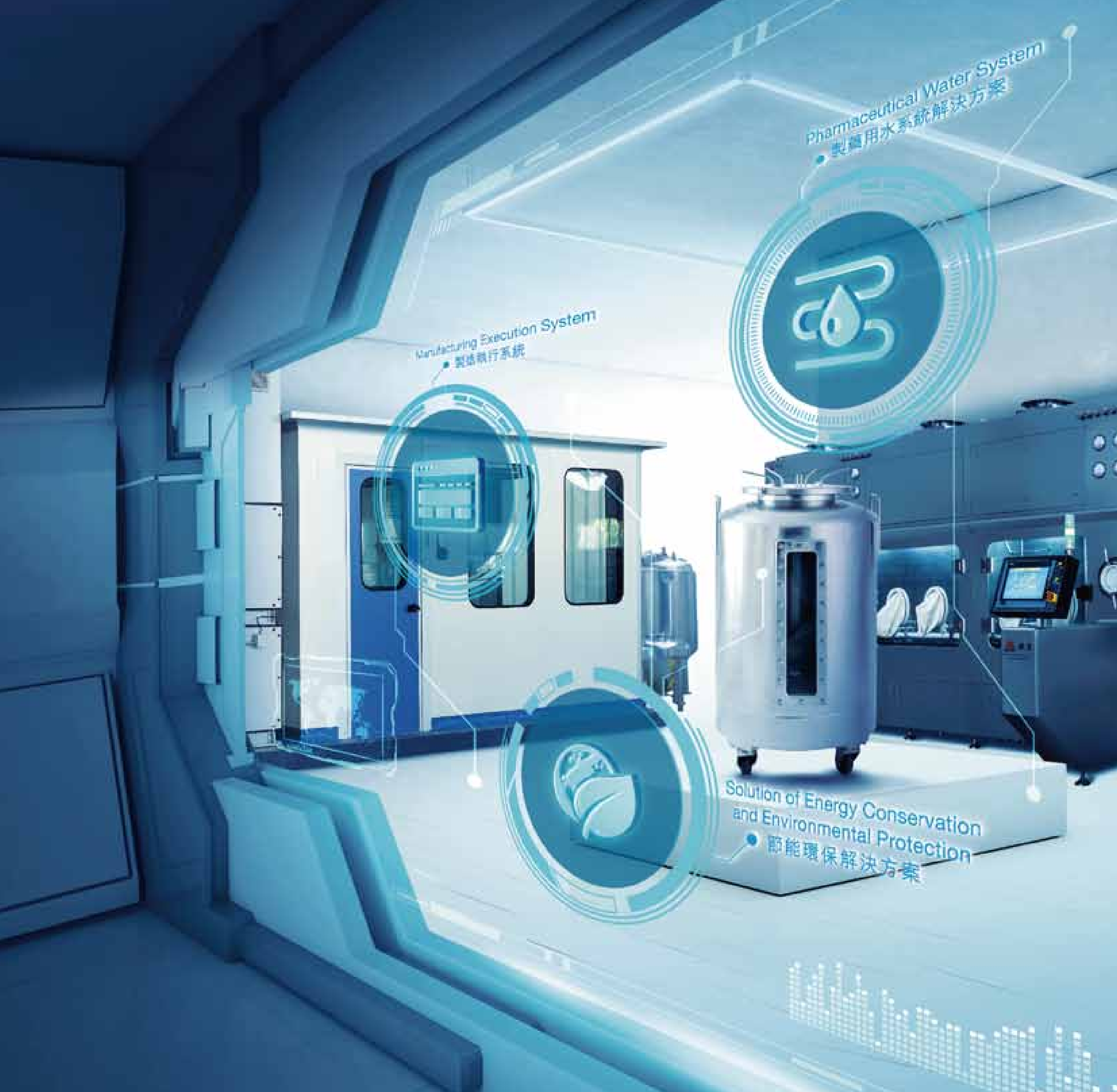


AUSTAR

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

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

ANNUAL REPORT 2017

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
6118

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

NON-EXECUTIVE DIRECTOR
Madam Ji Lingling

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin *(Note 1)*
Mr. Raco Ivan Jordanov
(alias Racho Jordanov) *(Note 2)*

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 PEOPLE'S REPUBLIC OF CHINA
Room 1801, Building B
Chaowai Men Office Building
No. 26 Chaowai Street
Chaoyang District
Beijing
PRC

Notes:

1. *Appointed with effect from 21 October 2017*
2. *Resigned with effect from 21 October 2017*

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

FINANCIAL HIGHLIGHTS

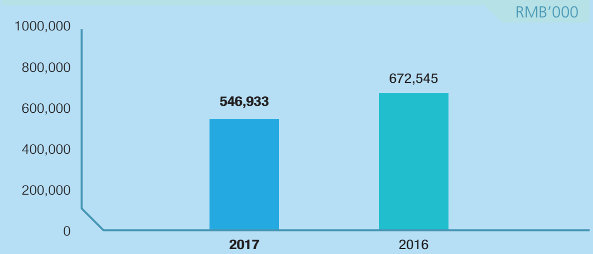
	For the year ended 31 December 2017 RMB'000	2016 RMB'000	Change
Key financials on Consolidated Income Statement			
Revenue	**546,933**	672,545	(18.7%)
Gross profit	**121,532**	159,707	(23.9%)
Gross profit margin	**22.2%**	23.7%	
Loss attributable to the owners of the Company	**(54,085)**	(18,670)	189.7%
Basic loss per share (RMB) (Note)	**(0.11)**	(0.04)	
Diluted loss per share (RMB)	**(0.11)**	(0.04)	

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000	Change
Key financials on Consolidated Balance Sheet			
Total assets	**881,567**	914,776	(3.6%)
Net assets	**480,387**	546,115	(12.0%)
Gearing ratio	**4.2%**	3.7%	

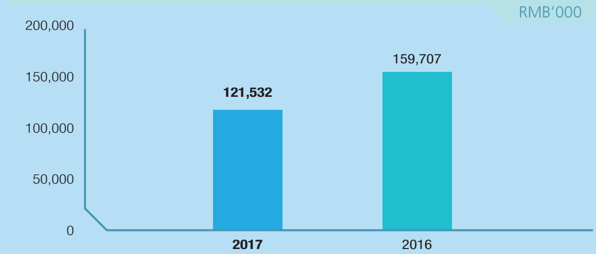
Note: The calculation of loss per share is based on the loss attributable to the owners of the Company for each of the year ended 31 December 2017 and 2016 and the weighted average number of shares in issue during that year.

FINANCIAL HIGHLIGHTS

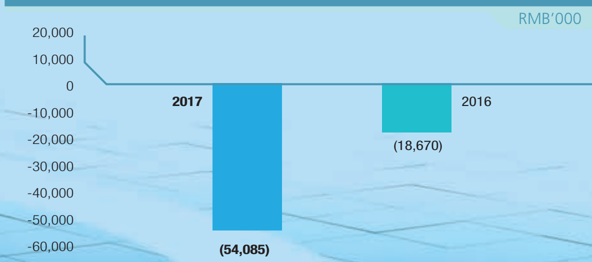
Revenue



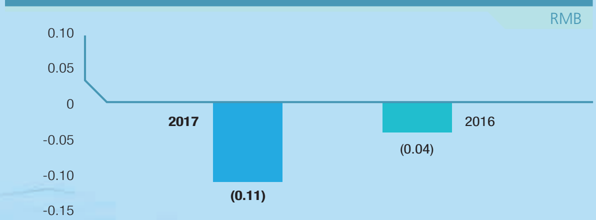
Gross profit



Loss attributable to the owners of the Company

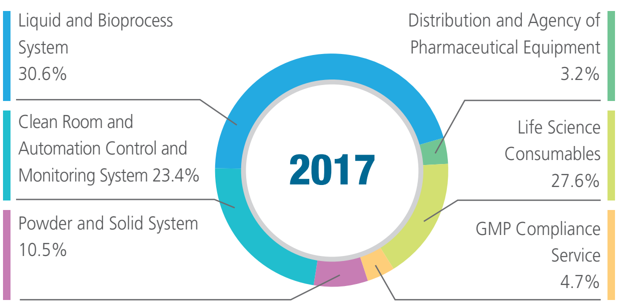


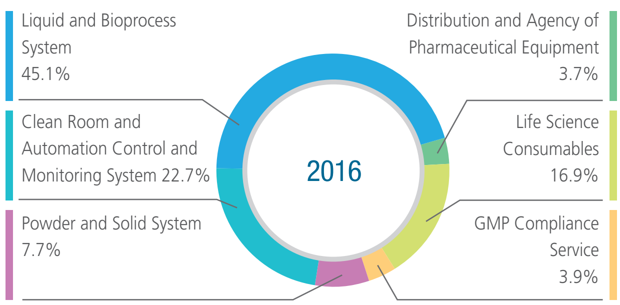
Loss per share (Basic and diluted)



REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December 2017 RMB'000	2017 %	2016 RMB'000	2016 %
Liquid and Bioprocess System	**167,711**	**30.6%**	303,698	45.1%
Clean Room and Automation Control and Monitoring System	**128,034**	**23.4%**	152,344	22.7%
Powder and Solid System	**57,182**	**10.5%**	51,627	7.7%
GMP Compliance Service	**25,458**	**4.7%**	26,478	3.9%
Life Science Consumables	**151,026**	**27.6%**	113,505	16.9%
Distribution and Agency of Pharmaceutical Equipment	**17,522**	**3.2%**	24,893	3.7%
Total	**546,933**	**100.0%**	672,545	100.0%





OUR PATH OF GROWTH

2003	Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd was established and commenced the manufacturing of purified water generators, the foundation of Austar's Liquid and Bioprocess System business
2004	Austar Shijiazhuang Technology Centre was established and commenced Austar's Clean Room and Automation Control and Monitoring System business
2006	Austar formed a joint venture with STERIS Corporation
2007	Austar Clean Equipment (Shanghai) Co., Ltd. was established in Songjiang District, Shanghai and commenced business and processing of clean room enclosure systems Austar formed a joint venture with ATMI Packaging N.V. (now known as PALL Life Sciences Belgium bvba)
2008	Austar commenced its Liquid and Bioprocess System business
2011	Austar was certified as Siemens AG Solution Partner
2012	Austar was certified as Rockwell Automation, Inc. Recognized System Integrator
2013	Austar was certified as Siemens Gold Solution Partner Austar assisted Chengdu Institute of Biological Products Co. Ltd to pass WHO pre-qualification of Japanese encephalitis vaccine

OUR PATH OF GROWTH

2014

Austar was appointed as an exclusive distributor in the PRC for Allentown Inc. on the supply of animal laboratory research products

Shares of Austar listed on The Stock Exchange of Hong Kong Limited

2015

Austar signed first contract of bioprocess configuration system for human vaccine in the PRC

Austar's self-developed and produced oral solid dosage granulation system and freeze-drying system including isolator, vial loading and unloading system and freeze-dryer have been launched and displayed at 2015 Autumn CIPM

2016

Austar acquired one-third shares of ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH, a world famous liquid filling line provider

2017

June

Austar formed its first SMEPAC testing technology R&D laboratory for powder containment facilities in China

2017

November

Austar formed a subsidiary for engineering design and consulting with Swiss and China companies

2017

December

Austar signed first contract of laboratory equipment packaged services in Ethiopia

Austar signed first contract of VHP space sterilization service contract in food and beverage industries

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively as the "**Group**" or "**Austar**") for the year ended 31 December 2017 ("**Year**").

