



**AUSTAR**

**奥星生命科技有限公司**  
**Austar Lifesciences Limited**

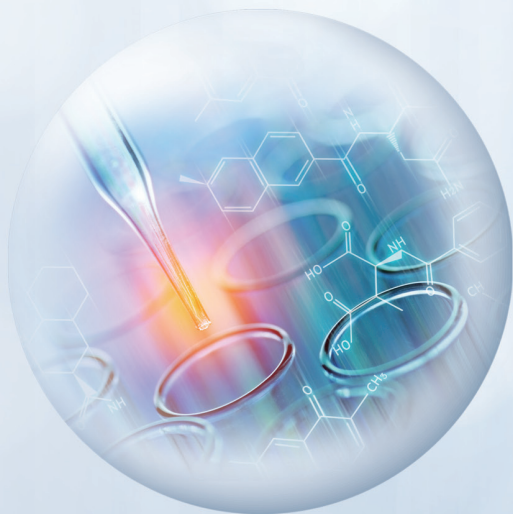
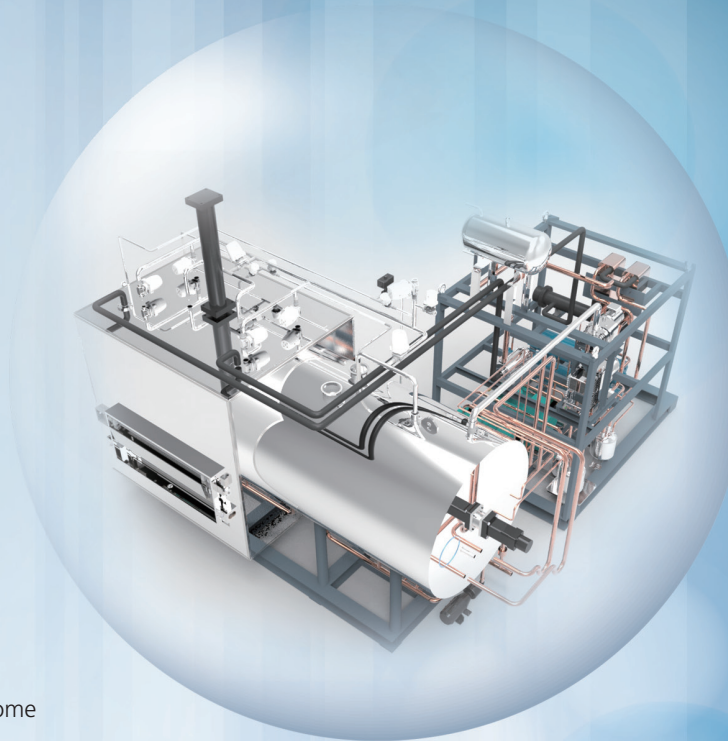
(Incorporated in the Cayman Islands with limited liability)  
Stock Code : 6118

**2017**  
INTERIM REPORT



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# CORPORATE INFORMATION

## PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

## STOCK CODE

6118

## EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars  
(*Chairman & Chief Executive Officer*)

Mr. Ho Kin Hung  
Mr. Chen Yuewu  
Madam Zhou Ning

## NON-EXECUTIVE DIRECTOR

Madam Ji Lingling

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei  
Madam Chiu Hoi Shan  
Mr. Raco Ivan Jordanov  
(alias Racho Jordanov)

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## CORPORATE GOVERNANCE COMMITTEE

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

## RISK MANAGEMENT COMMITTEE

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

## COMPANY SECRETARY

Madam Chan Pui Shan, Bessie

## AUTHORISED REPRESENTATIVES

(For the purpose of the Listing Rules)  
Madam Zhou Ning  
Madam Chan Pui Shan, Bessie

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Bank of East Asia Limited

## REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 1801, Building B  
Chaowai Men Office Building  
No. 26 Chaowai Street  
Chaoyang District  
Beijing  
PRC



## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Workshop 6 on 1/F.  
New Trade Plaza  
No. 6 On Ping Street, Shatin  
New Territories  
Hong Kong

## LEGAL ADVISOR AS TO HONG KONG LAW

Leung & Lau  
Units 7208-10, 72nd Floor  
The Center, 99 Queen's Road C.  
Central  
Hong Kong

