68,144	42,610	20,029	92,915	7,627	369,551
Inter-segment revenue	(20,173)	(6,293)	(1,504)	(3,036)	(8,411)	(1,660)	(41,077)
Revenue	118,053	61,851	41,106	16,993	84,504	5,967	328,474
Recognised at a point of time	30,669	10,003	12,449	1,842	84,504	5,967	145,434
Recognised over time	87,384	51,848	28,657	15,151	–	–	183,040
Cost of sales	(105,454)	(48,350)	(29,555)	(7,970)	(47,368)	(3,835)	(242,532)
Segment results							
Gross profit	12,599	13,501	11,551	9,023	37,136	2,132	85,942
Other segment items							
Amortisation	522	37	24	10	–	3	596
Depreciation	2,396	910	337	139	199	42	4,023
Net impairment losses on financial and contract assets	3,094	225	155	589	(278)	(10)	3,805
Impairment provision of inventories	3,080	358	132	–	837	130	4,537
Share of net profits of investments accounted for using the equity method	1,047	2,299	–	–	2,345	–	5,691

The segment results for the six months ended 30 June 2017 are as follows:

	Liquid and Bioprocess System *RMB'000*	Clean Room and Automation Control and Monitoring System *RMB'000*	Powder and Solid System *RMB'000*	GMP Compliance Service *RMB'000*	Life Science Consumables *RMB'000*	Distribution and Agency of Pharmaceutical Equipment *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2017 (Unaudited)							
Segment revenue and results							
Segment revenue	79,761	64,016	26,496	12,663	80,428	6,245	269,609
Inter-segment revenue	(13,078)	(7,609)	(968)	–	(3,080)	(22)	(24,757)
Revenue	66,683	56,407	25,528	12,663	77,348	6,223	244,852
Cost of sales	(79,205)	(44,806)	(16,034)	(6,002)	(48,684)	(4,618)	(199,349)
Segment results							
Gross (loss)/profit	(12,522)	11,601	9,494	6,661	28,664	1,605	45,503
Other segment items							
Amortization	418	23	13	6	–	2	462
Depreciation	2,524	1,008	239	118	182	34	4,105
(Reversal)/impairment provision of receivables	(1,034)	904	555	311	240	91	1,067
Impairment provision of inventories	2,832	186	–	–	181	–	3,199
Share of net (losses)/profits of investments accounted for using the equity method	(995)	2,743	–	–	1,793	–	3,541

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Liquid and Bioprocess System	**12,599**	(12,522)
Clean Room and Automation Control and Monitoring System	**13,501**	11,601
Powder and Solid System	**11,551**	9,494
GMP Compliance Service	**9,023**	6,661
Life Science Consumables	**37,136**	28,664
Distribution and Agency of Pharmaceutical Equipment	**2,132**	1,605
Total gross profit for reportable segments	**85,942**	45,503
Selling and marketing expenses	**(44,315)**	(40,726)
Administrative expenses	**(35,655)**	(28,983)
Net impairment losses on financial and contract assets	**(3,805)**	–
Research and development expenses	**(14,053)**	(12,397)
Other income	**1,582**	2,206
Other (losses)/gains	**(588)**	1,748
Finance income – net	**1,262**	2,214
Share of net profits of investments accounted for using the equity method	**5,691**	3,541
Loss before income tax	**(3,939)**	(26,894)

The segment assets as at 30 June 2018 and 31 December 2017 are as follows:

	As at 30 June 2018		As at 31 December 2017	
	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	**241,953**	**11,454**	209,103	11,984
Clean Room and Automation Control and Monitoring System	**135,880**	**19,568**	138,109	17,615
Powder and Solid System	**57,449**	**–**	45,914	–
GMP Compliance Service	**24,581**	**–**	22,254	–
Life Science Consumables	**82,980**	**12,178**	64,806	10,009
Distribution and Agency of Pharmaceutical Equipment	**10,826**	**–**	9,238	–
Total segment assets	**553,669**	**43,200**	489,424	39,608
Unallocated				
Deferred income tax assets	**9,510**		8,257	
Headquarter assets	**373,697**		383,886	
Total assets	**936,876**		881,567	

Geographical information

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

	For the six months ended 30 June	
Revenue	**2018**	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**302,246**	218,885
Other locations	**26,228**	25,967
	328,474	244,852

5. FINANCE INCOME – NET

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses for short-term bank loan	**(772)**	(650)
Exchange (losses)/gains	**(188)**	502
Finance expenses	**(960)**	(148)
Interest income	**2,222**	2,362
	1,262	2,214

6. INCOME TAX CREDIT

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax expense	**(1,790)**	(1,208)
Deferred income tax credit	**2,019**	3,005
	229	1,797

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 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 relevant periods (2017: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the relevant periods (2017: 15.0%).

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 2015. During the six months ended 30 June 2018, Austar SJZ are in the process of applying renewal of its "High and New Technology Enterprise" qualification for another three years. The Directors have accrued the income tax at a preferential corporate income tax rate for the period. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2016.

7. LOSS PER SHARE

(a) Basic

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Loss attributable to the owners of the Company (RMB'000)	**(3,725)**	(25,097)
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic loss per share (RMB)	**(0.01)**	(0.05)

(b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2018 and 2017, diluted loss per share for the six months ended 30 June 2018 and 2017 are the same as basic loss per share.

8. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2018 (2017: Nil).

9. TRADE AND NOTES RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables *(Note b)*	**183,831**	188,650
Notes receivable *(Note a)*	**31,129**	40,306
	214,960	228,956
Less: loss allowance	**(22,188)**	(19,008)
	192,772	209,948

Notes:

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2017: within six months).

