AUSTAR

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6118)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	**244,852**	289,837
Gross profit	**45,503**	73,572
Loss before income tax	**(26,894)**	(12,898)
Loss attributable to the owners of the Company	**(25,097)**	(12,126)
Gross profit margin	**18.6%**	25.4%
Basic loss per share (RMB) *(Note)*	**(0.05)**	(0.02)
Diluted loss per share (RMB)	**(0.05)**	(0.02)

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total assets	**859,552**	914,776
Net assets	**514,902**	546,115
Gearing ratio	**5.4%**	3.7%

Note: The calculation of loss per share is based on the loss attributable to the owners of the Company for each of the six months ended 30 June 2017 and 2016 and the weighted average number of shares during that period.

INTERIM RESULTS

The board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**" or "**Austar**", together with its subsidiaries, the "**Group**") announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2017 ("**Period under Review**"), together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

		For the six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**244,852**	289,837
Cost of sales		**(199,349)**	(216,265)
Gross profit		**45,503**	73,572
Other income		**2,206**	978
Other gains/(losses)		**1,748**	(2,117)
Selling and marketing expenses		**(40,726)**	(40,163)
Administrative expenses		**(28,983)**	(31,773)
Research and development expenses		**(12,397)**	(16,552)
Operating loss		**(32,649)**	(16,055)
Interest income		**2,362**	2,254
Finance expenses		**(148)**	(978)
Finance income – net	*4*	**2,214**	1,276
Share of profit of investments accounted for using the equity method		**3,541**	1,881
Loss before income tax		**(26,894)**	(12,898)
Income tax credit	*5*	**1,797**	772
Loss for the period		**(25,097)**	(12,126)
Loss attributable to:			
The owners of the Company		**(25,097)**	(12,126)
Non-controlling interests		**–**	–
		(25,097)	(12,126)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 30 June **2017** *RMB'000* (Unaudited)	2016 *RMB'000* (Unaudited)
Loss for the period		**(25,097)**	(12,126)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**(7,467)**	4,510
Share of other comprehensive income of investments accounted for using the equity method		**1,351**	(165)
Other comprehensive income for the period, net of tax		**(6,116)**	4,345
Total comprehensive income for the period		**(31,213)**	(7,781)
Total comprehensive income attributable to:			
The owners of the Company		**(31,213)**	(7,781)
Non-controlling interests		**–**	–
		(31,213)	(7,781)
Loss per share attributable to the owners of the Company – Basic and diluted (RMB)	6	**(0.05)**	(0.02)
Dividends	7	**–**	–

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**42,683**	42,222
Land use rights		**5,725**	5,800
Intangible assets		**4,439**	4,612
Investments accounted for using the equity method		**39,478**	34,586
Prepayments and other receivables		**8,849**	8,810
Deferred income tax assets		**7,704**	7,887
Other non-current assets		**16,295**	16,295
Total non-current assets		**125,173**	120,212
Current assets			
Inventories		**80,477**	90,623
Trade and notes receivables	*8*	**199,386**	184,291
Prepayments and other receivables		**41,081**	32,584
Amounts due from customers for contract work	*9*	**137,178**	155,496
Pledged bank deposits		**6,060**	9,871
Term deposits with initial terms of over three months		**29,258**	35,347
Cash and cash equivalents		**240,939**	286,352
Total current assets		**734,379**	794,564
Total assets		**859,552**	914,776

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET *(continued)*

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,071**	4,071
Reserves		**383,129**	389,245
Retained earnings		**127,701**	152,798
		514,901	546,114
Non-controlling interests		**1**	1
Total equity		**514,902**	546,115
LIABILITIES			
Non-current liabilities			
Deferred income		**600**	600
Deferred income tax liabilities		**11,383**	14,571
Total non-current liabilities		**11,983**	15,171
Current liabilities			
Trade and other payables	*10*	**244,455**	289,822
Amounts due to customers for contract work	*9*	**58,932**	42,491
Short-term bank borrowings	*11*	**28,041**	20,000
Current income tax liabilities		**1,239**	1,177
Total current liabilities		**332,667**	353,490
Total liabilities		**344,650**	368,661
Total equity and liabilities		**859,552**	914,776

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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

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

This condensed consolidated interim financial information is presented in thousands of Renminbi Yuan ("**RMB**"), unless otherwise stated, and is approved for issue by the Board on 28 August 2017.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

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

(i) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) IFRS 15 Revenue from Contracts with Customers

The International Accounting Standards Board ("**IASB**") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

The Group anticipated this standard may have an impact on its consolidated financial statements, and will continue to make progress in assessing all potential impacts of the standard. The Group anticipated the possible impact may relate to the timing of the revenue recognition. However, the Group's analysis is preliminary and subject to change as the Group has not yet completed its assessment.

(iii) IFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

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

3. SEGMENT INFORMATION

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

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

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

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

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

The segment results for the six months ended 30 June 2016 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 2016 (Unaudited)							
Segment revenue and results							
Segment revenue	129,650	66,277	24,405	12,436	53,180	17,892	303,840
Inter-segment revenue	(3,441)	(7,943)	(1,656)	(128)	(435)	(400)	(14,003)
Revenue	126,209	58,334	22,749	12,308	52,745	17,492	289,837
Cost of sales	(108,414)	(43,850)	(14,106)	(6,434)	(31,529)	(11,932)	(216,265)
Segment results							
Gross profit	17,795	14,484	8,643	5,874	21,216	5,560	73,572
Other segment items							
Amortization	310	47	10	6	–	4	377
Depreciation	1,883	1,891	395	265	115	109	4,658
Provision for trade and other receivables	3,142	1,560	435	248	127	151	5,663
Impairment provision for inventories	151	41	45	–	704	13	954
Share of profit of investments accounted for using the equity method	501	176	–	–	1,204	–	1,881

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Liquid and Bioprocess System	**(12,522)**	17,795
Clean Room and Automation Control and Monitoring System	**11,601**	14,484
Powder and Solid System	**9,494**	8,643
GMP Compliance Service	**6,661**	5,874
Life Science Consumables	**28,664**	21,216
Distribution and Agency of Pharmaceutical Equipment	**1,605**	5,560
Total gross profit for reportable segments	**45,503**	73,572
Other income	**2,206**	978
Other gains/(losses)	**1,748**	(2,117)
Selling and marketing expenses	**(40,726)**	(40,163)
Administrative expenses	**(28,983)**	(31,773)
Research and development expenses	**(12,397)**	(16,552)
Finance income – net	**2,214**	1,276
Share of profit of investments accounted for using the equity method	**3,541**	1,881
Loss before income tax	**(26,894)**	(12,898)

