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AU STAR

奥星

Austar Lifesciences Limited

奥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 2022

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	1,103,980	855,376
Gross profit	235,735	224,315
Profit before income tax	48,234	251,884
Profit attributable to the owners of the Company	45,843	217,870
Gross profit margin	21.4%	26.2%
Basic earnings per share (Note)	RMB0.09	RMB0.43
Diluted earnings per share (Note)	RMB0.09	RMB0.43
	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Total assets	2,373,618	2,044,777
Net assets	842,084	788,420
Gearing ratio	23.8%	16.4%

Note: The calculation of earnings per share is based on the profit attributable to the owners of the Company for each of the six months ended 30 June 2022 and 2021 and the weighted average number of shares during that period. The Company had no dilutive ordinary shares for each of the six months ended 30 June 2022 and 2021.

INTERIM RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Austar Lifesciences Limited (“**Company**” or “**AUSTAR**”, together with its subsidiaries, the “**Group**”) announces the unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2022 (“**Period under Review**”), together with the comparative figures for the corresponding period in 2021 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	<i>Note</i>	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	3	1,103,980	855,376
Cost of sales		<u>(868,245)</u>	<u>(631,061)</u>
Gross profit		235,735	224,315
Selling and marketing expenses		(83,777)	(84,201)
Administrative expenses		(67,812)	(61,103)
Net impairment losses on financial and contract assets		(441)	(6,868)
Research and development expenses		(33,334)	(26,741)
Other income		706	3,209
Other (losses)/gains – net	4	<u>(5,064)</u>	<u>197,750</u>
Operating profit		<u>46,013</u>	<u>246,361</u>
Finance income		850	661
Finance costs		<u>(3,746)</u>	<u>(1,458)</u>
Finance costs – net	5	<u>(2,896)</u>	<u>(797)</u>
Share of net profits of investments accounted for using the equity method		<u>5,117</u>	<u>6,320</u>
Profit before income tax		48,234	251,884
Income tax expense	6	<u>(11,570)</u>	<u>(34,837)</u>
Profit for the period		<u>36,664</u>	<u>217,047</u>
Profit attributable to:			
The owners of the Company		45,843	217,870
Non-controlling interests		<u>(9,179)</u>	<u>(823)</u>
		<u>36,664</u>	<u>217,047</u>
Earnings per share attributable to the owners of the Company – Basic and diluted (RMB)	7	<u>0.09</u>	<u>0.43</u>
Dividends	8	<u>–</u>	<u>–</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
<i>Note</i>	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	36,664	217,047
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	16,376	(4,221)
Share of other comprehensive income of investments accounted for using the equity method	3	21
Other comprehensive income/(loss) for the period, net of tax	16,379	(4,200)
Total comprehensive income for the period	53,043	212,847
Total comprehensive income attributable to:		
The owners of the Company	62,149	213,776
Non-controlling interests	(9,106)	(929)
	53,043	212,847

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2022	As at 31 December 2021
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		261,340	188,452
Right-of-use assets		118,056	123,353
Intangible assets		49,130	21,113
Deferred income tax assets		10,935	8,915
Investments accounted for using the equity method		45,622	39,703
		485,083	381,536
Total non-current assets			
Current assets			
Inventories		431,847	423,261
Contract assets		554,540	377,937
Prepayments and other receivables		191,457	173,686
Trade and notes receivables	9	400,138	296,299
Pledged bank deposits		131,752	172,317
Term deposits with initial terms of over three months		–	21,294
Cash and cash equivalents		178,801	198,447
		1,888,535	1,663,241
Total current assets			
		2,373,618	2,044,777
Total assets			

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

		As at 30 June 2022	As at 31 December 2021
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,071	4,071
Reserves		382,711	371,207
Retained earnings		457,149	411,306
		843,931	786,584
Non-controlling interests		(1,847)	1,836
Total equity		842,084	788,420
LIABILITIES			
Non-current liabilities			
Lease liabilities		34,220	34,890
Long-term borrowings	10	46,474	54,271
Deferred income		564	746
Deferred income tax liabilities		34,075	30,254
Other financial liabilities		4,068	–
		119,401	120,161
Total non-current liabilities		119,401	120,161
Current liabilities			
Trade and other payables	11	773,141	598,992
Contract liabilities		454,619	466,689
Current income tax liabilities		3,797	5,716
Short-term borrowings	12	116,649	54,830
Lease liabilities		8,031	9,969
Current portion of long-term borrowings	10	55,896	–
		1,412,133	1,136,196
Total current liabilities		1,412,133	1,136,196
Total liabilities		1,531,534	1,256,357
Total equity and liabilities		2,373,618	2,044,777

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 January 2014 as an exempted company with limited liability. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

Ordinary shares of HK\$0.01 each ("Shares") 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 interim condensed consolidated financial information is presented in thousands of Renminbi Yuan ("RMB"), unless otherwise stated, and is approved for issue by the Board on 29 August 2022.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial report for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard IAS34 "Interim Financial Reporting".

The interim report does not include all the notes of the type normally included in an annual financial report. The interim condensed consolidated financial information should be read in conjunction with the annual report for the year ended 31 December 2021, and any public announcements made by the Company during the interim reporting period.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2021, except for the adoption of amended standards as set out below.

New and amended standards adopted by the Group

The following amended standards became applicable for the current reporting period:

- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before intended use”
- Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020

These amended standards did not have any significant impact on the Group’s accounting policies and did not require retrospective adjustments.

3. SEGMENT INFORMATION

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

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

The CODM evaluates the performance of the reportable segments based on gross profit.

The segment results for the six months ended 30 June 2022 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 2022 (Unaudited)							
Segment revenue and results							
Segment revenue	545,853	303,687	128,427	48,979	196,973	18,320	1,242,239
Inter-segment revenue	(48,075)	(62,826)	(19,608)	(4,687)	(1,435)	(1,628)	(138,259)
Revenue	497,778	240,861	108,819	44,292	195,538	16,692	1,103,980
Recognised at a point in time	45,433	4,228	5,846	5,265	195,538	13,209	269,519
Recognised over time	452,345	236,633	102,973	39,027	–	3,483	834,461
Cost of sales	(434,740)	(197,409)	(88,850)	(26,274)	(109,992)	(10,980)	(868,245)
Segment results							
Gross profit	63,038	43,452	19,969	18,018	85,546	5,712	235,735
Other segment items							
Amortisation	1,691	124	73	555	–	11	2,454
Depreciation	5,846	3,050	1,466	555	2,648	278	13,843
(Reversal of)/provision for impairment losses on financial and contract assets	(633)	477	91	45	453	8	441
(Reversal of)/provision for impairment of inventories	(1,643)	(399)	(286)	(74)	925	(47)	(1,524)
Share of net profits of investments accounted for using the equity method	3,782	1,335	–	–	–	–	5,117

The segment results for the six months ended 30 June 2021 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 2021 (Unaudited)							
Segment revenue and results							
Segment revenue	392,214	241,963	56,874	32,165	176,583	9,515	909,314
Inter-segment revenue	(23,945)	(20,543)	(1,473)	(3,486)	(3,604)	(887)	(53,938)
Revenue	<u>368,269</u>	<u>221,420</u>	<u>55,401</u>	<u>28,679</u>	<u>172,979</u>	<u>8,628</u>	<u>855,376</u>
Recognised at a point in time	59,167	23,320	5,955	867	172,979	7,120	269,408
Recognised over time	<u>309,102</u>	<u>198,100</u>	<u>49,446</u>	<u>27,812</u>	<u>–</u>	<u>1,508</u>	<u>585,968</u>
Cost of sales	<u>(297,379)</u>	<u>(174,648)</u>	<u>(37,501)</u>	<u>(15,527)</u>	<u>(101,809)</u>	<u>(4,197)</u>	<u>(631,061)</u>
Segment results							
Gross profit	<u>70,890</u>	<u>46,772</u>	<u>17,900</u>	<u>13,152</u>	<u>71,170</u>	<u>4,431</u>	<u>224,315</u>
Other segment items							
Amortisation	1,478	89	18	11	–	2	1,598
Depreciation	7,518	3,731	566	457	1,250	88	13,610
Provision for impairment losses on financial and contract assets	2,106	3,061	805	430	340	126	6,868
Provision for/(reversal of) impairment of inventories	1,337	(212)	(59)	(27)	379	(8)	1,410
Impairment of goodwill	1,368	–	–	–	–	–	1,368
Share of net profits of investments accounted for using the equity method	<u>1,269</u>	<u>1,386</u>	<u>–</u>	<u>–</u>	<u>3,665</u>	<u>–</u>	<u>6,320</u>

