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**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 2016**

**GROUP FINANCIAL HIGHLIGHTS**

	<b>For the six months ended 30 June</b>	
	<b>2016 RMB'000 (Unaudited)</b>	<b>2015 RMB'000 (Unaudited)</b>
Revenue	<b>289,837</b>	293,086
Gross profit	<b>73,572</b>	80,741
(Loss)/profit before income tax	<b>(12,898)</b>	13,384
(Loss)/profit attributable to the owners of the Company	<b>(12,126)</b>	10,145
Gross profit margin	<b>25.4%</b>	27.5%
Basic (loss)/earnings per share (RMB) <i>(Note)</i>	<b>(0.02)</b>	0.02
Diluted (loss)/earnings per share (RMB)	<b>(0.02)</b>	0.02
	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	<b>As at 31 December 2015 RMB'000 (Audited)</b>
Total assets	<b>920,693</b>	960,985
Net assets	<b>543,203</b>	550,984
Gearing ratio	<b>3.7%</b>	6.4%

*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 2016 and 2015 and the weighted average number of shares in issue during that period.

## INTERIM RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Austar Lifesciences Limited (“**Company**” or “**Austar**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016 (“**Period under Review**”), together with the comparative figures for the corresponding period in 2015 as follows:

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		<b>For the six months ended 30 June</b>	
	<i>Note</i>	<b>2016 RMB'000 (Unaudited)</b>	<b>2015 RMB'000 (Unaudited)</b>
<b>Revenue</b>	3	<b>289,837</b>	293,086
Cost of sales		<b>(216,265)</b>	(212,345)
<b>Gross profit</b>		<b>73,572</b>	80,741
Other income		<b>978</b>	893
Other (losses)/gains		<b>(2,117)</b>	698
Selling and marketing expenses		<b>(40,163)</b>	(32,158)
Administrative expenses		<b>(31,773)</b>	(26,003)
Research and development expenses		<b>(16,552)</b>	(12,172)
<b>Operating (loss)/profit</b>		<b>(16,055)</b>	11,999
Interest income		<b>2,254</b>	1,598
Finance expenses		<b>(978)</b>	(818)
<b>Finance expenses – net</b>	4	<b>1,276</b>	780
Share of post-tax profits of joint ventures and associates		<b>1,881</b>	605
<b>(Loss)/profit before income tax</b>		<b>(12,898)</b>	13,384
Income tax credit/(expense)	5	<b>772</b>	(3,240)
<b>(Loss)/profit for the period</b>		<b>(12,126)</b>	10,144
<b>(Loss)/profit attributable to:</b>			
The owners of the Company		<b>(12,126)</b>	10,145
Non-controlling interests		–	(1)
		<b>(12,126)</b>	10,144

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME** *(continued)*

		<b>For the six months ended</b>	
		<b>30 June</b>	
	<i>Note</i>	<b>2016</b>	<b>2015</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(Loss)/profit for the period</b>		<b>(12,126)</b>	10,144
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		<b>4,510</b>	871
Share of other comprehensive income of joint ventures and associates		<b>(165)</b>	(87)
		<hr/>	<hr/>
<b>Other comprehensive income for the period, net of tax</b>		<b>4,345</b>	784
		<hr/>	<hr/>
<b>Total comprehensive income for the period</b>		<b>(7,781)</b>	10,928
		<hr/> <hr/>	<hr/> <hr/>
<b>Total comprehensive income attributable to:</b>			
The owners of the Company		<b>(7,781)</b>	10,929
Non-controlling interests		–	(1)
		<hr/>	<hr/>
		<b>(7,781)</b>	10,928
		<hr/> <hr/>	<hr/> <hr/>
<b>(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company – Basic and diluted (RMB)</b>	<i>6</i>	<b>(0.02)</b>	0.02
		<hr/> <hr/>	<hr/> <hr/>
<b>Dividends</b>	<i>7</i>	–	(20,255)
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

		As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		40,425	43,557
Land use rights		5,875	5,950
Intangible assets		1,616	2,116
Investments in joint ventures		19,714	18,180
Investments in associates		16,056	–
Available-for-sale financial assets		60	60
Deferred income tax assets		9,105	7,706
Other non-current assets		16,295	16,295
		109,146	93,864
<b>Current assets</b>			
Inventories		109,245	74,920
Trade and notes receivables	8	195,083	193,707
Prepayments and other receivables		58,493	51,025
Amounts due from customers			
for contract work	9	130,436	132,663
Pledged bank deposits		13,585	21,423
Term deposits with initial terms of			
over three months		6,566	–
Cash and cash equivalents		298,139	393,383
		811,547	867,121
<b>Total current assets</b>		<b>811,547</b>	<b>867,121</b>
<b>Total assets</b>		<b>920,693</b>	<b>960,985</b>

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

		As at <b>30 June 2016</b> <i>RMB'000</i> <b>(Unaudited)</b>	As at 31 December 2015 <i>RMB'000</i> <b>(Audited)</b>
	<i>Note</i>		
<b>EQUITY</b>			
<b>Equity attribute to the owners of the Company</b>			
Share capital		4,071	4,071
Reserves		379,789	375,444
Retained earnings		159,342	171,468
		<u>543,202</u>	<u>550,983</u>
<b>Non-controlling interests</b>		<u>1</u>	<u>1</u>
<b>Total equity</b>		<u>543,203</u>	<u>550,984</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		600	–
Deferred income tax liabilities		15,809	16,737
		<u>16,409</u>	<u>16,737</u>
<b>Total non-current liabilities</b>		<u>16,409</u>	<u>16,737</u>
<b>Current liabilities</b>			
Trade and other payables	<i>10</i>	271,984	274,003
Amounts due to customers for contract work	<i>9</i>	67,349	81,282
Short-term bank borrowings	<i>11</i>	20,000	35,000
Current income tax liabilities		1,748	2,979
		<u>361,081</u>	<u>393,264</u>
<b>Total current liabilities</b>		<u>361,081</u>	<u>393,264</u>
<b>Total liabilities</b>		<u>377,490</u>	<u>410,001</u>
<b>Total equity and liabilities</b>		<u><u>920,693</u></u>	<u><u>960,985</u></u>

## 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**"). 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 26 August 2016.

This condensed consolidated interim financial information has not been audited.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This condensed consolidated interim financial information should be read in conjunction with the 2015 annual financial statements, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016.

Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

On 31 March 2016, the Group has completed acquisition of 33.33% equity interests in each of ROTA Verpackungstechnik GmbH & Co. KG (“**ROTA KG**”) and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (“**ROTA GmbH**”, collectively “**ROTA**”). Accordingly the current period, the Group has applied, for the first time, the accounting policy of investments in associates as follow:

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group’s share of the net fair value of the associate’s identifiable assets and liabilities is accounted for as goodwill.

The Group’s share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to ‘share of post-tax profits of joint ventures and associates’ in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning after 1 January 2016 and have not been early adopted.

IFRS 15	Revenue from Contracts with Customers <sup>(1)</sup>
IFRS 9	Financial Instruments <sup>(1)</sup>
IFRS 16	Leases <sup>(2)</sup>

<sup>(1)</sup> Effective for the accounting period beginning on 1 January 2018

<sup>(2)</sup> Effective for the accounting period beginning on 1 January 2019

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

### **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 reportable segments based on gross profit.



The segment results for the six months ended 30 June 2016 are as follows:

	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
<b>For the six months ended 30 June 2016</b>							
<b>(Unaudited)</b>							
<b>Segment revenue and results</b>							
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	<u>126,209</u>	<u>58,334</u>	<u>22,749</u>	<u>12,308</u>	<u>52,745</u>	<u>17,492</u>	<u>289,837</u>
Cost of sales	<u>(108,414)</u>	<u>(43,850)</u>	<u>(14,106)</u>	<u>(6,434)</u>	<u>(31,529)</u>	<u>(11,932)</u>	<u>(216,265)</u>
Segment results							
Gross profit	<u><u>17,795</u></u>	<u><u>14,484</u></u>	<u><u>8,643</u></u>	<u><u>5,874</u></u>	<u><u>21,216</u></u>	<u><u>5,560</u></u>	<u><u>73,572</u></u>
<b>Other segment items</b>							
Amortisation	310	47	10	6	–	4	377
Depreciation	1,883	1,891	395	265	115	109	4,658
Provision of impairment on trade and other receivables	3,142	1,560	435	248	127	151	5,663
Provision of impairment on inventories	<u>151</u>	<u>41</u>	<u>45</u>	<u>–</u>	<u>704</u>	<u>13</u>	<u>954</u>

The segment results for the six months ended 30 June 2015 are as follows:

	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
	Liquid and Bioprocess System <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>For the six months ended 30 June 2015</b>							
<b>(Unaudited)</b>							
<b>Segment revenue and results</b>							
Segment revenue	142,037	86,550	21,703	17,468	39,860	7,721	315,339
Inter-segment revenue	(9,901)	(10,578)	–	(612)	(1,162)	–	(22,253)
	<u>132,136</u>	<u>75,972</u>	<u>21,703</u>	<u>16,856</u>	<u>38,698</u>	<u>7,721</u>	<u>293,086</u>
Revenue							
Cost of sales	(106,949)	(56,834)	(15,514)	(7,760)	(21,149)	(4,139)	(212,345)
	<u>(106,949)</u>	<u>(56,834)</u>	<u>(15,514)</u>	<u>(7,760)</u>	<u>(21,149)</u>	<u>(4,139)</u>	<u>(212,345)</u>
Segment results							
Gross profit	25,187	19,138	6,189	9,096	17,549	3,582	80,741
	<u>25,187</u>	<u>19,138</u>	<u>6,189</u>	<u>9,096</u>	<u>17,549</u>	<u>3,582</u>	<u>80,741</u>
<b>Other segment items</b>							
Amortisation	283	18	5	4	–	2	312
Depreciation	1,714	1,658	464	370	155	130	4,491
(Reversal)/provision of impairment on trade and other receivables	(1,484)	119	54	44	(437)	(3)	(1,707)
(Reversal)/provision of impairment on inventories	(165)	–	–	–	118	(2)	(49)
	<u>(165)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>118</u>	<u>(2)</u>	<u>(49)</u>

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

	<b>For the six months ended 30 June 2016 RMB'000 (Unaudited)</b>	For the six months ended 30 June 2015 RMB'000 (Unaudited)
Liquid and Bioprocess System	17,795	25,187
Clean Room and Automation Control and Monitoring System	14,484	19,138
Powder and Solid System	8,643	6,189
GMP Compliance Service	5,874	9,096
Life Science Consumables	21,216	17,549
Distribution and Agency of Pharmaceutical Equipment	5,560	3,582
	<hr/>	<hr/>
<b>Total gross profit for reportable segments</b>	<b>73,572</b>	<b>80,741</b>
	<hr/>	<hr/>
Other income	978	893
Other (losses)/gains	(2,117)	698
Selling and marketing expenses	(40,163)	(32,158)
Administrative expenses	(31,773)	(26,003)
Research and development expenses	(16,552)	(12,172)
Finance expenses – net	1,276	780
Share of post-tax profits of joint ventures and associates	1,881	605
	<hr/>	<hr/>
<b>(Loss)/profit before income tax</b>	<b>(12,898)</b>	<b>13,384</b>
	<hr/> <hr/>	<hr/> <hr/>

### Geographical information

The following tables present information on revenue of the Group by geographical locations of customers.

	<b>For the six months ended 30 June 2016 RMB'000 (Unaudited)</b>	For the six months ended 30 June 2015 RMB'000 (Unaudited)
<b>Revenue</b>		
Mainland China	254,956	276,168
Other locations	34,881	16,918
	<hr/>	<hr/>
	<b>289,837</b>	<b>293,086</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 4. FINANCE EXPENSES, NET

	<b>For the six months ended 30 June 2016 RMB'000 (Unaudited)</b>	For the six months ended 30 June 2015 RMB'000 (Unaudited)
Interest expenses on bank borrowings	(714)	(1,075)
Exchange (losses)/gains	(264)	257
	<hr/>	<hr/>
Finance expenses	(978)	(818)
Interest income	2,254	1,598
	<hr/>	<hr/>
	<b>1,276</b>	<b>780</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 5. INCOME TAX CREDIT/(EXPENSE)

	<b>For the six months ended 30 June 2016 RMB'000 (Unaudited)</b>	For the six months ended 30 June 2015 RMB'000 (Unaudited)
Current income tax expense	(1,555)	(2,234)
Deferred income tax credit/(expense)	2,327	(1,006)
	<hr/>	<hr/>
	<b>772</b>	<b>(3,240)</b>
	<hr/> <hr/>	<hr/> <hr/>

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

The subsidiary incorporated in the BVI under the International Business Companies Acts of the BVI is 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 Period under Review (2015: 16.5%).