## AUDITOR

PricewaterhouseCoopers  
Certified Public Accountants  
22nd Floor, Prince's Building  
Central  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## COMPANY WEBSITE

[www.austar.com.hk](http://www.austar.com.hk)

# FINANCIAL HIGHLIGHTS

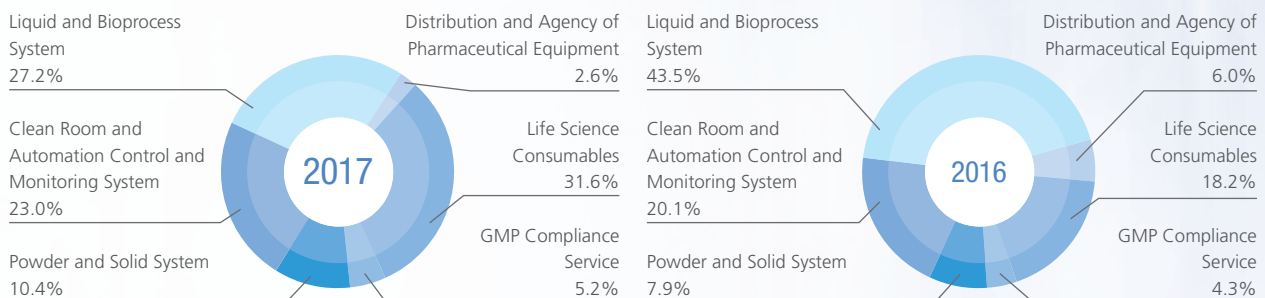


	For the six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	244,852	289,837
Gross profit	45,503	73,572
Loss before income tax	(26,894)	(12,898)
Loss attributable to the owners of the Company	(25,097)	(12,126)
Gross profit margin	18.6%	25.4%
Basic loss per share (RMB) (Note)	(0.05)	(0.02)
Diluted loss per share (RMB)	(0.05)	(0.02)
	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	<b>As at 31 December 2016 RMB'000 (Audited)</b>
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.

### REVENUE CONTRIBUTION BY BUSINESS SEGMENT

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



# 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 six months ended 30 June 2017 (“**Period under Review**”), the CFDA has not only continuously announced updates of new regulations, but has also increased the intensity of its unannounced 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 the People’s Republic of China (“**PRC**” or “**China**”), have become increasingly active and have shown strong growth potential. This has been reflected in strong increase in the number of biologics capital expenditure (“**CAPEX**”) investment-related projects of Austar Lifesciences Limited (“**Austar**” or “**Company**”, together with its subsidiaries, the “**Group**”). 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 China 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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:

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



## MANAGEMENT DISCUSSION AND ANALYSIS

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *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:

Backlogs by business segment	Number of Contracts	As at 30 June 2017		
		%	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%

## MANAGEMENT DISCUSSION AND ANALYSIS

### PRODUCTION AND ORGANIZATION

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### PROSPECTS

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

In addition 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 improve the Group's 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 the PRC is under further consolidation and expansion among different business segments.

In the first half of 2017, the Group was 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. Continuous 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 the 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 filling 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 System (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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *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 optimization. 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:

Revenue by business segment	For the six months ended 30 June 2017		2016		Change %
	RMB'000 (Unaudited)	%	RMB'000 (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%)
<b>Total</b>	<b>244,852</b>	<b>100.0%</b>	<b>289,837</b>	<b>100.0%</b>	<b>(15.5%)</b>

### 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### *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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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:

Revenue by geographical regions	For the six months ended 30 June 2017		2016		Change %
	RMB'000 (Unaudited)	%	RMB'000 (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%)
<b>Total</b>	<b>244,852</b>	<b>100.0%</b>	<b>289,837</b>	<b>100.0%</b>	<b>(15.5%)</b>

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 of 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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)

## MANAGEMENT DISCUSSION AND ANALYSIS

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 included in 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 the amount 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 of the Company ("**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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 of Directors ("**Board**"). Astar 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", Astar 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 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

On 7 November 2014, the shares of the Company ("**Shares**") were first listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**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**").



## MANAGEMENT DISCUSSION AND ANALYSIS

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 on the Stock Exchange ("**Listing Rules**").

# CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO"), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

### Long position:

Name of Director	The Company/ Name of associated corporations	Capacity/ Nature of interest	Number and class of shares held/interested in the Company/ associated corporations	Approximate percentage of interest
Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho")	The Company	Interest of a controlled corporation	335,929,000 Shares (Note 1)	65.54%
	The Company	Interest of spouse	3,750,000 Shares (Note 2)	0.73%
	Standard Fortune Holdings Limited ("SFH") (Note 3)	Beneficial owner	1 ordinary share of US\$1	100%
Mr. Ho Kin Hung ("Mr. KH Ho")	The Company	Interest of a controlled corporation	38,100,000 Shares (Note 4)	7.43%

Notes:

- (1) Such Shares were registered in the name of SFH, a company wholly-owned by Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares held by SFH. Mr. Mars Ho is a director of SFH.
- (2) Such Shares were registered in the name of Honour Choice Ventures Limited ("HCV"), a company wholly-owned by Madam Gu Xun ("Madam Gu"), the spouse of Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares in which Madam Gu is interested or deemed to be interested.
- (3) As at 30 June 2017, SFH was the holding company of the Company and thus an associated corporation of the Company.
- (4) Such Shares were registered in the name of True Worth Global Limited ("TWG"), a company wholly-owned by Mr. KH Ho. By virtue of the provisions of Part XV of the SFO, Mr. KH Ho is deemed to be interested in all the Shares held by TWG.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at 30 June 2017, none of the Directors and/or chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 30 June 2017, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executives of the Company) who had interests in the Shares and underlying Shares which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

#### Long position:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held/ Interested in	Approximate percentage of interest
Madam Gu	Interest of a controlled corporation	3,750,000 (Note 1)	0.73%
	Interest of spouse	335,929,000 (Note 2)	65.54%
SFH	Beneficial owner	335,929,000 (Note 3)	65.54%
Lei Wujun	Beneficial owner	47,241,000	9.22%
Madam Cheung Chau Ping ("Madam Cheung")	Interest of spouse	38,100,000 (Note 4)	7.43%
TWG	Beneficial owner	38,100,000	7.43%

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

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

Save as disclosed above, as at 30 June 2017, the Directors and the senior management of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

## CORPORATE GOVERNANCE PRACTICES

The Company 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 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

## CORPORATE GOVERNANCE AND OTHER INFORMATION

the Company to make and implement decisions promptly and efficiently. In addition, the Board is of the view that the balanced composition of executive and non-executive Directors (including the independent non-executive Directors) on the Board and the various committees of the Board (primarily comprising independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority.

### COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding its Directors' securities transactions. The Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry, all Directors have confirmed that they 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.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float during the six months ended 30 June 2017 as required under the Listing Rules.

On behalf of the Board

**Ho Kwok Keung, Mars**

*Chairman*

28 August 2017

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	42,683	42,222
Land use rights	7	5,725	5,800
Intangible assets	8	4,439	4,612
Investments accounted for using the equity method	9	39,478	34,586
Prepayments and other receivables	14	8,849	8,810
Deferred income tax assets	10	7,704	7,887
Other non-current assets	11	16,295	16,295
<b>Total non-current assets</b>		<b>125,173</b>	120,212
<b>Current assets</b>			
Inventories		80,477	90,623
Trade and notes receivables	13	199,386	184,291
Prepayments and other receivables	14	41,081	32,584
Amounts due from customers for contract work	12	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
<b>Total current assets</b>		<b>734,379</b>	794,564
<b>Total assets</b>		<b>859,552</b>	914,776

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital	15	4,071	4,071
Reserves		383,129	389,245
Retained earnings		127,701	152,798
		<b>514,901</b>	546,114
<b>Non-controlling interests</b>		<b>1</b>	1
<b>Total equity</b>		<b>514,902</b>	546,115
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		600	600
Deferred income tax liabilities	10	11,383	14,571
<b>Total non-current liabilities</b>		<b>11,983</b>	15,171
<b>Current liabilities</b>			
Trade and other payables	17	244,455	289,822
Amounts due to customers for contract work	12	58,932	42,491
Short-term bank borrowings	16	28,041	20,000
Current income tax liabilities		1,239	1,177
<b>Total current liabilities</b>		<b>332,667</b>	353,490
<b>Total liabilities</b>		<b>344,650</b>	368,661
<b>Total equity and liabilities</b>		<b>859,552</b>	914,776

