Austar Lifesciences Limited
奧星生命科技有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 6118

AUSTAR
奥 星

2023
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
6118

EXECUTIVE DIRECTORS
Mr. Ho Kwok Keung, Mars
(Chairman & Chief Executive Officer)
Mr. Ho Kin Hung
Mr. Chen Yuewu
Madam Zhou Ning

NON-EXECUTIVE DIRECTOR
Madam Ji Lingling

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin

AUDIT COMMITTEE
Mr. Cheung Lap Kei *(Chairman)*
Madam Chiu Hoi Shan
Madam Ji Lingling

REMUNERATION COMMITTEE
Madam Chiu Hoi Shan *(Chairlady)*
Mr. Cheung Lap Kei
Madam Zhou Ning

NOMINATION COMMITTEE
Mr. Ho Kwok Keung, Mars *(Chairman)*
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan

CORPORATE GOVERNANCE COMMITTEE
Madam Zhou Ning *(Chairlady)*
Mr. Ho Kwok Keung, Mars
Madam Chiu Hoi Shan

RISK MANAGEMENT COMMITTEE
Madam Zhou Ning *(Chairlady)*
Mr. Chen Yuewu
Madam Ji Lingling

COMPANY SECRETARY
Madam Mak Yuk Kiu

AUTHORISED REPRESENTATIVES
(For the purpose of the Listing Rules)
Madam Zhou Ning
Madam Mak Yuk Kiu

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FINANCIAL HIGHLIGHTS

The board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**" or "**AUSTAR**", together with its subsidiaries, the "**Group**") presents the unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2023 ("**Period under Review**"), together with the comparative figures for the corresponding period in 2022 and the relevant explanatory notes as set out in this report. The interim condensed consolidated financial information set out on pages 34 to 70 is unaudited, but has been reviewed by the audit committee of the Board ("**Audit Committee**").

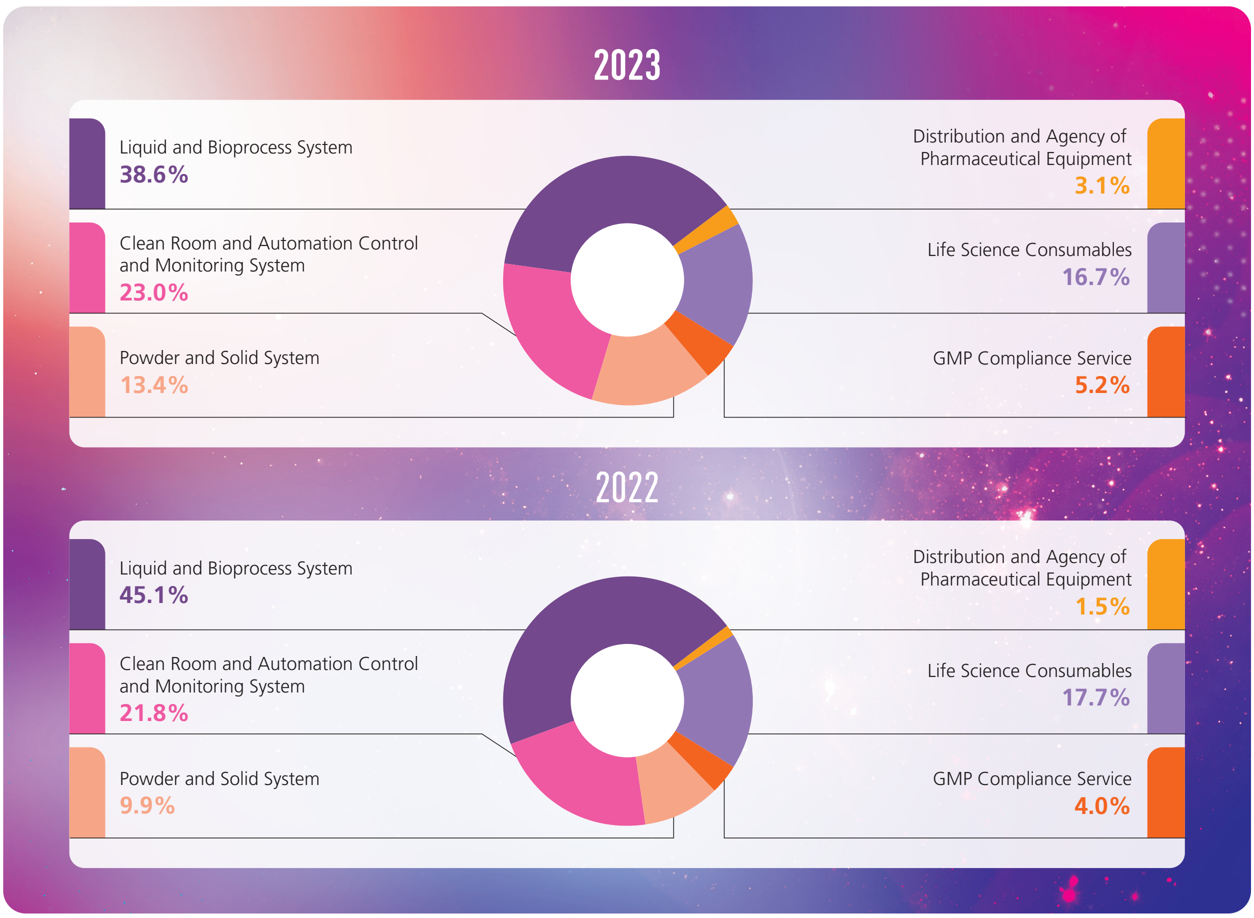
	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	**964,269**	1,103,980
Gross profit	**147,273**	235,735
(Loss)/profit before income tax	**(70,286)**	48,234
(Loss)/profit attributable to the owners of the Company	**(39,944)**	45,843
Gross profit margin	**15.3%**	21.4%
Basic (loss)/earnings per share *(Note)*	**(RMB0.08)**	RMB0.09
Diluted (loss)/earnings per share *(Note)*	**(RMB0.08)**	RMB0.09

	As at 30 June 2023	As at 31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total assets	**2,302,221**	2,388,763
Net assets	**810,213**	883,581
Gearing ratio	**34.8%**	27.8%

Note: The calculation of (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company for each of the six months ended 30 June 2023 and 2022 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 2023 and 2022.

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

	For the six months ended 30 June			
	2023		2022	
Revenue by business segment	**RMB'000**	**%**	RMB'000	%
	(Unaudited)		(Unaudited)	
Liquid and Bioprocess System	**371,814**	**38.6%**	497,778	45.1%
Clean Room and Automation Control and Monitoring System	**222,090**	**23.0%**	240,861	21.8%
Powder and Solid System	**129,557**	**13.4%**	108,819	9.9%
GMP Compliance Service	**50,448**	**5.2%**	44,292	4.0%
Life Science Consumables	**161,205**	**16.7%**	195,538	17.7%
Distribution and Agency of Pharmaceutical Equipment	**29,155**	**3.1%**	16,692	1.5%
Total	**964,269**	**100%**	1,103,980	100%



MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Since the beginning of this year, it has been observed that some of our biologics Contract Development and Manufacturing Organisation (CDMO) clients have been doing cost-cutting with capital expenditure (CAPEX) investment project being slowed down or cancelled, which as believed is mainly due to the fund shortages from the capital market. The pharmaceutical bulk market including Active Pharmaceutical Ingredients (API) and its intermediate bulk does not seem to follow the same declining path of CDMO as the API-related project enquiries are still as strong as before. The high-end specialty API market is driven both by China domestic market and international pharmaceutical raw material demand, in which China manufacturers are at its cost and capacity advantages, even though the export statistics data of the first-half year indicates pharmaceutical raw material market export from China declines as a whole as it is believed that commodity pharmaceutical raw materials are more affected by the global market demand decrease in general.

For biologics sectors, apart from the severe decline of monoclonal antibody drugs in project demand, other biological products like blood products and insulin are still in strong CAPEX phases. However, there are several big monoclonal antibodies drug manufacturers obtaining huge purchase orders and are still making substantial expansion of production. In any case, those services and supply companies which heavily rely on the sector growth of monoclonal antibody drugs are seriously suffering.

The chemical drug market which has been long forgotten in the pharmaceutical world in China seems to be more distinguished out from the perspectives of pharma service companies as more investment in new projects in this sector is observed. The complex drug formulation sectors especially the new drug delivery system sector with the expectation of high investment return and strong pipelines in the clinical trial phases are still offering CAPEX project opportunities amidst the general industrial slowing down phenomenon.

In the areas of new therapies like cell and gene therapy (CGT), it is observed that more cautions on project investment are made, causing some project delays, suspension and cancellation, and product pipeline adjustments. One hot topic in recent months is GLP-1 class drugs which have shown significant therapeutic effects in weight loss, creating a boom of investment in the upstream sector such as peptide production and synthetic biology.

With the release of international travel restrictions, international drug regulatory authorities and organisations are increasing the inspection of drug production sites in mainland China. As China National Medical Products Administration (NMPA) is about to formally apply to join the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S), an urgent need to improve the requirements for drug regulation and the competency of regulatory agencies, and many pharmaceutical companies in mainland China felt the need and urgency to build production lines in accordance with PIC/S GMP Standards, this will bring business opportunities to AUSTAR based on its capability in high-level technical solutions and deep knowledge in compliance and validation.

Supply chain reliability and cost control have created opportunities for domestic pharmaceutical equipment players in China as well, due to the impact of global supply chain pressure, geopolitics influence, and customised service flexibility, China-made equipment is getting more competitive with its price, quality, and reliable supply chain system. More complex projects of equipment and systems in the pharmaceutical sectors, previously dominated by European and American suppliers, in markets not restricted to US and Europe, are gradually able to be covered by Chinese domestic pharmaceutical equipment and systems suppliers.

In terms of policies and regulations, the CPC Central Committee and the State Council issued the Outline for Building a Quality Country ("**Outline**"), which aims to strengthen the life-cycle management of drugs and vaccines, accelerate the review and approval of drugs and medical devices needed in clinical applications for the treatment of rare diseases, and improve the capacity for drug testing and batch release of biological products (vaccines) in the pharmaceutical sector. The Outline suggests optimising the review mechanism of traditional Chinese medicine, accelerating the technology development and quality standards of chemical raw materials and traditional Chinese medicine, and improving the quality and efficacy consistency of generic drugs compared with innovator drugs and patented drugs.