The segment assets as at 30 June 2017 and 31 December 2016 are as follows:

	As at 30 June 2017		As at 31 December 2016	
	Total assets	**Investments accounted for using the equity method**	Total assets	Investments accounted for using the equity method
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Liquid and Bioprocess System	**260,100**	**11,750**	297,057	12,745
Clean Room and Automation Control and Monitoring System	**130,812**	**19,414**	126,351	15,617
Powder and Solid System	**38,711**	**–**	36,801	–
GMP Compliance Service	**22,073**	**–**	22,494	–
Life Science Consumables	**63,007**	**8,314**	60,900	6,224
Distribution and Agency of Pharmaceutical Equipment	**7,105**	**–**	9,580	–
Total segment assets	**521,808**	**39,478**	553,183	34,586
Unallocated				
Deferred income tax assets	**7,704**		7,887	
Headquarter assets	**330,040**		353,706	
Total assets	**859,552**		914,776	

Geographical information

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

Revenue	**For the six months ended 30 June**	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**218,885**	254,956
Other locations	**25,967**	34,881
	244,852	289,837

4. FINANCE INCOME – NET

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings	**(650)**	(714)
Exchange gains/(losses)	**502**	(264)
Finance expenses	**(148)**	(978)
Interest income	**2,362**	2,254
	2,214	1,276

5. INCOME TAX CREDIT

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax expense	**(1,208)**	(1,555)
Deferred income tax credit	**3,005**	2,327
	1,797	772

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

The Company was incorporated in the Cayman Islands and is exempted from local income tax.

The subsidiaries incorporated in the BVI under the International Business Companies Acts of the BVI are exempted from local income tax.

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the relevant periods (2016: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the relevant periods (2016: 15.0%).

According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Group's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar SJZ**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling.

6. LOSS PER SHARE

(a) Basic

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Loss attributable to the owners of the Company (RMB'000)	**(25,097)**	(12,126)
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic loss per share (RMB)	**(0.05)**	(0.02)

(b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2017 and 2016, diluted loss per share for the six months ended 30 June 2017 and 2016 are the same as basic loss per share.

7. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2017 (2016: Nil).

8. TRADE AND NOTES RECEIVABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade receivables *(Note a)*	**195,660**	185,604
Notes receivable *(Note b)*	**20,708**	14,662
	216,368	200,266
Less: provision for impairment	**(16,982)**	(15,975)
	199,386	184,291

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

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Within 3 months	**95,576**	86,333
3 to 6 months	**28,054**	16,904
6 months to 1 year	**22,071**	29,211
1 to 2 years	**28,063**	32,311
2 to 3 years	**11,538**	13,963
Over 3 years	**10,358**	6,882
	195,660	185,604

(a) Most of the trade receivables are due within 90 days in accordance with the sales contracts, except for the retention money which would normally due one year after the completion of sales.

(b) As at 30 June 2017, there are notes receivable of RMB8,041,000 discounted with recourse (31 December 2016: Nil).

As at 30 June 2017 and 31 December 2016, the carrying amounts of trade and notes receivables are approximated at their fair values due to short maturity.

9. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract cost incurred plus recognized profit less foreseeable loss	**625,332**	584,826
Less: Progress billings	**(547,086)**	(471,821)
Contract work in progress	**78,246**	113,005
Representing:		
Amounts due from customers for contract work	**137,178**	155,496
Amounts due to customers for contract work	**(58,932)**	(42,491)
	78,246	113,005

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Construction contract revenue	**106,862**	177,393

10. TRADE AND OTHER PAYABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade payables	**129,258**	167,929
Notes payable	**17,294**	25,390
Advances from customers	**48,398**	38,340
Payroll and welfare payable	**18,415**	17,418
Taxes other than income taxes payable	**1,245**	6,078
Warranty provision	**4,038**	4,109
Others	**25,807**	30,558
	244,455	289,822

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

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Within 6 months	**92,659**	146,452
6 months to 1 year	**26,485**	12,208
1 to 2 years	**6,869**	6,350
2 to 3 years	**2,362**	2,233
Over 3 years	**883**	686
	129,258	167,929

(b) As at 30 June 2017 and 31 December 2016, the carrying amounts of trade and other payables are approximated at their fair values due to short maturity.

(c) The ageing analysis is presented on the basis of the date of the relevant invoice.

11. SHORT-TERM BANK BORROWINGS

	As at 30 June 2017 *RMB'000* (Unaudited)	As at 31 December 2016 *RMB'000* (Audited)
Bank borrowings *(a)*	**20,000**	20,000
Notes discounted with recourse	**8,041**	–
	28,041	20,000

(a) As at 30 June 2017, secured short-term bank borrowings are RMB5 million (as at 31 December 2016: RMB20 million), secured by the Group's buildings and land use right, bearing interest at 4.35% per annum (2016: 4.35% per annum) and repayable within one year. As at 30 June 2017, unsecured bank borrowings with RMB15 million (as at 31 December 2016: Nil) bears interest at 4.79% (2016: Nil) per annum and are repayable within one year.

12. COMMITMENTS

(a) Capital commitments

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

	As at 30 June 2017 *RMB'000* (Unaudited)	As at 31 December 2016 *RMB'000* (Audited)
Property, plant and equipment	**2,902**	2,179
Intangible assets	**294**	206
	3,196	2,385

(b) Operating lease commitments

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

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Within 1 year	**6,047**	5,131
After 1 year but within 5 years	**2,436**	2,679
	8,483	7,810

13. CONTINGENCIES

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 the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

With the determination of the China Food and Drug Administration ("**CFDA**") to improve drug safety and drug efficacy, and in consideration of the increasing public awareness on drug safety, during the Period under Review, the CFDA has not only continuously announced updates of new regulations, but has also increased the intensity of its unannouced inspections on pharmaceutical companies. To survive this new business environment, pharmaceutical companies have to adapt quickly in enhancing their degree of regulatory compliance, product quality, operational efficiency, and product innovation. With the intense market competition, consulting services in the areas of operational efficiency and product quality development, together with the related compliance consulting services, are strongly required.