The notes on pages 37 to 62 form an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information on pages 31 to 62 were approved by the board of directors on 28 August 2017.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

	Note	Six months ended 30 June 2017 RMB'000 (Unaudited)	Six months ended 30 June 2016 RMB'000 (Unaudited)
<b>Revenue</b>	5	<b>244,852</b>	289,837
Cost of sales	18	<b>(199,349)</b>	(216,265)
<b>Gross profit</b>		<b>45,503</b>	73,572
Other income	19	<b>2,206</b>	978
Other gains/(losses)	20	<b>1,748</b>	(2,117)
Selling and marketing expenses	18	<b>(40,726)</b>	(40,163)
Administrative expenses	18	<b>(28,983)</b>	(31,773)
Research and development expenses	18	<b>(12,397)</b>	(16,552)
<b>Operating loss</b>		<b>(32,649)</b>	(16,055)
Interest income	21	<b>2,362</b>	2,254
Finance expenses	21	<b>(148)</b>	(978)
<b>Finance income - net</b>		<b>2,214</b>	1,276
Share of profit of investments accounted for using the equity method		<b>3,541</b>	1,881
<b>Loss before income tax</b>		<b>(26,894)</b>	(12,898)
Income tax credit	22	<b>1,797</b>	772
<b>Loss for the period</b>		<b>(25,097)</b>	(12,126)
<b>Loss attributable to:</b>			
The owners of the Company		<b>(25,097)</b>	(12,126)
Non-controlling interests		-	-
		<b>(25,097)</b>	(12,126)

The notes on pages 37 to 62 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2017 RMB'000 (Unaudited)	Six months ended 30 June 2016 RMB'000 (Unaudited)
<b>Loss for the period</b>		<b>(25,097)</b>	(12,126)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		<b>(7,467)</b>	4,510
Share of other comprehensive income of investments accounted for using the equity method		<b>1,351</b>	(165)
<b>Other comprehensive income for the period, net of tax</b>		<b>(6,116)</b>	4,345
<b>Total comprehensive income for the period</b>		<b>(31,213)</b>	(7,781)
<b>Total comprehensive income attributable to:</b>			
The owners of the Company		<b>(31,213)</b>	(7,781)
Non-controlling interests		–	–
		<b>(31,213)</b>	(7,781)
<b>Loss per share attributable to the owners of the Company – Basic and diluted (RMB)</b>	23	<b>(0.05)</b>	(0.02)
<b>Dividends</b>	24	–	–

The notes on pages 37 to 62 form an integral part of this condensed consolidated interim financial information.



# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to the owners of the Company					Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Capital surplus RMB'000	Share premium RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000			
<b>For the six months ended 30 June 2016 (Unaudited)</b>									
<b>Balance at 1 January 2016</b>		4,071	30,150	314,009	171,468	31,285	550,983	1	550,984
<b>Comprehensive income</b>									
Loss for the period		-	-	-	(12,126)	-	(12,126)	-	(12,126)
<b>Other comprehensive income</b>									
Currency translation differences		-	-	-	-	4,510	4,510	-	4,510
Share of other comprehensive income of investments accounted for using the equity method		-	-	-	-	(165)	(165)	-	(165)
<b>Total comprehensive income</b>		-	-	-	(12,126)	4,345	(7,781)	-	(7,781)
<b>Transaction with the owners</b>									
Dividends to shareholders	24	-	-	-	-	-	-	-	-
<b>Total transaction with the owners, recognized directly in equity</b>		-	-	-	-	-	-	-	-
<b>Balance at 30 June 2016</b>		4,071	30,150	314,009	159,342	35,630	543,202	1	543,203
<b>For the six months ended 30 June 2017 (Unaudited)</b>									
<b>Balance at 1 January 2017</b>		4,071	30,150	314,009	152,798	45,086	546,114	1	546,115
<b>Comprehensive income</b>									
Loss for the period		-	-	-	(25,097)	-	(25,097)	-	(25,097)
<b>Other comprehensive income</b>									
Currency translation differences		-	-	-	-	(7,467)	(7,467)	-	(7,467)
Share of other comprehensive income of investments accounted for using the equity method		-	-	-	-	1,351	1,351	-	1,351
<b>Total comprehensive income</b>		-	-	-	(25,097)	(6,116)	(31,213)	-	(31,213)
<b>Transaction with the owners</b>									
Dividends to shareholders	24	-	-	-	-	-	-	-	-
<b>Total transaction with the owners, recognized directly in equity</b>		-	-	-	-	-	-	-	-
<b>Balance at 30 June 2017</b>		4,071	30,150	314,009	127,701	38,970	514,901	1	514,902