Year 2017 was another challenging year for the Group but confidence on business growth has been witnessed by our strong order-in-take in the second half of the Year. As at the end of the Year, we had the highest amount of order backlogs in the last 5 years.

Strong efforts for talent acquisition and business competence consolidations have been putting in without any reservation.

Government policies announced in 2017 continue to set supportive directional trend for higher value pharmaceutical production and service requirement, which are in general at our favor in the medium long term, given that such policy environment encourages only high-end capital expenditure ("**CAPEX**") investment in pharmaceutical research and manufacturing facilities, and only high level suppliers with greater CAPEX investment capacity would be able to meet the higher requirements.

The re-organisation initiatives launched by the Group in 2015 and 2016 brought about some challenging transitional impacts of organisational change. Due to delays in project schedule and incurrence of unexpected costs, some larger projects in the Group's Liquid and Bioprocess System business segment acquired in 2016 were not able to convert into profitable results in the Year, but serious measures have been taken to improve this situation. Strong order-in-take in the second half of 2017 re-strengthened leadership's belief that short-term transitional impact for organisational change could be endured for bringing about future sustainable business success.

Under strong leadership and talent commitment, our business segment of Life Sciences Consumables demonstrated strong revenue increase by over 30% for the Year and the gross profit of this business segment for the Year increased by approximately 29%, as compared to 2016.

A number of product business development activities have been undergoing to introduce additional new products in order to support the revenue and profits of the Group in the coming years. The product development momentum has never been slowed down and continuous improvements are in progress.

In November 2017, the Group engaged PricewaterhouseCoopers as our strategies and governance consultant, with an objective to obtain a third-party advice for streamlining our strategies and formulating control tactics in our management process in 2018.

With allocation of additional marketing activity resources, more talents in India, Russia and the Middle East were recruited by the Group during the Year, along with the establishment of certain new market expansion strategies.

A Technical Advisory Committee consisting of world-class specialty subject experts has been established in 2017 to provide a platform for knowledge and experience sharing and advice, and opinion expression.

CORPORATE STRATEGIES IN 2018

Our global strategies not only aim at acquiring projects in emerging countries but also acquiring commercial and technical execution capacities in those regions under the Group's business development initiatives.

There will be continuous brand development for individual business and product lines which helps individual product lines obtaining their independent identification and images for continuous and further growth.

Pharmaceutical and Biopharmaceutical will remain as our industrial sector focus but more efforts would be put on leveraging our competences in other sectors such as medical devices, biosafety, laboratory animal research and nutrition supplements.

Partnerships with established technological companies will be continued to enhance the Group's technical competences of various product lines with its own innovative creation and invention of technologies without requiring significant CAPEX investment.

A sound cash position shall be maintained and be ready for further expansion should any opportunity arise in the coming future in merger and acquisition or industrial capital investment.

Business models with further product integration stressing on application capabilities with higher consultancy and more comprehensive service contents in the offerings would be the strategic directions for competence growth.

PRODUCT AND TECHNOLOGY DEVELOPMENT

Pharma Laboratory IT team was established in 2017 to support customers in preparing the elements of information infrastructure for quality performance upgrading and achieving regulatory data integrity compliance.

A business model enhancement direction would be to combine equipment, systems and service onto our applications through the use of Containment Isolation Technology, Heating Ventilation and Air Conditioning (HVAC) Technology and Biologics Process Automation Technology, etc.

A Biologics Hybrid Process System project employing Austar's stainless steel and plastic single-use knowledge plus full automation application for a vaccine application acquired by the Group in 2017 would be a nice show-case for a cost-effective technical solution for the biological process system in China in the future.

To better address customers' compliance requirements and quality expectation, in early 2018, the Group has also consolidated its different product lines and has established a new strategic business unit focusing on Washing, Disinfection and Sterilization, combining equipment, consumables and cleaning/disinfection services under one leadership.

MANAGEMENT IMPROVEMENT

Margin management process improvement initiative has been launched in this Year and is expected to better support margin performance for some of our business units.

Our information system is relatively advanced compared to our peers. Our information technology support team has been supporting several improvement initiatives such as information safety and security, approval procedures, and new marketing and education tools by using software application.

Our service team has been restructured to focus more on after-sales service, which was an important step for keeping our 1,000 customers satisfied.

Knowledge Management initiative was planned in 2017 and it is scheduled that some detailed action plan would come up in 2018.

BUSINESS OVERVIEW

The Group adopts the business model as an integrated engineering solution provider for high-end customers in China and the emerging countries, focuses in pharmaceutical industry, and with consulting services to support our customers for compliance and operation excellence. The Group has been developing a strong pipeline of products across the whole drug product lifecycle with a long-term strategic perspective.

Short-term fluctuation on performance results in the past two years does not affect our determination on our visions and strategies commitment.

INDUSTRY OVERVIEW

The pharmaceutical industry's attitude towards CAPEX investment seems to be improving, as evidenced by the increase in our new project enquiries. It was believed that after a few years of hesitation, our customers appear to have clearer strategic direction now and are confident in putting in further investment, based on the polices issued by the China Food and Drug Administration in the last few years. The Biologics sector market we are focusing on is still growing in a fast pace. It is believed it will benefit our order-in-take growth in the coming years.

PROSPECTS

Technology gap between China and the United States of America in pharmaceutical research and manufacture creates great opportunities for service provider like Austar.

Biologics contract manufacturing business growth in China will create opportunities for all product and service companies in the region.

Emerging countries in need of China's current pharmaceutical technologies to upgrade their industry allow Austar to play important roles in contributing our knowledge.

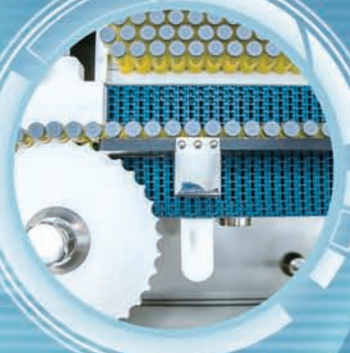
The Group's product development efforts in the past 5 years have contributed a sophisticated portfolio of product and services in the pharmaceutical industry. These are the basis for our momentum and foundation for growth.

APPRECIATION

Finally, on behalf of the Board, I would like to take this opportunity to thank our valued shareholders and various stakeholders for their continuous support. Also, I would like to express my appreciation to the Directors and our staff for their efforts, commitments and contribution to the Group in this challenging year.

Ho Kwok Keung, Mars
Chairman

26 March 2018



MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the assembly held by the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) in June 2017, the ICH approved the China Food and Drug Administration ("**CFDA**") as its 8th Regulatory Member and China pledges to gradually transform its pharmaceutical regulatory authorities, industry and research institutions to implement the technical standards and guidelines of the international coalition.

In December 2017, new policy on consistency evaluation of drug injection formulation, namely, "Technical requirements for the consistency evaluation of listed chemical generic drugs (injection)" has been put forward by the CFDA and the draft policy is currently under public consultation. Such policy, if implemented, is expected to impose more challenges for injectable drug manufacturers in the market, who would have to revisit their drug quality and production efficacy by putting in more efforts to improve their production process, equipment and facilities. It is believed that innovative injectable drug pharmaceutical companies in China would become future key players in the market when this new policy is fully implemented.

With the determination of the CFDA to improve drug safety and drug efficacy, and in consideration of the increasing public awareness on drug safety, during the Year, the CFDA has not only continuously announced updates of new regulations but also increased the intensity of its unannounced inspections on pharmaceutical companies. To survive in 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.

China is one of the largest producers of pharmaceutical raw bulk material in terms of active pharmaceutical ingredients (API) and recipients. This industry sector is under serious pressure of quality upgrading due to stricter policies launched by the regulators in China and some other regulated markets.

There is still strong investment in drug research and development and it is observed that the momentum of such investment is driven by government policies and capital fund flow. It creates opportunities for companies involved in laboratory instrument, equipment, and compliance consulting services.

Due to the issuance of the "Opinions on deepening the reform of the review and approval system and Encouraging the innovation of drugs and medical devices" by the State Council and a series of supporting regulations and implementation of the market authorization holder (MAH) system in 2017, it is believed that Contract Research Organization (CRO) and Contract Manufacturing Organization (CMO) will gradually become important players in the pharmaceutical industry. It is expected that there would be more investment and CAPEX on research equipment, systems and facilities.

BUSINESS REVIEW

In view of the current business status and development, towards the end of the Year, the Group reviewed and renewed its Vision Statement as follows:

1. To become the globally recognised best technical product and service and solution provider to pharmaceutical researchers and manufacturers;

2. Deploying resources of global world-class partners to build up all-round knowledge and connection of the whole drug product life cycle and to provide comprehensive and integrated technical solutions; and

3. Gathering global resources and leveraging products and services empowered with cost and technical advantageous features, to help upgrading pharmaceutical industry in emerging countries.

The Group is a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and the emerging countries. The Group dedicates to provide equipment-engineering-service-consumables turnkey solutions and to promote industry advancement and create value for the pharmaceutical industry in the PRC.

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.

Despite challenges faced by the Group as reflected in the Group's current operation and financial performance, the Group continued its investment in various new initiatives to strive for business development to bring about sustainable business results in the medium and long run. The Group maintains its belief that the fluctuation on its performance results would be short-term and it does not affect the Group's determination on its visions and strategies commitment.

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

During the Year, the Group has been working on providing more services and application solutions in order to differentiate its offerings from its competitors. 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 specialised in Containment Technology, HVAC Technology, Single-use Technology, BIO Technology and Turnkey Solutions have been established to synergise product supply scope to create more comprehensive and unique technical solutions.

During the Year, the Group, together with a Swiss facility design firm experienced in well-structured biologics design and a Chinese company comprised of a domestic and experienced facility design team, has established a new facility design joint venture, Shanghai Aunity Pharmaceutical Science and Technology Limited ("**Aunity**"), which the Group holds 51% interest. Aunity is accounted for as a non-wholly owned subsidiary of the Company. It is believed that the Group's turnkey solutions business can be strengthened by the upfront conceptual design support from Aunity.