CFDA intends to use a series of new regulations to eliminate low-efficacy approved drugs, improve the new drug application system, accelerate the manufacturing procedure of drugs with better efficacy and higher quality and improve the quality of China's drugs to reach international leading standards. It requires the whole pharmaceutical industry to improve its quality, data integrity and management system from drug research to manufacturing phases.

In recent years, the biologics markets in emerging regions, such as China, have become increasingly active and have shown strong growth potential. This has been reflected in strong increase in the number of the Company's biologics capital expenditure ("**CAPEX**") investment-related projects. Investment is still strong on the biologics sector in China's pharmaceutical industry, as compared to the chemical drug sector. Conventional chemical drug manufacturers are observed to have slowed down their investment in common generic drug facilities, although for active pharmaceutical ingredients ("**API**") and chemical generic drugs, investment is still strong for improvement on the containment and new technologies for formulating generic drugs. Driven by increasing healthcare expenditures, enhanced research and development capabilities, favorable government policies and increased capital investment, China's biologics market has experienced rapid growth in the past few years, exceeding that of the global biologics market, and is expected to continue its robust growth in the future.

BUSINESS REVIEW

The Group is a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and the emerging countries. The Group dedicates to provide equipment-engineering-service-consumables turnkey solutions and promote industry advancement and create value for the PRC pharmaceutical industry. Under the changing circumstances in the pharmaceutical industry brought by new policies of the PRC authorities, the Group continues to develop more cutting-edge technologies and solutions with its innovation and aspires to expand its market and supply its products to more manufacturers in the cosmetic and medical device industries by leveraging its technological competence to reduce the risk caused by market transformation and consolidate its sales revenue and profit.

The Group designs, sources and sets up production facilities, builds clean rooms and implements automation and monitoring systems for major pharmaceutical manufacturers in the PRC. From research and development, pilot production, product launching to commercial production, the Group's solutions and services cover the whole lifecycle of pharmaceutical products, and play an essential and critical role in the pharmaceutical production process. Together with its joint ventures and associates, the Group also engages in the manufacturing, sale and distribution of various high-end pharmaceutical equipment and life science consumables.

The Group's main business can be categorized into six segments, namely, (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. The Group's ability to provide comprehensive services and products across these business segments in different stages of a pharmaceutical product lifecycle enables the Group to solidify its working relationships with its customers.

During the Period under Review, further exploration of service scope of each business segment of the Group has been undergoing, with the aim to increase the ratio of service to system to improve business results through lesser reliance on CAPEX investment from the Group's customers. New cross segment application teams specialized in Containment Technology, HVAC Technology, Single-use Technology, BIO Technology and Turnkey Solutions have been established to synergize product supply scope to create more comprehensive and unique technical solutions in order to differentiate the Group's products from other smaller companies. Consulting services such as Pharma IT and Operational Efficiency will be consolidated to offer additional value to the Group's customers. More aggressive overseas market strategies, including establishing joint ventures for sales and service, are expected to increase the international market share of the Group.

Order-in-take

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

	For the six months ended 30 June				
	2017		2016		Change
Order-in-take by business segment	***RMB'000***	***%***	*RMB'000*	*%*	*%*
Liquid and Bioprocess System	**128,627**	**38.5%**	150,619	42.6%	(14.6%)
Clean Room and Automation Control and Monitoring System	**68,381**	**20.4%**	85,821	24.3%	(20.3%)
Powder and Solid System	**22,040**	**6.6%**	28,157	7.9%	(21.7%)
GMP Compliance Service	**18,924**	**5.7%**	22,512	6.4%	(15.9%)
Life Science Consumables	**84,808**	**25.4%**	58,901	16.7%	44.0%
Distribution and Agency of Pharmaceutical Equipment	**11,493**	**3.4%**	7,444	2.1%	54.4%
Total	**334,273**	**100.0%**	353,454	100.0%	(5.4%)

During the Period under Review, the total order-in-take amounted to approximately RMB334.3 million, representing a decrease of approximately 5.4% from approximately RMB353.5 million for the six months ended 30 June 2016, which was due to the decrease in order-in-take amount of the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System and GMP Compliance Service but partially offset by the increase in order-in-take amount of the business segments of Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.

Liquid and Bioprocess System

During the Period under Review, due to keen market competition in the business segment of Liquid and Bioprocess System, the Group has maintained a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in Beijing, Jiangsu Province, Sichuan Province, and Hubei Province of the PRC, but has lost some projects with low profit margins. The order-in-take amount of the business segment of Liquid and Bioprocess System decreased by approximately RMB22.0 million or 14.6% from approximately RMB150.6 million for the six months ended 30 June 2016 to approximately RMB128.6 million for the Period under Review. The Group will endeavor to pursue developments in the biopharmaceutical fields and strive for high-end market.

Clean Room and Automation Control and Monitoring System

During the Period under Review, as the pace of overseas market expansion was slower than expected, the order-in-take amount of the business segment of the Clean Room and Automation Control and Monitoring System decreased by approximately RMB17.4 million or 20.3% from approximately RMB85.8 million for the six months ended 30 June 2016 to approximately RMB68.4 million for the Period under Review. The Group will actively develop overseas market through strategic cooperation with overseas local companies in the second half of the year.

Powder and Solid System

During the Period under Review, the Group also faced keen competition in the market of Powder and Solid System, which led to a decrease in the order-in-take amount of this business segment by approximately RMB6.1 million or 21.7% from approximately RMB28.2 million for the six months ended 30 June 2016 to approximately RMB22.0 million for the Period under Review.

GMP Compliance Service

During the Period under Review, while the Group has maintained the market of more advanced consultation and advisory services with higher profit margins, the Group has lost some projects with low profit margins and the order-in-take amount of the business segment of GMP Compliance Service decreased by approximately RMB3.6 million or 15.9% from approximately RMB22.5 million for the six months ended 30 June 2016 to approximately RMB18.9 million for the Period under Review.

Life Science Consumables

During the Period under Review, the Group continued to introduce new product types to customers, including the latest quality assurance and control use pharmaceutical instrument, and animal laboratory research products, which led to an increase in the order-in-take amount of the business segment of Life Science Consumables by approximately RMB25.9 million or 44.0% from approximately RMB58.9 million for the six months ended 30 June 2016 to approximately RMB84.8 million for the Period under Review. The Group will continue to launch more diversified life science consumables with the latest technology to its customers. This segment has a huge potential for the Group.