The notes on pages 37 to 62 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

Note	Six months ended 30 June 2017 RMB'000 (Unaudited)	Six months ended 30 June 2016 RMB'000 (Unaudited)
<b>Cash flows from operating activities</b>		
Cash generated from operations	(56,559)	(51,611)
Income tax paid	(1,145)	(3,857)
Interest received	1,367	1,861
<b>Net cash used in operating activities</b>	<b>(56,337)</b>	<b>(53,607)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(2,013)	(3,609)
Purchases of intangible assets	(1,072)	(53)
Investments in associates	–	(15,874)
Decrease/(increase) in term deposits with initial terms of over three months	6,089	(6,566)
Proceeds on disposal of property, plant and equipment	4	152
Cash received from government grants related to fixed assets	–	600
<b>Net cash generated from/(used in) investing activities</b>	<b>3,008</b>	<b>(25,350)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(457)	(750)
Proceeds from borrowings	42,871	20,000
Repayments of borrowings	(35,000)	(35,000)
<b>Net cash generated from/(used in) financing activities</b>	<b>7,414</b>	<b>(15,750)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(45,915)</b>	<b>(94,707)</b>
Cash and cash equivalents at beginning of period	286,352	393,383
Exchange gains/(losses) on cash and cash equivalents	502	(537)
<b>Cash and cash equivalents at end of period</b>	<b>240,939</b>	<b>298,139</b>

The notes on pages 37 to 62 form an integral part of this condensed consolidated interim financial information.

# 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 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. Mars Ho (also the "**Controlling Shareholder**"), 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 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.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

#### (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.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

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

##### (ii) IFRS 15 Revenue from Contracts with Customers (Continued)

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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 3. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

### 4. FINANCIAL RISK MANAGEMENT

#### (a) Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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

#### (b) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 5. 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 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
<b>For the six months ended 30 June 2017 (Unaudited)</b>							
<b>Segment revenue and results</b>							
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
<b>Other segment items</b>							
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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 5. SEGMENT INFORMATION (Continued)

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
<b>For the six months ended 30 June 2016 (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	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
<b>Other segment items</b>							
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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 5. SEGMENT INFORMATION (Continued)

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 5. SEGMENT INFORMATION (Continued)

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



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 5. SEGMENT INFORMATION (Continued)

#### Geographical information

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

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
<b>Revenue</b>		
Mainland China	<b>218,885</b>	254,956
Other locations	<b>25,967</b>	34,881
	<b>244,852</b>	289,837
	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
<b>Non-current assets other than deferred tax assets</b>		
Mainland China	<b>67,109</b>	68,730
Other locations	<b>50,360</b>	43,595
	<b>117,469</b>	112,325

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Others RMB'000	Total RMB'000
<b>Six months ended 30 June 2017</b>					
Opening net book value (Audited)	8,569	21,985	1,587	10,081	42,222
Additions	-	873	328	3,588	4,789
Disposal	-	(13)	-	(6)	(19)
Depreciation charge	(369)	(1,176)	(278)	(2,486)	(4,309)
Closing net book value (Unaudited)	8,200	21,669	1,637	11,177	42,683
<b>Six months ended 30 June 2016</b>					
Opening net book value (Audited)	9,309	20,998	2,219	11,031	43,557
Additions	-	2,373	-	1,504	3,877
Disposal and others	-	(1,872)	(32)	(447)	(2,351)
Depreciation charge	(370)	(1,022)	(302)	(2,964)	(4,658)
Closing net book value (Unaudited)	8,939	20,477	1,885	9,124	40,425

As at 30 June 2017 and 30 June 2016, the Group's buildings were pledged as security for short-term borrowings (Note 16).