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

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Liquid and Bioprocess System	63,038	70,890
Clean Room and Automation Control and Monitoring System	43,452	46,772
Powder and Solid System	19,969	17,900
GMP Compliance Service	18,018	13,152
Life Science Consumables	85,546	71,170
Distribution and Agency of Pharmaceutical Equipment	5,712	4,431
	<hr/>	<hr/>
Total gross profit for reportable segments	235,735	224,315
	<hr/>	<hr/>
Selling and marketing expenses	(83,777)	(84,201)
Administrative expenses	(67,812)	(61,103)
Net impairment losses on financial and contract assets	(441)	(6,868)
Research and development expenses	(33,334)	(26,741)
Other income	706	3,209
Other (losses)/gains – net	(5,064)	197,750
Finance costs – net	(2,896)	(797)
Share of net profits of investments accounted for using the equity method	5,117	6,320
	<hr/>	<hr/>
Profit before income tax	48,234	251,884
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The segment assets as at 30 June 2022 and 31 December 2021 are as follows:

	As at 30 June 2022		As at 31 December 2021	
	Total assets <i>RMB'000</i> (Unaudited)	Investments accounted for using the equity method <i>RMB'000</i> (Unaudited)	Total assets <i>RMB'000</i> (Audited)	Investments accounted for using the equity method <i>RMB'000</i> (Audited)
Liquid and Bioprocess System Clean Room and Automation Control and Monitoring System	987,263	21,675	834,531	17,890
Powder and Solid System	456,004	23,947	362,161	21,813
GMP Compliance Service	142,037	–	100,912	–
Life Science Consumables	43,552	–	36,464	–
Distribution and Agency of Pharmaceutical Equipment	268,279	–	259,063	–
	13,465	–	9,254	–
Total segment assets	1,910,600	45,622	1,602,385	39,703
Unallocated				
Deferred income tax assets	10,935		8,915	
Headquarter assets	452,083		433,477	
Total assets	2,373,618		2,044,777	

Geographical information

The following tables present information on revenue of the Group by geographical regions:

	For the six months ended 30 June	
Revenue	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Mainland China	1,012,184	800,629
Other locations	91,796	54,747
	1,103,980	855,376

4. OTHER (LOSSES)/GAINS – NET

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Gains on disposal of a joint venture	–	198,988
Losses on disposal of property, plant and equipment	(76)	(28)
Exchange losses	(6,492)	(1,840)
Others	1,504	630
	<u>(5,064)</u>	<u>197,750</u>

5. FINANCE COSTS – NET

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses		
– Bank borrowings	(2,560)	(746)
– Lease liabilities	(866)	(937)
– Loan from a non-controlling shareholder of a subsidiary	(31)	(32)
Exchange (losses)/gains	(289)	257
	<u>(3,746)</u>	<u>(1,458)</u>
Finance costs		
Finance income		
– Bank deposits	850	569
– Loan to PALL-AUSTAR Lifesciences Limited (“PALL-AUSTAR JV”)	–	92
	<u>850</u>	<u>661</u>
	<u>(2,896)</u>	<u>(797)</u>

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax expense	9,988	29,854
Deferred income tax expense	1,582	4,983
	<hr/>	<hr/>
	11,570	34,837
	<hr/> <hr/>	<hr/> <hr/>

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

The Group's subsidiaries incorporated in the BVI under the International Business Companies Act or, as the case may be, BVI Business Companies Act, are exempted from local income tax.

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2022 (2021: 16.5%), except for a subsidiary of the Group in Hong Kong which is a qualifying entity applicable to the two-tiered profits tax rates. Under the two-tiered profits tax rates regime, the profits tax rate for the first HK\$2 million of assessable profits will be lowered to 8.25%, and assessable profits above HK\$2 million will continue to be subject to the rate of 16.5%.

The taxation of the Group's subsidiary in Germany is calculated at 30.0% of the estimated assessable profit for the six months ended 30 June 2022 (2021: 30.0%).

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Limited ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) 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 2021. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2019.

7. EARNINGS PER SHARE

(a) Basic

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

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Profit attributable to the owners of the Company (RMB'000)	45,843	217,870
Weighted average number of ordinary shares in issue (Thousands)	512,582	512,582
	<hr/>	<hr/>
Basic earnings per share (RMB)	0.09	0.43
	<hr/> <hr/>	<hr/> <hr/>

(b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2022 and 2021, diluted earnings per share for the six months ended 30 June 2022 and 2021 are the same as basic earnings per share.

8. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2022 (2021: Nil).

9. TRADE AND NOTES RECEIVABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Trade receivables (<i>Note (b)</i>)	389,556	302,930
Notes receivable (<i>Note (a)</i>)	39,721	24,746
	<hr/>	<hr/>
	429,277	327,676
Less: loss allowance	(29,139)	(31,377)
	<hr/>	<hr/>
	400,138	296,299
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) The notes receivable are bank acceptance with maturity dates within six months (2021: within six months).
- (b) The ageing analysis of gross trade receivables (including amounts due from related parties of trading in nature) based on sales contracts at the respective balance sheet dates is as follows:

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Within 6 months	261,495	176,980
6 months to 1 year	49,843	45,925
1 to 2 years	49,995	38,582
2 to 3 years	16,061	27,210
Over 3 years	12,162	14,233
	<hr/>	<hr/>
	389,556	302,930
	<hr/> <hr/>	<hr/> <hr/>

Most of the trade receivables are due within 90 days in accordance with the sales contracts.

As at 30 June 2022 and 31 December 2021, the carrying amounts of trade and notes receivables are approximated at their fair values.

10. LONG-TERM BORROWINGS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Bank borrowings, secured (<i>Note</i>)	102,370	54,271
Less: Long-term borrowings due within one year	(55,896)	–
	<u>46,474</u>	<u>54,271</u>

Note:

As at 30 June 2022, secured long-term bank borrowings (including long-term borrowings due within one year) are denominated in RMB and secured by the Group's buildings, land use right and construction in progress. For the six months ended 30 June 2022, the long-term bank borrowings bear interest rates of 4.65% and 4.75% per annum (2021: 4.65% and 4.75%).

As at 30 June 2022 and 31 December 2021, the fair value of the borrowings (including long-term borrowings due within one year) is not materially different to their carrying amounts, since the interest payable on those borrowings is close to current market rates.

11. TRADE AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade payables (<i>Note (b)</i>)	462,760	350,846
Notes payable	–	1,500
Payroll and welfare payable	101,197	98,623
Taxes other than income taxes payable	13,015	13,410
Warranty provision	16,183	13,517
Accrued expenses	76,477	40,119
Employee payable	2,018	3,208
Loan from a non-controlling shareholder of a subsidiary (<i>Note (a)</i>)	1,226	1,263
Others	100,265	76,506
	<u>773,141</u>	<u>598,992</u>

Notes:

- (a) As at 30 June 2022 and 31 December 2021, the loan from a non-controlling shareholder of a subsidiary is unsecured, bearing interest at 5.00% per annum and repayable on demand.