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 3 months	**69,255**	84,101
3 to 6 months	**13,802**	27,664
6 months to 1 year	**51,213**	22,538
1 to 2 years	**25,644**	31,788
2 to 3 years	**11,111**	11,819
Over 3 years	**12,806**	10,740
	183,831	188,650

10. TRADE AND OTHER PAYABLES

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Trade payables	**159,020**	136,928
Notes payable	**11,086**	27,207
Advances from customers	**–**	48,482
Payroll and welfare payable	**26,301**	23,436
Taxes other than income taxes payable	**2,201**	5,669
Warranty provision	**5,314**	6,282
Accrued expense	**23,773**	19,991
Employee payable	**1,668**	5,528
Others	**16,366**	24,483
	245,729	298,006

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

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Within 6 months	**132,605**	101,787
6 months to 1 year	**10,949**	19,491
1 to 2 years	**9,454**	10,154
2 to 3 years	**3,345**	3,238
Over 3 years	**2,667**	2,258
	159,020	136,928

(b) As at 30 June 2018 and 31 December 2017, the carrying amounts of trade payables are approximated at their fair values.

11. SHORT-TERM BANK BORROWINGS

	As at 30 June 2018 *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Bank borrowings		
– Secured *(Note)*	**20,000**	5,000
– Guaranteed	**–**	15,000
	20,000	20,000

Note:

As at 30 June 2018, secured short-term bank borrowings are denominated in RMB, secured by the Group's buildings and land use rights, bearing interest rates at 4.57% and 4.79% (2017: 4.35% Secured; 4.79% Guaranteed) per annum and are repayable within one year.

12. COMMITMENTS

(a) Capital commitments

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

	As at 30 June 2018 *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Property, plant and equipment	**1,670**	1,849
Intangible assets	**603**	328
	2,273	2,177

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet dates but not recognised as liabilities are as follows:

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**7,847**	4,259
Between 1 to 5 years	**4,781**	2,642
	12,628	6,901

13. SUBSEQUENT EVENT

In mid-August 2018, Shijiazhuang Hi-Tech Industrial Development Zone Administrative Committee (石家莊高新技術產業開發區管理委員會) released a notice inviting public tender for certain land use rights in the Shijiazhuang Hi-Tech Industrial Development Zone. Among which, the tender includes a land use right where a payment of RMB16.3 million was paid by Austar Pharmaceutical Process System (Shijiazhuang) Co., Ltd. (奧星製藥工藝系統(石家莊)有限公司). Management is preparing for submission of tender for the land use right according to the relevant requirement.

Subsequent to 30 June 2018 and up to the date of this announcement, refund of the payment amounted to RMB15.9 million was received by the Group from the government authority.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Within its new term of office, the Chinese government adjusted the drug regulatory authorities and their regulatory responsibilities. The drug regulation, industry and commerce market regulation and inspection and testing technology regulation are integrated into one government sector. This is going to greatly increase the strictness in inspections of pharmaceutical development organisations and strengthen the implementation of compliance cost.

Further to the China Food and Drug Administration's ("**CFDA**") joining of the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use ("**ICH**") in the second half of 2017, the CFDA discussed the plan and strategy for implementing the ICH guidelines in the first half of 2018. A preliminary plan has been formulated to complete the implementation of all the ICH guidelines within 5 years. In this regard, the implementation of the guidelines on analytical methods, impurities and drug safety is scheduled to be completed in 2020. Pharmacopoeia of The People's Republic of China 2020 which is currently being updated is also expected to be greatly aligned with the ICH guidelines. In December 2017, a new policy on consistency evaluation of drug injection formulation, namely, "Technical requirements for the consistency evaluation of listed chemical generic drugs (injection)" has been put forward by the CFDA and the draft policy is currently under public consultation. Such policy is expected to impose more challenges for injectable drug manufacturers in the market, who would have to revisit their drug quality and production efficacy by putting in more effort to improve their production process, equipment and facilities. It is believed that innovative injectable drug pharmaceutical companies in China would become future key players in the market when this new policy is fully implemented.

The new amendments to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") which came into effect on 30 April 2018 introduces a listing regime for companies from emerging and innovative sectors which, among other things, now permits pre-revenue biotech companies that do not meet the Main Board financial eligibility tests to list on the Stock Exchange. The change of the listing policies encourages some start-up biotech companies and biotech companies with products still in clinical phases to go public in Hong Kong for further fund raising, and in a way provides venture capital funds to have more exit opportunities. It is believed that fund raising and investment in biotech pharmaceutical companies will increase in the coming years, and more capital expenditure ("**CAPEX**") investment from those biotech companies with venture capital investment are expected. The momentum on the investment on drug research and development especially on biologics drugs is expected to be accelerating. All of the above creates opportunities for companies involved in laboratory instrument, equipment, and compliance consulting services.

Due to the issuance of the "Opinions on deepening the reform of the review and approval system and Encouraging the innovation of drugs and medical devices" by the State Council and a series of supporting regulations and implementation of the market authorization holder (MAH) system in 2017, it is believed that Contract Research Organization (CRO) and Contract Manufacturing Organization (CMO) will gradually become important players in the pharmaceutical industry. It is expected that there would be more investment and CAPEX on research equipment, systems and facilities.

Business Review

The Group is a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and the emerging countries. The Group dedicates to provide equipment-engineering-service-consumables turnkey solutions and to promote industry advancement and create value for the pharmaceutical industry in the PRC. In the Period under Review, a strong momentum of order-in-take over the last 6 months reinforces our belief in our determination in investing for the future by our business development initiatives with a prudent financial policy adopted over the last few years. Our improvement in order-in-take is believed to contribute improvements in margin contributions and generate better earning results in the second half of the year. In any case, the Group maintains its view that the fluctuation on its performance results would be short-term and does not affect the Group's determination in its visions and strategies commitment, that in the medium and long-term, will bring about more satisfactory business results for our shareholders.

During the Period under Review, restructuring by re-organising business product line and re-grouping business product line into strategic business units have been executed. Cross-product line cooperation mechanism for more integrated applications and services among business segments were further activated. New cross-segment application teams specialised in Containment Technology, Heating Ventilation and Air Conditioning (HVAC) Technology, Single-use Technology, Bioprocess Technology. Formulation Technology and Turnkey Solutions have been established in last year and supported with a new management scheme to synergise product supply scope to create more comprehensive and unique technical solutions. The Integrated Liquid Filling and Freeze-Drying business product line has been merged with visual inspection equipment to form a new business product line group with new leadership. The Group's establishment of a facility design subsidiary, Shanghai Aunity Pharmaceutical Science and Technology Limited ("**Aunity**"), with a Swiss facility design firm experienced in well-structured biologics design and a Chinese company comprised of a domestic and experienced facility design team in 2017 has contributed to our clean room construction business during the Period under Review partly due to provision of upfront concept design support. As at the date of this announcement, Aunity has obtained government approval of facility design qualification.