### 7. LAND USE RIGHTS

	RMB'000
<b>Six months ended 30 June 2017</b>	
Opening net book value (Audited)	5,800
Amortization charge	(75)
Closing net book value (Unaudited)	5,725
<b>Six months ended 30 June 2016</b>	
Opening net book value (Audited)	5,950
Amortization charge	(75)
Closing net book value (Unaudited)	5,875

The Group's interests in land use rights represent prepaid operating lease payments. All of the Group's land use rights are located in the PRC and with original lease period of 50 years. As at 30 June 2017 and 30 June 2016, the Group's land use rights were pledged as security for short-term borrowings (Note 16).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 8. INTANGIBLE ASSETS

	<b>Software and others</b>
	RMB'000
<b>Six months ended 30 June 2017</b>	
Opening net book value (Audited)	4,612
Additions	214
Amortization charge	(387)
Closing net book value (Unaudited)	4,439
<b>Six months ended 30 June 2016</b>	
Opening net book value (Audited)	2,116
Additions	317
Disposal	(515)
Amortization charge	(302)
Closing net book value (Unaudited)	1,616

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognized in the balance sheet are as follows:

	<b>As at 30 June 2017 RMB'000</b>	As at 31 December 2016 RMB'000
Joint ventures (Note (a))	<b>20,064</b>	18,969
Associates (Note (b))	<b>19,414</b>	15,617
	<b>39,478</b>	34,586

#### (a) Investments in Joint Ventures

	<b>Six months ended 30 June 2017 RMB'000</b>	Six months ended 30 June 2016 RMB'000
Beginning of the period (Audited)	<b>18,969</b>	18,180
Share of profit	<b>798</b>	1,705
Share of other comprehensive income	<b>297</b>	(171)
End of the period (Unaudited)	<b>20,064</b>	19,714

#### (b) Investments in Associates

	<b>Six months ended 30 June 2017 RMB'000</b>	Six months ended 30 June 2016 RMB'000
Beginning of the period (Audited)	<b>15,617</b>	–
Additions	<b>–</b>	15,874
Share of profit	<b>2,743</b>	176
Share of other comprehensive income	<b>1,054</b>	6
End of the period (Unaudited)	<b>19,414</b>	16,056

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 10. DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	Tax losses RMB'000	Impairment provision of receivables and inventories RMB'000	Warranty provisions and others RMB'000	Total RMB'000
<b>As at 1 January 2017 (Audited)</b>	<b>2,700</b>	<b>4,057</b>	<b>1,130</b>	<b>7,887</b>
(Charged)/credited to the consolidated statement of income	(455)	467	(195)	(183)
<b>As at 30 June 2017 (Unaudited)</b>	<b>2,245</b>	<b>4,524</b>	<b>935</b>	<b>7,704</b>
<b>As at 1 January 2016 (Audited)</b>	3,989	1,677	2,040	7,706
(Charged)/credited to the consolidated statement of income	(134)	800	733	1,399
<b>As at 30 June 2016 (Unaudited)</b>	<b>3,855</b>	<b>2,477</b>	<b>2,773</b>	<b>9,105</b>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. For the six months ended 30 June 2017, the Group did not recognize deferred income tax assets of RMB12,751,000 (30 June 2016: RMB3,824,000) in respect of losses amounting to RMB84,898,000 (30 June 2016: RMB21,896,000) that can be carried forward against future taxable income.

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000	Total RMB'000
<b>As at 1 January 2017 (Audited)</b>	<b>(14,571)</b>	<b>(14,571)</b>
Credited to the consolidated statement of income	3,188	3,188
<b>As at 30 June 2017 (Unaudited)</b>	<b>(11,383)</b>	<b>(11,383)</b>
<b>As at 1 January 2016 (Audited)</b>	(16,737)	(16,737)
Credited to the consolidated statement of income	928	928
<b>As at 30 June 2016 (Unaudited)</b>	<b>(15,809)</b>	<b>(15,809)</b>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 11. OTHER NON-CURRENT ASSETS

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Payment to government authority	<b>16,295</b>	16,295

Pursuant to document issued by Shijiazhuang High-tech Industrial Development Zone Investment Cooperation Bureau (石家莊高新技術產業開發區招商合作局) issued on 16 April 2015, the bureau has approved Austar Pharmaceutical Technology (SJZ) Ltd., a subsidiary of the Group, of increasing investment in connection with building a factory in Shijiazhuang city.