ORDER-IN-TAKE

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

	For the year ended 31 December				
	2017		2016		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**292,153**	**36.4%**	288,344	41.1%	1.3%
Clean Room and Automation Control and Monitoring System	**205,620**	**25.6%**	162,889	23.2%	26.2%
Powder and Solid System	**79,437**	**9.9%**	58,109	8.3%	36.7%
GMP Compliance Service	**38,172**	**4.8%**	34,071	4.9%	12.0%
Life Science Consumables	**168,538**	**21.0%**	141,496	20.2%	19.1%
Distribution and Agency of Pharmaceutical Equipment	**18,098**	**2.3%**	16,343	2.3%	10.7%
Total	**802,018**	**100.0%**	701,252	100.0%	14.4%

During the Year, the total order-in-take amounted to approximately RMB802.0 million, representing an increase of approximately 14.4% from approximately RMB701.3 million for the year ended 31 December 2016, mainly due to the increase in order-in-take amount of the business segments of Clean Room and Automation Control and Monitoring System, Powder and Solid System and Life Science Consumables. Driven by streamlining of sales organisation, further recruitment of sales talents, persistent marketing efforts and supported by a strong and rich pipeline of products with high quality, the Group achieved a definite increase and strengthened its good position in the overall order-in-take volume, as well as backlog, in spite of the keen market competition faced in this Year. The Company will keep on its investment in market and product development, which will bring to the Group a significant sophisticated portfolio of products and services. This is the basis for further growth.

Liquid and Bioprocess System

During the Year, despite keen market competition in this segment, the Group maintained and developed a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in Beijing, Sichuan, and Jiangsu Province of the PRC. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB292.2 million for the Year, representing a slight increase of approximately RMB3.8 million or 1.3% from approximately RMB288.3 million for the year ended 31 December 2016. In the coming few years, there will be potential huge growth in the biopharmaceutical field, as compared to conventional pharmaceutical chemical field. The Group will endeavour to pursue sustainable developments in the biopharmaceutical projects and strive for the high-end market.

Clean Room and Automation Control and Monitoring System

During the Year, relying on good reputation of products and services, the Group successfully acquired several more high value-added automation control and turnkey projects with large contracts. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB42.7 million or 26.2% from approximately RMB162.9 million for the year ended 31 December 2016 to approximately RMB205.6 million for the Year. The Group will continue revamping the technology in Automation Control and Monitoring System.

Powder and Solid System

During the Year, the Group's advancement in technical competency in containment technology, material handling technology, and unique knowledge skill, which is built through continuous investment in this business segment in the past several years, led to an increase in the order-in-take in this business segment. The order-in-take amount of the business segment of Powder and Solid System increased by approximately RMB21.3 million or 36.7% from approximately RMB58.1 million for the year ended 31 December 2016 to approximately RMB79.4 million for the Year. The Group will continue to invest in the technology to generate more technical barriers for other competitors in this business segment.

GMP Compliance Service

The Group's GMP Compliance Services are executed by the Group's technical expertise, including conducting compliance testing and documentation of compliance report. For the past few years, the Group built its good reputation in GMP Compliance Services field through providing high quality service, which was strengthened by the support from more international advisors in 2017. The order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB4.1 million or 12.0% from approximately RMB34.1 million for the year ended 31 December 2016 to approximately RMB38.2 million for the Year.

Life Science Consumables

During the Year, the Group actively responded to changes in market demand, not only introduced new product types including the latest pharmaceutical instrument for quality assurance, control use and animal laboratory research products, but also offered the complete solution of Washing, Disinfection and Sterilization by combining components, consumables, devices, equipment, system, cleaning and disinfecting services and validation services. The order-in-take amount of the business segment of Life Science Consumables increased by approximately RMB27.0 million or 19.1% from approximately RMB141.5 million for the year ended 31 December 2016 to approximately RMB168.5 million for the Year. The Group will continue to launch more diversified life science consumables and instruments with latest technology to its customers. This segment continues to have a huge potential for the Group after three years of fast growth.

Distribution and Agency of Pharmaceutical Equipment

During the Year, the Group achieved an increase in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB1.8 million or 10.7% from approximately RMB16.3 million for the year ended 31 December 2016 to approximately RMB18.1 million for the Year.

BACKLOGS

Set out below is a breakdown of the Group's closing value of backlogs (excluded VAT) and the corresponding number of contracts by business segment as at 31 December 2017:

	As at 31 December 2017			
Backlogs by business segment	**Number of Contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	**189**	**25.9%**	**207,065**	**44.0%**
Clean Room and Automation Control and Monitoring System	**249**	**34.1%**	**138,925**	**29.5%**
Powder and Solid System	**95**	**13.0%**	**58,518**	**12.4%**
GMP Compliance Service	**96**	**13.2%**	**46,420**	**9.9%**
Distribution and Agency of Pharmaceutical Equipment	**101**	**13.8%**	**19,955**	**4.2%**
Total	**730**	**100.0%**	**470,883**	**100.0%**

PRODUCTION, EXECUTION AND ORGANISATION

Addressing environmental, health and safety (EHS) issues and related compliance matters has always been a priority to the Group's manufacturing facility. The ISO 9001 quality system has been well maintained, stressing more on corrective actions and preventive actions (CAPA). Some good practices of LEAN manufacturing have also been applied.

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. Both the manufacture centers in Shanghai and Shijiazhuang are able to produce water and liquid process equipment skids, following the management improvement efforts which have increased the capacity flexibility in terms of production task allocation. 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 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.

During the Year, the Group's Engineering Project Execution Center further increased its manpower in emerging countries market. With more than 400 staff, this Project Engineering Execution Center is believed to have the largest engineering project execution team in pharmaceutical industry in the PRC region with IT-based project management information system in place, and with process-piping, clean room and HVAC mechanical and electrical installation, automation system integration and validation and qualification capability all under one roof. The execution center was established in late 2015 with an aim to build up a strong and harmonised team to cater for one of the Group's strategic initiatives as a global turnkey facility service provider.

Through training and on-site practices, in medium and long term, it was expected that the operation consolidation brought by the Engineering Project Execution Center 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 Year, this center has been gradually demonstrating its strength, with its 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

The Group has obtained more than 172 authorised patents by the end of 2017. The Group obtained 58 authorised patents including 2 invention patents during the Year, and applications for 42 patents are currently in progress.

Hybrid bioprocess system in China is believed to have significant growth opportunities. Further research and development by both our single-use technology team and conventional bioprocess system team is under progress in order to capture the opportunities ahead. It is believed that China's biologics customers have started to realise the economical and technical feature benefits of the hybrid bioprocess system, witnessed by one vaccine project at Beijing being successfully acquired by our sales team to apply hybrid bioprocess system concept right from the beginning of the conceptual design stage. The Group has also successfully applied single-use disposable concept to high-end chemical drug products with sterility and containment requirements as well apart from the biologics process application. 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 requirement for its customers. This application demonstrated the Group's successful innovative technical approach towards research model and received further acceptance from additional customers during the Year.

With the wet granulation line having been developed and launched in 2016 and the Group's experience in the related field, solution of wet granulation line from loading to packaging could be provided to include system design, process design and improvement, wet granulation equipment manufacture and system implementation. The Group has already acquired high-end orders with the required equipment and system having been installed and tested, and the Group has received highly appreciated comments from its project customers in 2017. This marked a breakthrough for the Group in the oral solid dosage (OSD) and High Potency Active Pharmaceutical Ingredients (HPAPI) field and, together with its powder handling system, the Group could provide high containment wet granulation line for oncology and high-potent drugs. Success of this newly developed wet granulation line is attributable to the Group's strength on automation, containment technologies, PAT technologies and compliance knowledge. The Group has also successfully developed its self-designed milling equipment for oral solid dosage formulation, forming part of our extension on the formulation technology equipment product line. This milling equipment is important to our customers' particle sizing quality performance, being a critical factor to the success of drug biological equivalence.

In 2016, API modular automated laboratory/pilot process system unit was developed. It was officially launched in 2017 and set as the Group's milestone of offering means for process development for pharmaceutical companies which are required to fulfill the new regulatory requirements by proper data integrity, and has successfully sparked the awareness of the customers in the market.

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. More sales cooperation among different product line sales teams are encouraged to leverage the current sales infrastructure. The sales team is strongly supported by additional initiatives of our marketing and communications department.

Streamlining of sales organisation 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 organisation has contributed to some significant sales growth in certain product lines of the Group's business segments. More sales talents were recruited in India, Russia and the Middle East during the Year to support our global expansion strategy.

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 intensified product training with on-line learning tools to assist sales staff in 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 Year, six technical seminars were organised by the Group, two on API Automation, one on Containment Technology, one on Quality by Design and two technical seminars held overseas. In addition, the Group took part in seven key biologics related conferences and seminars to promote key biologics related product lines, including two generic drugs conference and one conference held by the Parenteral Drug Industry Congress.

During the Year, the Group's Marketing and Communications department has strengthened communication with different business units and has conducted promotional activities in relation to some key business development of the Group on topics such as Biologics, API and OSD. In addition, marketing resources were utilised for brand building to expand our brand influence through cooperation with industry associations, media and other public relations.

PROSPECTS

Increase the market share in the PRC and the emerging countries

In 2017, the Group eventually decided to establish its own sales and marketing team in India as compared to formation of joint venture with business partners and at present, the setting up of a team focusing on water and bioprocess system is in its initial phase. As to Russia, the proposed formation of a joint venture in Russia is still in negotiation and hopefully the cooperation could be finalised in the first half of 2018. While these initiatives accord with our global expansion strategies which focus on market development in key emerging countries, the PRC still remains as our main market which accounted for approximately 88.1% of the Group's revenue for the Year. 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. The key strategies of increasing the market share of the Group are maintaining our on-going initiative to develop and offer more integrated application and services to provide value add to our individual product and services and to improve our competitive advantages.

Improve services and product offerings

Each product line under the Group's business segments has its own visions and strategies to implement its improvements on services and product offering. At the top level, the Group formulates overall directions to capture its prospects:

1. Continuous improvement on the core value of its product to the customers
2. Further integration of individual products by offering more comprehensive package
3. Value enhancement on individual products with additional supplementary and supportive service provided
4. Offering more advanced IT Software and Automation support to the products
5. Provision of compliance and quality-related concerned support to the individual products

Following up on the service business review study conducted by the Group, 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.