Distribution and Agency of Pharmaceutical Equipment

During the Period under Review, as a result of the good reputation generated from high-quality pharmaceutical equipment provided by agents, the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB4.0 million or 54.4% from approximately RMB7.4 million for the six months ended 30 June 2016 to approximately RMB11.5 million for the Period under Review.

Backlogs

Set out below is a breakdown of the Group's closing value of backlogs (VAT excluded) and the corresponding number of contracts by business segment as at 30 June 2017:

	As at 30 June 2017			
Backlogs by business segment	*Number of Contracts*	*%*	*RMB'000*	*%*
Liquid and Bioprocess System	221	26.2%	206,196	48.4%
Clean Room and Automation Control and Monitoring System	287	34.0%	111,605	26.2%
Powder and Solid System	69	8.2%	36,435	8.6%
GMP Compliance Service	89	10.6%	40,176	9.4%
Distribution and Agency of Pharmaceutical Equipment	177	21.0%	31,344	7.4%
Total	843	100.0%	425,756	100.0%

PRODUCTION AND ORGANISATION

The new manufacturing leadership of the Group at Shanghai further demonstrated its strength with improved management in manufacturing. Both of the Group's facilities in Shijiazhuang and Shanghai have obtained the pressure vessel certificate of the American Society of Mechanical Engineers (ASME), on one hand creating more opportunities to the Group for international business, and on the other hand providing the Group's high-end customers convenience for the purpose of their supplier audit with a two-facility choice. During the Period under Review, the Group's Nanjing facility has been expanded with additional office space for its design and research staff, achieving motivating results with more freeze-dryer equipment having been completed, facility acceptance tests having passed and equipment successfully delivered. Following the Group's investment in ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**") in 2016, freeze-dryer manufacturing is expected to be implemented at ROTA's facility in Germany in 2018 or 2019, offering "one brand one site one source", with the decision for further space expansion having been approved by ROTA's supervisory board to facilitate this initiative.

The Group established its Engineering Project Execution Centre in late 2015 by consolidating its then existing project management execution team, automation system team, validation execution team and powder and liquid system execution team, aiming at building up a strong harmonized team to cater for the Group's turnkey facility projects.

Through training and on-site practices, in medium and long term, it was expected that such consolidation would allow the Group's staff to acquire more cross-functional skills, resulting in higher efficiency with better customer satisfaction; yet the consolidation process has been longer than expected. For the Period under Review, this center has gradually demonstrating its strength, with the final objective of achieving higher efficiency with improved customer satisfaction and serving as a highly efficient project engineering platform for the purpose of all the Group's business segments.

RESEARCH AND DEVELOPMENT

Further efforts have been put into the investment of the downstream bioprocess equipment research during the Period under Review, with the aim of speeding up the product development process. Key research projects of downstream bioprocess includes PAT-online liquid preparation, ultrafiltration units and chromatography units. The product development team of the Group has succeeded in securing the first order for ultrafiltration units during the Period under Review.

The Stainless Steel bioreactors developed are under continuous improvement on automation performances and compliance documentation. The upstream equipment such as laboratory bioreactors and WAVE bioreactors are also under development and are expected to be launched in the market by the end of this year. As the Group has already acquired the capabilities to provide both stainless steel and single-use core bioprocess system, following this integration, the Group has become the unique company which could provide biopharmaceutical companies with the required R&D and manufacturing scale equipment, services and systems including core bioprocess equipment, auxiliary system such as process development service, mixing system, CIP/SIP, preparation system, filling lines, automation and validation services. The Group is also dedicated to improving the cost-effectiveness of the critical points in the biologics products manufacturing process for its customers. Single-use bioprocess information platform system will become an important product to support the growth of the Group's biologics process system business. This platform would significantly reduce the cost of manufacturing high-end bio products, control the risk of cross contamination and simplify the manufacturing process.

Hybrid bioprocess system in China is believed to have significant growth opportunities. Further research and development by both SUT and conventional bioprocess system team is under progress in order to capture the opportunities ahead. The Group has also successfully applied single-use disposable concept to high-end chemical drug products with sterility and containment requirements. To amplify the Group's capabilities in the containment field, based on its existing single-use bioprocess technologies and manufacturing capabilities, the Group has further developed soft containment system which could replace rigid containment equipment or components with more flexible well-designed soft film formed system and reduce CAPEX investment for its customers. This application received further acceptance from additional customers. This application also demonstrated the Group's successful innovative technical approach towards research model.

Wet granulation line product empowered with Austar's strength on automation, containment technologies, PAT technologies and compliance knowledge is believed to contribute significant business returns in coming years. During the Period under Review, milling equipment has been under further development, focusing on customers' particle sizing performance, being a critical factor to the success of drug biological equivalence.

SALES AND MARKETING

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to its customers in the PRC. Overseas sales are conducted through a mixture of direct, agency and distribution sales models. The Group's sales administration has been further strengthened by its self-developed customer relationship management system, now coupled with mobile phone application to support its operation.

Streamlining of sales organization and further recruitment of sales talents with more comprehensive training are still undergoing and are believed to bring better results to the Group. The Group's improvement in sales organization has contributed to some significant sales growth results in certain product lines of the Group's business segments for the Period under Review.

Marketing and communications is a critical function for improvements of the Group's order-in-take. New products and services can be better promoted and communicated to the market. Improved communication tools and more proactive marketing activities are under development, in line with the intensifying of product training with on-line learning tools to assist sales staff acquiring new and sufficient product knowledge. Technology Application Teams on Biologics, API Process Systems, Containment and HVAC were established to team up personnel across different business segments. In the first half of this year, two technical seminars were organized by the Group, one on API Automation and the other on Containment Technology. In addition, the Group took part in five key biologics related conferences and seminars to promote key biologics related product lines.

PROSPECTS

Increase the market share in the PRC and the emerging countries

In additional to the Group's existing market development strategies towards the emerging countries, regional sales and execution partnership development in India and Russia have been initiated. Formation and discussions on the establishment of joint ventures are currently in progress. It is believed that the formation of the joint ventures would help to improve the Group existing products and services with additional sophisticated local sales team so as to capture turnkey project opportunities with local execution capacities and local service capacities. Enquiries on overseas turnkey projects with significant scale have been increasing. Capturing these opportunities might turn around the present revenue stagnation status. For the PRC market, it is believed that the nature of healthcare as a necessity and the related policies imposed by the PRC authorities are the fundamental elements for the Group's growth opportunities. The sales force in PRC is under further consolidation and expansion among different business segments.