The Center for Drug Evaluation (CDE) of the NMPA issued several important guidelines in the first half of 2023, such as the Technical Guidelines for Continuous Manufacturing of Oral Solid Preparations of Chemical Drugs (Trial), and solicited comments on implementation suggestions and Chinese version of ICH Q13 Continuous Manufacturing of Drug Substances and Drug Products, promoting the application of continuous technology and equipment in the pharmaceutical industry; the guidelines regarding the clinical development of ADC (antibody-drug conjugate), proposing suggestions on problems that need to pay attention, and guiding stakeholders to conduct clinical research and development of such drugs more scientifically; and the guidelines regarding clinical research and development of radiopharmaceuticals, to guide the clinical research and development of radiopharmaceuticals in China and provide referable technical standards.

BUSINESS REVIEW

For the Period under Review, the Group recorded approximately RMB964 million in revenue. Order-in-take has decreased by approximately 45.6% as compared with that of the corresponding period in 2022 due to the reduction of a number of projects and delay on project schedule caused by CAPEX investment sentiment after recovery from the COVID-19 pandemic has been slow. This phenomenon of a decline in orders was very obvious in the second quarter of this year. However, it has been observed that more hot and active CAPEX-related projects in the pharmaceutical sector are seemed to be coming back to a certain extent in July 2023.

The Group recorded an unaudited loss of approximately RMB72.2 million for the Period under Review. Such significant loss included the loss incurred by a non-wholly owned subsidiary in Germany whose loss for the Period under Review amounted to approximately RMB63.9 million. This non-wholly owned subsidiary has been making loss for the past few financial years. As announced by the Company in its announcement dated 3 August 2023, the management of such non-wholly owned subsidiary had filed an insolvency application and the Directors believe that such arrangement will help, on the one hand, the discontinuation of the Group's financial support to such non-wholly owned subsidiary in the future and, on the other hand, the Group to cease to record losses incurred from this non-wholly owned subsidiary upon its dissolution.

The profitability in the first half of 2023 has been negatively affected by the reduced order-in- take and shortfalls of some businesses in incubation and early maturity phases. It is believed that improvement in those businesses with poor profitability performance by better leadership and governance, and strengthening the competence elements of profitable product lines by deploying more corporate-level resources will both contribute a stronger profit in the coming years.

The service business has been evolving to incorporate a wider scope to meet clients' needs in the area of overall process systems, utility systems, re-validation and other pharmaceutical enterprises at the client's site, improving the comprehensive business solution capability, and providing the clients with the full-cycle one-stop operation and maintenance guarantee service. The scope of the Group's service offerings under the service business has been gradually increasing to enhance its differentiation from the competition. It is believed that the Group's service business is set to generate new significant streams of income and a higher margin of profits in the future.

Conventional chemical drug manufacturing such as API and intermediates is evolving into a new phase of stressing cost concerns, labour safety concerns and scale of economy. Our technologies such as automation and digitalisation, material transfer with containment, system integration, and clean and black utilities are able to deliver such sector solutions to tackle our clients' pain points of cost, labour safety, and capacity and lead time. Through integrating global leading industry experts, the product lines in the sectors of API and oral solid dosage (OSD) in chemical drugs follow the development trend of new technology upgrading and continuous manufacturing, and actively layout its product line to win the market competitiveness.

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

The Group has been undergoing a serious review on its product lines and trying to identify new technical solutions by combining various product lines together to offer the most cost-effective integrated solutions. The product-line restructuring will 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 sciences process technology and applications as well as industry regulatory rules and practices, which would enable the Group to help clients to address issues in quality, compliance, and operation excellence.

Order-in-take

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

	For the six months ended 30 June				
	2023		2022		Change
Order-in-take by business segment	*RMB'000*	%	*RMB'000*	%	%
Liquid and Bioprocess System	264,403	36.1%	478,315	35.5%	-44.7%
Clean Room and Automation Control and Monitoring System	112,786	15.4%	317,081	23.5%	-64.4%
Powder and Solid System	105,524	14.4%	224,630	16.7%	-53.0%
GMP Compliance Service	47,590	6.5%	58,522	4.3%	-18.7%
Life Science Consumables	168,096	22.9%	234,990	17.5%	-28.5%
Distribution and Agency of Pharmaceutical Equipment	34,255	4.7%	33,345	2.5%	2.7%
Total	732,654	100.0%	1,346,883	100.0%	-45.6%

During the Period under Review, the total order-in-take amounted to approximately RMB732.7 million, representing a decrease of approximately 45.6% from approximately RMB1,346.9 million for the six months ended 30 June 2022. The order-in-take of the business segments of Clean Room and Automation Control and Monitoring System and Powder and Solid System experienced a significant decrease of 64.4% and 53.0% respectively. At the same time, the order-in-take of the business segments of Liquid and Bioprocess System and Life Science Consumables faced a decrease of 44.7% and 28.5% respectively. The order-in-take of the business segment of GMP Compliance Service had a decrease of 18.7% while the order-in-take of the business segment of Distribution and Agency of Pharmaceutical Equipment had a slight increase of 2.7%.

Liquid and Bioprocess System

The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB264.4 million, showing a decrease of approximately RMB213.9 million or 44.7%, comparing to approximately RMB478.3 million for the six months ended 30 June 2022. The overall demand of the market decreased after years of rapid development. At the same time, the filling line system and the freeze-dryer system have extended their coverage to the chemical drugs, nutriceuticals and medical-beauty, and other related fields, as well as the biopharmaceutical field; geographically, besides the China market, there is also expansion to other regions in the global market.

Clean Room and Automation Control and Monitoring System

The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System decreased significantly by approximately RMB204.3 million or 64.4% from approximately RMB317.1 million for the six months ended 30 June 2022 to approximately RMB112.8 million. The overall trend of new construction and expansion in the pharmaceutical industry slowed down in China; at the same time, the investment slowdown in the field of biopharmaceuticals also had a significant impact. The Group is seeking more opportunities in the overseas markets where the investment for new pharmaceutical factories and the demand for pharmaceutical equipment are on the rise.

Powder and Solid System

The order-in-take amount of the business segment of Powder and Solid System recorded a significant decrease by approximately RMB119.1 million or 53.0% from approximately RMB224.6 million for the six months ended 30 June 2022 to approximately RMB105.5 million. The segment is experiencing challenges including general investment slowdown in the market and research and development (R&D) cost cut-down on the side of the pharmaceutical companies, while some leading startups start their investments in innovative drugs. At the same time, pharmaceutical companies are also diversifying their procurement sources, so that the local equipment manufacturers, with improved technology and lower cost, would have more sales opportunities which used to favour the part of the traditional European and American global players.

GMP Compliance Service

The order-in-take amount of the business segment of GMP Compliance Service decreased by approximately RMB10.9 million or 18.7% from approximately RMB58.5 million for the six months ended 30 June 2022 to approximately RMB47.6 million. The validation business, especially the testing services market, is highly competitive during the Period under Review. Meanwhile, China is seeing the urgent need to improve the domestic drug regulatory requirements and the capabilities of regulatory agencies under the background of international travel restriction release and China's plan to join PIC/S. It's reasonably expected that the Group may have more sales opportunities thereafter. In addition, the Group compliance consulting business is meeting the needs of different customer groups through on-site visits by higher-end consultants, and promoting the expansion of the higher-end compliance consulting business.

Life Science Consumables

During the Period under Review, the order-in-take amount of the business segment of Life Science Consumables decreased by approximately RMB66.9 million or 28.5% from approximately RMB235.0 million for the six months ended 30 June 2022 to approximately RMB168.1 million. Following China's recovery from the COVID-19 pandemic, vaccine manufacturers have significantly reduced their orders and production, resulting in a substantial decline in the division's primary business. The demand for consumables has also diminished due to the slowdown in the biotech market. However, the Group is expected to recover its order-in-take through the steady demand for high value-added and complex drug formulation from manufacturers of Sterile Medicinal Products. In addition, the Group anticipates growth in new business from expanding product lines, enhanced distribution and agency channels, in-house R&D activities, and outsourced R&D (Own Brand Products) initiatives.

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 had a slight increase by approximately RMB1.0 million or 2.7% from approximately RMB33.3 million for the six months ended 30 June 2022 to approximately RMB34.3 million. The Group is expecting continuous growth in the second half of 2023 by the promotion upgrading and renovation services based on "AUSTAR Technical Service", to help the existing "old" plants meet the new GMP requirements while reducing the clients' new investments at the same time.

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 2023:

	As at 30 June 2023			
Backlogs by business segment	***Number of Contracts***	**%**	*RMB'000*	%
Liquid and Bioprocess System	407	26.3%	451,868	39.7%
Clean Room and Automation Control and Monitoring System	412	26.7%	304,763	26.8%
Powder and Solid System	186	12.0%	166,013	14.6%
GMP Compliance Service	107	6.9%	100,474	8.8%
Distribution and Agency of Pharmaceutical Equipment	435	28.1%	115,711	10.1%
Total	1,547	100.0%	1,138,829	100.0%

PRODUCTION, EXECUTION AND ORGANISATION

The facility of AUSTAR UK Limited ("**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 and globally recognised Quality and Environmental Management System. In response to the associated site services demand on the business due to growth, AUSTAR UK is in the process of applying for Safe Contractor Accreditation, which is designed as a way for service suppliers to prove to new and existing customers that they care and are competent in health and safety.

The construction of the two new production sites in Shijiazhuang and Shanghai respectively with the land and building properties owned by the Group has been completed and put into operation in the first half of 2023. This expansion strategy is in line with our expected growth in equipment and system sales, and with the two new factories cover a total production area of more than 50,000 square metres, it is believed to be able to meet the growth demand in the coming five years. The 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 process optimisation, in terms of informatisation, the new production sites have established the standardisation and display of data information which largely improve the efficiency in data analysis.

The production site in Nanjing has made continuous improvements in production capability after the acquisition of BOSTA business, the integration has contributed to the delivery capability of the freeze-dryer and filling line business, and the ISO9001 review for the production site is about to complete.

Based on AUSTAR's digital platform and the interworking of self-developed software and international software platform, the Group's Project Execution Centre has realised the digital integrated management of project execution and achieved a seamless transition from conceptual design to project completion. Coping with the Group's global expansion strategy and serving clients worldwide, the team has established a technical platform for research and development by introducing talents from the industry for more up-to-date technical solutions. The team formulates scientific and reasonable construction plans, coordinates resources, and strictly follows the safety standards and norms of the industry to ensure the safety and compliance of each project and timely delivery with high quality.