A new facility design subsidiary, Aunity, was established in the second half of 2017 with shareholder partners from Switzerland and local facility design experts. Aunity 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

Purified water equipment, as our well-developed product, must and is expected to be revamped with higher technology by committing a partnership with reputed European technological expert. The Group has successfully recruited a new technical leader in the second half of 2017 with a vision to upgrade our practices for multinational pharma opportunities, especially for the clean utilities system. In order to capture further sub-segment of the biologics industry, our team sets clear objectives of attracting and retaining talent, acquiring opportunities to partnership and cooperation and developing competence for segments in the areas covering blood, monoclonal antibodies, recombinant proteins, human vaccines and animal vaccines. With this segmentised focus, our offerings would become more specific and more adaptable to specific needs, and as a result, more market opportunities and competence upgrade are foreseeable. Increased competition in the water system business has been anticipated a few years ago and in order to remain as a leader in this sector, the Group has been putting efforts in developing its bioprocess systems including hybrid bioprocess system leveraged by its in-house single use disposable knowledge.

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

The bioreactors developed were installed in 2017 in a vaccine process development laboratory of a technology transfer partner of the Group for obtaining and validating optimised process parameters through testing.

Powder and Solid System

Technical competence elements of this business segment relate to technical capacities of containment technology, material handling technology, formulation process system engineering with knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering. Such unique knowledge skill-set supports the current business development of the Group with comprehensive product line and ensures our future growth momentum. 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 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 Group is familiar with microsphere technologies and jet-mill micronization technologies commonly adopted in new drug formulations but as of today such technologies are still under research and development in China. 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.

For Containment Technology application, it is expected that combining components, devices, equipment, system, consumables and services into one synergising application business unit would generate more barriers for other competitors of the Group.

Microsphere formulation technology is one of key technologies in drug delivery system. Together with our vendors, the Group has successfully introduced this technology to one key innovative drug manufacturer in China during the Year. Offering a complete production facility including the fill-finish freeze-dryer by utilising the microsphere formulation technology is a vision of the business segment of Powder and Solid System.

In 2017, the orders of microsphere powder filling machines acquired by the Group demonstrated our strength in this important new application. It is expected to create further opportunities to the Group for offering a complete solution to our customers by combining our products.

GMP Compliance Service

The business scope of this business segment has been undergoing an extension process to cover not only GMP but also other consultancy services involving more sectors over the whole drug life cycle, notwithstanding that conventional compliance services are still contributing good margins, sales project leads, and brand reputation for the Group. One business characteristic of this business segment is that it is independent from the pharmaceutical industry CAPEX investment trends in general, and would allow the Group a buffer even under the circumstances of down trend in CAPEX investment. In 2017, the Group has engaged more international advisors to support its compliance consulting service business. The Group continues to promote the new consulting services including LEAN Production, Quality Management System and research-related Quality by Design. It is believed that Pharma IT software supported by additional consulting services of compliance, performance and quality-concerned services will offer unique services with customer satisfaction. ASTM E2500 (Standard Guide for Specification, Design, and Verification of Pharmaceutical and Biopharmaceutical Manufacturing Systems and Equipment) would be a new Good Engineering Practice/Commissioning & Qualification consulting service model, which is believed to be a new industry trend and is under active promotion by the Group's service team.

Life Science Consumables

The core business product line of this business segment is the application of Washing, Disinfection and Sterilization. This recently re-organised business unit offers the complete solution of Washing, Disinfection and Sterilization by combining components, consumables, devices, equipment, system, cleaning and disinfecting services and validation services. This unique competence knowledge-set is believed to offer a strong competitive edge not only in life science industries but also in industrial sector requiring hygienic or sterile working environment.

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 Year can be elaborated to further increase order-in-take. Significant growth in revenue and gross profit 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 Group 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.

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 solid dosage formulation process research laboratory is in operation now to offer support to customers for process research. With the support from the Group's reputed partner Pharmagel Technology S.r.l. preparation of the soft capsule process development laboratory is in the final testing and commissioning phase and is expected to commence its operation in 2018 to offer soft capsule formulation and process support to customer. Automation Control Engineering product line completed a number of product development, namely pharmaceutical warehouse management system (WMS), cleaning garment management system, pharmaceutical material barcode management system, electronic batch record automated generation system, and barcode printing system for biological disposable system. These form part of our automation software applications and the basis of our overall Pharma IT system components currently under development by leveraging the softwares of our partners with our own development capacities.

Biologics Upstream and Downstream equipment research team has also been strengthened with more manpower resources to support the liquid process system segment.

Expand by strategic acquisition of business and/or companies

The Group targets to acquire world-class specific technology leading companies bringing 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 negotiations. The Company continues to seek acquisition targets to bring technological and commercial value to the Company.

In 2017, we negotiated with some targets but the Company did not succeed in materialising the transactions after thorough and careful consideration on the proposed terms and conditions of the deals and their associated risks. The Company will continue its efforts in identifying potential targets.

RESULTS OF OPERATIONS

Revenue

The Group provides its services and products under six business segments, namely, (1) Liquid and Bioprocess System, the major types of which include pharmaceutical water system, and liquid preparation and bioprocess system; (2) Clean Room and Automation Control and Monitoring System, the major types of which include clean room enclosure system, and automation control and monitoring system; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment.

For the Year, the Group's total revenue amounted to approximately RMB546.9 million, representing a decrease of approximately 18.7% over 2016, primarily due to the decrease in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Distribution and Agency of Pharmaceutical Equipment and GMP Compliance Service and which had offset the increase in revenue from the business segments of Life Science Consumables and Powder and Solid System.

The following table sets forth, for the years ended 31 December 2017 and 2016, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2017		2016		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**167,711**	**30.6%**	303,698	45.1%	(44.8%)
Clean Room and Automation Control and Monitoring System	**128,034**	**23.4%**	152,344	22.7%	(16.0%)
Powder and Solid System	**57,182**	**10.5%**	51,627	7.7%	10.8%
GMP Compliance Service	**25,458**	**4.7%**	26,478	3.9%	(3.9%)
Life Science Consumables	**151,026**	**27.6%**	113,505	16.9%	33.1%
Distribution and Agency of Pharmaceutical Equipment	**17,522**	**3.2%**	24,893	3.7%	(29.6%)
Total	**546,933**	**100.0%**	672,545	100.0%	(18.7%)

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB136.0 million or 44.8% from approximately RMB303.7 million for the year ended 31 December 2016 to approximately RMB167.7 million for the Year. The decrease was mainly due to (i) prolonged execution time for certain projects undertaken by the Group resulting in a decrease in revenue; (ii) backlog at the end of 2016 was significantly decreased by 19.8% comparing with 2015, and this affected the contract works undertaken and revenue recognised during the Year; (iii) more than 40% of the order-in-take amount in the segment of Liquid and Bioprocess System was acquired in the fourth quarter of 2017, and has not yet been recognised as revenue for the Year.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB24.3 million or 16.0% from approximately RMB152.3 million for the year ended 31 December 2016 to approximately RMB128.0 million for the Year. The decrease was mainly due to prolonged execution time for several automation control system contracts with large amount.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB5.6 million or 10.8% from approximately RMB51.6 million for the year ended 31 December 2016 to approximately RMB57.2 million for the Year. The increase was primarily resulted from improvement in project execution efficiency and strength enhancement in total-solution service in the oral solid dosage (OSD) field after the establishment of a new OSD product line in 2015.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service decreased by approximately RMB1.0 million or 3.9% from approximately RMB26.5 million for the year ended 31 December 2016 to approximately RMB25.5 million for the Year which due to certain amount of projects acquired in the second half year of 2017 has not yet been recognised as revenue for the Year.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB37.5 million or 33.1% from approximately RMB113.5 million for the year ended 31 December 2016 to approximately RMB151.0 million for the Year, which was primarily attributable to (i) the Group's excellent integrated service of providing diversified life science consumables with 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 RMB7.4 million or 29.6% from approximately RMB24.9 million for the year ended 31 December 2016 to approximately RMB17.5 million for the Year, which was due to decrease in the amount of backlog in the business segment of Distribution and Agency of Pharmaceutical Equipment at the end of 2016.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years ended 31 December 2017 and 2016:

	For the year ended 31 December				
	2017		2016		Change
Revenue	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**481,844**	**88.1%**	596,629	88.7%	(19.2%)
Other locations	**65,089**	**11.9%**	75,916	11.3%	(14.3%)
Total	**546,933**	**100.0%**	672,545	100.0%	(18.7%)

The Group derived its revenue mainly from Mainland China, which accounted for approximately 88.1% of the total revenue for the year ended 31 December 2017 (2016: approximately 88.7%).

Cost of sales

The Group's cost of sales decreased by approximately RMB87.4 million or 17.0% from approximately RMB512.8 million for the year ended 31 December 2016 to approximately RMB425.4 million for the year ended 31 December 2017. Such decrease was mainly due to decrease in revenue.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB38.2 million or 23.9% from approximately RMB159.7 million for the year ended 31 December 2016 to approximately RMB121.5 million for the year ended 31 December 2017. The gross profit margin decreased from approximately 23.7% for the year ended 31 December 2016 to approximately 22.2% for the year ended 31 December 2017, which was mainly resulted from the decrease in gross profit from the business segments of Liquid and Bioprocess System and Clean Room and Automation Control and Monitoring System.

The following table sets forth the breakdown of the Group's gross (loss)/profit and gross (loss)/profit margin by business segment for the years indicated:

	For the year ended 31 December					
	2017			2016		
Gross (loss)/profit and gross (loss)/profit margin by business segment	**RMB'000**	**%**	**Gross (loss)/ profit margin %**	RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**(3,097)**	**(2.5%)**	**(1.8%)**	43,558	27.3%	14.3%
Clean Room and Automation Control and Monitoring System	**30,736**	**25.3%**	**24.0%**	36,110	22.6%	23.7%
Powder and Solid System	**17,395**	**14.3%**	**30.4%**	15,794	9.9%	30.6%
GMP Compliance Service	**12,647**	**10.3%**	**49.7%**	12,309	7.7%	46.5%
Life Science Consumables	**58,285**	**48.0%**	**38.6%**	45,097	28.2%	39.7%
Distribution and Agency of Pharmaceutical Equipment	**5,566**	**4.6%**	**31.8%**	6,839	4.3%	27.5%
Total	**121,532**	**100.0%**	**22.2%**	159,707	100.0%	23.7%

Notes:

1. Gross (loss)/profit margins by business segments represent gross (loss)/profit divided by revenue of respective business segments for the year.