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Within 6 months	400,576	326,305
6 months to 1 year	42,335	7,335
1 to 2 years	6,068	4,419
2 to 3 years	4,172	5,546
Over 3 years	9,609	7,241
	<u>462,760</u>	<u>350,846</u>

- (c) As at 30 June 2022 and 31 December 2021, the carrying amounts of trade payables are approximated at their fair values.

12. SHORT-TERM BORROWINGS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Bank borrowings, secured (<i>Note (a)</i>)	25,000	20,000
Bank borrowings, guaranteed (<i>Note (b)</i>)	91,649	34,830
	<u>116,649</u>	<u>54,830</u>

Notes:

- (a) As at 30 June 2022, secured short-term bank borrowings are denominated in RMB and secured by the Group's buildings and right-of-use assets. For the six months ended 30 June 2022, the short-term bank borrowings bear interest rate of 4.57% (2021: 4.57%) per annum and are repayable within one year.
- (b) As at 30 June 2022, certain short-term bank borrowings were guaranteed by Austar SJZ, Austar Equipment Limited and Shanghai Austar, subsidiaries of the Company. For the six months ended 30 June 2022, the short-term bank borrowings bear interest rates range from 3.00% to 5.30% per annum and are repayable within one year (2021: from 3.00% to 5.00%)

13. COMMITMENTS

Capital expenditure contracted for but not yet incurred is as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Capital expenditure contracted for but not yet incurred:		
Property, plant and equipment	54,579	100,963
Intangible assets	338	432
	<hr/> 54,917 <hr/>	<hr/> 101,395 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2022, the COVID-19 pandemic outbreak in different regions in China, especially the lockdown in Shanghai for 2 months, caused a severe negative impact on the supply chain and normal operations in Shanghai and its surrounding areas. The supply chain of international suppliers is unstable which resulted in extended product delivery, but the instability issues of international supply chains and the trade restrictions which happened in the life-sciences sector, to a certain extent, will encourage clients to consider purchasing more local market-produced equipment and service, thereby providing opportunities for industry players in China.

The investment and financing activities in the first half of the year were mainly in the field of biopharmaceuticals, including antibodies, cell and gene therapy medicinal products, nucleic acid medicinal products, vaccines etc. Due to the outbreak of the COVID-19 pandemic, the research and development (R&D) and transformation of mRNA medicinal products and technologies have been accelerated; cell and gene therapy medicinal products have stepped into a rapid development track, which also drives the industry development of their related plasmids and viral vectors. Due to China's national drug centralised purchase policy, the business model of generic drugs in China has been transformed to the high-value generic drugs, first generic drugs, modification of generic drugs and industry upstream and downstream integration strategy. In addition, the diagnostic reagent market, medical devices, and nutritional products have also been favoured by capital investments.

According to the “14th Five-Year Plan” pharmaceutical industry development plan and the “14th Five-Year Plan” bio-economic development plan, China will accelerate the application of biotechnology innovative drug products and industrialisation.

In 2021, the National Medical Products Administration (NMPA), after joining The International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use (ICH), applied to join The Pharmaceutical Inspection Co-operation Scheme (PIC/S), which will be assessed and reviewed by PIC/S in 2022. These efforts will promote China's accession to the international drug regulatory system, improvement of its Good Manufacturing Practice (GMP) level and integration into the international market, providing great convenience for the overseas submissions of new drugs and accelerating the upgrading of the pharmaceutical industry.

The revised European Union GMP Annex I “Manufacture of Sterile Medicinal Products” was released on 25 August 2022, which will have a significant impact on the sterile manufacturing process, facilities and equipment, and contamination control strategies of pharmaceutical companies, and will promote the automation and containment of sterile manufacturing equipment, and accelerate the application of new technologies such as microbial rapid detection, single-use technology and robotics.

BUSINESS REVIEW

For the Period under Review, the Group recorded a growth of approximately 29.1% in revenue as compared to that of the corresponding period in 2021, even though it was affected by the COVID-19 pandemic lockdowns causing challenges on supply chain, manufacturing, and project execution. Order-in-take has increased by approximately 10.2% as compared to that of the corresponding period in 2021 in spite of the difficulties in communications, meeting time and the opportunities lost as a result of the pandemic lockdowns.

In February 2022, the Group successfully acquired certain technology and ancillary business of expertise in sterile liquid and powder filling line, which further enhanced the Group’s business portfolio in the integration of the filling line system and freeze-dryer system and also increased the capability of providing integrated solutions for the filling and freeze-drying of aseptic products.

The volume of service business of the Group has been further increasing. A new business brand has been established to cultivate the market awareness of preventive and facility-upgrading services. The service business has been evolving to incorporate a wider scope to meet clients’ needs in terms of facility management services, after-sales services of imported equipment etc. Under the strict operation and maintenance requirements set by regulations, together with clients’ limited resources to consolidate technical talents, it is believed that the Group’s service business is to generate new significant streams of income and higher margin of profits in the coming future.

Product lines in the sectors of active pharmaceutical ingredients (API) and oral solid dosage (OSD) in chemical drugs have still been enjoying a significant growth in order-in-take and revenue, thanks to our capacities to offer modular and innovative solutions with digitalisation and robotic technologies to help clients improve their work safety, process efficiency and operation excellence based on containment-based engineering and contamination control practices. AUSTAR UK Limited (“AUSTAR UK”), a wholly-owned subsidiary of the Group in the United Kingdom (“UK”), has been taking over the products of wet granulation equipment and fluid bed granulation technology to realise its local production and meet the application requirements of European clients and those clients who prefer equipment made in Europe.

The Group believes that building up a world-class technical competence requires continuous resource input in which efforts on recruiting top talents and consultants could be slimming the profit margins in the short-term, whilst the competitive edges over the competition will be strengthened in the long-term. The Group believes that a mid and long-term robust corporate competitiveness and performance achievement are foreseeable with such continuous investment efforts together with a firm commitment on our visions and strategies. The Group's aggressive approach in investing in human resources, geographical expansion and enhancing product and application solution competences will bring about more satisfactory business results to the Group.

The Group has been undergoing a serious review on its product lines and trying to find new technical solutions by combining various product lines together to offer the most cost-effective integrated solutions. Product-line restructuring will continue to facilitate application and solution offerings, and such restructuring will bring about competence improvement and enable the Group to be more resilient under tougher competitive circumstances. The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life-science process technology and applications and industry regulatory rules and practices, and to being able to help clients to address issues in quality, compliance, and operation excellence.

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:

Order-in-take by business segment	For the six months ended 30 June				Change
	2022		2021		
	RMB'000	%	RMB'000	%	%
Liquid and Bioprocess System	478,315	35.5%	512,256	41.9%	-6.6%
Clean Room and Automation					
Control and Monitoring System	317,081	23.5%	270,705	22.2%	17.1%
Powder and Solid System	224,630	16.7%	141,441	11.6%	58.8%
GMP Compliance Service	58,522	4.3%	49,096	4.0%	19.2%
Life Science Consumables	234,990	17.5%	228,641	18.7%	2.8%
Distribution and Agency of Pharmaceutical Equipment	33,345	2.5%	19,796	1.6%	68.4%
Total	1,346,883	100.0%	1,221,935	100.0%	10.2%

During the Period under Review, the total order-in-take amounted to approximately RMB1,346.9 million, representing an increase of approximately 10.2% from approximately RMB1,221.9 million for the six months ended 30 June 2021. The order-in-take of the business segments of Powder and Solid System and Distribution and Agency of Pharmaceutical Equipment experienced a significant increase of 58.8% and 68.4% respectively. At the same time, the order-in-take of the business segments of Clean Room and Automation Control and Monitoring System and GMP Compliance Service achieved a rapid increase of 17.1% and 19.2% respectively. The order-in-take of the business segment of Life Science Consumables had a slight increase of 2.8%, while the order-in-take of the business segment of Liquid and Bioprocess System had a slight decrease of 6.6%.