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 is working cost-effectively.

In China, through years of sales talent and organisation development, the Group's sales process is relatively mature, covering the area of biological and chemical medicine, medical devices, animal health, Chinese medicine, cosmetics, nutria-pharmaceuticals etc. 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 the 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 our 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. It is believed that the Group's global sales team is able to contribute a greater portion of sales order-in-take gradually in the near future.

The year 2023 so far has been a period of intense activities, and the AUSTAR brand had a good exposure of an attendance of 30 events worldwide. With the release of epidemic prevention restrictions in mainland China, organizers of exhibitions and industry meetings started to kick off offline activities, among which AUSTAR took part in 24 events this year, and the Group increased its frequency of events focusing on chemical drugs, Market Authorization Holders (MAH), which created face-to-face communication opportunities with clients industry players, and helped them have better understanding on our technical solutions and products. Outside of mainland China, the Group exhibited in 5 exhibitions, namely Maghreb Pharma in Algeria, Pak Pharma & Healthcare Expo in Pakistan, Advance Therapies, Making Pharma Exhibition in the UK, Expofarma in Mexico, and organised a AUSTAR Technical Seminar in Indonesia. All these activities aim to cope with the global expansion strategy and create brand awareness in the target market. We could see over 20 events to be organised in the second half of the year.

The connection with industry associations and bio-medical park have been strengthened, and the Group actively participated the latest industry hot topic discussions and utilising our knowledge to provide professional suggestions, some of which have been adopted in industry standards. AUSTAR aims to make continuous contributions to promote industry progress.

170 news items and articles were released via 17 social media accounts of the Group in the first half of 2023, and 50 videos were produced for key projects and knowledge sharing. 26 online webinars were organised with over 8,700 audience attending the online sharing, which obtained positive feedback from the market and created good business interactions. Digital marketing is a good way to go based on its promptness and influence on a large scale.

RESEARCH AND DEVELOPMENT

As at 30 June 2023, the Group has obtained 402 patents. During the Period under Review, the Group obtained 30 registered patents, and applications for 66 patents are currently in progress.

In the first half of 2023, the automation system engineering business unit has completed the software design of Advanced Planning and Scheduling program. It is expected that the system development and its integration with the manufacturing execution system and warehouse management system will be completed by the end of the year and the plan-production–warehouse whole process digital management will be realised.

The Business Intelligence (BI) data visualisation platform has been completed. The platform can provide clients with a variety of templates for their independent data processing, and complete data visual display quickly.

In response to the national policies on carbon peak and carbon neutralisation, AUSTAR has carried out special studies on energy saving for clean room Heating Ventilation and Air Conditioning (HVAC) systems. The Group introduced the up-to-date concept of dynamic energy saving for clean rooms and carried out the real operation simulation of energy saving for the clean room HVAC systems, together with the continuous improvements in the clean panel production process and quality control, which will further enhance AUSTAR's technological capability and the accumulation in the field of clean room engineering.

In order to meet the requirements in innovative drug research, the Group strengthens the research of particle size control technology and develops the Lab mill for R&D, together with the bead mill, hammer mill and cone mill, to create the application solutions for the particle size control from micrometer to nanometer grade.

Based on the profound experiences in formulation, process technology, process analytical technology (PAT), automation and regulations, AUSTAR carries out the R&D on continuous granulating process equipment, through cooperating with excellent industry players to create high quality continuous manufacturing platforms and provide industry-leading technologies for new drug R&D and continuous manufacturing.

Through adopting advanced six-axis robots which can resist vaporized hydrogen peroxide (VHP) sterilisations, the Group developed an automatic powder filling machine of 100g to 1000g, which filled the technical gap in the powders filling field of this filling size in mainland China.

The development on fermentation process and suspension culture bioreactor is completed, which has supplemented AUSTAR's ability in biological core process systems and services, and enhanced brand recognition in the field the biological pharmaceutical industry, especially among those industry top players.

The research and development on prefilled syringe (PFS) and combo filling line compatible with both ampoules and vials have been completed, which has further enriched the business portfolio and increased the competitive edge for future business development.

The newly developed flexible breathing cap used in the core aseptic filling area can provide effective protection for sterilized equipment components, meeting the requirements of aseptic management in EU GMP Annex 1 "Manufacture of Sterile Medicinal Products", and prevent re-contamination of equipment. Rapid docking bag products can realise aseptic transfer and docking of materials such as rubber stoppers, which meet the requirements of EU GMP on Contaminant Control Strategy (CCS) for aseptic transfer in different air classification areas. This consumable, combined with aseptic rapid transfer technology, will provide clients with a more comprehensive aseptic transfer solution.

In the area of cell and gene therapy, the Group's newly developed Cell Therapy Isolator Workstation equipped with leading rapid transfer technology could reduce the investment and operating cost of the manufacturing facility, and improve the compliance level of sterility assurance and cross-contamination prevention. The isolated contained incubator enables simultaneous culturing of multiple batches, which helps cell therapy clients and CDMOs to further increase working efficiency and avoids economic losses caused by bio-contamination.

PROSPECT

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) Clean Room/ HVAC/EMS/BMS, (7) Freeze-drying, Filling & Inspection, (8) Biosafety Technology and Facilities, (9) Laboratory Technology & Facilities, (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.

Due to the release and enforcement of EU GMP new regulations and process requirements of cell and gene therapy, the sterility assurance in the whole manufacturing process become stringent with key considerations in equipment and system engineering. It is believed that with AUSTAR UK, Cape Europe Limited Joint Venture in France and the Group's manufacturing facility for sterile transfer and isolation technology in China working closely with a strategic goal to offer the most competitive sterile protection and assurance scheme globally, it would contribute a significant amount of revenue and profit to the Group.

New therapeutics research and commercialisation is one of the key business growth driving forces for life sciences service providers like AUSTAR. It is believed cell and gene therapy technology and process are still at an early development phase that there are still much room for innovative and creative service providers to initiate a lot of new business and new products and services around this topic. With the rapid development trend of cell and gene therapy sector, Advanced Therapy Medicinal Products (ATMP) will enter the stage of rapid development. The Group is getting more and more involved in this sector, helping clients to build a compliant, lean and flexible cell therapy facilities, providing engineering and process solutions from conceptual design, clean room engineering to core cell therapy process equipment, and building traceable cell therapy automation and information solutions. Such proactive involvement would help us develop more knowledge and experience to create and innovate products and services in this potential sector.

Continuous manufacturing has been a topic in both API and OSD sectors for many years but the breakthrough in terms of technologies, regulatory support and investment for future is still a long way to go. However, a number of successful drug approvals and commercialisation with these new manufacturing technologies are very encouraging. In China, API and intermediates companies are very keen on continuous manufacturing even though it is still in an early stage of expression of interest as they might realise the economic benefits compared to the conventional batch manufacturing. Such a new OSD manufacturing facility requires new technologies, equipment and system like formulation, continuous blending, material transfer technologies, PAT, continuous granulation and drying, process technologies, sophisticated engineering integration and automation technologies. There are very few companies in the world with all such fundamental knowledge and experience under one roof as a company. AUSTAR is one of those. The Group is prepared to further invest in developing such continuous manufacturing technologies in partnerships with academic institutions and strategy partners, more importantly with those clients who commit with passion for such advanced technologies.

The overall upgrading has been made in the bioprocess and liquid process system engineering business, which aims to enhance its competitiveness in process design, facility building, automation and digitalisation services in bio-engineering, complex formulation and synthetic biology sector. In the area of Freeze-drying, Filling & Inspection technology capability building, AUSTAR will introduce an inspection line and package line to expand the product portfolio, together with continuous improvements in service and spare parts sales to increase the overall competitiveness in the global market.

Digitalisation transformation has been lagging behind in a conservative-approach industry like the biopharmaceutical industry understandably, due to the regulatory restrictions and the health risk concerns as compared with other major industries in a global sense not limited to China and Asia. However, due to its advantages in cost and efficiency, more and more mature and large-scale pharmaceutical manufacturers, no matter bulk chemicals or biological formulations, are searching for appropriate digitalisation transformation initiative custom-suited for its own circumstances by engaging consulting firms and automation engineering solution providers like AUSTAR. To the majority of those clients, it is still a learning curve. However, the huge potential for business growth is foreseeable as new clients are witnessing successful digitalisation transformation cases completed by the Group with highly appreciated cost-saving performance facts and figure demonstrations.

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.

Our enthusiasm on the development of service business has been prevailing among all major business units and product lines as service business does not apparently require heavy working capital to achieve business performance as compared with equipment and engineering systems business. The service business depends on established human capital and streamlined process, and more importantly the brand recognition gained from long-time client loyalty and satisfaction. It is believed that AUSTAR possesses all these elements. 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 to adopt a 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 developed countries. The Group has addressed such development and trend in the last several years by spending serious efforts into developing talents and skills in the 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 a 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 RMB964.3 million, experienced a decrease of approximately 12.7% from the corresponding period in 2022, primarily attributable to the decrease in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System and Life Science Consumables partially offset by the increase in revenue from the business segments of 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 2023 and 2022, the breakdown of the Group's revenue by business segment:

	For the six months ended 30 June				
	2023		2022		Change
Revenue by business segment	***RMB'000***	**%**	*RMB'000*	%	%
	(Unaudited)		(Unaudited)		
Liquid and Bioprocess System	**371,814**	**38.6%**	497,778	45.1%	-25.3%
Clean Room and Automation Control and Monitoring System	**222,090**	**23.0%**	240,861	21.8%	-7.8%
Powder and Solid System	**129,557**	**13.4%**	108,819	9.9%	19.1%
GMP Compliance Service	**50,448**	**5.2%**	44,292	4.0%	13.9%
Life Science Consumables	**161,205**	**16.7%**	195,538	17.7%	-17.6%
Distribution and Agency of Pharmaceutical Equipment	**29,155**	**3.1%**	16,692	1.5%	74.7%
Total	**964,269**	**100.0%**	1,103,980	100.0%	-12.7%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB126.0 million or 25.3% from approximately RMB497.8 million for the six months ended 30 June 2022 to approximately RMB371.8 million for the Period under Review. The decrease was mainly due to the decrease in opening backlog, and lower order-in-take during the Period under Review.