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 corporate income tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd (“**Shanghai Austar**”), Austar Hansen Lifesciences (Shanghai) Co., Ltd (“**Austar Hansen**”) and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd (“**Austar SJZ**”) are high and new technology enterprises certified by relevant PRC local authorities. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Shanghai Austar and Austar Hansen have applied the preferential tax rate since 2013, application of which is subject to annual approval by local tax authority. Austar SJZ has been enjoying preferential corporate income tax rate since 2014. During the Period under Review, Shanghai Austar and Austar Hansen are in the process of applying renewal of its “High and New Technology Enterprise” qualification for another three years. The Directors have accrued the income tax at a preferential corporate income tax rate for the Period under Review.

## 6. (LOSS)/EARNINGS PER SHARE

### (a) Basic

Basic (loss)/earnings per share are calculated by dividing the (loss)/profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the Period under Review.

	<b>For the six months ended 30 June 2016 (Unaudited)</b>	For the six months ended 30 June 2015 (Unaudited)
(Loss)/profit attributable to the owners of the Company (RMB'000)	<b>(12,126)</b>	10,145
Weighted average number of ordinary shares in issue (Thousands)	<b>512,582</b>	512,582
Basic (loss)/earnings per share (RMB)	<b><u>(0.02)</u></b>	<u>0.02</u>

### (b) Diluted

As the Company had no dilutive ordinary shares for each of the six months ended 30 June 2016 and 2015, dilutive (loss)/earnings per share for the six months ended 30 June 2016 and 2015 are the same as basic (loss)/earnings per share.

## 7. DIVIDENDS

A final dividend for the year ended 31 December 2014 of HK\$0.05 (equivalent to approximately RMB0.0396) per Share with a total amount of approximately HK\$25,629,000 (equivalent to approximately RMB20,255,000) was approved at the annual general meeting of the Company held on 15 May 2015. Such dividend was paid in June 2015.

No interim dividend has been declared by the Company for the six months ended 30 June 2016 (2015: Nil).

## 8. TRADE AND NOTES RECEIVABLES

	<b>As at 30 June 2016 <i>RMB'000</i> (Unaudited)</b>	<b>As at 31 December 2015 <i>RMB'000</i> (Audited)</b>
Trade receivables	<b>190,620</b>	180,069
Notes receivable	<b>18,550</b>	23,427
	<hr/> <b>209,170</b> <hr/>	<hr/> 203,496 <hr/>
Less: provision for impairment	<b>(14,087)</b>	(9,789)
	<hr/> <b>195,083</b> <hr/> <hr/>	<hr/> 193,707 <hr/> <hr/>

Ageing analysis of gross trade receivables at the respective balance sheet dates is as follows:

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Within 3 months	<b>87,008</b>	96,264
3 to 6 months	<b>22,178</b>	24,481
6 months to 1 year	<b>42,463</b>	26,067
1 to 2 years	<b>26,884</b>	25,062
2 to 3 years	<b>8,260</b>	4,162
Over 3 years	<b>3,827</b>	4,033
	<b>190,620</b>	180,069

Most of the trade receivables are due within 90 days since issuance of the invoices, except for retention money which would normally be collected one year after the completion of the sales.

As at 30 June 2016, there are retention money receivables of RMB54,498,000 (31 December 2015: RMB45,876,000).

As at 30 June 2016 and 31 December 2015, the carrying amounts of trade and notes receivables approximated their fair values due to short maturity.

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

	As at <b>30 June</b> <b>2016</b> <i>RMB'000</i> <b>(Unaudited)</b>	As at 31 December 2015 <i>RMB'000</i> <b>(Audited)</b>
Contract cost incurred plus recognised profit less recognised loss	745,351	525,554
Less: Progress billings	<u>(682,264)</u>	<u>(474,173)</u>
Contract work in progress	<u><b>63,087</b></u>	<u><b>51,381</b></u>
Representing:		
Amounts due from customers for contract work	130,436	132,663
Amounts due to customers for contract work	<u>(67,349)</u>	<u>(81,282)</u>
	<u><b>63,087</b></u>	<u><b>51,381</b></u>
	<b>For the six months ended 30 June 2016</b> <i>RMB'000</i> <b>(Unaudited)</b>	<b>For the six months ended 30 June 2015</b> <i>RMB'000</i> <b>(Unaudited)</b>
Construction contract revenue	<u><b>177,393</b></u>	<u><b>190,689</b></u>



## 10. TRADE AND OTHER PAYABLES

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Trade payables	162,304	158,193
Notes payable	27,806	29,180
Advances from customers	33,297	35,260
Payroll and welfare payable	16,174	14,417
Taxes other than income taxes payable	3,610	8,263
Warranty provision	4,388	5,651
Others	24,405	23,039
	<u>271,984</u>	<u>274,003</u>

The ageing analysis of trade payables is as follows:

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Within 6 months	137,306	135,966
6 months to 1 year	18,249	15,613
1 to 2 years	2,570	4,945
2 to 3 years	3,799	1,150
Over 3 years	380	519
	<u>162,304</u>	<u>158,193</u>

## 11. SHORT-TERM BANK BORROWINGS

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Bank borrowings		
– secured ( <i>Note</i> )	20,000	20,000
– guaranteed	–	15,000
	<u>20,000</u>	<u>35,000</u>

*Note:*

As at 30 June 2016 and 31 December 2015, secured short-term bank borrowing is denominated in RMB, secured by the Group's buildings and land use rights, bearing interest at 5.03% (2015: 5.66%) per annum and is 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 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Property, plant and equipment	3,029	3,766
Intangible assets	246	149
	<u>3,275</u>	<u>3,915</u>

**(b) Operating lease commitments**

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

	<b>As at 30 June 2016 <i>RMB'000</i> (Unaudited)</b>	<b>As at 31 December 2015 <i>RMB'000</i> (Audited)</b>
Within 1 year	7,625	5,110
After 1 year but within 5 years	3,553	3,714
	<u>11,178</u>	<u>8,824</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

During the Period under Review, the overall outlook for capital expenditure (“CAPEX”) investment in the pharmaceutical industry has not been positive in general. With further announcements of some new policies by the China Food and Drug Administration (“CFDA”), pharmaceutical manufacturers see more challenges and uncertainties than opportunities in the short term ahead. On the one hand, tightening of regulatory policies will definitely hinder the determination or slow down the decisions of new CAPEX projects in the pharmaceutical industry. On the other hand, the demand of services, especially consultation and advisory services relating to quality management system, computer validation and good manufacturing practice (GMP), has been increasing due to tightening of policies and more stringent actions taken by the authorities against non-compliance of regulations. The more stringent the inspections are, the more serious pharmaceutical manufacturers would request compliance consultation and validation execution services, resulting in solutions providers offering more advanced integrated solutions to fulfill the increased compliance requirements.