Liquid and Bioprocess System

Because of negative impact of the COVID-19 lockdown in Shanghai, during the Period under Review, the order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB478.3 million, showing a decrease of approximately RMB34.0 million or 6.6%, comparing to approximately RMB512.3 million for the six months ended 30 June 2021. The Group has acquired certain technology and ancillary business to enhance its business portfolio in the integration of the filling line system and freeze-dryer system and also increased the capability of providing integrated solutions for the filling and freeze-drying of aseptic products, and improved the competitiveness. This acquisition will bring about more opportunities in the long term.

Clean Room and Automation Control and Monitoring System

Through being oriented as a turnkey solution provider, and building a unique competence with the integration solutions capability, during the Period under Review, the order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System increased rapidly by approximately RMB46.4 million or 17.1% from approximately RMB270.7 million for the six months ended 30 June 2021 to approximately RMB317.1 million. The Group has built a complete engineering management team and integrated the technical strength, and is making project executions in emerging countries more convenient by regional and local resource support. This will become the basis of fast growth in the business segment of Clean Room and Automation Control and Monitoring System.

Powder and Solid System

During the Period under Review, the business segment of Powder and Solid System achieved a rapid growth and the amount of order-in-take reached RMB224.6 million, which is close to the full year of 2021 order-in-take amount. The order-in-take amount of the business segment of Powder and Solid System achieved a significant increase by approximately RMB83.2 million or 58.8% from approximately RMB141.4 million for the six months ended 30 June 2021 to approximately RMB224.6 million. Such increase was contributed by the digitisation of API and OSD production lines, and the technical accumulation of the Group in the area. At the same time, with the international technical team built to support international business development, Automated Guided Vehicle (AGV) and robot partners, the Group will have a strong and core competence in the market.

GMP Compliance Service

Driven by government regulations and globalisation, the business segment of GMP Compliance Service has enlarged its scope to full life cycle of the pharmaceutical industry. During the Period under Review, the order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB9.4 million or 19.2% from approximately RMB49.1 million for the six months ended 30 June 2021 to approximately RMB58.5 million. Accompanied by the trend of stricter regulations and standards, there is a huge potential in compliance consultancy service. The Group will also devote to capturing more business opportunities in compliance services and engineering consulting services by providing high quality service.

Life Science Consumables

During the Period under Review, the order-in-take amount of the business segment of Life Science Consumables increased by approximately RMB6.4 million or 2.8% from approximately RMB228.6 million for the six months ended 30 June 2021 to approximately RMB235.0 million. Because of negative impact of the COVID-19 lockdown in Shanghai, product delivery of this business segment was greatly affected. The impact was completely offset by promotion of LAB IT products, and continuous launching of new products and services with the latest technology, including cleanroom contamination control products of disposable sterilised rubber gloves, sterile pre-saturated wipes, disposable sterile masks, etc. These efforts are expected to bring about more rapid business increase in corresponding markets.

Distribution and Agency of Pharmaceutical Equipment

During the Period under Review, the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment achieved a significant increase by approximately RMB13.5 million or 68.4% from approximately RMB19.8 million for the six months ended 30 June 2021 to approximately RMB33.3 million. The Group was highly recognised by customers and will continue to engage in the distribution of various types of high-end pharmaceutical equipment together with its joint ventures and overseas business partners.

Backlogs

Set out below is a breakdown of the Group's closing value of backlogs (VAT excluded) and the corresponding number of contracts by business segment as at 30 June 2022:

Backlogs by business segment	<i>Number of Contracts</i>	As at 30 June 2022		
		<i>%</i>	<i>RMB'000</i>	<i>%</i>
Liquid and Bioprocess System	434	31.1%	726,698	43.7%
Clean Room and Automation				
Control and Monitoring System	325	23.3%	402,616	24.2%
Powder and Solid System	154	11.0%	252,673	15.2%
GMP Compliance Service	129	9.2%	122,071	7.4%
Distribution and Agency of Pharmaceutical Equipment	354	25.4%	157,928	9.5%
Total	<u>1,396</u>	<u>100.0%</u>	<u>1,661,986</u>	<u>100.0%</u>

PRODUCTION, EXECUTION AND ORGANISATION

The facility of AUSTAR UK, a wholly-owned subsidiary of the Group, at Huddersfield, West Yorkshire, UK was accredited by ISO 9001 authority in early 2021 and retained the ISO 9001 and 14001 certifications this year, ensuring customer confidence by demonstrating that the Group has a robust, globally recognised, Quality and Environmental Management System.

H+E Pharma GmbH (“**H+E Pharma**”), the Group’s majority-controlled subsidiary at Stuttgart, Germany, was able to consolidate the service and spare part businesses, which was carved out from Hager+Elsasser to serve European clients directly by an independent service team situated in Germany. H+E Pharma has been successful in securing relatively good orders on water purification equipment and systems from reputed European clients since 2021 that its wholly-owned subsidiary, a manufacturing arm of H+E Pharma, has been busy building up its capacity and competence to keep up with the momentum of order-in-take, and large orders are expected to continue this year.

The completion of the Group’s new production sites under construction in Shijiazhuang and Shanghai have been postponed due to, among other factors, the negative impacts of the pandemic lockdown in Shanghai; they are expected to become operational in the third and fourth quarter of 2022 respectively. This expansion strategy is in line with our expected growth in equipment and system sales and it is believed to be able to meet the growth demand in the coming 5 years. Overall upgrading of manufacturing conditions will provide more space for new product research and manufacturing, and offer opportunities for improvement, including production process and quality management, digitalisation tools enhancement, and key production processes optimisation in the new facility.

The LEAN-based AUSTAR Production System (APS) has been under continuous improvement and development. In our Shijiazhuang site, its relevant targets and action plans have been worked out and are under execution step by step. At the production site in Shijiazhuang, 16 items of APS have been covering subjects such as Ergonomics, Safety, Single Minute Exchange of Die (SMED), I-See-I-Do and Value Stream Mapping (VSM), and that 10 items of APS have been implemented at both production sites in Shanghai and Nanjing. The Group has integrated manufacturing execution system (MES) at the three production sites to ensure the production control are following the same standards.

The Group's Project Execution Centre has overcome the impacts from the COVID-19 pandemic and ensured the successful execution of the Group's projects during the first half of 2022. The team has brought the design, manufacturing and commissioning activities forward by promoting a modular factory execution mode, and has continued to promote the information project management platform to realise information sharing and execution control on the execution progress, and human resource allocation through information management. All of these have contributed to a reduction of project execution duration and workload for site construction activities and greatly improved the product quality.

The introduction of Building Information Modeling (BIM) technologies is used to prevent and solve the errors, omissions, inferior and defective points in the design based on the informationised, visualised and coordinated BIM technologies. New knowledge and technologies such as the VBA senior language programming, the rapid importation of the SIMATIC SCADA Export variables, and the initiation of the batch orders in the Distributed Control Systems (DCS) have greatly reduced the phase document duration and conserved man-hour resources.

SALES AND MARKETING

The Group's internal sales cooperation model is designed to encourage sales teams from different sectors and different product lines to support each other to offer a more relevant solution to our clients. This model is facilitated by a sophisticated business-intelligent information system of customer relations management to ensure our clients are properly taken care of and our sales team are working cost-effectively.