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 decreased by approximately RMB18.8 million or 7.8% from approximately RMB240.9 million for the six months ended 30 June 2022 to approximately RMB222.1 million for the Period under Review. The decrease was due to the significant decrease in order-in-take, as well as the longer execution lead time for the opening backlog projects.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB20.8 million or 19.1% from approximately RMB108.8 million for the six months ended 30 June 2022 to approximately RMB129.6 million for the Period under Review. The increase was mainly attributable to the higher opening backlog, higher order-in-take in the first quarter and improved efficiency on project execution for the second quarter of 2023.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB6.1 million or 13.9% from approximately RMB44.3 million for the six months ended 30 June 2022 to approximately RMB50.4 million for the Period under Review. The increase was mainly attributable to improved efficiency on project execution for the opening backlog.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables decreased by approximately RMB34.3 million or 17.6% from approximately RMB195.5 million for the six months ended 30 June 2022 to approximately RMB161.2 million for the Period under Review. The decrease was mainly caused by the decline of demand from the COVID-19 vaccine and biopharmaceutical customers.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased significantly by approximately RMB12.5 million or 74.7% from approximately RMB16.7 million for the six months ended 30 June 2022 to approximately RMB29.2 million for the Period under Review. The increase was mainly attributable to the increase in opening backlog.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the six months ended 30 June 2023 and 2022:

	For the six months ended 30 June				
	2023		2022		Change
Revenue by geographical regions	***RMB'000***	**%**	*RMB'000*	%	%
	(Unaudited)		(Unaudited)		
Mainland China	**881,900**	**91.5%**	1,012,184	91.7%	-12.9%
Other locations	**82,369**	**8.5%**	91,796	8.3%	-10.3%
Total	**964,269**	**100.0%**	1,103,980	100.0%	-12.7%

The Group derived revenue mainly from the business operations in Mainland China, which accounted for approximately 91.5% of the total revenue for the Period under Review (2022: approximately 91.7%).

Cost of sales

The Group's cost of sales decreased by approximately RMB51.2 million or 5.9% from approximately RMB868.2 million for the six months ended 30 June 2022 to approximately RMB817.0 million for the Period under Review. Such decrease is mainly due to the drop in revenue and higher cost of sales identified in a non-wholly owned subsidiary of the Group in Germany in the segment of Liquid and Bioprocess System.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB88.4 million or 37.5% from approximately RMB235.7 million for the six months ended 30 June 2022 to approximately RMB147.3 million for the Period under Review. The gross profit margin decreased from approximately 21.4% for the six months ended 30 June 2022 to approximately 15.3% for the Period under Review, which was due to the decrease in gross profit margin mainly from the business segments of Liquid and Bioprocess System and Life Science Consumables. The Group is taking action to improve those businesses with low profitability performance by better leadership and governance, and strengthening the competence elements of profitable product lines by deploying more corporate-level resources. Stronger profits are expected in the coming years.

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 2023 and 2022:

	For the six months ended 30 June					
	2023			2022		
Gross profit and gross profit margin margin by business segment	RMB'000 (Unaudited)	%	Gross profit margin %	RMB'000 (Unaudited)	%	Gross profit margin %
Liquid and Bioprocess System	**4,527**	**3.1%**	**1.2%**	63,038	26.7%	12.7%
Clean Room and Automation Control and Monitoring System	**37,205**	**25.3%**	**16.8%**	43,452	18.5%	18.0%
Powder and Solid System	**16,721**	**11.3%**	**12.9%**	19,969	8.5%	18.4%
GMP Compliance Service	**23,451**	**15.9%**	**46.5%**	18,018	7.6%	40.7%
Life Science Consumables	**55,789**	**37.9%**	**34.6%**	85,546	36.3%	43.7%
Distribution and Agency of Pharmaceutical Equipment	**9,580**	**6.5%**	**32.9%**	5,712	2.4%	34.2%
Total	**147,273**	**100.0%**	**15.3%**	235,735	100.0%	21.4%

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB58.5 million or 92.8% from approximately RMB63.0 million for the six months ended 30 June 2022 to approximately RMB4.5 million for the Period under Review. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 12.7% for the six months ended 30 June 2022 to approximately 1.2% for the Period under Review, however, the gross profit margin of the business segment of Liquid and Bioprocess System would be 13.7% without taking into account gross loss impact of approximately RMB39.7 million from H+E Pharma GmbH ("**H+E Pharma**") and S-Tec GmbH ("**S-Tec**"), both non-wholly-owned subsidiaries of the Company in Germany. Gross profit margin of the filling line system and freeze-dryer system has been continuously improved for the Period under review.

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 RMB6.3 million or 14.4% from approximately RMB43.5 million for the six months ended 30 June 2022 to approximately RMB37.2 million. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System slightly decreased from approximately 18.0% for the six months ended 30 June 2022 to approximately 16.8%, which was mainly resulting from a competitive pricing strategy to increase market share.

Powder and Solid System

During the Period under Review, the Group's gross profit from the business segment of Powder and Solid System decreased by approximately RMB3.3 million or 16.3% from approximately RMB20.0 million for the six months ended 30 June 2022 to approximately RMB16.7 million. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 18.4% for the six months ended 30 June 2022 to approximately 12.9%, which was mainly due to more intensive price competition in the market as a result of customers' strategy for cost down under the pressure of volume based procurement and labour costs increase.

GMP Compliance Service

During the Period under Review, the Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB5.5 million or 30.2% from approximately RMB18.0 million for the six months ended 30 June 2022 to approximately RMB23.5 million. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 40.7% for the six months ended 30 June 2022 to approximately 46.5%, reflecting the high degree of recognition for the Group's service in this market segment.

Life Science Consumables

During the Period under Review, the Group's gross profit from the Life Science Consumables business segment decreased by approximately RMB29.7 million, or 34.8%, from approximately RMB85.5 million for the six months ended 30 June 2022, to approximately RMB55.8 million. The gross profit margin from the Life Science Consumables business segment decreased from approximately 43.7% for the six months ended 30 June 2022 to approximately 34.6%. This decline was mainly due to the change in the product mix. Specifically, the revenue from Washing, Disinfection, and Sterilization products, which have a higher gross profit margin, dropped, while the sales of other products with lower gross profit margins increased. This includes the sales of China domestic products and the sales of lab instruments and equipment.

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 RMB3.9 million or 67.7% from approximately RMB5.7 million for the six months ended 30 June 2022 to approximately RMB9.6 million. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment slightly decreased from approximately 34.2% for the six months ended 30 June 2022 to approximately 32.9%, which was mainly due to securing of market share in the segment of facility management and comprehensive technology transformation.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB9.2 million or 11.0% to approximately RMB93.0 million for the Period under Review from approximately RMB83.8 million for the six months ended 30 June 2022. The increase was primarily due to the increase in the travel expenses by a total amount of approximately RMB3.8 million and the depreciation of right-of-use assets and staff cost by a total amount of approximately RMB1.2 million and RMB1.1 million respectively, business entertainment expenses and other expenses by a total amount of approximately RMB0.9 million and approximately RMB1.0 million respectively, and warranty provision by a total amount of approximately RMB0.9 million.

Administrative expenses

Administrative expenses increased by approximately RMB18.9 million or 27.8% to approximately RMB86.7 million for the Period under Review from approximately RMB67.8 million for the six months ended 30 June 2022, mainly due to the increase in staff cost by a total amount of approximately RMB2.2 million, professional fees and travel expenses by a total amount of approximately RMB1.4 million and RMB1.1 million respectively, and office expenses and depreciation of property, plant and equipment by a total amount of approximately RMB1.0 million and RMB0.8 million respectively, and other expenses by a total amount of approximately RMB12.4 million, which includes the special impact from the non-wholly owned German subsidiaries.

Research and development expenses

As at 30 June 2023, the Group had 65 research and development personnel which accounted for approximately 3.5% 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 decreased by approximately RMB5.8 million or 17.6% from approximately RMB33.3 million for the six months ended 30 June 2022 to approximately RMB27.5 million for the Period under Review, mainly due to the decrease in staff costs and materials. The Group will make continuous efforts to enhance research and development activities.

Other income

Other income increased by approximately RMB3.5 million or 492.8% to approximately RMB4.2 million for the Period under Review from approximately RMB0.7 million for the six months ended 30 June 2022, mainly due to the increase in subsidies granted by local government authorities of the PRC during the Period under Review.

Other gains/(losses) – net

The Group recorded other gains, net of approximately RMB3.2 million for the Period under Review compared to other losses, net of approximately RMB5.1 million for the six months ended 30 June 2022, mainly attributable to the exchange gains amounted to RMB1.9 million for the period under review, while for the six months ended 30 June 2022, the exchange losses amounted to RMB6.5 million.

Asset impairment losses

As at 30 June 2023, the total asset impairment losses amounted to RMB11.4 million. Two of the Group's non-wholly subsidiaries in Germany filed for insolvency in Germany on 3 August 2023. The Group recorded asset impairment loss for such subsidiaries' property, plant and equipment, intangible assets and right-of-use assets based on non-going concern concept.

Finance costs – net

The net finance costs increased by approximately RMB2.0 million or 70.7% to approximately RMB4.9 million for the Period under Review from approximately RMB2.9 million for the six months ended 30 June 2022, such increase was mainly due to the increase in interest expense of bank borrowings and lease liabilities of approximately RMB2.9 million and approximately RMB0.6 million respectively, and partially offset by the increase in interest income of approximately RMB1.0 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 RMB1.1 million, from approximately RMB5.1 million for the six months ended 30 June 2022 to approximately RMB4.0 million for the Period under Review, primarily due to the decrease in profit contribution from the Group's investment in the joint venture STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited by approximately RMB3.5 million, but partially offset by the increase in profit contribution from the Group's investment in the joint venture Noozle Fluid Technology (Shanghai) Co., Ltd. by approximately RMB2.2 million and ROTA Verpackungstechnik GmbH & Co. KG ("**ROTA KG**") by approximately RMB0.2 million.

(Loss)/profit before income tax

The Group recorded loss before income tax of approximately RMB70.3 million for the Period under Review, which comprised the loss before income tax of approximately RMB 63.9 million from H+E Pharma and S-Tec, as compared with the profit before income tax of approximately RMB48.2 million for the six months ended 30 June 2022.