The drug conformity policies initiated by the CFDA in 2015 continued to be the key topic under discussion in the pharmaceutical industry in China in the first half of 2016, which create challenges and opportunities for both generic pharmaceutical manufacturers and pharmaceutical service providers at the same time. As an integrated engineering solution provider, Austar sees these policies as opportunities more than challenges in the mid-long term.

Strong investment is still on the biologics sector in the pharmaceutical industry in China. Conventional chemical drug manufacturers are observed to have slowed their investment in common generic drug facilities, yet 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.

Health and nutri-pharmaceuticals product manufacturers seem to have strong growth in the view of enhanced public awareness on healthcare, which was reflected in the enquiries received from customers and projects secured by the Group during the Period under Review.

The higher and updated ISO 13485:2016 standard for the medical device industry was announced in 2016, which requires a quality management system such that an organisation needs to demonstrate its ability to provide medical devices and related services that consistently meet customer and applicable regulatory requirements. As such, medical device manufacturers are expected to be more risk-management focused with GMP concepts. Providing consultancy to comply with this new standard would be an opportunity to Austar’s compliance services.

## **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 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, the Group also engages in the manufacturing, sale and distribution of various high-end pharmaceutical equipment and life science consumables.

The Group further continues to explore and develop new products and services following policies and regulations recently issued by the CFDA with the aim of maintaining its leading position on regulatory interpretation and technical innovation.

The Group is still in the industry technology-leading position providing the most comprehensive turnkey solutions to pharmaceutical manufacturers.

The Group's business can be categorised 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 enables the Group to provide one-stop solutions to its customers in different stages of the lifecycle of pharmaceutical products, and therefore, allows the Group to serve international and premium pharmaceutical brands.

## Order-in-take

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

Order-in-take by business segment	For the six months ended 30 June				
	RMB'000	%	RMB'000	%	Change %
Liquid and Bioprocess System	150,619	42.6%	209,799	50.7%	(28.2%)
Clean Room and Automation Control and Monitoring System	85,821	24.3%	75,586	18.3%	13.5%
Powder and Solid System	28,157	7.9%	38,353	9.3%	(26.6%)
GMP Compliance Service	22,512	6.4%	21,695	5.2%	3.8%
Life Science Consumables	58,901	16.7%	58,425	14.1%	0.8%
Distribution and Agency of Pharmaceutical Equipment	7,444	2.1%	9,802	2.4%	(24.1%)
Total	<u>353,454</u>	<u>100.0%</u>	<u>413,660</u>	<u>100.0%</u>	<u>(14.6%)</u>

During the Period under Review, the total order-in-take amounted to approximately RMB353.5 million, representing a decrease of approximately 14.6% from approximately RMB413.7 million for the six months ended 30 June 2015, which was due to the decrease in order-in-take amount of the business segments of Liquid and Bioprocess System, Powder and Solid System and Distribution and Agency of Pharmaceutical Equipment but partially offset by the increase in order-in-take amount of the business segments of Clean Room and Automation Control and Monitoring System, GMP Compliance Service and Life Science Consumables.

### *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, Shanghai, and Jiangsu Province of the PRC, but has lost part of its market share with low margin profit. The order-in-take amount of the business segment of Liquid and Bioprocess System decreased by approximately RMB59.2 million or 28.2% from approximately RMB209.8 million for the six months ended 30 June 2015 to approximately RMB150.6 million for the Period under Review. The Group will endeavour 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, the Group has successfully secured its market share and expanded its business on Clean Room and Automation Control and Monitoring System. The order-in-take amount of this business segment increased by approximately RMB10.2 million or 13.5% from approximately RMB75.6 million for the six months ended 30 June 2015 to approximately RMB85.8 million for the Period under Review.

### ***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 RMB10.2 million or 26.6% from approximately RMB38.4 million for the six months ended 30 June 2015 to approximately RMB28.2 million for the Period under Review.

### ***GMP Compliance Service***

During the Period under Review, in light of the market opportunities in the demand for more advanced consultation and advisory services to fulfill the increased compliance requirements of good manufacturing practice (GMP), the order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB0.8 million or 3.8% from approximately RMB21.7 million for the six months ended 30 June 2015 to approximately RMB22.5 million for the Period under Review.

### ***Life Science Consumables***

After the rapid increase in market demand in 2015, market demand for life science consumables was stable during the Period under Review. The order-in-take amount of the business segment of Life Science Consumables slightly increased by approximately RMB0.5 million or 0.8% from approximately RMB58.4 million for the six months ended 30 June 2015 to approximately RMB58.9 million for the Period under Review. The Group will continue to launch more diversified life science consumables with latest technology to its customers.

### ***Distribution and Agency of Pharmaceutical Equipment***

In 2016, the Group continued to focus on the business of integrated engineering solutions resulting in a decrease in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment of approximately RMB2.4 million or 24.1% from approximately RMB9.8 million for the six months ended 30 June 2015 to approximately RMB7.4 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 2016:

Backlogs by business segment	As at 30 June 2016			
	Number of Contracts	%	RMB'000	%
Liquid and Bioprocess System	182	23.1%	224,431	47.3%
Clean Room and Automation				
Control and Monitoring System	264	33.5%	130,603	27.5%
Powder and Solid System	104	13.2%	52,833	11.1%
GMP Compliance Service	84	10.6%	39,889	8.4%
Distribution and Agency of				
Pharmaceutical Equipment	155	19.6%	26,733	5.7%
Total	<u>789</u>	<u>100.0%</u>	<u>474,489</u>	<u>100.0%</u>

## Production and Organisation

The Group's manufacturing centre in Shijiazhuang, PRC, has been further strengthened with new management on board and the introduction of more new products such as clean room partitions and pressurised vessel containers at this centre. The new equipment installed in the Group's Shijiazhuang facility in early 2016 demonstrated further improvement on the quality of the Group's clean room system and its production capacities. Apart from the Group's pressure vessel manufacturing facility in Shanghai, PRC, this second pressure vessel manufacturing facility in Shijiazhuang can offer higher and back-up capacities to ascertain the Group's customers, especially its biologics customers, to obtain their process vessels with higher quality and shortest possible delivery time.