In China, through years of sales talent and organisation development, the Company's sales process is relatively mature. The China sales team is focusing on the China market with more key account managers to support the business growth, and specific matter experts and technology application team are supporting territory sales for technical support and proposal preparation and presentation.

For global expansion, we have been building up the team gradually according to execution strategies, as in the last few years, European and Southeast Asia teams were recruited to directly take care of the related sales leads and enquiries. More agents in the Southeast Asia and Middle-East and North Africa regions have been engaged in sourcing out more sales opportunities. It is believed that the Group's global sales team is able to contribute a greater portion share of sales order-in-take gradually in the near future.

During the first half of 2022, brand promotion and marketing have made significant progress and there were 19 events which was organised worldwide. The AUSTAR brand has had a good exposure with our attendance in Making Pharma in UK; EXPOFYBI in Argentina; and Pak Pharma & Healthcare Expo in Pakistan, reaching out to new companies and securing orders in Europe. In China, besides organising some offline events in the first half of the year, we have increased online events to replace some offline events which have been postponed by the pandemic. During the first half of the year, 16 events were organised including but not limited to industry meetings, online seminars, trainings and other industry-related media platforms, and 29 webinars were released to share technology solutions and knowledge with clients in different countries and regions. For the second half of the year, the Group has made full preparation to attend key exhibitions such asACHEMA, CPhI Worldwide 2022 in Frankfurt, Germany, Bio Asia Taiwan and Pharmaconex in Cairo, Egypt, etc.; at the worldwide scope a total of 45 events are in planning stages.

The Group has explored different communication channels in the form of digital marketing, and we have developed close contacts with mainstream media in China and bridged international media and publications for the Group's business in targeted countries. The Group has utilised the social media platforms with great success having releasing over 188 new articles, with more short videos being released this year and more client interactions being created. With diversified content in 17 different media channels, the recipients could know more about the AUSTAR Group and it is believed that more positive feedback could be received by having more industry content recipients. During the first half of 2022, we have focused on project video and short video creation, having created over 60 videos for key projects and knowledge sharing and gathering over 140,000 views for the Group's video account; it is expected that positive feedback could be generated from the market through this dynamic approach.

The Resource Centre section of our Group website, established with the purpose of encouraging more e-copies and less hardcopies where clients could read online and download the most up-to-date materials, has generated more than 140,000 visitors during the first half of 2022.

Complementing the Group's business global expansion strategy, the Group is of the view the continuous utilisation of high quality marketing tools of different languages and timely updating of existing materials are the foundation for the Group to provide quick response to support the global business growth.

RESEARCH AND DEVELOPMENT

As at 30 June 2022, the Group has obtained 350 patents. During the Period under Review, the Group obtained 39 registered patents, and applications for 82 patents are currently in progress.

The Company's automation engineering team has developed a reporting system of the Utility Automation System and Process Control System based on the Siemens platform, which has improved the functions of the automation system and shortened the project development time.

A full-process material management and control system has been developed to help clients to achieve full-process unmanned material scheduling by realising signal interaction such as automatic weighing, automatic unpacking and automatic feeding, which can greatly help clients to achieve expansion and efficiency, improve safety management and digital production.

The Group's stainless steel bioreactor series has entered the stage of large-scale manufacturing and execution. Investment has been made in the R&D of the Alternating Tangential Flow (ATF) equipment-perfusion system, which such equipment can increase the competitiveness of the Group's core equipment of biological systems, drive the preparation and storage system of upstream culture medium, and improve the overall biological solutions of AUSTAR products.

The inline conditioning system ILC (In-line Conditioning) based on Process Analysis Technology (PAT) developed in 2021 is at the stage of product commissioning with materials. It is expected to achieve a breakthrough this year.

The R&D phase of the full-membrane water generation equipment has been completed. Under the existing human pharmaceutical regulations in China, this new technology has not been recognised. Currently, it is being actively promoted in other countries and regions. The standardisation system is further upgraded for the conventional water purification equipment to realise the standardisation of design, procurement and manufacturing.

Technologies are under serious R&D by the Group such as thin-film evaporation in the field of complex preparations, recovering organic solvents in the complex preparation process, helping clients to improve the stability and reproducibility of their final product yields, and enhancing the chemical dispensing system.

Progress has been made in the Group's Own Brand Product (OBP) project which includes cleanroom contamination control products of disposable sterilised rubber gloves, sterile pre-saturated wipes and disposable sterile masks, the product portfolio of which has been launched into the market.

The upgrading of the cleanroom garment management system has been completed to meet clients' requirements for system functions and page friendliness, which established a complete traceability from cleanroom garment production to data management.

The Group has also carried out its plan on the AI vision composite robot, an innovative product integrating platform and replacing contamination control operations so as to allow the Group to maintain a leading position in the intelligent process of pharmaceutical contamination control.

An integrated solution for the filling and freeze drying of aseptic products has been developed, which further establishes a good foundation for product application in innovative and new modified-release drugs, and the product manager team has been restructured to better prepare for the sales of integrated solutions for aseptic products.

AUSTAR UK's first containment Isolator is expected to be completed later this year, demonstrating our flexibility and capability whilst adding to our portfolio of products to support the growth of the Group's business. The two Isolators will include integrated drum tippers and split butterfly valves.

The ALUS isolator manufactured in the UK interfacing with the ALUS and Conveyor System manufactured in Nanjing has been showcased atACHEMA in August 2022 in Germany. This Isolator design is twin walled, with air return through the windows, which allows for a more compact Isolator design under space restrictions.

AUSTAR UK is also progressing on its OSD localisation strategy, aiming to take the designs to improve to global standards whilst providing feedback of product improvement information to the China team. The AUSTAR UK team is at the first phase of completion of the first OSD product, which has been showcased atACHEMA. In the second half of 2022, the AUSTAR UK OSD localisation work is expected to commence on the Hammer Mill, Cone Mill, High Shear Granulator.

PROSPECTS

The growth potential of the life-sciences market on a global scale has been witnessed in recent years and it is expected to further thrive, not only in China but globally, for the foreseeable future.

The growth in the biopharmaceutical and pharmaceutical market in China has been giving the Group sufficient project experience for strengthening a concrete foundation for building core competence elements including products, technologies, project execution capability, knowledge and expertise, all of which are able to create value to clients in emerging countries. The establishment of the Group's business team in Europe has been making project executions in emerging countries more convenient by regional and local resource support. The Group's recent turnkey project execution in Oman and the United Arab Emirates is an evidence of the Group's successful deployment of global project execution resources including labour and material.

The lifting of travel restrictions due to the COVID-19 pandemic has provided an immediate positive impact to the growth opportunities in emerging countries after the communication restrictions of the Group's global sales and proposal team with clients during the past 2 years.

Since the establishment of the Group, the business focus has been on commercialised facilities in our clients' product life cycle. The Group's success in the research sector of life sciences with more and more project acquisitions is attributed to a strategy of enhancing the capacities to make offerings for more research laboratory products and services. The increase in Contract Research Organization (CRO) and Contract Development and Manufacturing Organization (CDMO) clients has contributed to the Group's revenue.

The Group has been developing 12 technology applications in our competence and knowledge model, and individual specific technology application teams have been established step by step over the past years. The Group has set up 12 technology application teams, namely 1) Pharmaceutical Automation & Digitalization, 2) Cleaning, Sterilization & Disinfection, 3) Clean Utilities, 4) Biopharma Process and Technology, 5) Containment Technology, 6) Cleanroom/ Heating Ventilation and Air Conditioning (HVAC)/Environmental Monitoring System (EMS)/ Building Management System (BMS), 7) Filling & Freeze-drying & Inspection, 8) Biosafety Technology and Facilities, 9) Lab & Quality and Formulation Technology, 10) Pharmaceutical Formulation Technology, 11) Regulatory Compliance & Operation Excellence, and 12) Analytics Measurement Technologies, where regular workshops were held for the purpose of better unification of the technology capability of individual product lines into comprehensive technology solutions. It is believed that with these cross-business-unit professional technical application teams, more up-to-date technology solutions can be provided to the clients.