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				
	2018		2017		Change
Order-in-take by business segment	***RMB'000***	**%**	*RMB'000*	%	%
Liquid and Bioprocess System	**230,928**	**45.3%**	128,627	38.5%	79.5%
Clean Room and Automation Control and Monitoring System	**75,952**	**14.9%**	68,381	20.4%	11.1%
Powder and Solid System	**58,741**	**11.5%**	22,040	6.6%	166.5%
GMP Compliance Service	**15,547**	**3.0%**	18,924	5.7%	(17.8%)
Life Science Consumables	**120,768**	**23.7%**	84,808	25.4%	42.4%
Distribution and Agency of Pharmaceutical Equipment	**8,159**	**1.6%**	11,493	3.4%	(29.0%)
Total	**510,095**	**100.0%**	334,273	100.0%	52.6%

During the Period under Review, the total order-in-take amounted to approximately RMB510.1 million, representing a substantial increase of approximately 52.6% from approximately RMB334.3 million for the six months ended 30 June 2017, which was due to the increase in order-in-take amount of the business segments of Liquid and Bioprocess System, Life Science Consumables, Powder and Solid System and Clean Room and Automation Control and Monitoring System, but partially offset by the decrease in order-in-take amount of the business segments of GMP Compliance Service and Distribution and Agency of Pharmaceutical Equipment.

Liquid and Bioprocess System

For the past few years, the Group provided high quality products and gained market recognition in Liquid and Bioprocess System field. Meanwhile, the Group has maintained a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in Beijing, Guangzhou, Shenzhen, Hangzhou, Jiangsu Province, Sichuan Province, and Hubei Province of the PRC. During the Period under Review, the order-in-take amount of the business segment of Liquid and Bioprocess System increased substantially by approximately RMB102.3 million or 79.5% from approximately RMB128.6 million for the six months ended 30 June 2017 to approximately RMB230.9 million for the Period under Review. The Group will endeavor to pursue developments in the biopharmaceutical fields, strive for high-end market and capture more CAPEX investment business opportunities from biotech pharmaceutical companies in the coming years.

Clean Room and Automation Control and Monitoring System

Aunity, the Group's new facility design subsidiary established in the second half of 2017, brought more contribution to our clean room construction business by providing our integrated engineering solutions. In addition, the Group successfully secured its markets share and acquired more automation control system projects. During the Period under Review, the order-in-take amount of the business segment of the Clean Room and Automation Control and Monitoring System increased by approximately RMB7.6 million or 11.1% from approximately RMB68.4 million for the six months ended 30 June 2017 to approximately RMB76.0 million for the Period under Review.

Powder and Solid System

Through continuous improvement on the core value of its product and technology upgrade in the past several years after the establishment of a new oral solid dosage (OSD) product line in 2015, the Group acquired more business opportunities, and experienced 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 RMB36.7 million or 166.5% from approximately RMB22.0 million for the six months ended 30 June 2017 to approximately RMB58.7 million for the Period under Review.

GMP Compliance Service

During the Period under Review, while the Group has maintained the market of more advanced consultation and advisory services with higher profit margins, the Group has lost some projects with low profit margins and the order-in-take amount of the business segment of GMP Compliance Service decreased by approximately RMB3.4 million or 17.8% from approximately RMB18.9 million for the six months ended 30 June 2017 to approximately RMB15.5 million for the Period under Review. The Group will continue to explore the service scope contents and acquire integrity consulting services in the segment of GMP Compliance Service.

Life Science Consumables

During the Period under Review, the Group continued to introduce new product types to customers, and improve its complete solution ability by providing equipment-engineering-service-consumables turnkey solutions, which led to an increase in the order-in-take amount of the business segment of Life Science Consumables by approximately RMB36.0 million or 42.4% from approximately RMB84.8 million for the six months ended 30 June 2017 to approximately RMB120.8 million for the Period under Review. The Group will continue to launch more diversified life science-related products and services with the latest technology to its customers. This segment still has a huge potential growth even after a rapid growth in the past three years.

Distribution and Agency of Pharmaceutical Equipment

During the Period under Review, the Group focused on the business of integrated engineering solutions, which led to a decrease in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB3.3 million or 29.0% from approximately RMB11.5 million for the six months ended 30 June 2017 to approximately RMB8.2 million for the Period under Review.

Backlogs

Set out below is a breakdown of the Group's closing value of backlogs (VAT excluded) and the corresponding number of contracts by business segment as at 30 June 2018:

	As at 30 June 2018			
Backlogs by business segment	*Number of Contracts*	*%*	*RMB'000*	*%*
Liquid and Bioprocess System	251	35.0%	328,403	54.5%
Clean Room and Automation Control and Monitoring System	192	26.7%	130,750	21.7%
Powder and Solid System	92	12.8%	65,088	10.8%
GMP Compliance Service	90	12.5%	42,813	7.1%
Distribution and Agency of Pharmaceutical Equipment	93	13.0%	35,476	5.9%
Total	718	100.0%	602,530	100.0%

PRODUCTION, EXECUTION AND ORGANISATION

A new production workshop for water equipment and biologics system skids in Germany was planned to launch in late 2018, which is expected to enable the Group to support business growth opportunities of Liquid and Bioprocess System business in Europe, Middle East and North Africa and improve our presence in these regions. In the event that this plan is implemented, there would then have 3 production sites for water system equipment and biological process system equipment for China, other emerging countries and Europe. Two sites of pressure vessel manufacturing with American Society of Mechanical Engineers (ASME) approved certification will enable high-quality production and flexibility for allocation of resources and project time management. At the reputed conference and exhibition ACHEMA 2018 held at Frankfurt in June 2018, debut of the integrated line of the Group's associate ROTA Verpackungstechnik GmbH & Co. KG and ROTA

Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**") Vial Fillng Line connected to Austar freeze-dryer demonstrated our strategy 'One brand, one site and one source", and that ROTA's facility expansion has facilitated this initiative.