2. Total gross (loss)/profit margin represent gross (loss)/profit divided by total revenue for the year.

Liquid and Bioprocess System

The Group's gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB46.7 million or 107.1% from approximately RMB43.6 million for the year ended 31 December 2016 to gross loss of approximately RMB3.1 million for the year ended 31 December 2017. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 14.3% for year ended 31 December 2016 to approximately negative 1.8% for the year ended 31 December 2017, which was mainly resulted from (i) prolonged execution time due to complex technology for certain biopharmaceutical projects undertaken by the Group during the Year 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 Year 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 RMB5.4 million or 14.9% from approximately RMB36.1 million for the year ended 31 December 2016 to approximately RMB30.7 million for the year ended 31 December 2017 mainly due to the decrease in the revenue of Automation Control system. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System slightly increased from approximately 23.7% for the year ended 31 December 2016 to approximately 24.0% for the year ended 31 December 2017.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB1.6 million or 10.1% from approximately RMB15.8 million for the year ended 31 December 2016 to approximately RMB17.4 million for the year ended 31 December 2017. The gross profit margin from the business segment of Powder and Solid System remained relatively stable at approximately 30.4% for the year ended 31 December 2017 as compared with approximately 30.6% for the year ended 31 December 2016, mainly attributable to the proficient management in project overall control after the Group has successfully completed its OSD product line in 2015.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB0.3 million or 2.7% from approximately RMB12.3 million for the year ended 31 December 2016 to approximately RMB12.6 million for the year ended 31 December 2017. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 46.5% for the year ended 31 December 2016 to approximately 49.7% for the year ended 31 December 2017, 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 RMB13.2 million or 29.2% from approximately RMB45.1 million for the year ended 31 December 2016 to approximately RMB58.3 million for the year ended 31 December 2017. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 39.7% for the year ended 31 December 2016 to approximately 38.6% for the year ended 31 December 2017, which was mainly due to increase in 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 RMB1.3 million or 18.6% from approximately RMB6.8 million for the year ended 31 December 2016 to approximately RMB5.6 million for the year ended 31 December 2017. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 27.5% for the year ended 31 December 2016 to approximately 31.8% for the year ended 31 December 2017, which was mainly due to the increase in amount of technical service provided for pharmaceutical equipment which had higher gross profit margin.

Other income

Other income increased by approximately RMB5.3 million or 253.7% to approximately RMB7.4 million for the year ended 31 December 2017 from approximately RMB2.1 million for the year ended 31 December 2016, mainly attributable to the increase in the subsidies granted by local government authorities of the PRC in the Year.

Other gains/(losses) – net

Other gains/(losses) – net increased by approximately RMB3.1 million to a gain of approximately RMB1.0 million for the year ended 31 December 2017 from a loss of approximately RMB2.1 million for the year ended 31 December 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 increased by approximately RMB17.8 million or 21.5% to approximately RMB100.5 million for the year ended 31 December 2017 from approximately RMB82.7 million for the year ended 31 December 2016. The increase was primarily due to the increase in the staff costs and market promotion expenses, warranty provision and travel expenses.

Administrative expenses

Administrative expenses increased by approximately RMB2.8 million or 4.2% to approximately RMB70.9 million for the year ended 31 December 2017 from approximately RMB68.1 million for the year ended 31 December 2016. The increase was primarily due to increase in staff costs.

Research and development expenses

As at 31 December 2017, the Group had 38 research and development personnel which accounted for approximately 4.0% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses decreased by approximately RMB6.0 million or 18.7% to approximately RMB26.1 million for the year ended 31 December 2017, compared to approximately RMB32.0 million for the year ended 31 December 2016, 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

Net finance income increased from approximately RMB2.2 million for the year ended 31 December 2016 to approximately RMB3.9 million for the year ended 31 December 2017, which was mainly attributable to the increase in currency exchange gain arising from retranslation of foreign currency cash and cash equivalents balances during the Year.

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

The Group's share of net profit of investments accounted for using equity method increased by approximately RMB1.8 million, from approximately RMB3.4 million for the year ended 31 December 2016 to approximately RMB5.2 million for the year ended 31 December 2017, primarily attributable to the increase in share of profit from the Group's investments in a joint venture, PALL-AUSTAR Lifesciences Limited, and an associate, ROTA, by approximately RMB1.0 million and RMB1.0 million respectively.

Loss before income tax

The Group's loss before income tax increased by approximately RMB40.9 million from approximately RMB17.5 million for the year ended 31 December 2016 to approximately RMB58.4 million for the year ended 31 December 2017, which was primarily due to the factors as described above in this section.

Income tax credit/(expense)

Income tax credit/(expense) increased from an expense of approximately RMB1.2 million for the year ended 31 December 2016 to a credit of approximately RMB4.2 million for the year ended 31 December 2017, mainly due to the reversal of deferred income tax liabilities.

Loss for the year

The Group's loss for the year increased by approximately RMB35.5 million, from approximately RMB18.7 million for the year ended 31 December 2016 to approximately RMB54.2 million for the year ended 31 December 2017, which was primarily due to the factors as described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash used in operating activities	**(6,171)**	(30,462)
Net cash generated from/(used in) investing activities	**27,505**	(59,696)
Net cash generated from/(used in) financing activities	**834**	(16,081)
Net increase/(decrease) in cash and cash equivalents	**22,168**	(106,239)

For the year ended 31 December 2017, the Group had net cash used in operating activities of approximately RMB6.2 million mainly attributable to:

i. the loss before income tax of approximately RMB58.4 million;

ii. the increase in the trade and other receivables of approximately RMB46.6 million;

iii. the increase in trade and other payables of approximately RMB7.7 million; and

iv. the increase in amounts due to customers for contract work of approximately RMB30.2 million and the decrease in amounts due from customers for contract work of approximately RMB36.1 million mainly resulted from the Group's improvement on project control, and get Site Acceptance Test Report on many projects in the second half of the Year.

For the year ended 31 December 2017, the Group had net cash generated from investing activities of approximately RMB27.5 million, which was mainly attributable to:

i. decrease in term deposits with initial terms of over three months of approximately RMB35.1 million;

ii. dividend received from joint venture of approximately RMB1.9 million; and

iii. partially offset by purchase of property, plant and equipment of approximately RMB9.1 million which consisted of machinery and equipment purchased for various business segments.

For the year ended 31 December 2017, the Group had net cash generated from financing activities of approximately RMB0.8 million mainly as a result of capital injection from non-controlling interests of approximately RMB2.1 million, but partially offset by interest paid of approximately RMB1.2 million.

As at 31 December 2017 and 31 December 2016, the Group had cash and cash equivalents of approximately RMB309.3 million and RMB286.4 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB7.9 million and RMB9.9 million respectively.

Net current assets

The Group's net current assets as at 31 December 2017 had decreased by approximately RMB77.8 million, from approximately RMB441.1 million as at 31 December 2016 to approximately RMB363.3 million as at 31 December 2017.

As at 31 December 2017, the Group's total current assets amounted to approximately RMB755.0 million, which was a decrease of approximately RMB39.6 million as compared with approximately RMB794.6 million as at 31 December 2016. The decrease was primarily due to:

i. the decrease in inventories of approximately RMB13.5 million, which was mainly due to the improvement on inventories management;

ii. the decrease in term deposit with initial terms of over three months of approximately RMB35.1 million and pledged bank deposits of approximately RMB2.0 million during the Year, but such decrease was partially offset by the increase in cash and cash equivalents of approximately RMB23.0 million during the Year; and

iii. the increase in trade and notes receivables of approximately RMB25.7 million.

As at 31 December 2017, the Group's total current liabilities amounted to approximately RMB391.7 million, which was an increase of approximately RMB38.2 million as compared with approximately RMB353.5 million as at 31 December 2016. The increase was primarily due to the increase in amounts due to customers for contract work in the amount of approximately RMB30.2 million, and trade and other payables in the amount of approximately RMB8.2 million.

Borrowings and gearing ratio

As at 31 December 2017, the total interest-bearing borrowings amounted to approximately RMB20.0 million, which is the same amount as at 31 December 2016, composed of secured short-term bank borrowing with the amount of RMB5 million and guaranteed short-term bank borrowing with the amount of RMB15 million bearing interest rates of 4.35% and 4.785% per annum respectively (31 December 2016: 4.35%).

The Group's gearing ratio is approximately 4.2% as at 31 December 2017 (31 December 2016: 3.7%). 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 31 December 2017, save for pledged bank deposits of approximately RMB7.9 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB7.8 million and approximately RMB5.7 million (31 December 2016: approximately RMB8.6 million and approximately RMB5.8 million respectively) which are pledged as security for short-term bank borrowings with carrying value of approximately RMB5.0 million (31 December 2016: approximately RMB20.0 million).

Contingent liabilities

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

HUMAN RESOURCES

As at 31 December 2017, the Group had 956 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 123 employees as compared to the number of employees as at 31 December 2016. The employee costs (including the Directors' remuneration) were approximately RMB139.3 million, which was an increase of approximately 9.4% as compared with approximately RMB127.3 million for the year ended 31 December 2016.

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

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

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

The Group has formulated provisions and rules on employees' training, such as the "Training and Development Control Procedures" and the "Training Management Control Procedures", detailing the implementation of training and accountability in training. In addition, in the "Staff Handbook", the Group divides training into orientation, overseas training, management training, professional skills training and corporate culture training.

CAPITAL COMMITMENT

Capital expenditure of property, plant and equipment and intangible assets which have been contracted for but not yet incurred as of 31 December 2017 amounted to approximately RMB2.2 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Our Board currently comprises eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors. The following tables sets forth certain information relating to our Directors:

Name	Age	Position
Executive Directors		
Mr. Ho Kwok Keung, Mars	55	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	60	Executive Director
Mr. Chen Yuewu	51	Executive Director
Madam Zhou Ning	45	Executive Director
Non-executive Director		
Madam Ji Lingling	35	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	46	Independent non-executive Director
Madam Chiu Hoi Shan	41	Independent non-executive Director
Mr. Leung Oi Kin	43	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho") (何國強), aged 55, is the founder of the Group and was appointed as a director of the Company on 9 January 2014 and became an executive Director with effect from 20 June 2014. He is the chairman of the Board and the chief executive officer of the Company. Mr. Mars Ho is also the chairman of the nomination committee of the Board (the "**Nomination Committee**") and a member of the corporate governance committee of the Board (the "**Corporate Governance Committee**"), and a director of certain subsidiaries of the Company. He is responsible for overseeing the business, corporate strategy and long-term planning all-round development of the Group. Mr. Mars Ho has over 30 years of experience in the pharmaceutical industry. Prior to founding the Group, Mr. Mars Ho worked as an assistant manager in the Pharmaceutical Equipment Department of Sun Hung Kai (China) Limited* from June 1985 to April 1988, where he was responsible for marketing of pharmaceutical equipment. Sun Hung Kai (China) Limited* was primarily engaged in a number of businesses, including property development, hotels, infrastructures, telecommunications and property management. From May 1988 to October 1990, he worked as a sales manager of Pharmaceutical and Chemical Industry for Leybold Limited (Hong Kong), where he was primarily responsible for the sales and marketing of products in the pharmaceutical, chemical and vacuum coating industries. Leybold Limited (Hong Kong) was primarily engaged in vacuum technology, vacuum process engineering, measuring and analytical technology. Mr. Mars Ho also worked as a sales manager for China Fen Hin Industrial Co., Ltd from November 1990 to April 1991 where he was responsible for managing and supervising the sales department and designing marketing plans. China Fen Hin Industrial Co., Ltd was engaged in the export and wholesale of Chinese medicine and health products. Since 1991, Mr. Mars Ho started his own business of an equipment agent company. Through co-operating with various reputable companies and by founding various pharmaceutical related companies, Mr. Mars Ho has been exposed in different aspects of the pharmaceutical industry. Mr. Mars Ho has also been serving some of the multinational pharmaceutical companies clients and pharmaceutical research institutes and manufacturers in the PRC. His technical knowledge has been acquired from his execution of projects and business with various partners over the past decades.