Cell and gene therapy is believed to be one of the potential drivers for growth in life-sciences. Investment focus has been observed in this sector. Our business share on this sector has been increasing at a fast pace, as evidenced by the order-in-take from service to consumables and equipment to systems engineering projects. The Group's experience and knowledge in decontamination, containment, building, digitalisation, and compliance all can serve the clients of the cell and gene therapy sector and offer competitive solutions to them.

Other life-sciences sectors including diagnostics, medical devices, animal health and medical beauty have been covered by the Group for some time, apart from the main sectors of biologics and chemical drugs. There are huge growth opportunities for the Group in these industrial sectors as the Group's existing technologies and product offerings can contribute value to these clients in terms of operation excellence, quality compliance and automation and digitalisation.

In spite of significant growth in revenue and order-in-take of equipment and process system engineering in the last 3 years, the share ratio of the Group's service business has not been decreased. The service business accounts for approximately 8.4% of order-in-take on average over the last 3 years. The service offerings scope of the service business has been gradually increasing to enhance the differentiation from competition. It is not easy for the competitors to copy the service business, which offers reasonable profit margin contributions to the Group. A dedicated service business growth initiative team was established in the first half of 2022 to adopt more aggressive approach and action plans to increase the service business revenue. As the ratio of the Group's service business is increasing, the gross margin contributions therefrom would become more significant.

The importance and urgency of digitalisation transformation in terms of Pharma 4.0 have well been recognised in developed countries. Research and manufacturing companies in life-sciences in emerging countries including China have gradually realised that they must speed up their pace in digitalisation transformation in order to catch up with their peers in the developed countries. The Group has addressed such development and trend in the last several years by spending serious efforts in developing talents and skills in segment of technologies. A sophisticated structure of the Research and Manufacture Operation Integrated Information System (REMOIIS) platform was created by the Group to facilitate software vendors and partners to offer solutions to clients, with the Group's capacity to act as system integrator and provide infrastructure including data processing and analytics, by covering levels from level 0 to level 3 throughout the whole product life cycle.

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 RMB1,104.0 million, representing a substantial increase of approximately 29.1% from the corresponding period in 2021, all business segments recorded an increase, in particular a significant increase in revenue was recorded from the business segments of each of Liquid and Bioprocess System, Powder and Solid System, GMP Compliance Service and Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the six months ended 30 June 2022 and 2021, the breakdown of the Group's revenue by business segment:

Revenue by business segment	For the six months ended 30 June				Change %
	2022		2021		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Liquid and Bioprocess System	497,778	45.1%	368,269	43.1%	35.2%
Clean Room and Automation Control and Monitoring System	240,861	21.8%	221,420	25.9%	8.8%
Powder and Solid System	108,819	9.9%	55,401	6.5%	96.4%
GMP Compliance Service	44,292	4.0%	28,679	3.3%	54.4%
Life Science Consumables	195,538	17.7%	172,979	20.2%	13.0%
Distribution and Agency of Pharmaceutical Equipment	16,692	1.5%	8,628	1.0%	93.5%
Total	1,103,980	100.0%	855,376	100.0%	29.1%

Liquid and Bioprocess System

During the Period under Review, the Group's revenue from the business segment of Liquid and Bioprocess System increased by approximately RMB129.5 million or 35.2% from approximately RMB368.3 million for the six months ended 30 June 2021 to approximately RMB497.8 million. The increase was mainly attributable to the increase in the closing amount of backlog by 31 December 2021, and the high project execution efficiency by reducing delivery cycle. The non-wholly owned subsidiary H+E Pharma is also a new growth pole.

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 RMB19.5 million or 8.8% from approximately RMB221.4 million for the six months ended 30 June 2021 to approximately RMB240.9 million for the Period under Review. The increase was mainly attributable to the increase in the order-in-take in the business segment of Clean Room and Automation Control and Monitoring System and higher project execution efficiency.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased significantly by approximately RMB53.4 million or 96.4% from approximately RMB55.4 million for the six months ended 30 June 2021 to approximately RMB108.8 million for the Period under Review. The increase was mainly attributable to the increase in the order-in-take in the business segment of Powder and Solid System for the Period under Review, a part of which was recognised as revenue and the high project execution efficiency by the improving capacities with digitalisation and robotic technologies.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB15.6 million or 54.4% from approximately RMB28.7 million for the six months ended 30 June 2021 to approximately RMB44.3 million for the Period under Review. The increase was mainly attributable to the increase in the closing amount of backlog by 31 December 2021 and the increase in the order-in-take in the business segment of GMP Compliance Service, a part of which was recognised as revenue during the Period under Review, and the service brand has been promoted, improved project execution efficiency by the application of software.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB22.5 million or 13.0% from approximately RMB173.0 million for the six months ended 30 June 2021 to approximately RMB195.5 million for the Period under Review, which was mainly attributable to the increase in the closing amount of backlog by 31 December 2021, and the increase in the order-in-take in the business segment of Life Science Consumables for the Period under Review, which was primarily attributable to the core competence by offering a complete solution of Washing, Disinfection and Sterilization, and continuous launching of more diversified life science consumables and services with the latest technology.

Distribution and Agency of Pharmaceutical Equipment

Although hindered by the COVID-19 pandemic, the Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased significantly by approximately RMB8.1 million or 93.5% from approximately RMB8.6 million for the six months ended 30 June 2021 to approximately RMB16.7 million for the Period under Review which was mainly attributable to the increase in the closing amount of backlog by 31 December 2021, and expansion of business to incorporate a wider scope to meet the after-sales services of imported equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the six months ended 30 June 2022 and 2021:

Revenue by geographical regions	For the six months ended 30 June				Change %
	2022		2021		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Mainland China	1,012,184	91.7%	800,629	93.6%	26.4%
Other locations	91,796	8.3%	54,747	6.4%	67.7%
Total	<u>1,103,980</u>	<u>100.0%</u>	<u>855,376</u>	<u>100.0%</u>	29.1%

The Group derived revenue mainly from the business operations in Mainland China, which accounted for approximately 91.7% of the total revenue for the Period under Review (2021: approximately 93.6%).

Cost of sales

The Group's cost of sales increased by approximately RMB237.1 million or 37.6% from approximately RMB631.1 million for the six months ended 30 June 2021 to approximately RMB868.2 million for the Period under Review. Such increase was in line with the increase in revenue as compared to the same period in 2021.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB11.4 million or 5.1% from approximately RMB224.3 million for the six months ended 30 June 2021 to approximately RMB235.7 million for the Period under Review. The gross profit margin decreased from approximately 26.2% for the six months ended 30 June 2021 to approximately 21.4% for the Period under Review, which was due to the decrease in gross profit margin from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System, GMP Compliance Service and Distribution and Agency of Pharmaceutical Equipment. In addition to strengthening our pricing strategy, the Group will consider to centralise the purchasing of more local market-produced equipment and service, and to keep on improving production process and quality management to improve the new product's market competitiveness.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by business segment for the six months ended 30 June 2022 and 2021:

Gross profit and gross profit margin by business segment	For the six months ended 30 June					
	2022		2021		Gross profit margin	
	<i>RMB'000</i> (Unaudited)	%	%	<i>RMB'000</i> (Unaudited)	%	%
Liquid and Bioprocess System	63,038	26.7%	12.7%	70,890	31.6%	19.2%
Clean Room and Automation Control and Monitoring System	43,452	18.5%	18.0%	46,772	20.8%	21.1%
Powder and Solid System	19,969	8.5%	18.4%	17,900	8.0%	32.3%
GMP Compliance Service	18,018	7.6%	40.7%	13,152	5.9%	45.9%
Life Science Consumables	85,546	36.3%	43.7%	71,170	31.7%	41.1%
Distribution and Agency of Pharmaceutical Equipment	5,712	2.4%	34.2%	4,431	2.0%	51.4%
Total	235,735	100.0%	21.4%	224,315	100.0%	26.2%

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB7.9 million or 11.1% from approximately RMB70.9 million for the six months ended 30 June 2021 to approximately RMB63.0 million for the Period under Review. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 19.2% for the six months ended 30 June 2021 to approximately 12.7% for the Period under Review, which was mainly due to the increase in labour cost and materials cost caused by the COVID-19 pandemic outbreak in different regions and lockdown in Shanghai. The Group will strengthen the technical competence through the knowledge and experience accumulation acquired in the projects' execution.