Our Shanghai manufacturing centre has increased its capacity significantly for assembling biologics process system skids, where logistically it is closer to customers in Shanghai and its neighbouring regions allowing easier customer visits and communications. Notwithstanding, a land would be obtained with the support of the local government for the potential relocation of our Shanghai manufacturing centre on which a new facility with a substantially increased floor area will be constructed. Such potential expansion and movement plan of our Shanghai manufacturing centre is scheduled to be completed by 2020; such an action will help improve our project acquisition and production capacity flexibility. At the same time, our Shanghai manufacturing centre is undergoing continuous improvement such as by introducing total quality management (TQM) concepts, lean manufacturing culture and improvement on IT-based manufacturing process in order to satisfy more demanding customer requirements on quality and delivery time.

During the Period under Review, our manufacturing centre at Shijiazhuang has undergone certain improvements such as:–

1. labelling every equipment delivered from our manufacturing centres with bar codes in order to facilitate customers' feedback on the performance of the equipment, whereas such information will be collected for continuous improvement and for proper filing archive onto our Customer Relations Management information platform;

2. further improvement of our pressure vessel manufacturing techniques so as to allow us to handle more sophisticated vessel manufacturing such as the gelatine melting equipment licensed by Pharmagel, a manufacturer for offering complete system of softgel production; and

3. implementation of an IT-based manufacturing execution information system is under progress in order to help streamlining our production process with the aim for quality, cost and lead time management improvement.

Since the establishment of our Engineering Project Execution Centre in 2015 by consolidating of all key execution resources, it has been contributing a well-recognised pharmaceutical-related engineering and automation execution platform for all our business units and technology application. As a result, it is believed that we have one of the largest engineering project execution team in pharmaceutical industry in the PRC with IT-based project management information system in place together with process-piping, clean room and HVAC mechanical and electrical installation, automation system integration and validation and qualification capabilities all under one roof.

Our Engineering Project Execution Centre has been continuously taking action on improvement of knowledge and work process, which includes:–

1. for engineering project execution, system standardisation helps project execution team to improve work efficiency. In 2018, we have completed various system standardisations such as for the HVAC automation system software program, process automation system human-machine interface (HMI) and water distribution system software program;

2. technical improvement such as optimising piping usage in process system, and developing batch system for data handling and data filing, which helps to save project cost;

3. extensive implementation of continuous improvement tool Kaizen during project execution, which in the first half year of 2018, our project execution team has recommended a number of Kaizen improvement suggestions for improving the project cost or improving project management process;

4. successful completion of some downstream biologics systems such as the ultrafiltration and deep filtering system project for a customer; and

5. during the first half of 2018, our project execution centre has arranged more than 50 external or internal training sessions for all staff, which has improved their professional skills and project management knowledge.

RESEARCH AND DEVELOPMENT

As at 30 June 2018, the Group has obtained more than 183 authorised patents. During the Period under Review, the Group obtained 18 authorised patents including 2 invention patents and applications for 58 patents are currently in progress.

The development of technology in large-scale freeze-drying equipment with core innovative technology of freeze-drying (NOD, BTM); energy saving and formulation optimisation management technology will help the Group to enhance its competence to a global first tier level.

The successful research and development (R&D) achievement of downstream bioprocess equipment allowed us to market a satisfactory number of units in the first half of 2018.

The wet granulation line for high-active and high-toxic drugs which was developed and launched in 2016 has recorded a significant increase in sales in the first half of 2018 as compared to that in 2017.

Continuous Manufacturing of active pharmaceutical ingredients (API) and OSD with applications of various advanced technologies has been put onto our R&D initial phase list. Continuous Manufacturing in the pharmaceutical industry is a new development as batch production is still a normal practice in the industry mainly due to previous conservative considerations of regulatory and science & technology application. Due to recent openness and encouragement by the regulatory authorities, Continuous Manufacturing especially in OSD production is expected to be realistically achievable and offer a lot of quality and efficiency benefits.

SALES AND MARKETING

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to its customers in the PRC. Overseas sales are conducted through a mixture of direct, agency and distribution sales models. Due to the product application nature, Sales teams from different product lines evolve gradually onto specific sector customer-focus sales teams, which are able to support customer contacts for different product lines. This is a synergy and partnership sales model we have started to encourage in 2018. Technical seminars as our key marketing activities in emerging countries like Indonesia, India and Pakistan were held in the first half of 2018, in echoing the road shows conducted in countries such as Jordan and Saudi Arabia last year. Educational content sharing with provincial drug authorities via seminars were conducted with appreciations.

We also participated in a key global marketing event, ACHEMA 2018, held at Frankfurt in June 2018, with one Austar booth exhibiting our project execution and automation capabilities; even though the exhibition was held during the period of Ramadan, there were a lot of visitors from Middle East and North Africa. The other booth with ROTA which we exhibited an integrated Vial Filling Line and freeze-dryer connected with loading and unloading system has been obtaining very positive responses at ACHEMA. New social media opportunities are under investigation and are expected to be launching out hopefully in next year. Apart from conventional exhibitions in China, the Group is organising more specific conferences with the authorities like China National Food and Drug International Exchange Centre.

PROSPECTS

Increase the market share in the PRC and the emerging countries

It is believed that by the efforts of sales organisation consolidation and further integration of products, the sales order-in-take performance has significantly improved in the first half of 2018 as compared to that of last year and a positive trend is expected to continue in the coming months and years. Further breakthrough for turnkey clean room solutions in some sectors like medical devices and lab animal research is also to be expected.