** For identification purpose*

In recognition of Mr. Mars Ho's dedication and achievements in the pharmaceutical industry, he was selected and awarded the honor of pharmaceutical 中國醫藥「60年60人」("60 Elites of 60 years" in China Pharmaceutical) in November 2009, which is a recognition of his effort in influencing and contributing to the pharmaceutical industry in China. He served as the chairman of China Affiliate of International Society of Pharmaceutical Engineering (ISPE) from 2011 to 2012, which is an organisation established with the mission of connecting the world of pharmaceutical industry professionals. He was a member of the ISPE China board of directors and executive council from 2013 to 2017. Mr. Mars Ho co-edited a number of pharmaceutical professional books such as Pharmaceutical Process Validation Manual, Microbial Control in Pharmaceutical Cleanroom, Pharmaceutical Liquid Process, and Pharmaceutical Water Systems. He is the current technical consultant and a member of the board of directors of China National Pharmaceutical Packaging Association. Mr. Mars Ho obtained a bachelor of science degree in engineering from The University of Hong Kong in November 1985. Mr. Mars Ho is a director of Standard Fortune Holdings Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**") (Cap. 571 of the Laws of Hong Kong) and the controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**")) of the Company.

Mr. Ho Kin Hung ("Mr. Ho") (何建紅), aged 60, joined the Group on 20 August 2003. He was appointed as a director of the Company on 9 January 2014 and became an executive Director with effect from 20 June 2014. Mr. Ho is also a director of a subsidiary of the Company. He is responsible for overall management of operations and sales of the Group. He has approximately 35 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in china trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987. Mr. Ho is a director of True Worth Global Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Chen Yuewu ("Mr. Chen") (陳躍武), aged 51, joined the Group on 1 August 2005 and was appointed as an executive Director with effect from 20 June 2014. He is also a member of the risk management committee of the Board (the "**Risk Management Committee**") and a director of a subsidiary of the Company. Mr. Chen is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has over 26 years of experience in the pharmaceutical industry. Prior to joining the Group, he worked as a production manager at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) from September 1990 to March 2000 where he was responsible for managing the engineering department and the production department. 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) was engaged in pharmaceutical production. Mr. Chen has been a technical services manager in a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company prior to joining the Group. Mr. Chen obtained a bachelor's degree of electrical engineering in industrial electrical and automated production in July 1990 from 河北工學院 (Hebei Institute of Technology*) in China. He further completed a one-year course in economics and management strategy at 北京大學 (Peking University*) in October 2012. In December 2014, Mr. Chen obtained the qualification certificate as senior engineer in pharmaceutical engineering from the Title Reform Leading Group Office of Hebei Province.

** For identification purpose*

Madam Zhou Ning ("Madam Zhou") (周寧), aged 45, joined the Group on 10 April 2014 and was appointed as an executive Director with effect from 20 June 2014. She is also the chairlady of each of the Corporate Governance Committee and the Risk Management Committee and a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Madam Zhou is also a director of certain subsidiaries of the Company. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 10 years of experience in the pharmaceutical industry. Prior to joining the Group, Madam Zhou worked as project manager at 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) from July 1995 to December 1999, where she was responsible for the operations of international exhibitions. 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) is a subsidiary of 北京市貿促會 (China Council for the Promotion of International Trade Beijing Sub-council*), which was engaged in the promotion of international trade and exchange of technology between different countries and the PRC, and a sub-council of 中國國際貿易促進委員會 (China Council for the Promotion of International Trade*). Before joining the Group in April 2014, from November 2005 to February 2014, Madam Zhou had been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting the coordination and communication of different business segments, and as the chief financial officer, where she was responsible for procurement and financial matters. Madam Zhou graduated with a bachelor's degree of arts from 北京師範大學 (Beijing Normal University*) in China in June 1995 and a master's degree in business administration from 北京大學 (Peking University*) in China in January 2006.

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling ("Madam Ji") (季玲玲), aged 35, was appointed as a non-executive Director with effect from 20 June 2014, on which she joined the Group. She is also a member of each of the audit committee of the Board (the "**Audit Committee**") and the Risk Management Committee. Madam Ji is a qualified lawyer in the PRC and has over 10 years' experience in legal compliance. Prior to becoming the chairman's assistant in 2005, she worked as a sales assistant in 北京啟迪世紀通訊技術有限公司 (Beijing Unismobile Communication Technology Co*) which is a company engaged in the research and development of communication and computer products from May 2004 to July 2005. Since July 2005, Madam Ji has been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting him in overseeing all legal matters. Madam Ji graduated from 中國人民大學 (Ren Min University of China*) in China with a bachelor's degree in laws in July 2004 and from 北京大學 (Peking University*) in China with a master's degree in laws in January 2012 respectively. Madam Ji also obtained the Master of Laws degree from Temple University of the United States in November 2017.

** For identification purpose*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("Mr. Cheung") (張立基), aged 46, was appointed as an independent non-executive Director with effect from 21 October 2014. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Cheung is an associate member of the Hong Kong Institute of Certified Public Accountants since October 1998 and a member of Certified Public Accountants of Australia since March 1998. He has over 23 years of experience in auditing and accounting field. Mr. Cheung worked as an audit assistant for George Yau & Co, a certified public accountants' firm from May 1994 to February 1996. From December 1996 to December 1998, he worked as a staff accountant for Ernst & Young. He worked for KPMG from October 1999 to January 2005. By the time he left KPMG, he was a manager. Both Ernst & Young and KPMG are certified public accountants' practice offering a variety of professional services including audit and assurance, consultancy, corporate finance and tax. Mr. Cheung served as the group financial controller, qualified accountant, authorised representative and company secretary of China Ruifeng Renewable Energy Holdings Limited (Stock code: 527), from February 2005 to January 2008. He served as the chief financial officer, qualified accountant, authorised representative and company secretary of United Photovoltaics Group Limited (now known as Panda Green Energy Group Limited) (Stock code: 686), from July 2008 to January 2009. He served as chief financial officer, company secretary and authorised representative of China Zhongwang Holdings Limited (Stock code: 1333), from December 2008 to June 2016. He served as executive director, chief financial officer, company secretary and authorised representative of Wan Kei Group Holdings Limited (Stock code: 1718), from January 2017 to January 2018. The shares of all of the above companies are listed on the Main Board of the Stock Exchange. He also served as chief financial officer of China Everbright Water Limited, which is listed on the Mainboard of Singapore Exchange Limited (SGX: U9E), from July 2016 to early January 2017. Mr. Cheung received a bachelor's degree in commerce from Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006.

Madam Chiu Hoi Shan ("Madam Chiu") (趙凱珊), aged 41, was appointed as an independent non-executive Director with effect from 21 October 2014. She is also the chairlady of the Remuneration Committee and a member of each of the Audit Committee, Nomination Committee and Corporate Governance Committee. Madam Chiu obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in December 1998 and June 1999 respectively. She has been practicing as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. Madam Chiu commenced practice as a founding partner of Chiu & Co. as from August 2017 and remains as a partner of S.H. Leung & Co, both are solicitors' firms in Hong Kong engaged in the provision of various legal services. Madam Chiu currently serves as company secretary of Chongqing Machinery & Electric Co., Ltd* (Stock code: 2722) since October 2014 and joint company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053) since March 2018, shares of both companies are listed on the Main Board of the Stock Exchange.

** For identification purpose*

Mr. Leung Oi Kin ("Mr. Leung") (梁愷健), aged 43, was appointed as an independent non-executive Director with effect from 21 October 2017. Mr. Leung is a professional accountant and a member of the Certified Practising Accountants Australia. He has over 20 years of experience in accounting and financial management. Mr. Leung worked in PricewaterhouseCoopers as an auditor from January 1997 to June 2000. Mr. Leung served as the group financial controller of China NT Pharma Group Company Limited (Stock code: 1011), from November 2010 to June 2012 and the company secretary and chief financial officer of Wisdom Holdings Group (now known as Wisdom Sports Group) (Stock code: 1661), from July 2012 to December 2013, the shares of both companies are listed on the Main Board of the Stock Exchange. He served as the chief financial officer of Linekong Interactive Group Co., Ltd. (Stock code: 8267), shares of which are listed on GEM of the Stock Exchange, from June 2015 to September 2016. Mr. Leung currently serves as an executive director and the company secretary of G-Resources Group Limited (Stock code: 1051), shares of which are listed on the Main Board of the Stock Exchange, since November 2016 and December 2016, respectively. Mr. Leung received a bachelor's degree in commerce from University of Adelaide, Australia in April 1997.

SENIOR MANAGEMENT

Name	Age	Position
Madam Wang Wei, Lena	44	Vice-president
Madam Tang Xiangdi	40	Financial controller

Madam Wang Wei, Lena ("Madam Wang") (王瑋), aged 44, was appointed as the Group's vice-president in October 2015 and she is primarily responsible for the marketing of the Group. Madam Wang joined the Group in October 2003 and was responsible for sales marketing and operation of consumables, instrument and equipment in Lifesciences industry until June 2015. From June 2015, Madam Wang takes charge of full operations of Lifesciences Instrument & Consumables Business Unit. She was also appointed as general manager of Austar Hansen Lifesciences (Shanghai) Ltd. in June 2015. Prior to joining the Group, Madam Wang worked for NCPC Genetec Biotechnology Co. Limited as quality assurance supervisor from 2000 to 2003 and served as the leader of Strain Breeding Group, Hebei Welcome Pharmaceutical Co., Ltd. from 1995 to 1999. Madam Wang obtained a bachelor's degree from Hebei University of Science and Technology on 5 January 2010.