Income tax expense

The income tax expense decreased by approximately RMB9.7 million, from approximately RMB11.6 million for the six months ended 30 June 2022 to approximately RMB1.9 million for the Period under Review, which was mainly due to the decrease in profit before income tax for the Period under Review.

(Loss)/profit for the period

The Group recorded a loss of approximately RMB72.2 million for the Period under Review, which comprised a net loss of RMB63.9 million from H+E Pharma and S-Tec, as compared with a profit of approximately RMB36.7 million for the six months ended 30 June 2022.

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(64,830)**	(42,542)
Net cash used in investing activities	**(25,366)**	(79,442)
Net cash generated from financing activities	**82,370**	102,627
Net decrease in cash and cash equivalents	**(7,826)**	(19,357)

For the Period under Review, the Group had net cash used in operating activities of approximately RMB64.8 million mainly due to:

i. the loss before income tax for the Period under Review of approximately RMB70.3 million, plus the amortisation of intangible assets of approximately RMB3.9 million, the depreciation of property, plant, and equipment and right-of-use assets of approximately RMB16.8 million and partially offset by the investment income from joint venture/associate of approximately RMB4.0 million;

ii. the increase in trade and other payables of approximately RMB12.0 million the decrease in trade and notes receivable of approximately RMB31.3 million and prepayments and other receivables of approximately RMB9.8 million and inventories of approximately RMB58.5 million and pledged bank deposits of approximately RMB27.4 million;

iii. partially offset by the decrease in contract liabilities of approximately RMB113.8 million and the increase in contract assets of approximately RMB54.2 million; and

iv. paid income taxes of approximately RMB5.8 million.

For the Period under Review, the Group had net cash used in investing activities of approximately RMB25.4 million, which was mainly attributable to purchase of property, plant and equipment of approximately RMB34.5 million and intangible assets of approximately RMB5.6 million but partially offset by the decrease in term deposits with initial terms of over three months by approximately RMB14.5 million.

For the Period under Review, the Group had net cash generated from financing activities of approximately RMB82.4 million mainly attributable to the proceeds from bank borrowings of approximately RMB214.5 million, but partially offset by principal elements of lease payments and repayments of borrowings of approximately RMB6.6 million and RMB118.9 million respectively, and interest paid for bank borrowings of approximately RMB6.7 million.

Net current assets

The Group's net current assets had decreased by approximately RMB62.5 million from approximately RMB441.2 million as at 31 December 2022 to approximately RMB378.7 million as at 30 June 2023.

As at 30 June 2023, the Group's total current assets amounted to approximately RMB1,714.6 million, which was an decrease of approximately RMB86.4 million as compared with approximately RMB1,801.0 million as at 31 December 2022. The decrease was primarily due to the factors set out below:

i. the decrease in prepayments and other receivables of approximately RMB9.8 million, inventories of approximately RMB58.5 million, trade and notes receivables of approximately 31.3 million, pledged bank deposits of approximately RMB27.4 million, cash and cash equivalents of approximately RMB7.7 million and term deposits with initial terms of over three months of approximately RMB14.5 million; and

ii. offset by the increase in contract assets of approximately RMB54.2 million, and non-current assets held for sale of approximately RMB8.6 million, which are mainly due to customer demand and project delivery speed slowing down.

The Group's total current liabilities amounted to approximately RMB1,335.8 million, which was a decrease of approximately RMB24.0 million as compared with approximately RMB1,359.8 million as at 31 December 2022. The decrease was primarily due to:

i. the decrease in contract liabilities of approximately RMB113.8 million, current portion of long-term borrowings in the amount of approximately RMB15.0 million and current income tax liabilities in the amount of approximately RMB3.2 million; and

ii. offset by increase in trade and other payables in the amount of RMB12.0 million, short-term borrowings in the amount of approximately RMB92.8 million, and lease liabilities in the amount of approximately RMB3.3 million.

Borrowings and gearing ratio

As at 30 June 2023, the total short-term interest-bearing bank borrowings amounted to RMB265.0 million, bearing interest rates ranging from 2.40% to 4.65% per annum (31 December 2022: from 3.80% to 7.00% per annum). The long-term bank borrowings and current portion of long-term borrowings amounted to RMB57.9 million and RMB30.7 million respectively, bearing interest rates ranging from 3.5% to 4.55% per annum (31 December 2022: 4.45% and 4.65% per annum).

The Group's gearing ratio increased to approximately 34.8% as at 30 June 2023 from approximately 27.8% as at 31 December 2022. 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 2023, in addtion to pledged bank deposits of approximately RMB76.5 million, the Group had buildings, righ-of-use assets and non-current assets held for sale having a total net book value of approximately RMB209.2 million, RMB62.9 million and RMB8.6 million respectively (31 December 2022: buildings and right-of-use assets of approximately RMB128.5 million and approximately RMB68.8 million respectively), which were pledged as collateral security for bank borrowings with carrying amount of approximately RMB145.1 million (31 December 2022: approximately RMB107.2 million).

Contingent liabilities

As at 30 June 2023, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR887,000 approximated at RMB6,987,000. It sets forth the maximum exposure of these guarantees to the Group.

INTERIM DIVIDEND

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2023 (2022: Nil).

CAPITAL STRUCTURE

As at 30 June 2023, the Group had shareholders' equity of approximately RMB859.5 million (31 December 2022: approximately RMB896.9 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 2023, the Group had 1,838 full-time employees for R&D, sales and marketing, administration, project management and execution and manufacturing, representing a decrease of approximately 3.9% as compared with 1,913 employees as at 31 December 2022. During the Period under Review, the employee costs (including Directors' remuneration) were approximately RMB260.8 million, which was an increase of approximately 3.1% as compared with approximately RMB253.0 million for the six months ended 30 June 2022.

Employee costs of the Group increased mainly due to 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 2023 amounted to approximately RMB14.1 million (31 December 2022: approximately RMB54.5 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, Great Britain Pound, 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 June 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long position:

Name of Director	The Company/ Name of associated corporations	Capacity/Nature of interest	Number and class of shares held/interested in the Company/ associated corporations	Approximate percentage of interest
Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**")	The Company	Interest of a controlled corporation	335,929,000 Shares *(Note 1)*	65.54%
	The Company	Interest of spouse	3,750,000 Shares *(Note 2)*	0.73%
	Standard Fortune Holdings Limited ("**SFH**") *(Note 3)*	Beneficial owner	1 ordinary share of US$1	100%
Mr. Ho Kin Hung ("**Mr. KH Ho**")	The Company	Interest of a controlled corporation	37,271,000 Shares *(Note 4)*	7.27%

Notes:

(1) Such Shares were registered in the name of SFH, a company wholly owned by Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares held by SFH. Mr. Mars Ho is a director of SFH.

(2) Such Shares were registered in the name of Honour Choice Ventures Limited ("**HCV**"), a company wholly owned by Madam Gu Xun ("**Madam Gu**"), the spouse of Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares in which Madam Gu is interested or deemed to be interested.

(3) As at 30 June 2023, SFH was the holding company of the Company and thus an associated corporation of the Company.

(4) Such Shares were registered in the name of True Worth Global Limited ("**TWG**"), a company wholly owned by Mr. KH Ho. By virtue of the provisions of Part XV of the SFO, Mr. KH Ho is deemed to be interested in all the Shares held by TWG.

Save as disclosed above, as at 30 June 2023, none of the Directors and/or chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period under Review was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executives of the Company or their associates to acquire benefits by means of acquisitions of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executives of the Company), who had interests in the Shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long position:

Name of shareholder	Capacity/Nature of interest	Number of Shares held/ interested in	Approximate percentage of interest
Madam Gu	Interest of a controlled corporation	3,750,000 *(Note 1)*	0.73%
	Interest of spouse	335,929,000 *(Note 2)*	65.54%
SFH	Beneficial owner	335,929,000 *(Note 3)*	65.54%
Madam Cheung Chau Ping ("**Madam Cheung**")	Interest of spouse	37,271,000 *(Note 4)*	7.27%
TWG	Beneficial owner	37,271,000	7.27%

Notes:

(1) Such Shares were registered in the name of HCV, a company wholly owned by Madam Gu. By virtue of the provisions of Part XV of the SFO, Madam Gu is deemed to be interested in all the Shares in which HCV is interested or deemed to be interested.

(2) Such Shares were registered in the name of SFH, a company wholly owned by Mr. Mars Ho. Madam Gu is the spouse of Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Madam Gu is deemed to be interested in all the Shares in which Mr. Mars Ho is interested or deemed to be interested.

(3) SFH is wholly owned by Mr. Mars Ho.

(4) Such Shares were registered in the name of TWG, a company wholly owned by Mr. KH Ho, an executive Director and the spouse of Madam Cheung. By virtue of the provisions of Part XV of the SFO, Madam Cheung is deemed to be interested in all the Shares in which Mr. KH Ho is interested or deemed to be interested.

Save as disclosed above, as at 30 June 2023, the Directors and the senior management of the Company were not aware of any other person who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

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 roles 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 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 had complied with the required standard set out in the Model Code throughout the Period under Review.

REVIEW BY AUDIT COMMITTEE

The Board established the 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 (Chairman) and Madam Chiu Hoi Shan and one non-executive Director, namely, Madam Ji Lingling. None of them is a member of the former or existing auditor of the Company. Details of the terms of reference of the Audit Committee are set out on the websites of the Company and 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.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the Period under Review.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float during the six months ended 30 June 2023 as required under the Listing Rules.