In the first half of 2017, the Group is able to capture more orders in some process automation control engineering of API market. New vision of this business is to offer API process systems with high containment requirements, fully automatic systems and data integrity compliance requirements. Investments in biologics facilities still offers a strong pipeline of active and hot projects and there are no signs of slow-down.

Improve our service and products offerings

Following up on the service business review study conducted by the Company, all business segment product managers have been instructed and educated to reconsider and improve the scope and the extent of services in the existing product portfolios. The Group believes that the offering of integrated services as a package of services by leveraging the strengths from different business segments of the Group is very unique in the pharmaceutical service industry. In order to increase the strength of the facility design element of the Company's turnkey project business for overseas market, the Company has decided to establish a new facility design company jointly owned by local and European facility design experts. This new company is expected to not only assist the Group's overseas turnkey project business but also enable the Group to target the industrial sectors in terms of medical device and laboratory animal research turnkey projects.

Liquid and Bioprocess System

More customers have accepted new single-use technology applications on highly toxic containment-required process in the first half year of 2017. Continuos promotional efforts would be invested in marketing such application. The 50 and 200 liter bioreactors with thorough performance tests and automation process tests in 2016 and in the first half year of 2017 should guarantee the reliability of these new products, which are expected to gain customer confidence in coming years. Conventional clean utility system technologies are under upgrading process with the support of European partners in order to differentiate such technologies from other low-end competitors. Increased competition in the water system business was anticipated a few years ago and in order to remain as a leader in this sector, the Group has been putting efforts in developing its bioprocess systems including hybrid bioprocess system leveraged by its in-house single-use disposable knowledge.

The Single-use Disposable team of the Group has been evolving as a team of Single-use Technology BioProcess Engineering having the capacities of performing from initial design to completion of system and process qualification, which can be integrated together with Austar's own single-use automation information platform, offering significant value to the Group's customers. Since the Group's investment in ROTA, its sales order-in-take and financial performance have been improving and the intended integration of the filing line of ROTA with the freeze-dryer of Austar is now on track even though the integration is slower than expected.

Clean Room and Automation and Monitoring System

The Group's Pharma IT business division is expected to be established in the second half of 2017 to capture the opportunity of the drug consistency evaluation policies initiated by the CFDA in the pharmaceutical industry in China. Opportunities are there for the pharmaceutical service providers to offer services to meet the data integrity requirements of pharmaceutical manufacturers. Pharma IT business will offer pharmaceutical research and manufacturers consulting services to help them address issues on performance, quality and compliance with the assistance of IT tools including the integration and individual implementation of software covering automation control engineering, Manufacturing Execution System (MES), Warehouse Management System (WMS), GMP related software applications, Laboratory Information Management (LIMS) and ERP IT. The Company believes that this business segment consisting of the basic skill-set as automation control engineering and software implementation will act as a founding stone for this new business division. The Company has acquired technical competence in pharmaceutical MES as an important information system to be linked to enterprise resource planning (ERP) and automation systems. Pharma IT's mission is to support the PRC pharmaceutical industry's visions on implementation of the "Industry 4.0" even though it seems to be a rather long way to go. The Group's dominating knowledge in MES is expected to be further accumulated and reserved for the hidden demand in the coming years even though a lot of ideas still currently remain conceptual and it is not easy to anticipate when the current knowledge and experience of pharmaceutical manufacturers on information systems could reach the standard of "Industry 4.0". In any event the Group is ready to offer related technical solutions to pharmaceutical manufacturers.

Powder and Solid System

Containment Technology application knowledge including the Standardized Measurement of Equipment Particulate Airborne Concentration (SMEPAC) test service capabilities and powder handling experience is contributing to the Group's oral solid dosage process system business. The more the pharmaceutical industry stresses on environmental, health and safety (EHS) issues, the more opportunities ahead for the Group are expected from this business segment. The process development laboratory of several dosage forms and processes like softgel, dry granulation, wet granulation and milling can help customers develop improved formulation process parameters meeting the stricter regulatory requirements. The Company is familiar with microsphere technologies and jet-mill micronisation technologies commonly adopted in new drug formulations but as of today such technologies are still under research and development in China. Notwithstanding the aforesaid, the pipeline of hot and active projects plus the growth of equipment purchase contracts have large potential. The more generic drug is to be developed in conformity with the original brand drug as now required by the CFDA's newly issued regulatory requirements, the more opportunities are ahead for the Group.

GMP Compliance Service

Consulting services are independent of CAPEX investment trends in general. The Group has engaged more international advisors to support the compliance consulting service business. The Group continues to promote the new consulting services of Lean Production, Quality Management System, research-related Quality by Design and so on. Pharma IT softwares supported by additional consulting services of compliance, performance and quality-concerned services are believed to offer unique services with customer satisfaction. ASTM E2500 would be a new Good Engineering Practice/Commissioning & Qualification consulting service model, which is believed to be an industry trend and is under active promotion by the Group's service team.

Life Science Consumables

The business segment of Life Science Consumables has extended to cater for the laboratory and research sector in the drug product lifecycle. This business segment is taking the lead within the Group to explore biosafety industry and laboratory animal research. With increasing biosafety concerns, it is expected that more conventional products can be injected to the package to be sold to this specific industry. The laboratory instrument package sales model with successful case concluded during the Period under Review can be elaborated to further increase order-in-take. Significant growth in revenue and profit margin for this business segment have been witnessed in the last three years. Leveraging this business segment with the Group's other business segments with compliance service and consumable offerings is the new plan. The Company strongly believes that with the effort of the leadership team of this segment, the Group's business segment of Life Science Consumables can continue to grow steadily.

To strengthen research and development, product design and development capabilities

The cross-business segment research and development platform established by the Group to support the R&D projects of all its business units will speed up the pace of R&D and new product introduction. Oral dosage form process laboratory will improve the order-in-take of the Group's business segment of Powder and Solid System. A new freeze-drying process laboratory currently under planning is expected to contribute to customer process optimisation. Biologics upstream and downstream equipment product development team workforce has been increasing to help speed up product launch.

To expand by strategic acquisition of business and/or companies

The Group targets to acquire world-class specific technology leading companies with a view to bring additional brand value and specific high-end technology value to the Group and to complete its product lines as well as to provide more comprehensive solutions to its customers throughout the PRC and the emerging countries. Following the Group's investment in ROTA in 2016, the Company is undergoing various deal negotiation. The Company continues to seek acquisition targets to bring technological and commercial value to the Company.