Negotiation for the joint venture in Russia has completed in the first half of 2018 and hopefully such will contribute to order-in-take in Russia and Commonwealth of Independent States countries, where the pharmaceutical industry therein is facing growth opportunities with a surge of project CAPEX. Our presence of staff in the Middle East has been generating more sales leads and enquires especially after some technical seminars held in 2017 have helped our market recognition. Agent management process is critical for those territories in which indirect sales channel are arranged similar to other territory like Indonesia where under good management process including training and supervision has been demonstrating an order-in-take success.

Improve our service and products offerings

In the first half of 2018, the Group continues to execute our strategic directions on each product line. Each business segment of the Group has its own visions and strategies to implement its improvements on services and product offering. At the top level, the Group formulates overall directions to capture its prospects:

1. Continuous improvement on the core value of its products to the customers

2. Further integration of individual products by offering more comprehensive package

3. Value enhancement on individual products with additional supplemental and supportive services being provided

4. Offering of more advanced IT software and automation support to products

5. Provision of compliance and quality-related concerned support to the individual products

In the coming years, the service business will be one of the key growth elements for the Group as in general, it is independent of industry CAPEX investment in particular for preventive maintenance, compliance consulting, operation excellence improvement, upgrading of software and revamping of equipment and systems services. The Group believes that the offering of integrated services as a package of services by leveraging the strengths from different business segments of the Group is very unique in the pharmaceutical service industry. Aunity, our facility design subsidiary established in the second half of 2017, has proved in the last few months contributing to the overseas turnkey project business and in the meanwhile, this facility design subsidiary has received sufficient orders to support the initial stage of organisation development.

Liquid and Bioprocess System

In the first half of 2018, the Group successfully verified the process of the bioreactor at one animal vaccine process development laboratory in Beijing. Our first pharmaceutical water purification equipment assembled in Europe will be exhibited in Madrid in October 2018, which would be our milestone of having equipment manufacturing and factory acceptance test to be arranged in Europe. Our ultimate goal is to offer optional factory acceptance test sites for our customers in Europe, Middle East and North Africa not only for water purification equipment but also for biologics process skid assembly. Our exclusive European water system expert have been supporting the Group for business development in Middle East, South East Asia and India. We expect opportunities to capture animal vaccine customers with our partnership with one Beijing animal vaccine process development laboratory, where one bioreactor manufactured by the Group was installed to generate process data for the vaccines under development. The Single-use Technology BioProcess Engineering team has started to gain orders for the Hybrid BioProcess System, which can be differentiated from other competitors which are lacking of integration and process automation experience and knowledge. Our invested company ROTA made a successful year in terms of financial performance and order-in-take and all the shareholders of ROTA agreed to extend the production workshop and administration office to accommodate the foreseeable increase of orders and future space for assembly of freeze-dryer products licenced out by the Group.

Clean Room and Automation and Monitoring System

Pharmaceutical facility digitalisation is encouraged by the authorities to support more data acquisition for compliance inspection. The Group's customers have strong intention to utilise facility digitalisation technology to upgrade their operations, quality, compliance and profitability, meanwhile incentive schemes for such CAPEX investment have been devised by local government in China. The Company's Pharmaceutical Automation Engineering team has been continuously developing various software to enhance our competitiveness.

Powder and Solid System

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

GMP Compliance Service

Our conventional GMP Compliance Service has been further extending to other GXP services, like GCP data integrity consulting services to cover more sectors over the whole drug product life cycle. The Group continues to promote services like Lean Production, ICH Q10 Quality Management Systems, and Quality by Design, which opportunities are believed to grow significantly as a result of the tougher policies as issued by the drug authorities. The GMP Compliance Service business segment will continue to explore the service scope contents of the ASTM E2500 (Standard Guide for Specification, Design, and Verification of Pharmaceutical and Biopharmaceutical Manufacturing Systems and Equipment) as Good Engineering Practice/ Commissioning & Qualification consulting service model.

Life Science Consumables

Life Science Consumables is the fastest growing business segment in terms of revenue and profits in the past three years. One of its key success is due to the successful business development process and practices. This momentum of product development and strong revenue growth drive have been continuously bringing about new life science-related products and services to support the pipeline, which includes laboratory package, biosafety, animal vaccines, laboratory instruments, medical devices, etc. The Pharm Lab IT product line which was introduced last year has lead us to further enter into the pharmaceutical research sector and QA/QC laboratory sector, which in turn it is believed will help our other product lines to enter into such sectors.

Strengthen our research and development, product design and development capabilities

The corporate office of the Group has adopted a new function to harmonise and coordinate the cross-business segment R&D on the group R&D technical execution platform. The soft capsule product and process development laboratory in partnership with Pharmagel Technology S.r.l. which was completed last year is ready to receive customer product tests. We expect that some Japanese customers will come to utilise these laboratory facility for their product and process test and optimisation. Soft capsule is an important dosage form for herbal health nutripharmaceutical formulations which the Company is pursuing to get good order results from. A new laboratory for freeze-dryer process is in the process of design and construction in partnership with a German university expert, with the aim to support customers on freeze-drying process development. It is our aim to differentiate from the competitors by provision of advanced process technology services in addition to hardware technical advantages.

Expand by strategic acquisition of business and/or companies

The Group is under the process of acquiring related facility in Europe through joint venture with strategic partners. This initiative may help both our Liquid and Bioprocess System business segment to improve the market access to Europe and providing a manufacturing and factory acceptance test option for customers in the region's vicinity. The Group will continue its efforts in identifying potential acquisition targets by using our target screening principles of leveraging technological and market territory opportunities.