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

Ho Kwok Keung, Mars
Chairman

29 August 2023

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**297,745**	278,468
Right-of-use assets	*7*	**139,993**	155,141
Intangible assets	*8*	**45,101**	55,865
Deferred income tax assets	*9*	**13,882**	12,783
Investments accounted for using the equity method	*10*	**90,930**	85,499
Total non-current assets		**587,651**	587,756
Current assets			
Inventories		**329,559**	388,106
Contract assets		**639,579**	585,364
Prepayments and other receivables	*11*	**149,242**	159,039
Trade and notes receivables	*12*	**385,234**	416,513
Pledged bank deposits		**76,475**	103,856
Term deposits with initial terms of over three months		**–**	14,505
Cash and cash equivalents		**125,891**	133,624
		1,705,980	1,801,007
Non-current assets held for sale		**8,590**	–
Total current assets		**1,714,570**	1,801,007
Total assets		**2,302,221**	2,388,763
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,071**	4,071
Reserves		**396,652**	394,106
Retained earnings		**458,823**	498,767
		859,546	896,944
Non-controlling interests		**(49,333)**	(13,363)
Total equity		**810,213**	883,581

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities	*7*	**54,535**	62,874
Long-term borrowings	*14*	**57,870**	40,067
Deferred income		**393**	544
Deferred income tax liabilities	*9*	**38,631**	37,740
Other financial liabilities	*13*	**4,741**	4,192
Total non-current liabilities		**156,170**	145,417
Current liabilities			
Trade and other payables	*15*	**751,604**	739,603
Contract liabilities		**268,904**	382,707
Current income tax liabilities		**1,914**	5,150
Short-term borrowings	*16*	**265,014**	172,254
Current portion of long-term borrowings	*14*	**30,721**	45,670
Lease liabilities	*7*	**17,681**	14,381
Total current liabilities		**1,335,838**	1,359,765
Total liabilities		**1,492,008**	1,505,182
Total equity and liabilities		**2,302,221**	2,388,763

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

The interim condensed consolidated financial information on pages 34 to 70 were approved by the board of directors on 29 August 2023 and were signed on its behalf.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	*5*	**964,269**	1,103,980
Cost of sales	*17*	**(816,996)**	(868,245)
Gross profit		**147,273**	235,735
Selling and marketing expenses	*17*	**(92,978)**	(83,777)
Administrative expenses	*17*	**(86,656)**	(67,812)
Net impairment losses on financial and contract assets		**(5,479)**	(441)
Research and development expenses	*17*	**(27,465)**	(33,334)
Other income	*18*	**4,185**	706
Other gains/(losses) – net	*19*	**3,162**	(5,064)
Asset impairment losses	*20*	**(11,410)**	–
Operating (loss)/profit		**(69,368)**	46,013
Finance income	*21*	**1,852**	850
Finance costs	*21*	**(6,796)**	(3,746)
Finance costs – net		**(4,944)**	(2,896)
Share of net profits of investments accounted for using the equity method	*10*	**4,026**	5,117
(Loss)/profit before income tax		**(70,286)**	48,234
Income tax expense	*22*	**(1,900)**	(11,570)
(Loss)/profit for the period		**(72,186)**	36,664
(Loss)/profit attributable to:			
The owners of the Company		**(39,944)**	45,843
Non-controlling interests		**(32,242)**	(9,179)
		(72,186)	36,664
(Loss)/earnings per share attributable to the owners of the Company – Basic and diluted (RMB)	*23*	**(0.08)**	0.09
Dividends	*24*	**–**	–

The above interim condensed consolidated income statement should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
	Note	**2023** **RMB'000** **(Unaudited)**	2022 RMB'000 (Unaudited)
(Loss)/profit for the period		**(72,186)**	36,664
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(636)**	16,376
Share of other comprehensive income of investments accounted for using the equity method	*10*	**3**	3
Other comprehensive (loss)/income for the period, net of tax		**(633)**	16,379
Total comprehensive (loss)/income for the period		**(72,819)**	53,043
Total comprehensive (loss)/income attributable to:			
The owners of the Company		**(36,849)**	62,149
Non-controlling interests		**(35,970)**	(9,106)
		(72,819)	53,043

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to the owners of the Company						Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000		
For the six months ended 30 June 2023 (Unaudited)									
Balance at 1 January 2023		4,071	314,009	25,545	498,767	54,552	896,944	(13,363)	883,581
Comprehensive income									
Loss for the period		–	–	–	(39,944)	–	(39,944)	(32,242)	(72,186)
Other comprehensive income									
Currency translation differences		–	–	–	–	3,092	3,092	(3,728)	(636)
Share of other comprehensive income of investments accounted for using the equity method	*10*	–	–	–	–	3	3	–	3
Total comprehensive income		–	–	–	(39,944)	3,095	(36,849)	(35,970)	(72,819)
Transactions with owners, recognised directly in equity									
Recognition of put option liabilities from non-controlling interests		–	–	(549)	–	–	(549)	–	(549)
		–	–	(549)	–	–	(549)	–	(549)
Balance at 30 June 2023		4,071	314,009	24,996	458,823	57,647	859,546	(49,333)	810,213

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 2022 (Unaudited)									
Balance at 1 January 2022		4,071	314,009	30,150	411,306	27,048	786,584	1,836	788,420
Comprehensive income									
Profit/(loss) for the period		–	–	–	45,843	–	45,843	(9,179)	36,664
Other comprehensive income									
Currency translation differences		–	–	–	–	16,303	16,303	73	16,376
Share of other comprehensive income of investments accounted for using the equity method	*10*	–	–	–	–	3	3	–	3
Total comprehensive income		–	–	–	45,843	16,306	62,149	(9,106)	53,043
Transactions with owners, recognised directly in equity									
Transactions with non-controlling interests		–	–	(549)	–	–	(549)	307	(242)
Capital contributions from non-controlling interests		–	–	–	–	–	–	5,116	5,116
Recognition of put option liabilities from non-controlling interests		–	–	(4,253)	–	–	(4,253)	–	(4,253)
		–	–	(4,802)	–	–	(4,802)	5,423	621
Balance at 30 June 2022		4,071	314,009	25,348	457,149	43,354	843,931	(1,847)	842,084

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Cash used in operations		**(60,908)**	(31,704)
Interest received	*21*	**1,852**	850
Income taxes paid		**(5,774)**	(11,688)
Net cash used in operating activities		**(64,830)**	(42,542)
Cash flows from investing activities			
Payment for property, plant and equipment		**(34,536)**	(83,705)
Payment for intangible assets		**(5,559)**	(17,043)
Decrease in term deposits with initial terms of over three months		**14,505**	21,294
Proceeds from disposal of property, plant and equipment		**224**	12
Net cash used in investing activities		**(25,366)**	(79,442)
Cash flows from financing activities			
Principal elements of lease payments		**(6,565)**	(6,070)
Proceeds from borrowings		**214,500**	12,046
Repayments of borrowings		**(118,885)**	–
Interest paid		**(6,680)**	(1,594)
Net cash generated from financing activities		**82,370**	102,627
Net decrease in cash and cash equivalents		**(7,826)**	(19,357)
Cash and cash equivalents at beginning of period		**133,624**	198,447
Exchange gains/(losses) on cash and cash equivalents		**93**	(289)
Cash and cash equivalents at end of period		**125,891**	178,801

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Austar Lifesciences Limited (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 ("**Mr. Mars Ho**", also the "**Controlling Shareholder**"), Chairman of the Board of Directors and Chief Executive Officer of the Company (the "**Chief Executive Officer**").

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 interim condensed consolidated financial information is presented in thousands of Renminbi Yuan ("**RMB**"), unless otherwise stated, and is approved for issue by the Board of Directors on 29 August 2023.

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 2023 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 2022, and any public announcements made by the Company during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and amended standards adopted by the Group

(a) Amendments to existing standards adopted by the Group

The Group has applied the following amendments for the first time for the reporting period commencing 1 January 2023. The adoption of these amendments does not have significant impact on the Interim Financial Information of the Group.

HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts Initial Application of HKFRS 17 and HKFRS 9— Comparative Information
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction International Tax Reform — Pillar Two Model Rules

(b) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group are as follows:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current Non-current liabilities with covenants	1 January 2024
Amendments to HKAS 16	Lease liability in sale and leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these new or amended standards, which are not expected to have a material impact on the Group in the current or future reporting period.

3. ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

There have been no changes in the risk management policy since the year end.

(b) Liquidity risk

Compared to year ended 31 December 2022, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

(c) Fair value estimation

Financial assets

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

Financial assets (Continued)

(i) Fair value hierarchy (Continued)

At 30 June 2023	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets			
Fair value through other comprehensive income — Notes receivable	—	20,072	—
Total financial assets	—	20,072	—

At 31 December 2022	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets			
Fair value through other comprehensive income — Notes receivable	—	10,407	—
Total financial assets	—	10,407	—

5. SEGMENT INFORMATION

The chief operating decision-makers ("**CODMS**") 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 CODMS consider 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.

5. SEGMENT INFORMATION (Continued)

The CODMS evaluate the performance of the reportable segments based on gross profit. The segment results for the six months ended 30 June 2023 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 2023 (Unaudited)							
Segment revenue and results							
Segment revenue	418,675	275,883	151,681	51,540	170,906	32,057	1,100,742
Inter-segment revenue	(46,861)	(53,793)	(22,124)	(1,092)	(9,701)	(2,902)	(136,473)
Revenue	371,814	222,090	129,557	50,448	161,205	29,155	964,269
Recognised at a point in time	80,374	6,910	3,648	565	161,205	20,132	272,834
Recognised over time	291,440	215,180	125,909	49,883	–	9,023	691,435
Cost of sales	(367,287)	(184,885)	(112,836)	(26,997)	(105,416)	(19,575)	(816,996)
Segment results							
Gross profit	4,527	37,205	16,721	23,451	55,789	9,580	147,273
Other segment items							
Amortisation	2,456	384	336	120	486	83	3,865
Depreciation	6,551	4,663	1,514	893	2,675	528	16,824
Provision for/(reversal of) impairment losses on financial and contract assets	3,375	1,018	1,089	412	(679)	264	5,479
Provision for impairment of inventories	14,250	661	77	16	3,491	16	18,511
Provision for impairment of other assets	11,410	–	–	–	–	–	11,410
Share of net profits of investments accounted for using the equity method	2,443	1,583	–	–	–	–	4,026

5. SEGMENT INFORMATION (Continued)

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

5. SEGMENT INFORMATION (Continued)

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Liquid and Bioprocess System	**4,527**	63,038
Clean Room and Automation Control and Monitoring System	**37,205**	43,452
Powder and Solid System	**16,721**	19,969
GMP Compliance Service	**23,451**	18,018
Life Science Consumables	**55,789**	85,546
Distribution and Agency of Pharmaceutical Equipment	**9,580**	5,712
Total gross profit for reportable segments	**147,273**	235,735
Selling and marketing expenses	**(92,978)**	(83,777)
Administrative expenses	**(86,656)**	(67,812)
Net impairment losses on financial and contract assets	**(5,479)**	(441)
Research and development expenses	**(27,465)**	(33,334)
Asset impairment losses	**(11,410)**	–
Other income	**4,185**	706
Other gains/(losses) – net	**3,162**	(5,064)
Finance costs – net	**(4,944)**	(2,896)
Share of net profits of investments accounted for using the equity method	**4,026**	5,117
(Loss)/profit before income tax	**(70,286)**	48,234