Significant organisational changes in the Group's human resources, supply chain management and other functional departments are expected in the coming quarters to improve in cost control and achieve further streamlining on efficiency and effectiveness.



The Group has 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 harmonised team to cater for the Group's turnkey facility projects. Through training and on-site practices, in medium and long term, it is expected that such consolidation would allow the Group's staff to acquire more cross-functional skills, resulting in higher efficiency with better customer satisfaction.

## **Research and Development**

The Group's stainless steel bioreactor and single-use bioprocess information platform system have been successfully launched at the China International Pharmaceutical Machinery Exposition ("CIPM") trade show in May 2016. The Group has successfully secured orders for its single-use bioprocess information platform system, which is under continuous development and improvement.

The Group's Bioprocess Technologies Team, a cross-business segment team established in 2015, in collaboration with the Group's joint venture PALL-AUSTAR Lifesciences Limited, has been contributing ideas and concepts to its single-use bioprocess system components and vessels.

Thanks to its Bioprocess Technologies Team, the Group was able to apply single-use disposable concept to a small-scale sterile chemical drug with sterility and containment requirements during the Period under Review. The Group believes this is the first application of the single-use liquid process, which has been conventionally applied in bioprocess, to chemical drug.

The Group collaborated with a university to establish a powder technology research centre with the objective of developing some innovative technologies to solve environment, health and safety (EHS) and cost-effectiveness issues in the pharmaceutical industry. It is expected that the initiative project of research and development in this research centre will receive support from the Hebei provincial government in the PRC.

Following the launch of the Group's 200 liter stainless steel bioreactor at the Convention on Pharmaceutical Ingredients (CPhI) and the 51th (2016 Spring) CIPM show, the second stainless steel bioreactor with more advanced technologies currently under research and development is expected to be launched at the 52nd (2016 Autumn) CIPM show.

## **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. Streamlining and further recruitment of sales talents are undergoing as continuous improvement process in sales organisation competences.

Technical conferences of automation and information systems, and powder and solid system were held as some key successful activities during the Period under Review. Participation in key exhibitions in the industry in the PRC has become routine marketing activities of the Group. As to overseas exhibitions, one of the Group's initiatives in 2016 is to reduce its participation while encouraging the Group's overseas direct sales staff to travel and visit customers directly. Domestic sales staff are conducting more customer-site small scale seminars to promote new technologies, applications and systems of the Group.

## **Prospects**

### ***Increase the market share in the PRC and the emerging countries***

The basic tone of the pharmaceutical industry has not changed. 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 Group's strength during the first half of 2016 was demonstrated by its more sophisticated sales and marketing tools and collaborative management systems. Thanks to its sales team, the order-in-take of the Group has not suffered from sharp decline during the Period under Review even under severe competition in times of the PRC economic slowdown, capital investment slowdown and market size shrinkage.

The Group's local service staff located in Indonesia, India and Jordan are expected to receive more enquiries from customers in these regions. The Group's newly established sales and service organisation reaching out in the Middle East is believed to contribute more order-in-take in the Arab region, especially for the turnkey projects and facility design service, in addition to historical success of the Group's clean room business in the same region.

The Group's compliance consultancy service has been experiencing strong growth after the first quarter in 2016, witnessing the higher compliance expectations by more frequent inspections conducted by international and domestic regulatory inspectors.

### ***Improve our service and products offerings***

#### *Liquid and Bioprocess System*

As the Group has anticipated more competition in the water systems a few years ago, in order to remain as a leader in this sector, the Group has been putting efforts in developing its bioprocess systems with more advanced automation design and offerings, and options of hybrid bioprocess system leveraged by its in-house single-use disposable knowledge. This has been proved to be a wise and successful strategic direction, as reflected by the number of enquires received from customers and projects secured by the Group.

The Group's bioprocess system and piping cleaning services, after integrating with other services, are expected to create considerable revenues in the future for this segment.

#### *Clean Room and Automation and Monitoring System*

Merging of innovative space sterilization technology Vaporized Hydrogen Peroxide (VHP) product line to this segment in 2015 has been successful as reflected by more enquiries received and projects concluded by the Group with customers requiring integration of automation building management system/environment monitoring system (BMS/EMS) and VHP. A cross-business segment heating ventilation and air conditioning (HVAC) technologies team has been established by the Group to cater for the demand of sophisticated integration solutions combining the sterilization VHP technologies, BMS/EMS automation, dehumidifying technologies, precise temperature and air-flow control technologies. The HVAC technologies team, with the strength of having the Group's automation knowledge, could contribute to its competitive edges against the competition.

Applications of advanced automation design and configuration to the API sector which generates better product safety and quality benefits, resulting in satisfactory data-integrity expectations from generic drug manufacturers, would be one of key growth elements for this segment in the coming quarters.

The Group's dominating knowledge in manufacturing execution system (MES) is expected to be further accumulated and reserved for the hidden demand in the coming years as it remains conceptual whether 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*

Microsphere technologies and jet-mill micronisation technologies commonly adopted in new drug formulations are still applied mainly in research and development stage in China today. The Group has gathered good knowledge and experience in supporting customers from research to production with equipment and process systems.

A new laboratory is expected to be completed in the second half of 2016 to assist the Group's customers in developing formulation process in oral solid dosage, which will eventually contribute to their plans to achieve for generic drug conformity to original brand drugs.

### *GMP Compliance Service*

During the first half of 2016, there was growth in demand for the Group's services for computer validation, quality management system improvement and compliance consultation, in response to the tighter and more stringent inspections conducted by foreign and local pharmaceutical regulatory authorities.

A new business of the Group is the provision of consultation on quality management systems to a whole pharmaceutical group. The recently announced new ISO 13485:2016 standard for the medical device industry will definitely help the Group leveraging its existing knowledge possessed in the pharmaceutical sector to this new sector.

### ***To strengthen research and development, product design and development capabilities***

The Group has been seeking further cooperation with universities and research institutes and vendors or suppliers with more advanced technologies to improve its integration solutions.

A new laboratory for pharmaceutical soft capsule formulation development is currently under preparation and is expected to be completed in 2016.