RESULTS OF OPERATIONS

Revenue

For the Period under Review, the Group's total revenue amounted to approximately RMB244.9 million, representing a decrease of approximately 15.5% from the corresponding period in 2016, primarily due to the decrease in revenue from the business segments of Liquid and Bioprocess System, Distribution and Agency of Pharmaceutical Equipment and Clean Room and Automation Control and Monitoring System, which was partially offset by the increase in revenue from the business segments of Life Science Consumables, Powder and Solid System and GMP Compliance Service.

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.

The following table sets forth, for the six months ended 30 June 2017 and 2016, the breakdown of the Group's revenue by business segment:

	For the six months ended 30 June				
	2017		2016		**Change**
Revenue by business segment	***RMB'000***	**%**	*RMB'000*	%	**%**
	(Unaudited)		(Unaudited)		
Liquid and Bioprocess System	**66,683**	**27.2%**	126,209	43.5%	(47.2%)
Clean Room and Automation Control and Monitoring System	**56,407**	**23.0%**	58,334	20.1%	(3.3%)
Powder and Solid System	**25,528**	**10.4%**	22,749	7.9%	12.2%
GMP Compliance Service	**12,663**	**5.2%**	12,308	4.3%	2.9%
Life Science Consumables	**77,348**	**31.6%**	52,745	18.2%	46.6%
Distribution and Agency of Pharmaceutical Equipment	**6,223**	**2.6%**	17,492	6.0%	(64.4%)
Total	**244,852**	**100.0%**	289,837	100.0%	(15.5%)

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB59.5 million or 47.2% from approximately RMB126.2 million for the six months ended 30 June 2016 to approximately RMB66.7 million for the Period under Review. The decrease was mainly due to prolonged execution time for certain projects undertaken by the Group resulting in a decrease in revenue and the decrease in acceptance of liquid and bioprocess projects with lower profit margins as compared with the corresponding period in 2016.

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 slightly by approximately RMB1.9 million or 3.3% from approximately RMB58.3 million for the six months ended 30 June 2016 to approximately RMB56.4 million for the Period under Review. The decrease was mainly due to the decrease in the amount of order-in-take in the business segment of Clean Room and Automation Control and Monitoring System during the Period under Review.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB2.8 million or 12.2% from approximately RMB22.7 million for the six months ended 30 June 2016 to approximately RMB25.5 million for the Period under Review. The increase was primarily resulted from improvement in project execution efficiency and strength enhancement in total-solution service in the oral solid dosage (OSD) field after the establishment of a new OSD product line in 2015.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service maintained at a stable level with a slight increase of approximately RMB0.4 million or 2.9% from approximately RMB12.3 million for the six months ended 30 June 2016 to approximately RMB12.7 million for the Period under Review. The increase was mainly attributable to an increase in the amount of backlog in the business segment of GMP Compliance Service at the year end of 2016 resulting in the increase in revenue recognized during the Period under Review.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased rapidly by approximately RMB24.6 million or 46.6% from approximately RMB52.7 million for the six months ended 30 June 2016 to approximately RMB77.3 million for the Period under Review, which was primarily attributable to (i) the Group's excellent integrated service of providing diversified life science consumables with the latest technology to its customers; and (ii) the launch of new pharmaceutical instruments which have a wider scope of use in research institutes.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB11.3 million or 64.4% from approximately RMB17.5 million for the six months ended 30 June 2016 to approximately RMB6.2 million for the Period under Review, mainly due to the decrease in the distribution of high-value pharmaceutical equipment during the Period under Review.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the six months ended 30 June 2017 and 2016:

	For the six months ended 30 June				
	2017		2016		**Change**
Revenue by geographical regions	***RMB'000***	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Mainland China	**218,885**	**89.4%**	254,956	88.0%	(14.1%)
Other locations	**25,967**	**10.6%**	34,881	12.0%	(25.6%)
Total	**244,852**	**100.0%**	289,837	100.0%	(15.5%)

The Group derived revenue mainly from the business operations in the Mainland China, which accounted for approximately 89.4% of the total revenue for the Period under Review (2016: approximately 88.0%).

Cost of sales

The Group's cost of sales decreased by approximately RMB16.9 million or 7.8% from approximately RMB216.3 million for the six months ended 30 June 2016 to approximately RMB199.3 million for the Period under Review. Such decrease was mainly due to decrease in revenue.

Gross profit and gross margin

The Group's gross profit decreased by approximately RMB28.1 million or 38.2% from approximately RMB73.6 million for the six months ended 30 June 2016 to approximately RMB45.5 million for the Period under Review. The gross profit margin decreased from approximately 25.4% for the six months ended 30 June 2016 to approximately 18.6% for the Period under Review, which was resulted from the decrease in gross profit margin from the business segments of Liquid and Bioprocess System, Distribution and Agency of Pharmaceutical Equipment, Clean Room and Automation Control and Monitoring System, Life Science Consumables and Powder and Solid System.

The following table sets forth the breakdown of the Group's gross (loss)/profit and gross profit margin by business segment for the six months ended 30 June 2017 and 2016:

Gross (loss)/profit and gross profit margin by business segment	For the six months ended 30 June 2017 RMB'000 (Unaudited)	2017 %	2017 Gross profit margin %	2016 RMB'000 (Unaudited)	2016 %	2016 Gross profit margin %
Liquid and Bioprocess System	**(12,522)**	**(27.5%)**	**(18.8%)**	17,795	24.2%	14.1%
Clean Room and Automation Control and Monitoring System	**11,601**	**25.5%**	**20.6%**	14,484	19.7%	24.8%
Powder and Solid System	**9,494**	**20.9%**	**37.2%**	8,643	11.7%	38.0%
GMP Compliance Service	**6,661**	**14.6%**	**52.6%**	5,874	8.0%	47.7%
Life Science Consumables	**28,664**	**63.0%**	**37.1%**	21,216	28.8%	40.2%
Distribution and Agency of Pharmaceutical Equipment	**1,605**	**3.5%**	**25.8%**	5,560	7.6%	31.8%
Total	**45,503**	**100.0%**	**18.6%**	73,572	100.0%	25.4%

Liquid and Bioprocess System

The Group's gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB30.3 million or 170.4% from approximately RMB17.8 million for the six months ended 30 June 2016 to gross loss of approximately RMB12.5 million for the Period under Review.