5. SEGMENT INFORMATION (Continued)

The segment assets as at 30 June 2023 and 31 December 2022 are as follows:

	As at 30 June 2023		As at 31 December 2022	
	Total assets RMB'000 (Unaudited)	Investments accounted for using the equity method RMB'000 (Unaudited)	Total assets RMB'000 (Audited)	Investments accounted for using the equity method RMB'000 (Audited)
Liquid and Bioprocess System	968,120	63,184	1,034,779	60,737
Clean Room and Automation Control and Monitoring System	465,569	27,746	429,886	24,762
Powder and Solid System	155,040	–	140,264	–
GMP Compliance Service	67,574	–	48,626	–
Life Science Consumables	254,986	–	277,240	–
Distribution and Agency of Pharmaceutical Equipment	13,635	–	9,866	–
Total segment assets	1,924,924	90,930	1,940,661	85,499
Unallocated				
Deferred income tax assets	13,882		12,783	
Headquarter assets	363,415		435,319	
Total assets	2,302,221		2,388,763	

5. SEGMENT INFORMATION (Continued)

The segment liabilities as at 30 June 2023 and 31 December 2022 are as follows:

	As at 30 June 2023 Total liabilities RMB'000 (Unaudited)	As at 31 December 2022 Total liabilities RMB'000 (Audited)
Liquid and Bioprocess System	**536,695**	510,217
Clean Room and Automation Control and Monitoring System	**234,046**	241,315
Powder and Solid System	**88,063**	118,626
GMP Compliance Service	**31,261**	44,224
Life Science Consumables	**111,814**	142,989
Distribution and Agency of Pharmaceutical Equipment	**15,305**	23,310
Total segment liabilities	**1,017,184**	1,080,681
Unallocated		
Deferred income tax liabilities	**38,631**	37,740
Short-term borrowings	**265,014**	172,254
Long-term borrowings	**57,870**	40,067
Current portion of long-term borrowings	**30,721**	45,670
Headquarter liabilities	**82,588**	128,770
Total liabilities	**1,492,008**	1,505,182

5. SEGMENT INFORMATION (Continued)

Geographical information

The following tables present information on revenue and certain assets of the Group by geographical regions.

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Mainland China	**881,900**	1,012,184
Other locations	**82,369**	91,796
	964,269	1,103,980

	As at 30 June	As at 31 December
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Non-current assets other than financial assets and deferred tax assets		
Mainland China	**509,090**	501,499
Other locations	**64,679**	73,474
	573,769	574,973

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
For the six months ended 30 June 2023						
Opening net book value (Audited)	4,977	32,404	1,472	214,042	25,573	278,468
Additions	–	1,525	–	28,758	2,305	32,588
Transfer upon completion of construction	222,803	1,756	144	(225,842)	1,139	–
Transferred to non-current assets held for sale *(Note (b))*	(3,765)	–	–	–	–	(3,765)
Disposal	–	(481)	–	–	(498)	(979)
Impairment	–	(1,426)	–	–	(189)	(1,615)
Depreciation charge *(Note 17)*	(1,704)	(2,968)	(140)	–	(2,140)	(6,952)
Closing net book value (Unaudited)	222,311	30,810	1,476	16,958	26,190	297,745
For the six months ended 30 June 2022						
Opening net book value (Audited)	5,033	30,877	1,804	135,555	15,183	188,452
Additions	–	1,592	11	70,284	6,391	78,278
Transfer upon completion of construction	719	–	–	(719)	–	–
Disposal	–	(2)	–	–	(150)	(152)
Depreciation charge *(Note 17)*	(404)	(2,054)	(186)	–	(2,594)	(5,238)
Closing net book value (Unaudited)	5,348	30,413	1,629	205,120	18,830	261,340

(a) As at 30 June 2023, certain buildings of the Group with net book value of approximately RMB209,167,000 (31 December 2022: RMB128,556,000) were pledged as collateral for certain bank borrowings of the Group (Notes 14 and 16).

(b) As at 30 June 2023, the Group intended to sell idle right-of-use assets and the aboveground factory building, of which the net book value amounted to RMB4,825,000 and RMB3,765,000, respectively, and they were reclassified as non-current assets held for sale thereafter. The right-of-use assets and the building aforementioned were pledged as collateral for certain short-term borrowings.

7. LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Right-of-use assets		
Land use right	70,367	75,889
Buildings	69,626	79,252
	139,993	155,141
Lease liabilities		
Current	17,681	14,381
Current Non-current	54,535	62,874
	72,216	77,255

(b) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Depreciation charge of right-of-use assets *(Note 17)*		
Land use right	1,129	566
Buildings	8,743	7,476
	9,872	8,042
Interest expense (included in finance costs) *(Note 21)*	1,425	866

7. LEASES (Continued)

(c) As at 30 June 2023, certain right-of-use assets of the Group with net book value of approximately RMB62,883,000 (31 December 2022: RMB68,837,000) were pledged as collateral for certain bank borrowings of the Group (Notes 14 and 16).

(d) As at 30 June 2023, the Group intended to sell idle right-of-use assets and the aboveground factory building, of which the net book value amounted to RMB4,825,000 and RMB3,765,000, respectively, and they were reclassified as non-current assets held for sale thereafter. The right-of-use assets and the building aforementioned were pledged as collateral for certain short-term borrowings.

8. INTANGIBLE ASSETS

	Software and others RMB'000	Unpatented technologies RMB'000	Trademarks RMB'000	Know-how RMB'000	Total RMB'000
For the six months ended 30 June 2023					
Opening net book value (Audited)	**24,543**	**22,667**	**2,158**	**6,497**	**55,865**
Additions	**1,223**	**–**	**–**	**–**	**1,223**
Exchange differences	**162**	**–**	**(858)**	**(2,558)**	**(3,254)**
Impairment	**–**	**–**	**(1,205)**	**(3,663)**	**(4,868)**
Amortisation charge *(Note 17)*	**(2,694)**	**(800)**	**(95)**	**(276)**	**(3,865)**
Closing net book value (Unaudited)	**23,234**	**21,867**	**–**	**–**	**45,101**
For the six months ended 30 June 2022					
Opening net book value (Audited)	11,996	–	2,247	6,870	21,113
Additions	6,849	24,000	–	–	30,849
Exchange differences	(2)	–	(93)	(283)	(378)
Amortisation charge *(Note 17)*	(1,399)	(533)	(129)	(393)	(2,454)
Closing net book value (Unaudited)	17,444	23,467	2,025	6,194	49,130

9. DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	Impairment provision of receivables and inventories RMB'000	Warranty provision and others RMB'000	Lease liabilitie RMB'000	Total RMB'000
As at 31 December 2022 (Audited)	8,191	4,592	10,770	23,553
Credited to the consolidated income statement	100	773	(1,201)	(328)
As at 30 June 2023 (Unaudited)	8,291	5,365	9,569	23,225
Set-off of deferred income tax assets pursuant to set-off provisions	–	–	(9,343)	(9,343)
As at 30 June 2023 (Unaudited)	8,291	5,365	226	13,882
As at 31 December 2021 (Audited)	7,256	1,659	5,692	14,607
Credited to the consolidated income statement	208	1,409	(391)	1,226
As at 30 June 2022 (Unaudited)	7,464	3,068	5,301	15,833
Set-off of deferred income tax assets pursuant to set-off provisions	–	–	(4,898)	(4,898)
As at 30 June 2022 (Unaudited)	7,464	3,068	403	10,935

As at 30 June 2023, the Group did not recognise deferred income tax assets of RMB48,720,000 (31 December 2022: RMB40,684,000) in respect of tax losses amounting to RMB307,570,000 (31 December 2022: RMB207,035,000) as utilisation of such tax losses before expiry is uncertain.

9. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000	Fair value adjustments RMB'000	Right-of-use assets RMB'000	Total RMB'000
As at 31 December 2022 (Audited)	(36,180)	(1,560)	(10,770)	(48,510)
(Charged)/credited to the consolidated income statement	(1,798)	1,078	1,427	707
Charged directly to equity	–	(171)	–	(171)
As at 30 June 2023 (Unaudited)	(37,978)	(653)	(9,343)	(47,974)
Set-off of deferred income tax assets pursuant to set-off provisions	–	–	9,343	9,343
As at 30 June 2023 (Unaudited)	(37,978)	(653)	–	(38,631)
As at 31 December 2021 (Audited)	(29,012)	(1,242)	(5,692)	(35,946)
(Charged)/credited to the consolidated income statement	(3,698)	96	794	(2,808)
Charged directly to equity	–	(219)	–	(219)
As at 30 June 2022 (Unaudited)	(32,710)	(1,365)	(4,898)	(38,973)
Set-off of deferred income tax assets pursuant to set-off provisions	–	–	4,898	4,898
As at 30 June 2022 (Unaudited)	(32,710)	(1,365)	-	(34,075)

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Beginning of the period (Audited)	**85,499**	39,703
Share of net profits	**4,026**	5,117
Share of other comprehensive income	**3**	3
Exchange differences	**1,402**	799
Disposal	**–**	–
End of the period (Unaudited)	**90,930**	45,622

11. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June	As at 31 December
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current:		
Non-financial assets		
– Prepayments to suppliers	**93,140**	101,276
– Staff advance	**3,612**	5,900
– Others	**34,534**	21,754
	131,286	128,930
Less: provision for impairment	**(999)**	(930)
	130,287	128,000
Financial assets at amortised cost		
– Deposits as guarantee for tender	**19,506**	31,849
Less: loss allowance	**(551)**	(810)
	18,955	31,039
	149,242	159,039

As at 30 June 2023 and 31 December 2022, the carrying amounts of prepayments and other receivables are approximated at their fair values.

12. TRADE AND NOTES RECEIVABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade receivables *(Note (b))*	385,754	413,202
Notes receivable *(Note (a))*	33,620	33,432
	419,374	446,634
Less: loss allowance	(34,140)	(30,121)
	385,234	416,513

(a) The notes receivable are bank acceptance with maturity dates within six months (2022: 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 2023 RMB'000	As at 31 December 2022 RMB'000
Within 6 months	209,903	274,285
6 months to 1 year	66,155	43,379
1 to 2 years	66,478	56,769
2 to 3 years	27,854	23,506
Over 3 years	15,364	15,263
	385,754	413,202

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

As at 30 June 2023 and 31 December 2022, the carrying amounts of trade and notes receivables are approximated at their fair values.