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 RMB328.5 million, representing an increase of approximately 34.2% from the corresponding period in 2017, primarily due to the increase in revenue from the business segments of Liquid and Bioprocess System, Powder and Solid System, Life Science Consumables, Clean Room and Automation Control and Monitoring System, and GMP Compliance Service, which was slightly partially offset by a slight decrease in revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the six months ended 30 June 2018 and 2017, the breakdown of the Group's revenue by business segment:

	For the six months ended 30 June				
	2018		2017		Change
Revenue by business segment	***RMB'000***	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Liquid and Bioprocess System	**118,053**	**36.0%**	66,683	27.2%	77.0%
Clean Room and Automation Control and Monitoring System	**61,851**	**18.8%**	56,407	23.0%	9.7%
Powder and Solid System	**41,106**	**12.5%**	25,528	10.4%	61.0%
GMP Compliance Service	**16,993**	**5.2%**	12,663	5.2%	34.2%
Life Science Consumables	**84,504**	**25.7%**	77,348	31.6%	9.3%
Distribution and Agency of Pharmaceutical Equipment	**5,967**	**1.8%**	6,223	2.6%	(4.1%)
Total	**328,474**	**100.0%**	244,852	100.0%	34.2%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased substantially by approximately RMB51.4 million or 77.0% from approximately RMB66.7 million for the six months ended 30 June 2017 to approximately RMB118.1 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2017, which part of amount were recognised as revenue during the Period under Review, and improved project execution efficiency with quality control.

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 RMB5.4 million or 9.7% from approximately RMB56.4 million for the six months ended 30 June 2017 to approximately RMB61.9 million for the Period under Review. The increase was mainly due to the increase in the closing amount of backlog as at 31 December 2017.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB15.6 million or 61.0% from approximately RMB25.5 million for the six months ended 30 June 2017 to approximately RMB41.1 million for the Period under Review. The increase was primarily resulted from improvement in strength enhancement in total-solution service in the OSD field after the establishment of a new OSD product line in 2015, and the substantially increased amount of order-in-take in the business segment of Powder and Solid System during the Period under Review, which part of amount were recognised as revenue in the Period under Review.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB4.3 million or 34.2% from approximately RMB12.7 million for the six months ended 30 June 2017 to approximately RMB17.0 million for the Period under Review. The increase was mainly attributable to the improved project execution efficiency.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB7.2 million or 9.3% from approximately RMB77.3 million for the six months ended 30 June 2017 to approximately RMB84.5 million for the Period under Review, which was mainly attributable to the launching of new life science-related products and services, including the new Pharm Lab IT product line introduced in last year.

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 RMB0.3 million or 4.1% from approximately RMB6.2 million for the six months ended 30 June 2017 to approximately RMB6.0 million for the Period under Review. The Group will continue to explore and distribute the various types of high-end pharmaceutical equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June				
	2018		2017		Change
Revenue by geographical regions	***RMB'000***	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Mainland China	**302,246**	**92.0%**	218,885	89.4%	38.1%
Other locations	**26,228**	**8.0%**	25,967	10.6%	1.0%
Total	**328,474**	**100.0%**	244,852	100.0%	34.2%

The Group derived revenue mainly from the business operations in the Mainland China, which accounted for approximately 92.0% of the total revenue for the Period under Review (2017: approximately 89.4%).

Cost of sales

The Group's cost of sales increased by approximately RMB43.2 million or 21.7% from approximately RMB199.3 million for the six months ended 30 June 2017 to approximately RMB242.5 million for the Period under Review. Such increase mainly reflected the increase in revenue as compared to the same period in 2017.

Gross profit and gross margin

The Group's gross profit increased substantially by approximately RMB40.4 million or 88.9% from approximately RMB45.5 million for the six months ended 30 June 2017 to approximately RMB85.9 million for the Period under Review. The gross profit margin increased from approximately 18.6% for the six months ended 30 June 2017 to approximately 26.2% for the Period under Review, which was attributable to the increase in gross profit margin from the business segments of Liquid and Bioprocess System, Life Science Consumables, GMP Compliance Service, Clean Room and Automation Control and Monitoring System, and Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth the breakdown of the Group's gross profit/(loss) and gross profit margin by business segment for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June					
	2018			2017		
Gross profit/(loss) and gross profit margin by business segment	***RMB'000*** **(Unaudited)**	*%*	**Gross profit margin** *%*	*RMB'000* (Unaudited)	*%*	Gross profit margin *%*
Liquid and Bioprocess System	**12,599**	**14.7%**	**10.7%**	(12,522)	(27.5%)	(18.8%)
Clean Room and Automation Control and Monitoring System	**13,501**	**15.7%**	**21.8%**	11,601	25.5%	20.6%
Powder and Solid System	**11,551**	**13.4%**	**28.1%**	9,494	20.9%	37.2%
GMP Compliance Service	**9,023**	**10.5%**	**53.1%**	6,661	14.6%	52.6%
Life Science Consumables	**37,136**	**43.2%**	**43.9%**	28,664	63.0%	37.1%
Distribution and Agency of Pharmaceutical Equipment	**2,132**	**2.5%**	**35.7%**	1,605	3.5%	25.8%
Total	**85,942**	**100.0%**	**26.2%**	45,503	100.0%	18.6%

Liquid and Bioprocess System

The Group recorded a gross profit from the business segment of Liquid and Bioprocess System of approximately RMB12.6 million for the Period under Review as compared to a gross loss of approximately RMB12.5 million for the six months ended 30 June 2017.

The gross profit margin from the business segment of Liquid and Bioprocess System was approximately 10.7% for the Period under Review as compared to a negative 18.8% for the six months ended 30 June 2017, which was mainly attributable to the improved project execution management and cost control measures brought by the Group's well-recognised engineering and automation execution platform.

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 RMB1.9 million or 16.4% from approximately RMB11.6 million for the six months ended 30 June 2017 to approximately RMB13.5 million for the Period under Review. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System increased slightly from approximately 20.6% for the six months ended 30 June 2017 to approximately 21.8% for the Period under Review, which was mainly attributable to the improved competitiveness of the Group by continuously developing various software, which upgraded the clients' operations, quality, and compliance.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB2.1 million or 21.7% from approximately RMB9.5 million for the six months ended 30 June 2017 to approximately RMB11.6 million for the Period under Review. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 37.2% for the six months ended 30 June 2017 to approximately 28.1% for the Period under Review, which was resulted from undertaking of projects with a relatively lower gross profit margin in view of the Group's strategic business expansion in new markets in the OSD field.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB2.4 million or 35.5% from approximately RMB6.7 million for the six months ended 30 June 2017 to approximately RMB9.0 million for the Period under Review. The gross profit margin from the business segment of GMP Compliance Service maintained a stable level with a slight increase from approximately 52.6% for the six months ended 30 June 2017 to approximately 53.1% for the Period under Review, which was mainly attributable to the maturity of the Group's technical and proficient management in cost control in this business segment.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB8.5 million or 29.6% from approximately RMB28.7 million for the six months ended 30 June 2017 to approximately RMB37.1 million for the Period under Review. The gross profit margin from the business segment of Life Science Consumables increased from approximately 37.1% for the six months ended 30 June 2017 to approximately 43.9% for the Period under Review, which was mainly attributable to improved cost control.