Clean Room and Automation Control and Monitoring System

During the Period under Review, the gross profit from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB3.3 million or 7.1% from approximately RMB46.8 million for the six months ended 30 June 2021 to approximately RMB43.5 million. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 21.1% for the six months ended 30 June 2021 to approximately 18.0%, which was mainly due to increased labour cost for better solution and service.

Powder and Solid System

During the Period under Review, the Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB2.1 million or 11.6% from approximately RMB17.9 million for the six months ended 30 June 2021 to approximately RMB20.0 million. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 32.3% for the six months ended 30 June 2021 to approximately 18.4%, which was mainly due to the Group's undertaking of several projects with lower gross profit margin to expand the market share of new products. It is expected that the gross profit margins of the business segments will further enhance with lower fixed costs per unit resulting from an increased market share.

GMP Compliance Service

During the Period under Review, the Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB4.8 million or 37.0% from approximately RMB13.2 million for the six months ended 30 June 2021 to approximately RMB18.0 million. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 45.9% for the six months ended 30 June 2021 to approximately 40.7%, which was mainly resulting from the undertaking of projects with a relatively lower gross profit margin in light of the keen market competition. The Group will make continuous efforts to enhance service and cost control management.

Life Science Consumables

During the Period under Review, the Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB14.3 million or 20.2% from approximately RMB71.2 million for the six months ended 30 June 2021 to approximately RMB85.5 million. The gross profit margin from the business segment of Life Science Consumables increased from approximately 41.1% for the six months ended 30 June 2021 to approximately 43.7%, which was mainly due to the favourable product portfolio, which secured a higher gross profit margin. The Group will keep on researching new product to improve the market competitiveness of the business segment of Life Science Consumables.

Distribution and Agency of Pharmaceutical Equipment

During the Period under Review, the Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB1.3 million or 28.9% from approximately RMB4.4 million for the six months ended 30 June 2021 to approximately RMB5.7 million. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 51.4% for the six months ended 30 June 2021 to approximately 34.2%, which was mainly due to the increase in execution cost caused by the COVID-19 pandemic outbreak.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately RMB0.4 million or 0.5% to approximately RMB83.8 million for the Period under Review from approximately RMB84.2 million for the six months ended 30 June 2021. The decrease was primarily due to the decrease in the freight and port charges by a total amount of approximately RMB1.7 million and travel expenses and other expenses by a total amount of approximately RMB0.7 million and RMB1.3 million respectively, and business entertainment expenses by a total amount of approximately RMB0.3 million, but mainly offset by the increase in staff costs by a total amount of approximately RMB3.6 million.

Administrative expenses

Administrative expenses increased by approximately RMB6.7 million or 11.0% to approximately RMB67.8 million for the Period under Review from approximately RMB61.1 million for the six months ended 30 June 2021, mainly due to the increase in staff costs by a total amount of approximately RMB11.0 million, but mainly offset by the decrease in impairment of inventories and repayment by a total amount of approximately RMB3.3 million and depreciation of property, plant and equipment and travel expenses by a total amount of approximately RMB0.5 million and RMB0.4 million respectively.

Research and development expenses

As at 30 June 2022, the Group had 48 research and development personnel which accounted for approximately 2.7% of the Group's total number of employees. During the Period under Review, the Group cooperated with well-known academic institutions in order to upgrade the Group's technology level, and executed more research and development activities. The Group's research and development expenses increased by approximately RMB6.6 million or 24.7% from approximately RMB26.7 million for the six months ended 30 June 2021 to approximately RMB33.3 million for the Period under Review, mainly due to the increase in staff costs and materials consumed in more research projects. The Group will make continuous efforts to enhance research and development activities.

Other income

Other income decreased by approximately RMB2.5 million or 78.1% to approximately RMB0.7 million for the Period under Review from approximately RMB3.2 million for the six months ended 30 June 2021, mainly due to the decrease in subsidies granted by local government authorities of the PRC during the Period under Review.

Other (losses)/gains – net

Compared to other gains of approximately RMB197.8 million for the six months ended 30 June 2021 mainly due to the net gain (before income tax) of approximately RMB199.0 million on disposal of the Group's 60% equity interest in a then joint venture namely PALL-AUSTAR JV, the Group recorded other losses of approximately RMB5.1 million for the Period under Review mainly attributable to exchange loss of RMB6.5 million.

Finance costs – net

The Group recorded net finance costs of approximately RMB2.9 million for the Period under Review as compared to net finance costs of approximately RMB0.8 million for the six months ended 30 June 2021. Such increase was mainly due to the increase in bank borrowings of approximately RMB1.8 million, and interest income of approximately RMB0.2 million, and the decrease in interest expense from lease liabilities of approximately RMB0.1 million.

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

The Group's share of net profits of investments accounted for using the equity method decreased by approximately RMB1.2 million, from approximately RMB6.3 million for the six months ended 30 June 2021 to approximately RMB5.1 million for the Period under Review, primarily attributable to the increase in profit contribution from the Group's investment in the joint venture STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited by approximately RMB2.5 million, but partially offset by the decrease in profit contribution from the Group's investment in the joint venture PALL- AUSTAR JV prior to its disposal in March 2021 by approximately RMB3.7 million.

Profit before income tax

The Group recorded profit before income tax of approximately RMB48.2 million for the Period under Review as compared to the profit before income tax of approximately RMB251.9 million for the six months ended 30 June 2021. The difference was primarily attributable to the fact that for the six months ended 30 June 2021, the Group had recognised a one-off disposal gains (before income tax) of approximately RMB199.0 million from the disposal of its then joint venture PALL-AUSTAR JV which took place in the corresponding period, and the other factors as described in this section.

Income tax expense

The income tax expense decreased by approximately RMB23.2 million, from approximately RMB34.8 million for the six months ended 30 June 2021 to approximately RMB11.6 million for the Period under Review, which was mainly due to the decrease in profit before income tax for the Period under Review. The effective income tax rate was approximately 24.0% for the Period under Review as compared to the effective income tax rate of approximately 13.8% for the six months ended 30 June 2021; for illustration purposes, without taking into account the disposal gains of the joint venture PALL-AUSTAR JV which was subject to an income tax rate of 10.0%, the effective income tax rate would be approximately 25.6% for the six months ended 30 June 2021.