Madam Tang Xiangdi ("Madam Tang") (唐湘娣), aged 40, was appointed as our Group's financial controller from 1 November 2013 and she is primarily responsible for the financial management of our Group. Madam Tang joined our Group in January 2013. She has over 12 years of experience in financial reporting and treasury management. From July 2000 to May 2002, she worked as an accountant at 北京匯金科技有限責任公司 (Beijing Nasoft Co. Ltd*), a company engaged in the research and development of software and information systems and she was responsible for preparing the accounting documents and tax returns. She worked as a finance manager in 樂金電子(中國)有限公司(北京營業部) (LG Electronics (China) Co., Ltd (Beijing Sales office)*), a company engaged in the manufacturing, sales, and the research and development of various electronic products, and home appliances, from May 2002 to June 2007 and she was responsible for reviewing the daily, monthly and annual financial reports. From June 2007 to April 2009 she worked as a finance manager responsible for reviewing, examining and monitoring the revenue and expenses in the daily operations, audit reports and inventory level at 北京同樂寒舍國際餐飲有限責任公司 (My Humble House in Beijing (Restaurant) Company Limited*), a company engaged in catering business. She has been a finance manager since April 2009 in a company controlled by Mr. Mars Ho, the chairman of the Board, chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, prior to joining our Group. Madam Tang obtained a bachelor's degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master's degree of business administration from 北京大學 (Peking University) in June 2014.

** For identification purpose*

REPORT OF THE DIRECTORS

The Board is pleased to present this annual report together with the audited consolidated financial statements ("**Consolidated Financial Statements**") of the Company for the Year.

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

The Company was incorporated in the Cayman Islands on 9 January 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

On 7 November 2014, ordinary shares of the Company ("**Shares**") were first listed on the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). As at 31 December 2017, out of the aggregated net proceeds from the IPO of approximately HK$411.8 million, (i) as to approximately RMB26.2 million (equivalent to approximately HK$31.3 million) had been utilised for general research and development; (ii) as to approximately RMB7.8 million (equivalent to approximately HK$9.4 million) had been utilised 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 utilised for merger and acquisition; and (vi) the remaining of approximately RMB222.1 million (equivalent to approximately HK$291.2 million) has been deposited into the banks and has not yet been utilised. Such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of proceeds" in the prospectus of the Company dated 28 October 2014 ("**Prospectus**").

As at 31 December 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 Group was given to understand that the Premium advanced to the Shijiazhuang Government was for the purpose of facilitating the land expropriation process and increasing the lands available for tender in the Zone by the Shijiazhuang Government. Subject to the signing of any legally binding agreement between the Shijiazhuang Government and the Group, the Premium prepaid by the Group 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 approximately RMB13.7 million (equivalent to approximately HK$16.1 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 information currently available to the Group, 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 has been considering changing part of its net proceeds from the IPO originally allocated for establishment of the Shijiazhuang R&D and Production Centre to potential mergers and acquisitions ("**Possible Change of Use of Proceeds**") in order to better utilise the resources of the Group.

The Company would like to emphasise that, as at the date 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 materialised, will be made by the Company as and when appropriate in compliance with the Listing Rules.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's operations are substantially conducted through its subsidiaries in the PRC. The Group is principally engaged in providing integrated engineering solutions to pharmaceutical manufactures and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the PRC under six business 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. Details of principal activities of the subsidiaries of the Company are set out in Note 34 to the Consolidated Financial Statements.

A detailed review on the Group's business performance and the material factors underlying its financial position during the Year, as well as the development and likely future prospects of the Group's business are provided throughout this annual report and in particular under the following separate sections:

(a) review of the Company's business and financial position; and development and future prospects of the Company's business – "Chairman's Statement" and the "Management Discussion and Analysis" section of this annual report;

(b) details of key performance indicators are shown in the sections headed "Financial Highlights" and "Management Discussion and Analysis" of this annual report; and

(c) the principal risks and uncertainties facing the Company – "Risks and Uncertainties" set out in the following section of this report.

The discussions referred to in the above form part of this Report of the Directors.

No important events affecting the Group has occurred since the end of the Year.

RISKS AND UNCERTAINTIES

The Group's businesses, financial condition, results of operations and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's businesses, financial conditions, results of operations or growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

RISKS

Business/Market risks

The pharmaceutical equipment, process system and service market is competitive, when domestic and foreign competitors may develop and introduce new products sooner than the Group, or provide more attractively priced, enhanced, or better quality products and systems, than the Group does. In addition, competition may intensify if the pharmaceutical equipment, process system and service market expands as demand increases, and in such case, it may result in downward pressure on price which could negatively impact the Group's business, financial condition, result of operations, and prospects.

Customer relationship management is a series of strategies and processes that create new and mutual value for individual customers, builds preference for their organisations, improves business results over a lifetime of association with their customers, and in turn, creates loyalty and customer retention. Higher risk in customer relationship management may have negative impact on customer retention or result in loss of client information upon departure of our staff.

MAJOR RELEVANT ALLEVIATING MEASURES

The Group continuously reviews its competitive edges in view of the industry and market trend, in order to formulate responsive marketing strategy and product developments.

Through proactive communication with its customers and strong research teams, the Group is able to develop and improve its products and services to cater various needs of the market. Such efforts are reflected not only in the Group's products, but also through seminars, publications and participations in international exhibitions, to develop the "AUSTAR" brand image and receive recognition and awareness among the Group's customers, industry experts and the market at large.

To manage the customer relationship management risk, all customer information (including potential clients) will be gathered and stored in a centralised electronic database of the Company, instead of being kept by individual sales staff. This can prevent the loss of customer information when sales staff leaves the Company.

RISKS	MAJOR RELEVANT ALLEVIATING MEASURES
Operational risks	
Cost management is critical in ensuring the Group's projects meet their budgeted profit margins. The risk of cost overrunning increases with the prolonged execution of projects, and possible increase in the price of materials and cost of labours.	The Group, through various means in particular the establishment of engineering project execution centre, strives to promote closer relationship and information sharing between the marketing team, project engineers and technical experts in budgeting and cost monitoring.
The Group's operations are highly dependent on its personnel, including both senior and mid-level management, engineers, skilled technical personnel and marketing and sales personnel. The Group may be materially and adversely affected if any of these key personnel leaves the Group and there being no adequate and timely replacement.	The engineering project execution centre also strengthens the Group's ability to monitor and coordinate its various projects, both in supply chain management and human resources allocation, in order to achieve an optimal use of the Group's resources and avoid its personnel being overworked. The Group also closely monitors its staffing and maintains close communication between the engineering project execution centre and the human resources department, so that any recruitment needs would be promptly responded.
Compliance risks	
The Group's operations are subject to the environmental protection, safety and health laws and regulations in the PRC. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of the Group's licences or permits to conduct its business. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources in establishing efficient compliance and monitoring systems.	Through close monitoring of various legal and regulatory pronouncements from the government by its industry experts and legal and compliance personnel, the Group is able to keep itself updated with various regulatory requirements. Adequate and timely trainings are provided to operational staff, and monitoring and control measures are established to ensure efficient and effective compliance with the laws and regulations.

Please also refer to Note 3 to the Consolidated Financial Statements for the financial risk management objectives and policies of the Group.

Relationships with key stakeholders

a) Employees

Human resources are one of the greatest assets of the Group and the Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety. The Group maintains a good relationship with its employees. Staff salary payment and promotion will be measured against their progressive performance level, contribution, and achievement against the objectives set by the Group. Performance evaluation will be conducted annually. During the Year, recreational activities and team building activities were held to enhance internal communication, reinforce a sense of belonging and promote staff team building.

b) Customers

As disclosed in the paragraph headed "Major customers and suppliers" below, the five largest customers of the Group accounted for approximately 13.7% of the Group's total revenue for the Year. These major customers are chemical and biopharmaceutical manufacturers and the Group has maintained stable relationships with them for around 2 to 8 years. The credit period granted to these major customers are in line with those granted to the other customers. During the Year, settlement of trade receivables by these major customers in accordance with the credit terms granted had been satisfactory, with provisions of approximately RMB233,000 made for the Year.

Taking into account the considerable revenue of the Group attributable to its key customers and the possible financial and reputational impact which could bring to the Group if the Group shall lose these major customers, the Group has implemented a series of policies including customer complaints management, customer satisfaction survey, top management random inspection and after-sales service, in order to maintain customer intimacy and keep good relationship with its key customers.

During the Year, the Group has organised and attended public training and seminars with attendees from pharmaceutical companies who are mainly from production, quality, and engineering departments. The introduction of advanced concepts is deemed to improve the overall level of the pharmaceutical industry.

The Group also continues its pace in research and development with an aim to offer more comprehensive solutions to its customers, so as to retain existing customers and attract new customers.

c) Suppliers

The Group has developed stable relationships with many of its key suppliers and generally retain at least one to three suppliers for each principal raw material. At the beginning of each year the management discusses with major suppliers about price deduction, payment terms improvement and enters into master procurement agreements. The Group also conducts annual appraisal on all existing suppliers so as to ensure materials produced by those suppliers are in line with the Group's quality requirement.

To keep the Company at the forefront of innovation, suppliers are frequently invited to give new products training to the Group's staff including those from the sales, technical and procurement departments. New ideas can be applied to project proposals so as to provide customers with most competitive solutions.

Further discussion on the relationships with key stakeholders are also contained in the section headed "Environmental, Social and Governance Report" on pages 72 to 94 of this annual report.

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all relevant laws and regulations in the PRC and applicable laws in the jurisdictions where it has operations. During the year ended 31 December 2017 and up to the date of this annual report, the Board was unware of any non-compliance with relevant laws and regulations that have a significant impact on the business and operations of the Group.

Further discussion on the Group's compliance with laws and regulations is contained in the section headed "Environmental, Social and Governance Report" on pages 72 to 94 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Financial Statements on pages 101 to 106 of this annual report.

The Directors do not recommend the payment of any dividend for the Year.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Thursday, 24 May 2018 ("**2018 AGM**").

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Thursday, 17 May 2018 to Thursday, 24 May 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2018 AGM, all transfer of Shares accompanied by the relevant Shares certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Wednesday, 16 May 2018.

FINANCIAL SUMMARY

A summary of the published financial results and of the assets and liabilities of the Group for the Year, together with the financial results and of the assets and liabilities of the Group for the four years ended 31 December 2016 is set out in the section headed "Five-year Financial Summary" of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the Group's property, plant and equipment during the Year are set out in Note 6 to the Consolidated Financial Statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2017 are set out in Note 19 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in Note 17 to the Consolidated Financial Statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity on page 105 and in Note 33 to the Consolidated Financial Statements respectively.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the shareholders of the Company ("**Shareholders**") as at 31 December 2017 amounted to RMB432,863,000 (31 December 2016: RMB452,395,000).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed minimum percentage of public float during the Year and up to the date of this annual report as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association ("**Articles**") or applicable laws of the Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Executive Directors
Mr. Ho Kwok Keung, Mars *(Chairman and Chief Executive Officer)*
Mr. Ho Kin Hung
Mr. Chen Yuewu
Madam Zhou Ning

Non-executive Director
Madam Ji Lingling

Independent non-executive Directors
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin *(Appointed with effect from 21 October 2017)*
Mr. Raco Ivan Jordanov *(alias Racho Jordanov) (Resigned with effect from 21 October 2017)*

In accordance with Articles 84(1) and 84(2) of the Articles and pursuant to the code provision A.4.2 of Appendix 14 to the Listing Rules, Madam Zhou Ning, Madam Ji Lingling and Mr. Cheung Lap Kei will retire by rotation at the 2018 AGM. In addition, by virtue of Article 83(3) of the Articles, Mr. Leung Oi Kin shall retire as Director at the 2018 AGM. All the retiring Directors, being eligible, will offer themselves for re-election at the 2018 AGM.