The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 14.1% for the six months ended 30 June 2016 to approximately negative 18.8% for the Period under Review, which was mainly resulted from (i) prolonged execution time due to complicated technology for certain biopharmaceutical projects undertaken by the Group during the Period under Review resulting in a decrease in the overall revenue of the Group and an increase in budgeted costs as compared with the corresponding period in 2016; and (ii) certain projects undertaken during the Period under Review carried a relatively lower gross profit margin for the purpose of penetrating into the bioprocess market and retaining long term customers.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB2.9 million or 19.9% from approximately RMB14.5 million for the six months ended 30 June 2016 to approximately RMB11.6 million for the Period under Review. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 24.8% for the six months ended 30 June 2016 to approximately 20.6% for the Period under Review, which was mainly attributable to certain projects undertaken by the Group during the Period under Review carried a relatively lower gross profit margin for the purpose of retaining long term customers.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB0.9 million or 9.8% from approximately RMB8.6 million for the six months ended 30 June 2016 to approximately RMB9.5 million for the Period under Review. The gross profit margin from the business segment of Powder and Solid System maintained a stable level and had a slight decrease from approximately 38.0% for the six months ended 30 June 2016 to approximately 37.2% for the Period under Review.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB0.8 million or 13.4% from approximately RMB5.9 million for the six months ended 30 June 2016 to approximately RMB6.7 million for the Period under Review. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 47.7% for the six months ended 30 June 2016 to approximately 52.6% for the Period under Review, which was mainly attributable to the maturity of the Group's technical and proficient management in cost control in this segment.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB7.4 million or 35.1% from approximately RMB21.2 million for the six months ended 30 June 2016 to approximately RMB28.7 million for the Period under Review. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 40.2% for the six months ended 30 June 2016 to approximately 37.1% for the Period under Review. Such result was mainly due to the increased sales of new pharmaceutical instruments which had a lower gross profit margin as compared to consumables.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB4.0 million or 71.1% from approximately RMB5.6 million for the six months ended 30 June 2016 to approximately RMB1.6 million for the Period under Review. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 31.8% for the six months ended 30 June 2016 to approximately 25.8% for the Period under Review mainly due to the decrease in the amount of agency service provided for high-end pharmaceutical equipment which had a higher gross profit margin.

Other income

Other income increased by approximately RMB1.2 million or 125.6% to approximately RMB2.2 million for the Period under Review from approximately RMB1.0 million for the six months ended 30 June 2016, mainly attributable to the increase in subsidies granted by local government authorities of the PRC during the Period under Review.

Other gains/(losses)

Other gains/(losses) increased by approximately RMB3.9 million to a gain of approximately RMB1.7 million for the Period under Review from a loss of approximately RMB2.1 million for the six months ended 30 June 2016, mainly attributable to currency exchange gain arising from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses maintained a stable level, with a slight increase by approximately RMB0.6 million or 1.4% to approximately RMB40.7 million for the Period under Review from approximately RMB40.2 million for the six months ended 30 June 2016.

Administrative expenses

Administrative expenses decreased by approximately RMB2.8 million or 8.8% to approximately RMB29.0 million for the Period under Review from approximately RMB31.8 million for the six months ended 30 June 2016, primarily attributable to the decrease in provision for bad debts.

Research and development activities

As at 30 June 2017, the Group had 37 research and development personnel which accounted for approximately 4.2% of the Group's total number of employees. During the Period under Review, the Group cooperated with well-known academic institutions in order to upgrade the Group's technology level, and executed more research and development activities. The Group's research and development expenses decreased by approximately RMB4.2 million or 25.1% from approximately RMB16.6 million for the six months ended 30 June 2016 to approximately RMB12.4 million for the Period under Review, mainly due to the decrease of materials consumed in some large research projects which are close to completion. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Finance income – net increased from approximately RMB1.3 million for the six months ended 30 June 2016 to approximately RMB2.2 million for the Period under Review, mainly due to the increase in currency exchange gain arising from retranslation of foreign currency cash and cash equivalents balances during the Period under Review.

Share of profit of investments accounted for using the equity method

The Group's share of profit of investments accounted for using the equity method increased by approximately RMB1.7 million, from approximately RMB1.9 million for the six months ended 30 June 2016 to approximately RMB3.5 million for the Period under Review, primarily due to the increase in profit contribution from the Group's investments in an associate, ROTA, and a joint venture, PALL-AUSTAR Lifesciences Limited, by approximately RMB2.6 million and RMB0.6 million respectively.

Loss before income tax

The Group's loss before income tax increased by approximately RMB14.0 million from approximately RMB12.9 million for the six months ended 30 June 2016 to approximately RMB26.9 million for the Period under Review, which was primarily due to the factors as described above in this section.

Income tax credit

Income tax credit increased by approximately RMB1.0 million from a credit of approximately RMB0.8 million for the six months ended 30 June 2016 to a credit of approximately RMB1.8 million for the Period under Review mainly due to the recognition of deferred income tax credit.

Loss for the period

The Group's loss for the period increased by approximately RMB13.0 million, from a loss of approximately RMB12.1 million for the six months ended 30 June 2016 to a loss of approximately RMB25.1 million for the Period under Review. The Group's net loss margin worsened from approximately 4.2% for the six months ended 30 June 2016 to approximately 10.2% for the Period under Review, which was primarily due to the factors described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(56,337)**	(53,607)
Net cash generated from/(used in) investing activities	**3,008**	(25,350)
Net cash generated from/(used in) financing activities	**7,414**	(15,750)
Net decrease in cash and cash equivalents	**(45,915)**	(94,707)

For the Period under Review, the Group had net cash used in operating activities of approximately RMB56.3 million mainly attributable to:

i. the increase in trade and notes receivables of approximately RMB15.1 million;

ii. the increase in prepayments and other receivables of approximately RMB8.5 million; and

iii. the loss for the period of approximately RMB25.1 million.

For the Period under Review, the Group had net cash generated from investing activities of approximately RMB3.0 million, which was mainly attributable to increase in term deposits with initial terms of over three months of approximately RMB6.1 million, but partially offset by purchase of property, plant, equipment and intangible assets of approximately RMB3.1 million.

For the Period under Review, the Group had net cash generated from financing activities of approximately RMB7.4 million mainly from notes discounted with recourse.

Net current assets

The Group's net current assets as at 30 June 2017 had decreased by approximately RMB39.4 million from approximately RMB441.1 million as at 31 December 2016 to approximately RMB401.7 million as at 30 June 2017.