A cross-business segment research and development platform was initiated by the Group in 2016 to support the R&D projects of all business units by sharing and leveraging internal resources of mechanical and automation design, pressure vessel manufacture, assembly and validation support and execution support.

### *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.

In the first half of 2016, the Group has completed the acquisition of 33.33% interest in ROTA KG and ROTA GmbH respectively. The Group's recently developed freeze-dryer equipment can be integrated with ROTA's vial filling line to offer to the market a complete system of vial liquid filling and freeze-dryer plus unloading and unloading unit with isolator.

Strategic acquisition of business and/or companies will continue to be the Group's direction in 2016 and coming years.

## **RESULTS OF OPERATIONS**

### **Revenue**

For the Period under Review, the Group's total revenue amounted to approximately RMB289.8 million, representing a slight decrease of approximately 1.1% over the corresponding period in 2015, primarily due to the decrease in revenue from the business segments of Clean Room and Automation Control and Monitoring System, Liquid and Bioprocess System and GMP Compliance Service which had partially offset the increase in revenue from the business segments of Life Science Consumables, Distribution and Agency of Pharmaceutical Equipment and Powder and Solid System.

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 2016 and 2015, the breakdown of the Group's revenue by business segment:

Revenue by business segment	For the six months ended 30 June				Change %
	2016 RMB'000 (Unaudited)	%	2015 RMB'000 (Unaudited)	%	
Liquid and Bioprocess System	126,209	43.5%	132,136	45.1%	(4.5%)
Clean Room and Automation Control and Monitoring System	58,334	20.1%	75,972	25.9%	(23.2%)
Powder and Solid System	22,749	7.9%	21,703	7.4%	4.8%
GMP Compliance Service	12,308	4.3%	16,856	5.8%	(27.0%)
Life Science Consumables	52,745	18.2%	38,698	13.2%	36.3%
Distribution and Agency of Pharmaceutical Equipment	17,492	6.0%	7,721	2.6%	126.6%
Total	<u>289,837</u>	<u>100.0%</u>	<u>293,086</u>	<u>100.0%</u>	<u>(1.1%)</u>

#### ***Liquid and Bioprocess System***

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB5.9 million or 4.5% from approximately RMB132.1 million for the six months ended 30 June 2015 to approximately RMB126.2 million for the Period under Review. The decrease was mainly attributable to prolonged execution time for certain projects undertaken by the Group resulting in a decrease in revenue as compared with the corresponding period in 2015.

#### ***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 RMB17.6 million or 23.2% from approximately RMB76.0 million for the six months ended 30 June 2015 to approximately RMB58.3 million for the Period under Review. The decrease was mainly due to the decrease in acceptance of clean room and monitoring system projects with lower profit margin during the Period under Review as compared to the corresponding period in 2015.

### ***Powder and Solid System***

The Group's revenue from the business segment of Powder and Solid System maintained at a stable level with a slight increase of approximately RMB1.0 million or 4.8% from approximately RMB21.7 million for the six months ended 30 June 2015 to approximately RMB22.7 million for the Period under Review. The increase was primarily resulted from the increase in the amount of order-in-take in the business segment of Powder and Solid System in 2015 being recognised as revenue during the Period under Review.

### ***GMP Compliance Service***

The Group's revenue from the business segment of GMP Compliance Service decreased by approximately RMB4.5 million or 27.0% from approximately RMB16.9 million for the six months ended 30 June 2015 to approximately RMB12.3 million for the Period under Review. The decrease was mainly attributable to decrease in the amount of backlog in the business segment of GMP Compliance Service at the year end of 2015 resulting in decrease in revenue recognised during the Period under Review.

### ***Life Science Consumables***

The Group's revenue from the business segment of Life Science Consumables increased rapidly by approximately RMB14.0 million or 36.3% from approximately RMB38.7 million for the six months ended 30 June 2015 to approximately RMB52.7 million for the Period under Review, which was primarily attributable to the increase in the Group's distribution of life science consumables. The increase was also driven by 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 has enjoyed a sharp increase by approximately RMB9.8 million or 126.6% from approximately RMB7.7 million for the six months ended 30 June 2015 to approximately RMB17.5 million for the Period under Review, mainly attributable to high-end pharmaceutical equipment of large amount being distributed and revenue was realised 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 2016 and 2015:

Revenue by geographical regions	For the six months ended 30 June				Change
	2016		2015		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
	(Unaudited)		(Unaudited)		
Mainland China	254,956	88.0%	276,168	94.2%	(7.7%)
Other locations	34,881	12.0%	16,918	5.8%	106.2%
Total	<u>289,837</u>	<u>100.0%</u>	<u>293,086</u>	<u>100.0%</u>	<u>(1.1%)</u>

The Group derived revenue mainly from the business operations in the Mainland China, which accounted for approximately 88.0% of the total revenue for the Period under Review (2015: 94.2%).

### Cost of sales

The Group's cost of sales increased by approximately RMB3.9 million or 1.8% from approximately RMB212.3 million for the six months ended 30 June 2015 to approximately RMB216.3 million for the Period under Review. Such increase was mainly attributable to increase in on-site subcontracting fees.

### Gross profit and gross margin

The Group's gross profit decreased by approximately RMB7.2 million or 8.9% from approximately RMB80.7 million for the six months ended 30 June 2015 to approximately RMB73.6 million for the Period under Review. The gross profit margin decreased from approximately 27.5% for the six months ended 30 June 2015 to approximately 25.4% for the Period under Review, which was resulted from the decrease in gross profit margin from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, GMP Compliance Service, Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.



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 2016 and 2015:

Gross profit and gross profit margin by business segment	For the six months ended 30 June					
	2016			2015		
	RMB'000 (Unaudited)	%	Gross profit margin %	RMB'000 (Unaudited)	%	Gross profit margin %
Liquid and Bioprocess System	17,795	24.2%	14.1%	25,187	31.2%	19.1%
Clean Room and Automation Control and Monitoring System	14,484	19.7%	24.8%	19,138	23.7%	25.2%
Powder and Solid System	8,643	11.7%	38.0%	6,189	7.7%	28.5%
GMP Compliance Service	5,874	8.0%	47.7%	9,096	11.3%	54.0%
Life Science Consumables	21,216	28.8%	40.2%	17,549	21.7%	45.3%
Distribution and Agency of Pharmaceutical Equipment	5,560	7.6%	31.8%	3,582	4.4%	46.4%
Total	<u>73,572</u>	<u>100.0%</u>	<u>25.4%</u>	<u>80,741</u>	<u>100.0%</u>	<u>27.5%</u>

### ***Liquid and Bioprocess System***

The Group's gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB7.4 million or 29.3% from approximately RMB25.2 million for the six months ended 30 June 2015 to approximately RMB17.8 million for the Period under Review.