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

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Contract cost incurred plus recognized profit less foreseeable loss	<b>625,332</b>	584,826
Less: Progress billings	<b>(547,086)</b>	(471,821)
Contract work in progress	<b>78,246</b>	113,005
Representing:		
Amounts due from customers for contract work	<b>137,178</b>	155,496
Amounts due to customers for contract work	<b>(58,932)</b>	(42,491)
	<b>78,246</b>	113,005
	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Construction contract revenue	<b>106,862</b>	177,393

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 13. TRADE AND NOTES RECEIVABLES

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

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

As at 30 June 2017, there are retention money receivables of RMB38,792,000 (31 December 2016: RMB41,424,000).

- (b) As at 30 June 2017, there are notes receivables 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.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 14. PREPAYMENTS AND OTHER RECEIVABLES

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Current:		
Prepayments to suppliers	<b>19,804</b>	17,062
Staff advance	<b>5,871</b>	2,592
Deposits as guarantee for bidding	<b>8,552</b>	6,717
Others	<b>7,435</b>	7,301
	<b>41,662</b>	33,672
Less: provision for impairment	<b>(581)</b>	(1,088)
	<b>41,081</b>	32,584
Non-current:		
Loan and interest to PALL-AUSTAR Lifesciences Limited ("PALL-AUSTAR JV") (Note(b), Note 26 c (i))	<b>8,849</b>	8,810

- (a) As at 30 June 2017 and 31 December 2016, the carrying amounts of other receivables are approximated at their fair values due to short period of maturity.
- (b) This loan to PALL-AUSTAR JV is provided by its shareholder, Austar Pharmaceutical Process Systems Limited, a subsidiary of the Group. This loan is unsecured and bears interest rate at LIBOR plus an interest rate variable as prescribed in the loan agreement. For the six months ended 30 June 2017, the effective interest rate ranged from 5.97% to 6.61% (2016: 5.62% to 6.59%) per annum. This loan is extended for another 3 years in 2016, and the maturity of this loan is more than one year.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 15. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK\$'000
<b>Ordinary shares – Authorized:</b>		
<b>At 30 June 2017 and 31 December 2016</b>	10,000,000	100,000

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK\$'000	Equivalent nominal value of ordinary shares RMB'000
<b>Ordinary shares – issued and fully paid:</b>			
<b>At 30 June 2017 and 31 December 2016</b>	512,582	5,126	4,071

### 16. SHORT-TERM BANK BORROWINGS

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

- (a) As at 30 June 2017, secured short-term bank borrowings are RMB5,000,000 (31 December 2016: RMB20,000,000), secured by the Group's buildings (Note 6) and land use right (Note 7), bearing interest at 4.35% per annum (2016: 4.35% per annum) and are repayable within one year. As at 30 June 2017, unsecured bank borrowings with RMB15,000,000 (31 December 2016: Nil) bear interest at 4.79% per annum (2016: Nil) and are repayable within one year.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 17. TRADE AND OTHER PAYABLES

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

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

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



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 18. EXPENSE BY NATURE

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Raw materials	145,829	160,294
Staff costs, including directors' emoluments	67,252	63,357
Depreciation (Note 6)	4,105	4,658
Amortization (Notes 7, 8)	462	377
Sales tax and surcharges	952	3,153
Office expenses	2,781	1,952
Travelling expenses	12,582	12,963
Freight and port charges	4,566	4,490
Promotion expenses	4,756	5,485
Warranty provisions	2,273	1,930
Impairment of receivables	1,067	5,663
Impairment of inventories	3,199	954
Professional fees	5,197	4,931
Rental expenses	4,783	5,351
On-site subcontract cost	9,501	12,798
Other operating expenses	12,150	16,397
	<b>281,455</b>	304,753