As at 30 June 2017, the Group's total current assets amounted to approximately RMB734.4 million, which was a decrease of approximately RMB60.2 million as compared with approximately RMB794.6 million as at 31 December 2016. The decrease was primarily due to the factors set out below, but was partially offset by the increase in trade and notes receivables of approximately RMB15.1 million and prepayments and other receivables of approximately RMB8.5 million:

i. the decrease in cash and cash equivalents of approximately RMB45.4 million; and

ii. the decrease in the amounts due from customers for contract work of approximately RMB18.3 million, and inventories of approximately RMB10.1 million, which are mainly due to the improvement of project management and inventories management efficiency.

As at 30 June 2017, the Group's total current liabilities amounted to approximately RMB332.7 million, which was a decrease of approximately RMB20.8 million as compared with approximately RMB353.5 million as at 31 December 2016. The decrease was primarily due to the decrease in amounts of trade and other payables of approximately RMB45.4 million; but was partially offset by the increase in amounts due to customers for contract work in the amount of approximately RMB16.4 million, and notes discounted with recourse of short-term bank borrowings of approximately RMB8.0 million.

Borrowings and gearing ratio

As at 30 June 2017, the total interest-bearing bank borrowings amounted to RMB20.0 million, which is the same as at 31 December 2016, bearing interest rates of 4.35% to 4.79% per annum (2016: 4.35% per annum). The short-term bank borrowings also include notes discounted with recourse of approximately RMB8.0 million.

The Group's gearing ratio was approximately 5.4% as at 30 June 2017, as compared to approximately 3.7% as at 31 December 2016. The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 30 June 2017, save for the pledged bank deposits of approximately RMB6.1 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB8.2 million and approximately RMB5.7 million respectively (31 December 2016: approximately RMB8.6 million and approximately RMB5.8 million respectively) which are pledged as security for interest-bearing bank borrowings with a carrying value of RMB5.0 million (31 December 2016: RMB20.0 million).

As at 30 June 2017, the Group has notes discounted with recourse of approximately RMB8.0 million (31 December 2016: Nil).

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2017 (31 December 2016: Nil).

Interim dividend

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2017 (2016: Nil).

CAPITAL STRUCTURE

As at 30 June 2017, the Group had shareholders' equity of approximately RMB514.9 million (31 December 2016: approximately RMB546.1 million).

HUMAN RESOURCES

As at 30 June 2017, the Group had 876 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, representing an increase of approximately 5.2% as compared with 833 employees as at 31 December 2016. The main increase is from R&D, project management and manufacturing Departments. During the Period under Review, the employee costs (including Directors' remuneration) were approximately RMB67.3 million, which was an increase of approximately 6.1% as compared with approximately RMB63.4 million for the six months ended 30 June 2016.

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

The Group will regularly review its remuneration policies and employee benefits with reference to market practices and performance of individual employees. The remuneration of the employees and the Directors are determined by reference to their respective responsibilities, professional qualification, industry experience and performance. The emolument policy of the Directors is decided by the remuneration committee of the Board. Austar 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", Austar divides training into orientation, overseas training, management training, professional skills training and corporate culture training.

CAPITAL COMMITMENTS

Capital expenditure of property, plant and equipment, land and intangible assets which has been contracted for but not yet incurred as of 30 June 2017 amounted to approximately RMB3.2 million (31 December 2016: approximately RMB2.4 million).

FOREIGN EXCHANGE RISK

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

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

On 7 November 2014, the shares of the Company ("**Shares**") were first listed on the Main Board of the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). As at 30 June 2017, out of the aggregated net proceeds from the IPO of approximately HK$411.8 million, (i) as to approximately RMB24.1 million (equivalent to approximately HK$28.8 million) had been utilized for general research and development; (ii) as to approximately RMB7.3 million (equivalent to approximately HK$8.8 million) had been utilized for sales and marketing; (iii) as to approximately RMB31.7 million (equivalent to approximately HK$40.8 million) had been applied for as general working capital of the Group; (iv) as to approximately RMB16.3 million (equivalent to approximately HK$20.5 million) had been applied for prepayment of premium in connection with acquisition of land use right as explained below; (v) as to approximately RMB15.9 million (equivalent to approximately HK$18.6 million) had been utilized for merger and acquisition; and (vi) the remaining of approximately RMB224.7 million (equivalent to approximately HK$295.5 million) has been deposited into the banks and has not yet been utilized. Such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 28 October 2014 ("**Prospectus**").

As at 30 June 2017, premium of approximately RMB16.3 million (including approximately RMB12.5 million paid in June 2015 and approximately RMB3.8 million paid in July 2015) ("**Premium**") had been prepaid to the Shijiazhuang Government in connection with the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Zone**"). The Company was given to understand that the Premium advanced to the Shijiazhuang Government was for the purpose of facilitating the land expropriation process and the process of the land being tendered by the Shijiazhuang Government. Subject to the signing of any legally binding agreement between the

Shijiazhuang Government and the Company, the Premium prepaid by the Company shall be applied as part payment of the consideration for the acquisition of the land use rights of a piece of land in the Zone.

In addition to the Premium paid, as at the date hereof, the Group has expended RMB12.4 million (equivalent to approximately HK$14.5 million) on certain assets and equipment out of its internal resources in preparation for the operation of the Group's Shijiazhuang R&D and Production Centre to be constructed. Notwithstanding the aforesaid, based on the information currently available to the Company, the timetable of the land being listed for tender and transferred by the Shijiazhuang Government is uncertain. Given the process of acquiring the land by the Group is slower than expected and the development plans of the Group's Shijiazhuang R&D and Production Centre on such land as set out in the section headed "Business" in the Prospectus have been lagging behind schedule, the Company is considering changing part of its net proceeds from the IPO originally allocated for establishment of the Shijiazhuang R&D and Production Centre to potential mergers and acquisitions ("**Possible Change of Use of Proceeds**") in order to better utilize the resources of the Group.

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

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

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

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

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Changes in Directors' information since the date of the 2016 annual report of the Company is set out below:

— Madam Chiu Hoi Shan, an independent non-executive Director, becomes the founding partner of Chiu & Co. (趙凱珊律師行) since August 2017.

Save as disclosed above, as at the date hereof, there were no substantial changes to the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

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

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

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

PUBLICATION OF INTERIM REPORT

The Company's interim report for the six months ended 30 June 2017 will be published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.austar.com.hk and will be despatched to the Company's shareholders in due course.

APPRECIATION

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

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

Hong Kong, 28 August 2017

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