The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 19.1% for the six months ended 30 June 2015 to approximately 14.1% for the Period under Review, which was mainly resulted from (i) prolonged execution time for certain projects undertaken by the Group during the Period under Review resulting in an increase in budgeted costs as compared with the corresponding period in 2015 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 RMB4.7 million or 24.3% from RMB19.1 million for the six months ended 30 June 2015 to approximately RMB14.5 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 25.2% for the six months ended 30 June 2015 to approximately 24.8% 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 RMB2.5 million or 39.7% from approximately RMB6.2 million for the six months ended 30 June 2015 to approximately RMB8.6 million for the Period under Review. The gross profit margin from the business segment of Powder and Solid System increased from approximately 28.5% for the six months ended 30 June 2015 to approximately 38.0% for the Period under Review, which was mainly resulted from the maturity of the Group's technical and proficient management in cost control in this segment.

### ***GMP Compliance Service***

The Group's gross profit from the business segment of GMP Compliance Service decreased by approximately RMB3.2 million or 35.4% from approximately RMB9.1 million for the six months ended 30 June 2015 to approximately RMB5.9 million for the Period under Review. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 54.0% for the six months ended 30 June 2015 to approximately 47.7% for the Period under Review, which was mainly attributable to decrease in revenue recognised during the Period under Review due to decrease in acceptance of 2015 order-in-take in the business segment of GMP Compliance Service.

### ***Life Science Consumables***

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB3.7 million or 20.9% from approximately RMB17.5 million for the six months ended 30 June 2015 to approximately RMB21.2 million for the Period under Review. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 45.3% for the six months ended 30 June 2015 to approximately 40.2% for the Period under Review. Such result was mainly attributable 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 increased by approximately RMB2.0 million or 55.2% from approximately RMB3.6 million for the six months ended 30 June 2015 to approximately RMB5.6 million for the Period under Review. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 46.4% for the six months ended 30 June 2015 to approximately 31.8% for the Period under Review mainly due to the decrease in the amount of agency service provided for pharmaceutical equipment which had higher gross profit margin.

### **Other income**

Other income increased by approximately RMB85,000 or 9.5% to approximately RMB978,000 for the Period under Review from approximately RMB893,000 for the six months ended 30 June 2015, mainly attributable to the increase in subsidies granted by local government authorities of the PRC during the Period under Review.

### **Other (losses)/gains**

Other (losses)/gains decreased by approximately RMB2.8 million to a loss of approximately RMB2.1 million for the Period under Review from a gain of approximately RMB698,000 for the six months ended 30 June 2015, mainly attributable to the transfer of the whole Shanghai clean room production facility to the Shijiazhuang production centre and disposal of some equipment with low economic value in relation to the transfer.

### **Selling and marketing expenses**

Selling and marketing expenses increased by approximately RMB8.0 million or 24.9% to approximately RMB40.2 million for the Period under Review from approximately RMB32.2 million for the six months ended 30 June 2015. The increase was primarily due to the increase in staff costs and market promotion expenses.

### **Administrative expenses**

Administrative expenses increased by approximately RMB5.8 million or 22.2% to approximately RMB31.8 million for the Period under Review from approximately RMB26.0 million for the six months ended 30 June 2015, primarily attributable to increase in provision for bad debts.

## **Research and development activities**

As at 30 June 2016, the Group had 28 research and development personnel which accounted for approximately 3.4% of the Group's total number of employees. During the Period under Review, the Group cooperated with well-known academic institutions in order to upgrade the Group's technology level, and execute more research and development activities. The Group's research and development expenses increased by approximately RMB4.4 million or 36.0% from approximately RMB12.2 million for the six months ended 30 June 2015 to approximately RMB16.6 million for the Period under Review, mainly due to the Group's continuous efforts to enhance research and development activities.

## **Finance expenses – net**

Finance expenses – net increased from approximately RMB780,000 for the six months ended 30 June 2015 to approximately RMB1.3 million for the Period under Review, mainly due to increase in bank interest income of approximately RMB656,000.

## **Share of post-tax profits of joint ventures and associates**

The Group's share of profit of joint ventures and associates increased by approximately RMB1.3 million, from approximately RMB605,000 for the six months ended 30 June 2015 to approximately RMB1.9 million for the Period under Review, primarily due to new investment in an associate, ROTA and the increased profitability of the other two joint ventures.

## **(Loss)/profit before income tax**

The Group's (loss)/profit before income tax decreased by approximately RMB26.3 million from a profit of approximately RMB13.4 million for the six months ended 30 June 2015 to a loss of approximately RMB12.9 million for the Period under Review, which was primarily due to the factors as described above in this section.

## **Income tax credit/(expense)**

Income tax credit/(expense) decreased by approximately RMB4.0 million from an expense of approximately RMB3.2 million for the six months ended 30 June 2015 to a credit of approximately RMB0.8 million for the Period under Review mainly due to the recognition of deferred income tax credit.

## **(Loss)/profit for the period**

The Group's (loss)/profit for the period decreased by approximately RMB22.3 million from a profit of approximately RMB10.1 million for the six months ended 30 June 2015 to a loss of approximately RMB12.1 million for the Period under Review. The net profit margin decreased from approximately 3.5% for the six months ended 30 June 2015 to approximately negative 4.2% for the Period under Review, which was primarily attributable to the factors described above in this section.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net cash used in operating activities	<b>(53,607)</b>	(29,014)
Net cash used in investing activities	<b>(25,350)</b>	(21,755)
Net cash used in financing activities	<b>(15,750)</b>	(21,102)
Net decrease in cash and cash equivalents	<b>(94,707)</b>	(71,871)

For the Period under Review, the Group had net cash used in operating activities of approximately RMB53.6 million mainly attributable to:

- i. the increase in amount of inventories approximately RMB34.3 million mainly resulting from prolonged execution time for certain projects undertaken by the Group;
- ii. the loss for the period with the amount of approximately RMB12.1 million; and
- iii. the increase in prepayments and other receivables of approximately RMB7.5 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 investments in associates of approximately RMB15.9 million, purchase of property, plant and equipment of approximately RMB3.6 million and increase in term deposits with initial terms of over three months of approximately RMB6.6 million.