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 RMB0.5 million or 32.8% from approximately RMB1.6 million for the six months ended 30 June 2017 to approximately RMB2.1 million for the Period under Review. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 25.8% for the six months ended 30 June 2017 to approximately 35.7% for the Period under Review, mainly attributable to the increase in the amount of agency services provided for high-end pharmaceutical equipment which had a higher gross profit margin.

Other income

Other income decreased by approximately RMB0.6 million or 28.3% to approximately RMB1.6 million for the Period under Review from approximately RMB2.2 million for the six months ended 30 June 2017, mainly due to the decrease in subsidies granted by local government authorities of the PRC during the Period under Review.

Other (losses)/gains

The Group recorded other losses of approximately RMB0.6 million for the Period under Review as compared to an other gain of approximately RMB1.7 million for the six months ended 30 June 2017, mainly due to currency exchange losses arising from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB3.6 million or 8.8% to approximately RMB44.3 million for the Period under Review from approximately RMB40.7 million for the six months ended 30 June 2017. The increase was primarily due to the increase in staff costs and travel expenses.

Administrative expenses

Administrative expenses increased by approximately RMB6.7 million or 23.0% to approximately RMB35.7 million for the Period under Review from approximately RMB29.0 million for the six months ended 30 June 2017, mainly due to the increase in impairment of inventories by a total amount of approximately RMB1.3 million, professional fees for strategic consulting service, legal and other services by a total amount of approximately RMB2.3 million, and staff costs by a total amount of approximately RMB2.2 million.

Research and development activities

As at 30 June 2018, the Group had 42 research and development personnel which accounted for approximately 4.11% 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 RMB1.7 million or 13.4% from approximately RMB12.4 million for the six months ended 30 June 2017 to approximately RMB14.1 million for the Period under Review, mainly due to the increase of staff costs and materials consumed in more research projects. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Finance income – net decreased from approximately RMB2.2 million for the six months ended 30 June 2017 to approximately RMB1.3 million for the Period under Review, mainly due to the currency exchange losses of approximately RMB0.2 million arising from retranslation of foreign currency cash and cash equivalents balances during the Period under Review, as compared to the currency exchange gains of approximately RMB0.5 million for the six months ended 30 June 2017.

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 increased by approximately RMB2.2 million, from approximately RMB3.5 million for the six months ended 30 June 2017 to approximately RMB5.7 million for the Period under Review, primarily due to the increase in profit contribution from the Group's investments in two joint ventures, STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited, and PALL-AUSTAR Lifesciences Limited, by approximately RMB2.0 million and RMB0.6 million respectively.

Loss before income tax

The Group's loss before income tax decreased by approximately RMB23.0 million from approximately RMB26.9 million for the six months ended 30 June 2017 to approximately RMB3.9 million for the Period under Review, which was primarily due to the factors as described above in this section.

Income tax credit

Income tax credit decreased by approximately RMB1.6 million from a credit of approximately RMB1.8 million for the six months ended 30 June 2017 to a credit of approximately RMB0.2 million for the Period under Review mainly due to the decrease of recognition of deferred income tax credit of approximately RMB1.0 million, and the increase in current income tax expense of approximately RMB0.6 million.

Loss for the period

Loss for the period decreased by approximately RMB21.4 million, from a loss of approximately RMB25.1 million for the six months ended 30 June 2017 to a loss of approximately RMB3.7 million for the Period under Review. The Group's net loss margin improved from approximately 10.2% for the six months ended 30 June 2017 to approximately 1.1% for the Period under Review, which was primarily due to the factors described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(46,431)**	(56,337)
Net cash (used in)/generated from investing activities	**(4,146)**	3,008
Net cash (used in)/generated from financing activities	**(778)**	7,414
Net decrease in cash and cash equivalents	**(51,355)**	(45,915)

For the Period under Review, the Group had net cash used in operating activities of approximately RMB46.4 million mainly attributable to:

i. the increase in inventories of approximately RMB56.5 million and prepayments and other receivables of approximately RMB17.1 million;

ii. the increase in contract assets of approximately RMB5.2 million as compared to amounts due from customers for contract work and the decrease in trade and other payables of approximately RMB52.3 million;

iii. the increase in pledged bank deposits of approximately RMB39.8 million; and

iv. the decrease in trade and notes receivables of approximately RMB17.2 million and the increase in contract liabilities of approximately RMB115.0 million as compared to amounts due to customers for contract work.

For the Period under Review, the Group had net cash used in investing activities of approximately RMB4.1 million, which was mainly spent on purchase of property, plant, equipment and intangible assets of approximately RMB4.2 million.

For the Period under Review, the Group had net cash used in financing activities of approximately RMB0.8 million mainly in interest paid for bank borrowings.

Net current assets

The Group's net current assets as at 30 June 2018 had decreased by approximately RMB13.3 million from approximately RMB363.3 million as at 31 December 2017 to approximately RMB350.0 million as at 30 June 2018.

As at 30 June 2018, the Group's total current assets amounted to approximately RMB804.8 million, which was an increase of approximately RMB49.8 million as compared with approximately RMB755.0 million as at 31 December 2017. 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 RMB17.2 million and cash and cash equivalents of approximately RMB51.5 million:

i. the increase in inventories of approximately RMB56.5 million; and

ii. the increase in the prepayments and other receivables of approximately RMB17.1 million, contracts assets of approximately RMB5.2 million as compared to amounts due from customers for contract work, and pledged bank deposits of approximately RMB 39.8 million, which are mainly due to the business expansion.