Profit for the period

The Group recorded a profit of approximately RMB36.7 million for the Period under Review as compared to a profit of approximately RMB217.0 million for the six months ended 30 June 2021, which was primarily due to the factors described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(42,542)	(21,315)
Net cash (used in)/generated from investing activities	(79,442)	156,725
Net cash generated from financing activities	102,627	4,382
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(19,357)	139,792
	<hr/> <hr/>	<hr/> <hr/>

For the Period under Review, the Group had net cash used in operating activities of approximately RMB42.5 million mainly due to:

- i. the profit before income tax for the Period under Review of approximately RMB48.2 million, plus the depreciation of property, plant, and equipment of approximately RMB5.2 million, the amortisation of intangible assets and lease assets of approximately RMB11.1 million partially offset by the decrease in investment income from joint venture/associate of approximately RMB5.2 million;
- ii. the increase in trade and other payables of approximately RMB160.1 million and the decrease in pledged bank deposits of approximately RMB40.6 million;

- iii. the increase in contract assets of approximately RMB179.3 million, trade and other receivables and prepayment of approximately RMB95.0 million and inventories of approximately RMB7.1 million and the decrease in contract liabilities of approximately RMB12.1 million; and
- iv. paid income taxes of approximately RMB11.7 million.

For the Period under Review, the Group had net cash used in investing activities of approximately RMB79.4 million, which was mainly attributable to payment for property, plant and equipment of approximately RMB83.7 million, and payment for intangible assets of approximately RMB17.0 million but partially offset by the decrease in term deposits with initial terms of over three months by approximately RMB21.3 million.

For the Period under Review, the Group had net cash generated from financing activities of approximately RMB102.6 million mainly attributable to the proceeds from bank borrowings of approximately RMB118.3 million and contributions from non-controlling interests of approximately RMB3.5 million, but partially offset by principal elements of lease payments and repayments of borrowings of approximately RMB6.1 million and RMB8.1 million respectively, and interest paid for bank borrowings of approximately RMB4.8 million.

Net current assets

The Group's net current assets had decreased by approximately RMB50.6 million from approximately RMB527.0 million as at 31 December 2021 to approximately RMB476.4 million as at 30 June 2022.

As at 30 June 2022, the Group's total current assets amounted to approximately RMB1,888.5 million, which was an increase of approximately RMB225.3 million as compared with approximately RMB1,663.2 million as at 31 December 2021. The increase was primarily due to the factors set out below:

- i. the increase in contract assets of approximately RMB176.6 million, trade and notes receivables of approximately RMB103.8 million, prepayments and other receivables of approximately RMB17.8 million, and inventories of approximately RMB8.6 million, which are mainly due to the business expansion; and
- ii. offset by the decrease in pledged bank deposits of approximately RMB40.6 million, cash and cash equivalents of approximately RMB19.6 million and term deposits with initial terms of over three months of approximately RMB21.3 million.

The Group's total current liabilities amounted to approximately RMB1,412.1 million, which was an increase of approximately RMB275.9 million as compared with approximately RMB1,136.2 million as at 31 December 2021. The increase was primarily due to:

- i. the increase in trade and other payables in the amount of RMB174.1 million, short-term borrowings in the amount of approximately RMB61.8 million, current portion of long-term borrowings in the amount of approximately RMB55.9 million; and
- ii. the decrease in contract liabilities of approximately RMB12.1 million.

Borrowings and gearing ratio

As at 30 June 2022, the total short-term interest-bearing bank borrowings amounted to RMB116.6 million. The secured short-term bank borrowings amounted to RMB25.0 million and bear interest rate of 4.57% per annum (31 December 2021: 4.57% per annum), and the guaranteed short-term bank borrowings amounted to RMB91.6 million and bear interest rates range from 3.0% to 5.3% per annum (31 December 2021: from 3.00% to 5.00% per annum). The long-term bank borrowings and current portion of long-term borrowings amounted to RMB46.5 million and RMB55.9 million respectively and bear interest rates of 4.65% and 4.75% per annum (31 December 2021: 4.65% and 4.75% per annum).

The Group's gearing ratio increased to approximately 23.8% as at 30 June 2022 from approximately 16.4% as at 31 December 2021. The ratio is calculated based on the total debts as of the respective dates divided by total capital equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 30 June 2022, in addition to pledged bank deposits of approximately RMB131.8 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB4.5 million and approximately RMB70.0 million respectively (31 December 2021: approximately RMB5.0 million and approximately RMB71.1 million respectively) and construction in progress having a carrying amount of approximately RMB134.4 million (31 December 2021: approximately RMB85.0 million) which are pledged as security for bank borrowings with carrying amount of approximately RMB127.4 million (31 December 2021: approximately RMB74.3 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2022 (31 December 2021: Nil).

INTERIM DIVIDEND

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2022 (2021: Nil).

CAPITAL STRUCTURE

As at 30 June 2022, the Group had shareholders' equity of approximately RMB843.9 million (31 December 2021: approximately RMB786.6 million). The authorised share capital of the Company was HK\$100,000,000 divided into 10,000,000,000 Shares with par value of HK\$0.01 each and the issued share capital was HK\$5,125,820 divided into 512,582,000 Shares.

HUMAN RESOURCES

As at 30 June 2022, the Group had 1,785 full-time employees for R&D, sales and marketing, administration, project management and execution and manufacturing, representing an increase of approximately 12.8% as compared with 1,582 employees as at 31 December 2021. 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 RMB253.0 million, which was an increase of approximately 31.2% as compared with approximately RMB192.9 million for the six months ended 30 June 2021.

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

The Group regularly reviews its remuneration policies and employee benefits with reference to market practices and performance of individual employees. The remuneration of the employees and the Directors are determined by reference to their respective responsibilities, professional qualification, industry experience and performance. The emolument policy of the Directors is decided by the remuneration committee of the Board.

The Group has established various welfare plans including the provision of basic medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. The Group has also made statutory contributions for its employees in Hong Kong, Taiwan, India, Indonesia, Germany, UK and Malaysia.

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 COMMITMENT

Capital expenditure of property, plant and equipment and intangible assets which has been contracted for but not yet incurred as of 30 June 2022 amounted to approximately RMB54.9 million (31 December 2021: approximately RMB101.4 million).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

There were no significant investments, material acquisition or disposal of subsidiaries, associates and joint ventures by the Group during the Period under Review.

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, United States dollar and Hong Kong dollar. Foreign exchange risk arises from the ending balances of the internal borrowings amounted the Group's subsidiaries which have different functional currencies, the foreign currencies held by the Group's subsidiaries and offices and the sales of the Group's products and services to overseas customers who settle payments in foreign currencies. The Directors do not consider the foreign exchange rate risks as material to the Group and therefore, did not carry out any financial instruments such as forward currency exchange contracts to hedge the risks.

EVENT OCCURRING AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 8 August 2022, whereby the Company announced that the Group had completed the acquisition (“**Acquisition**”) of a minority shareholding interest in 諾澤流體科技(上海)有限公司 (Noozle Fluid Technology (Shanghai) Co., Ltd.*) (“**SHNZ**”) by way of both the acquisition of shareholding interest from an existing shareholder of SHNZ and capital injection. SHNZ, a company established in the PRC with limited liability in 2012, can provide complete superb solutions for the preparation in nanomedicine, inhalation and is principally engaged in the research and development, fabricating and selling of nanometre processing equipment, micron processing equipment, liposome extruder and matching systems, as well as related technologies for sectors of medicine, chemical engineering, electronics and food. SHNZ has installed a laboratory including all types of machine, ready for trialling and training. The Acquisition did not constitute a notifiable transaction or a connected transaction of the Company under Chapter 14 or Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”) respectively.

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 the shareholders of the Company (“**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 Part 2 of Appendix 14 to the Listing Rules.

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

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

AUDIT COMMITTEE

The Board established the audit committee (“**Audit Committee**”) on 21 October 2014 with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules and the Corporate Governance Code. The Audit Committee currently 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. The terms of reference of the Audit Committee are published on the Company's website and the website of the Stock Exchange.

The primary duties of the Audit Committee are to review the half-yearly and annual results of the Company and to supervise the Group's financial report process and internal control system, 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 RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.austar.com.hk). The interim report of the Company for the Period under Review containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company 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, 29 August 2022

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

** For identification purpose only*