For the Period under Review, the Group had net cash used in financing activities of approximately RMB15.8 million mainly as a result of repayment of bank loan of RMB15.0 million.

### **Net current assets**

The Group's net current assets as at 30 June 2016 had decreased by approximately RMB23.4 million from approximately RMB473.9 million as at 31 December 2015 to approximately RMB450.5 million as at 30 June 2016.

As at 30 June 2016, the Group's total current assets amounted to approximately RMB811.5 million, which was a decrease of approximately RMB55.6 million as compared with approximately RMB867.1 million as at 31 December 2015. The decrease was primarily due to:

- i. the decrease in cash and cash equivalents of approximately RMB95.2 million; but was partially offset by
- ii. the increase in inventories of approximately RMB34.3 million primarily resulting from prolonged execution time for certain projects undertaken by the Group.

As at 30 June 2016, the Group's total current liabilities amounted to approximately RMB361.1 million, which was a decrease of approximately RMB32.2 million as compared with approximately RMB393.3 million as at 31 December 2015. The decrease was primarily due to:

- i. the decrease in amounts due to customers for contract work in the amount of approximately RMB13.9 million; and
- ii. the decrease in amounts of short-term borrowing of RMB15.0 million.

### **Borrowings and gearing ratio**

As at 30 June 2016, the total interest-bearing borrowings amounted to RMB20.0 million, which had decreased by RMB15.0 million from RMB35.0 million as at 31 December 2015, bearing interest rates of 5.03% per annum (2015: 5.66% per annum).

The Group's gearing ratio was approximately 3.7% as at 30 June 2016, as compared to approximately 6.4% as at 31 December 2015. 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 2016, save for pledged bank deposits of approximately RMB13.6 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB8.9 million and approximately RMB5.9 million respectively (31 December 2015: approximately RMB9.3 million and approximately RMB6.0 million respectively) which are pledged as security for short-term bank borrowings with carrying value of approximately RMB20 million (31 December 2015: RMB20 million).

## **Contingent liabilities**

The Group did not have any material contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

## **Interim dividend**

The Directors do not declare the payment of any interim dividend for the six months ended 30 June 2016 (2015: Nil).

## **CAPITAL STRUCTURE**

As at 30 June 2016, the Group had shareholders' equity of approximately RMB543.2 million (31 December 2015: approximately RMB551.0 million).

## **HUMAN RESOURCES**

As at 30 June 2016, the Group had 830 full-time employees for, inter alia, research and development, sales and marketing, administration, project management and execution and manufacturing, representing a decrease of approximately 1.2% as compared with 840 employees as at 31 December 2015. During the Period under Review, the employee costs (including Directors' remuneration) were approximately RMB63.4 million, which was a decrease of approximately 7.2% as compared with approximately RMB68.2 million for the six months ended 30 June 2015.

Employee costs of the Group decreased mainly due to decrease in number of employees for the purpose of cost control.

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.

## **CAPITAL COMMITMENTS**

Capital expenditure of property, plant and equipment, land and intangible assets authorised by the Board which has not been contracted for as of 30 June 2016 amounted to RMB137,573,000 (31 December 2015: RMB141,435,000).

## **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 U.S. dollar and HK dollar. Foreign exchange risk arises from the sales of the Group's products and services to overseas customers who settle payments in foreign currencies and the foreign currencies held by the Group's subsidiaries and offices. 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 AND POSSIBLE CHANGE OF USE OF PROCEEDS**

On 7 November 2014, the ordinary shares of the Company were first listed on the Stock Exchange following the completion of its initial public offering ("IPO"). As at 30 June 2016, out of the aggregated net proceeds from the IPO of approximately HK\$411.8 million, (i) as to approximately RMB15.3 million (equivalent to approximately HK\$18.7 million) had been utilised for general research and development; (ii) as to approximately RMB5.7 million (equivalent to approximately HK\$6.9 million) had been utilised for sales and marketing; (iii) as to approximately RMB28.5 million (equivalent to approximately HK\$36.0 million) had been applied for as general working capital of the Group; (iv) as to approximately RMB16.3 million (equivalent to approximately HK\$20.4 million) had been applied for prepayment of premium in connection with acquisition of land use right as explained below; (v) as to approximately RMB15.9 million (equivalent to approximately HK\$18.6 million) had been utilised for merger and acquisition; and (vi) the remaining of approximately RMB238.4 million (equivalent to approximately HK\$311.2 million) has been deposited into the banks and has not yet been utilised. Subject to the Possible Change of Use of Proceeds (as defined below), 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 2016, 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 increasing the lands available for tender in the Zone 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 of this announcement, the Group has expended RMB10.5 million (equivalent to approximately HK\$12.3 million) out of its internal resources in acquiring certain assets and equipment 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 utilise the resources of the Group.

The Company would like to emphasise that, as at the date of this announcement, (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. Further announcement(s) in relation to the Possible Change of Use of Proceeds, if materialised, will be made by the Company as and when appropriate in compliance with the Listing Rules.

## **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES**

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

## **CORPORATE GOVERNANCE PRACTICES**

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

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

## **COMPLIANCE WITH THE MODEL CODE BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of the 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 during the Period under Review.

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

Changes in Directors’ information since the date of the 2015 annual report of the Company is set out below:

- Mr. Cheung Lap Kei, an independent non-executive Director, resigned as the chief financial officer, company secretary and authorised representative of China Zhongwang Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1333), on 28 June 2016. He has been appointed as the chief financial officer of China Everbright Water Limited, which is listed on the Mainboard of Singapore Exchange Limited (SGX: U9E), with effect from 18 July 2016.

Save as disclosed above, as at the date of this announcement, 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 auditor on the audit procedures and accounting issues.

The interim financial results of the Group for the six months ended 30 June 2016 is unaudited but has been reviewed by PricewaterhouseCoopers, the auditors of the Company, and the Audit Committee has discussed with the Company's management and reviewed the unaudited financial statements of the Group for the six months ended 30 June 2016.

## **PUBLICATION OF INTERIM REPORT**

The Company's interim report for the six months ended 30 June 2016 will be published on the website of the Stock Exchange and the Company's website at [www.austar.com.hk](http://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, 26 August 2016

*As at the date of this announcement, the executive Directors are Mr. Ho Kwok Keung, Mars, Mr. Ho Kin Hung, Mr. Chen Yewu 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).*