13. OTHER FINANCIAL LIABILITIES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Measured at amortised cost: Redemption liabilities *(Note)*	**4,741**	4,192

Note: Redemption liabilities are arising from put option arrangements with non-controlling shareholders of an acquired subsidiary of approximately RMB4,741,000 (2022: RMB4,192,000).

14. LONG-TERM BORROWINGS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Bank borrowings, secured *(Notes (a) and (c))*	**68,591**	85,737
Bank borrowings, guaranteed *(Notes (b) and (c))*	**20,000**	–
Less: Long-term borrowings due within one year	**(30,721)**	(45,670)
	57,870	40,067

Note:

(a) As at 30 June 2023, the secured long-term bank borrowings (including long-term borrowings due within one year) are denominated in RMB and secured by the Group's buildings and land use right. For the six months ended 30 June 2023, the secured longterm bank borrowings bear interest rates ranging from 3.95% to 4.55% (2022: 4.45% to 4.65%) per annum.

(b) As at 30 June 2023, certain long-term bank borrowings are denominated in RMB and guaranteed by Austar Hansen Lifesciences (Shanghai) Limited ("**Austar Hansen**"), the Group's subsidiary. For the six months ended 30 June 2023, the guaranteed long-term bank borrowings bear interest rate of 3.50% per annum (2022: N/A).

(c) As at 30 June 2023 and 31 December 2022, the fair value of the borrowings (including longterm 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.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payables *(Note (b))*	**449,773**	426,204
Payroll and welfare payable	**112,661**	126,830
Payable to vendors of construction, machinery and equipment	**38,669**	21,001
Indirect taxes payable	**8,906**	17,690
Warranty provision	**18,022**	16,499
Accrued expenses	**32,757**	34,031
Employee payable	**1,367**	2,378
Loan from a non-controlling shareholder of a subsidiary *(Note (a))*	**1,378**	1,299
Others	**88,071**	93,671
	751,604	739,603

(a) As at 30 June 2023 and 31 December 2022, 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 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within 6 months	**334,245**	348,478
6 months to 1 year	**80,348**	55,297
1 to 2 years	**20,582**	7,997
2 to 3 years	**3,910**	4,014
Over 3 years	**10,688**	10,418
	449,773	426,204

(c) As at 30 June 2023 and 31 December 2022, the carrying amounts of trade and other payables are approximated at their fair values.

16. SHORT-TERM BORROWINGS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Bank borrowings, secured *(Notes (a) and (c))*	76,539	21,464
Bank borrowings, guaranteed *(Notes (b) and (c))*	188,475	150,790
	265,014	172,254

Notes:

(a) As at 30 June 2023, secured short-term bank borrowings are denominated in RMB and secured by the Group's buildings, right-of-use assets and assets held for sale. For the six months ended 30 June 2023, the secured short-term bank borrowings bear interest rate ranging from 2.40% to 4.50% (2022: 4.00% to 4.52%) per annum and are repayable within one year.

(b) As at 30 June 2023, certain short-term bank borrowings are guaranteed by Austar Pharmaceutical Equipment (Shijiazhuang) Ltd. ("**Austar SJZ**") and Shanghai Austar Pharmaceutical Technology Equipment Ltd. ("**Shanghai Austar**"), which are subsidiaries of the Company. For the six months ended 30 June 2023, the guaranteed short-term bank borrowings bear interest rate ranging from 3.50% to 4.65% (2022: 3.80% to 7.00%) per annum and are repayable within one year.

(c) As at 30 June 2023 and 31 December 2022, the fair value of the borrowings is not materially different to their carrying amounts, since the interest payable on those borrowings is close to current market rates.

17. EXPENSE BY NATURE

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Raw materials	**541,826**	631,502
Staff costs, including directors' emoluments	**260,774**	252,985
On-site subcontract cost	**87,230**	77,107
Depreciation		
– Right-of-use assets *(Note 7)*	**9,872**	8,042
– Property, plant and equipment *(Note 6)*	**6,952**	5,238
Travelling expenses	**16,530**	12,331
Freight and port charges	**10,599**	9,835
Professional fees	**8,004**	8,236
Technical service fee	**6,898**	7,066
Warranty provision	**6,801**	5,855
Sales tax and surcharges	**3,333**	4,781
Office expenses	**4,067**	3,294
Promotion expenses	**2,975**	3,225
Business entertainment expenses	**4,055**	2,883
Amortisation *(Note 8)*	**3,865**	2,454
Auditor's remuneration	**3,331**	962
Repair and maintenance	**1,115**	802
Labour insurance premiums	**792**	766
Bank charges	**887**	621
Property management fee	**12**	443
Communication expenses	**495**	423
Human resources management expenses	**302**	307
Renovation expenses	**271**	152
Convention service expenses	**30**	107
Impairment/(reversal of impairment) of inventories	**18,511**	(1,524)
Other operating expenses	**24,568**	15,275
	1,024,095	1,053,168

18. OTHER INCOME

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	**4,067**	499
Rental income *(Note 26 (b)(iv))*	**118**	207
	4,185	706

19. OTHER GAINS/(LOSSES) – NET

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Losses on disposal of property, plant and equipment	**(755)**	(76)
Exchange gains/(losses), net	**1,931**	(6,492)
Others	**1,986**	1,504
	3,162	(5,064)

20. ASSET IMPAIRMENT LOSSES

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Asset impairment losses	**(11,410)**	–
	(11,410)	–

For the six months ended 30 June 2023, the total asset impairment losses amounted to RMB11.4 million. Two of the Group's non-wholly-owned subsidiaries in Germany filed for insolvency in Germany on 3 August 2023 (Note 28). The Group recorded asset impairment losses for such subsidiaries' property, plant and equipment, intangible assets and right-of-use assets based on non-going concern concept.

21. FINANCE COSTS – NET

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance costs		
Interest expenses		
– Bank borrowings	**(5,431)**	(2,560)
– Lease liabilities	**(1,425)**	(866)
– Loan from a non-controlling shareholder of a subsidiary	**(33)**	(31)
Exchange gains/(losses)	**93**	(289)
	(6,796)	(3,746)
Finance income		
– Bank deposits	**1,852**	850
	(4,944)	(2,896)

22. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax expense	**2,279**	9,988
Deferred income tax (income)/expense	**(379)**	1,582
	1,900	11,570

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

22. INCOME TAX EXPENSE (Continued)

The Group's subsidiaries incorporated in 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 2023 (2022: 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 2023 (2022: 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, Austar Hansen and 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 2022.

23. (LOSS)/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	
	2023	2022
	(Unaudited)	(Unaudited)
(Loss)/Profit attributable to the owners of the Company (RMB'000)	**(39,944)**	45,843
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic (loss)/earnings per share (RMB)	**(0.08)**	0.09

(b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2023 and 2022, diluted (loss)/earnings per share for the six months ended 30 June 2023 and 2022 are the same as basic (loss)/earnings per share.

24. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2023 (2022: Nil).

25. COMMITMENTS

Capital commitments

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Capital expenditure contracted for but not recognised as liabilities is as follows:		
Property, plant and equipment	**14,122**	54,457

26. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

(a) The following companies and persons are related parties that have transactions with the Group during the six months ended 30 June 2023 and 2022:

Names of the related parties	Nature of relationship
STERIS-AUSTAR Pharmaceutical Systems (Shanghai) Limited ("**STERIS-AUSTAR WFOE**")	Joint venture of the Group
Austar Limited	Under common control of the Controlling Shareholder
Madam Gu Xun	Close family member of the Controlling Shareholder
ROTA Verpackungstechnik GmbH & Co. KG ("**ROTA KG**")	An associate of the Group
H+E GmbH	Non-controlling shareholder of a subsidiary of the Group
Aquarion AG	Ultimate holding company of non-controlling shareholder of a subsidiary of the Group

26. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

During the six months ended 30 June 2023 and 2022, the Group has the following significant transactions with related parties:

(i) Purchase of goods and services

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
STERIS-AUSTAR WFOE	**34,776**	36,551
ROTA KG	**1,278**	876
H+E GmbH		
– engineering and non-engineering	**412**	–
	36,466	37,427

(ii) Sales of goods and services

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
STERIS-AUSTAR WFOE	**8,779**	7,765
ROTA KG	**157**	851
H+E GmbH		
– engineering and non-engineering	**4,390**	–
	13,326	8,616

26. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iii) Rental fee expenses

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Aquarion AG	**57**	56
Austar Limited	**78**	70
Madam Gu Xun	**135**	126

(iv) Rental fee and miscellaneous income

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
STERIS-AUSTAR WFOE	**118**	207

26. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) Receivables due from/prepayments to related parties

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Receivables due from:		
STERIS-AUSTAR WFOE	12,916	12,682
H+E GmbH	6,226	972
ROTA KG	871	725
Prepayments to:		
ROTA KG	828	761
STERIS-AUSTAR WFOE	29,602	13,768
Austar Limited	26	25
	50,469	28,933

(ii) Payable to related parties

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
STERIS-AUSTAR WFOE	27,900	36,936
Aquarion AG	1,690	1,997
H+E GmbH	515	772
ROTA KG	–	374
	30,105	40,079

26. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and bonuses	**5,587**	5,286
Pension and others	**429**	452
	6,016	5,738

27. CONTINGENT LIABILITIES

The Group has been named in a number of lawsuits and other legal proceedings arising in the ordinary course of business. Provision is made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits based on management's judgments and legal advice. No provision is made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable.

As at 30 June 2023, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR887,000 approximated at RMB6,987,000. It sets forth the maximum exposure of these guarantees to the Group.

28. EVENTS AFTER THE REPORTING PERIOD

References are made to the announcements of the Company dated 3 August 2023 and 29 August 2023 ("**Announcements**"). According to the Announcements, each of H+E Pharma GmbH and S-Tec GmbH, each an indirect non-wholly owned subsidiary of the Company in Germany, filed for insolvency under self-administration (debtor in possession) proceedings in Germany on 3 August 2023 (German time) ("**Insolvency Filings**"); and the Group is expected to record a loss on the Insolvency Filings of approximately RMB60.0 million in the second half of the year ending 31 December 2023. Details of the Insolvency Filings are set out in the Announcements.