As at 30 June 2018, the Group's total current liabilities amounted to approximately RMB454.8 million, which was an increase of approximately RMB63.1 million as compared with approximately RMB391.7 million as at 31 December 2017. The increase was primarily due to the increase in contract liability in the amount of RMB115.0 million as compared to amounts due to customers for contract work; but was partially offset by the decrease in trade and other payables in the amount of approximately RMB52.3 million.

Borrowings and gearing ratio

As at 30 June 2018, the total interest-bearing bank borrowings amounted to RMB20.0 million, which is the same as at 31 December 2017, bearing interest rates at 4.57% and 4.79% per annum (2017: 4.35% and 4.79% per annum).

The Group's gearing ratio maintained stable at approximately 4.2% as at 30 June 2018, the same as at 31 December 2017. The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 30 June 2018, in additional to the pledged bank deposits of approximately RMB47.7 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB7.5 million and approximately RMB5.6 million respectively (31 December 2017: approximately RMB7.8 million and approximately RMB5.7 million respectively) which are pledged as security for interest-bearing bank borrowings with a carrying value of RMB20.0 million (31 December 2017: RMB5.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2018 (31 December 2017: Nil).

Interim dividend

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

CAPITAL STRUCTURE

As at 30 June 2018, the Group had shareholders' equity of approximately RMB470.4 million (31 December 2017: approximately RMB478.4 million).

HUMAN RESOURCES

As at 30 June 2018, the Group had 1,021 full-time employees for R&D, sales and marketing, administration, project management and execution and manufacturing, representing an increase of approximately 6.80% as compared with 956 employees as at 31 December 2017. 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 RMB78.0 million, which was an increase of approximately 16.0% as compared with approximately RMB67.3 million for the six months ended 30 June 2017.

Employee costs of the Group increased mainly due to the Group's increase in its 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 general standards set out in the Group's remuneration policy.

The Group will regularly review 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, land and intangible assets which has been contracted for but not yet incurred as of 30 June 2018 amounted to approximately RMB2.3 million (31 December 2017: approximately RMB2.2 million).

FOREIGN EXCHANGE RISK

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

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

On 7 November 2014, the shares of the Company ("**Shares**") were first listed on the Main Board of the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). As at 30 June 2018, out of the aggregated net proceeds from the IPO of approximately HK$411.8 million, (i) as to approximately RMB29.9 million (equivalent to approximately HK$35.7 million) had been utilised for general research and development; (ii) as to approximately RMB8.8 million (equivalent to approximately HK$10.6 million) had been utilised for sales and marketing; (iii) as to approximately RMB31.7 million (equivalent to approximately HK$40.8 million) had been applied for as general working capital of the Group; (iv) as to approximately RMB16.3 million (equivalent to approximately HK$20.5 million) had been applied for prepayment of premium in connection with acquisition of land use right as explained below; (v) as to approximately RMB15.9 million (equivalent to approximately HK$18.6 million) had been utilised for merger and acquisition; and (vi) the remaining of approximately RMB217.4 million (equivalent to approximately HK$285.7 million) has been deposited into the banks and has not yet been utilised. Such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 28 October 2014 ("**Prospectus**").

As at 30 June 2018, premium of approximately RMB16.3 million (including approximately RMB12.5 million paid in June 2015 and approximately RMB3.8 million paid in July 2015) ("**Premium**") had been prepaid to the Shijiazhuang Government in connection with the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Land**"). The Company was given to understand that the Premium advanced to the Shijiazhuang Government was for the purpose of facilitating the land expropriation process and the process of the Land being tendered by the Shijiazhuang Government. Subject to the signing of any legally binding agreement between the Shijiazhuang Government and the Group, the Premium prepaid by the Group shall be applied as part payment of the consideration for the acquisition of the land use rights of the Land. In addition to the Premium paid, as at the date hereof, the Group has expended RMB14.1 million (equivalent to approximately HK$16.4 million) on certain assets and equipment out of its internal resources in preparation for the operation of the Group's Shijiazhuang R&D and Production Centre to be constructed.

After the Period under Review, on 16 August 2018, the notice of public tender for the Land was released in which the bidding is scheduled to take place on 18 September 2018. In addition, part of the Premium prepaid amounted to approximately RMB15.9 million was refunded to the Group and the remaining sum is under negotiation of refunding and expected to be refunded by the end of 2018. The Group is intended to submit a tender for the Land and will utilise the proceeds from the IPO allocated for the establishment of the Shijiazhuang R&D and Production Centre to the tender bid price and should the amount be insufficient, the remaining amount to be funded from the internal resources of the Group. The Company will make further announcement(s) in respect of the formal submission of the bid for the public tender of the Land and/or further process in the acquisition of the land use rights of the Land as and when required pursuant to the Listing Rules. Given the process of acquiring the Land by the Group is slower than expected and the development plans of the Group's Shijiazhuang R&D and Production Centre on such land as set out in the section headed "Business" in the Prospectus have been lagging behind schedule, the Company has been considering changing part of its net proceeds from the IPO originally allocated for establishment of the Shijiazhuang R&D and Production Centre to potential mergers and acquisitions ("**Possible Change of Use of Proceeds**") in order to better utilise the resources of the Group.

The Company would like to emphasize that, as at the date hereof, (i) the Possible Change of Use of Proceeds has not yet been confirmed and the exact amount of proceeds subject to change of use has not yet been decided; and (ii) no legally binding agreement in relation to any merger or acquisition has been entered into by the Group with any party in which the proceeds would be used for. Further announcement(s) in relation to the Possible Change of Use of Proceeds, if materialised, will be made by the Company as and when appropriate in compliance with the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

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

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

Code provision A.2.1 of the Corporate Governance Code requires the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Mars Ho 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) in the Board and the various committees of the Board (primarily comprising independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

AUDIT COMMITTEE

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

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

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

PUBLICATION OF INTERIM REPORT

The Company's interim report for the six months ended 30 June 2018 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 2018

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.