### 19. OTHER INCOME

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Government subsidies	2,002	978
Others	204	–
	<b>2,206</b>	978

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 20. OTHER GAINS/(LOSSES)

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Loss on disposal of property, plant and equipment	(15)	(1,935)
Exchange gains/(losses)	1,584	(438)
Others	179	256
	<b>1,748</b>	<b>(2,117)</b>

### 21. FINANCE INCOME - NET

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

### 22. INCOME TAX CREDIT

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Current income tax expense	(1,208)	(1,555)
Deferred income tax credit	3,005	2,327
	<b>1,797</b>	<b>772</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 22. INCOME TAX CREDIT (Continued)

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 profit for the period (2016: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the period (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., Austar Hansen Lifesciences (Shanghai) Co., Ltd. and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. 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.

### 23. 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 period.

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

#### (b) Diluted

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 24. DIVIDENDS

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

### 25. COMMITMENTS

#### (a) Capital commitments

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 26. RELATED PARTY TRANSACTIONS

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

- (a) The following companies and persons are related parties that have transactions with the Group during the six months ended 30 June 2017 and 2016:

Names of the related parties	Nature of relationship
PALL-AUSTAR JV	Joint venture of the Group
PALL-Austar Packaging Technology (Beijing) Co., Ltd. (" <b>PALL-AUSTAR WFOE</b> ")	Subsidiary of PALL-AUSTAR JV
Steris Austar Pharmaceutical Equipment (Shanghai) Co., Ltd. (" <b>STERIS-AUSTAR WFOE</b> ")	Joint venture of the Group
Austar Ltd.	Under common control of the Controlling Shareholder
Madam Gu Xun	Close family member of the Controlling Shareholder
ROTA Verpackungstechnik GmbH & Co. KG (" <b>ROTA KG</b> ")	Associate of the Group

#### (b) Significant transactions with related parties

During the six months ended 30 June 2017, the Group has the following significant transactions with related parties:

##### (i) Purchase of goods and services

	Six months ended 30 June 2017 RMB'000 (Unaudited)	Six months ended 30 June 2016 RMB'000 (Unaudited)
PALL-AUSTAR WFOE	12,109	8,978
STERIS-AUSTAR WFOE	3,496	17,088
	15,605	26,066

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Significant transactions with related parties (Continued)

##### (ii) Sales of goods and services

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
STERIS-AUSTAR WFOE	3,649	2,250
PALL-AUSTAR WFOE	1,009	616
	<b>4,658</b>	2,866

##### (iii) Rental fee expenses

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Madam Gu Xun	468	468
Austar Ltd.	35	40
	<b>503</b>	508

##### (iv) Rental fee and miscellaneous income

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
STERIS-AUSTAR WFOE	208	208



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Significant transactions with related parties (Continued)

##### (v) Interest income from loan provided to a joint venture

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
PALL-AUSTAR JV Interest income	<b>241</b>	210

#### (c) Balances with related parties

##### (i) Receivable from/prepayments to related parties

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
<b>Receivable due from:</b>		
PALL-AUSTAR JV (Note 14)	<b>8,849</b>	8,810
STERIS-AUSTAR WFOE	<b>4,992</b>	2,655
PALL-AUSTAR WFOE	<b>460</b>	541
Madam Gu Xun	<b>468</b>	468
Austar Ltd.	<b>14</b>	14
<b>Prepayments to:</b>		
ROTA KG	<b>1,857</b>	406
	<b>16,640</b>	12,894

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 26. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Balances with related parties (Continued)

##### (ii) Payable to related parties

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
STERIS-AUSTAR WFOE	1,077	11,183
PALL-AUSTAR WFOE	117	5,074
Austar Ltd.	–	15
Madam Gu Xun	234	–
	<b>1,428</b>	16,272

#### (d) Key management compensation

	<b>Six months ended 30 June 2017 RMB'000 (Unaudited)</b>	Six months ended 30 June 2016 RMB'000 (Unaudited)
Salaries and bonuses	2,312	2,162
Pension and others	185	291
	<b>2,497</b>	2,453

### 27. 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 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.

### 28. COMPARATIVE INFORMATION RECLASSIFICATION

Certain comparative information has been reclassified to conform with current year's presentation.