DIRECTORS' PROFILES

Details of the Directors' profiles are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has renewed his/her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2016, subject to certain early termination clauses of the letter.

The non-executive Director has renewed her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2017, subject to certain early termination clauses of the letter.

Each of Madam Chiu Hoi Shan and Mr. Cheung Lap Kei, being independent non-executive Directors, has renewed his/her letter of appointment with the Company for a fixed term of one year commencing on 21 October 2017, subject to certain early termination clauses of the letter.

Mr. Leung Oi Kin, being independent non-executive Director, has entered into a letter of appointment with the Company for a fixed term of one year commencing on 21 October 2017, subject to certain early termination clauses of the letter.

None of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

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

As at 31 December 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 SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long position:

Name of Director	The Company/ Name of associated corporations	Capacity/ Nature of interest	Number and class of shares held/interested in the Company/ associated corporations	Approximate percentage of interest
Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**")	The Company	Interest of a controlled corporation	335,929,000 Shares *(Note 1)*	65.54%
	The Company	Interest of spouse	3,750,000 Shares *(Note 2)*	0.73%
	Standard Fortune Holdings Limited ("**SFH**") *(Note 3)*	Beneficial owner	1 ordinary share of US$1	100%
Mr. Ho Kin Hung ("**Mr. KH Ho**")	The Company	Interest of a controlled corporation	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 31 December 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.

Save as disclosed above, as at 31 December 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 Year 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.

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

Changes in Directors' information since the date of the 2017 interim report of the Company are set out below:

– Madam Ji Lingling, the non-executive Director, obtained the Master of Laws degree from Temple University of the United States in November 2017.

– Madam Chiu Hoi Shan, an independent non-executive Director, has been appointed as the joint company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053), the shares of which are listed on the Main Board of the Stock Exchange, since 20 March 2018.

– The annual Director's fee of each of Mr. Cheung Lap Kei and Madam Chiu Hoi Shan, the independent non-executive Directors, has been revised to HK$156,000 with effect from 21 October 2017.

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and controlling shareholders (as defined under the Listing Rules) of the Company nor their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the Year and up to the date of this annual report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group had not entered into any transactions which constituted non-exempt connected transactions or non-exempt continuing connected transactions under the Listing Rules.

RELATED PARTY TRANSACTIONS

During the Year, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards but these transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are disclosed in Note 31 to the Consolidated Financial Statements.

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director or a controlling shareholder (as defined in the Listing Rules) of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in Note 24 to the Consolidated Financial Statements. The Directors' remunerations, bonuses and other compensation are determined or recommended by the Remuneration Committee with reference to the Directors' duties, responsibilities and the Group's performance and results.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The Articles provide that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Save for the above, at no time during the year ended 31 December 2017 and up to the date of this annual report, there was or is, any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

RETIREMENT SCHEMES

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and the Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in Note 24 to the Consolidated Financial Statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the Year.

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

As at 31 December 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 of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

Long position:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held/ Interested in	Approximate percentage of Interest
Madam Gu	Interest of a controlled corporation	3,750,000 *(Note 1)*	0.73%
	Interest of spouse	335,929,000 *(Note 2)*	65.54%
SFH	Beneficial owner	335,929,000 *(Note 3)*	65.54%
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%

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 31 December 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.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code ("**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" of this annual report. The Board will continue to review and monitor the practices of the Company with an aim to maintaining the highest standard of corporate governance.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the largest customer and the largest supplier of the Group accounted for approximately 4.8% and 7.7% of the Group's total revenue and total purchases respectively, and the five largest customers and the five largest suppliers of the Group accounted for approximately 13.7% and 27.4% of the Group's total revenue and total purchases respectively.

None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers and suppliers at any time during the Year.

AUDIT COMMITTEE

The Board established the 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 published on the Company's website and the website of the Stock Exchange.

The Audit Committee has reviewed the Consolidated Financial Statements for the Year.

AUDITOR

The Consolidated Financial Statements for the Year have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment at the 2018 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2018 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

26 March 2018

CORPORATE GOVERNANCE REPORT

The Company recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. The Company has adopted a code of corporate governance, containing the code provisions set out in the Corporate Governance Code.

Save for the deviation stated in relation to the chairman of the Board and chief executive officer of the Company being the same individual 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 Year 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.

During the Year, the Company had been updating the Board with the Company's performance and financial position on a monthly basis.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding its Directors' securities transactions. The Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry, all Directors have confirmed that they have complied with the required standard set out in the Model Code during the Year.

BOARD OF DIRECTORS

Function of the Board

The Board is responsible for establishing the Group's strategic goals, leading and monitoring the Group's development and achieving established strategic goals to protect and maximise the interests of the Company and its Shareholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board is also required to approve the Group's strategic development plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks.

Daily business operations and administrative functions of the Group are delegated to the management of the Group (the "**Management**").

Board composition

The Board consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. The biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The Directors during the Year and up to the date of this annual report were:

Executive Directors	
Mr. Ho Kwok Keung, Mars	Chairman of the Board Chief executive officer of the Company Chairman of the Nomination Committee Member of the Corporate Governance Committee
Mr. Ho Kin Hung	
Mr. Chen Yuewu	Member of the Risk Management Committee
Madam Zhou Ning	Chairlady of the Corporate Governance Committee and the Risk Management Committee Member of the Remuneration Committee
Non-executive Director	
Madam Ji Lingling	Member of the Audit Committee and the Risk Management Committee
Independent non-executive Directors	
Mr. Cheung Lap Kei	Chairman of the Audit Committee Member of the Remuneration Committee and the Nomination Committee
Madam Chiu Hoi Shan	Chairlady of the Remuneration Committee Member of the Audit Committee, the Nomination Committee and the Corporate Governance Committee
Mr. Leung Oi Kin *(Appointed with effect from 21 October 2017)*	
Mr. Raco Ivan Jordanov (alias Racho Jordanov) *(Resigned with effect from 21 October 2017)*	

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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. The chairman of the Board is responsible for the overall leadership of the Company and for strategies and planning of the Group. The chief executive officer of the Company is responsible for the day-to-day management of the Group's business and operations.

Mr. Ho Kwok Keung, Mars assumes the role of both the chairman of the Board and the chief executive officer of the Company. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority of the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently. In addition, the Board is of the view that the balanced composition of executive and non-executive Directors (including the independent non-executive Directors) on the Board and the various committee 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.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the Year, the Board has met the requirements of Rules 3.10 and 3.10A of the Listing Rules of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received an annual confirmation of independence from each of Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Leung Oi Kin, being all the independent non-executive Directors, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The non-executive Director and all independent non-executive Directors are appointed for a term of two years and one year respectively, subject to renewal upon expiry of the existing term.

Each of such appointments is subject to the rotation and retirement provisions in the Articles.

BOARD COMMITTEES

The Board has established five specialised committees, namely Audit Committee, Remuneration Committee, Nomination Committee, Corporate Governance Committee and Risk Management Committee (collectively, the "**Board Committees**"). Each committee has its own written terms of reference and is responsible to make recommendations to the Board. All of the Board Committees are allocated with sufficient resources to discharge their duties.

Audit Committee

The Board established the Audit Committee on 21 October 2014 with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules and the Corporate Governance Code. The Audit Committee currently comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one non-executive Director, namely Madam Ji Lingling. Mr. Cheung Lap Kei is the chairman of the Audit Committee. None of them is a member of the former or existing auditors of the Company. The terms of reference of the Audit Committee are published on the Company's website and the website of the Stock Exchange.

The primary duties of the Audit Committee are to review the half-yearly and annual results of the Company and to supervise the Group's financial report process and internal control system, and to formulate or review polices relating anti-bribery compliances, by ensuring regular management review of relevant corporate governance measures and its implementation and to communicate with external auditor on the audit procedures and accounting issues.

During the Year, the Audit Committee held two meetings, and the attendance of each member is set out in the section headed "Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

In addition to the Audit Committee meetings, the Audit Committee also dealt with matters by way of circulation during the Year.

A summary of the work performed by the Audit Committee during the Year is listed below:

– reviewed the Group's annual financial statements for the year ended 31 December 2016 and interim financial statements for the six months ended 30 June 2017 and the related result announcements, documents and other matters or issues raised by external auditor of the Company;

– reviewed the terms of engagement of external auditor of the Company;

– recommended to the Board, for the approval by the Shareholders, of the re-appointment of the auditor of the Company;

– reviewed the terms of engagement of external consultants in respect of review of internal control and risk management systems of the Group; and

– discussed and confirmed with the management the effectiveness of the Group's financial reporting process, risk management and internal control systems.

Remuneration Committee

The Board established the Remuneration Committee on 21 October 2014 with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee currently comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one executive Director, namely Madam Zhou Ning. Madam Chiu Hoi Shan is the chairlady of the Remuneration Committee. The terms of reference of the Remuneration Committee are published out on the Company's website and the website of the Stock Exchange.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior managements, to set up a formal and transparent procedure for determination of such remuneration policies and to assess the performance of the Directors and approve the terms of the Directors' service contracts.

The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and the general market conditions. The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) to make recommendations to the Board on remuneration packages of the Directors and the members of senior management.

During the Year, the Remuneration Committee held two meetings and the attendance of each member is set out in the section headed "Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

In addition to the Remuneration Committee meetings, the Remuneration Committee also dealt with matters by way of circulation during the Year.

A summary of the work performed by the Remuneration Committee during the Year is listed below:

– reviewed the existing policy and structure for the remuneration of Directors;

– considered and recommended to the Board the remuneration package for the proposed independent non-executive Director; and

– reviewed and recommended to the Board the remuneration package of individual Directors in connection with the renewal of their respective letters of appointment.

Nomination Committee

The Board established the Nomination Committee on 21 October 2014 with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee currently comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one executive Director, namely Mr. Ho Kwok Keung, Mars. Mr. Ho Kwok Keung, Mars is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are published on the Company's website and the website of the Stock Exchange.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to make recommendations on any proposed changes to the Board, identify individuals suitably qualified to be Directors and assess the independence of the independent non-executive Directors.

When considering the appointment or reappointment of Directors, the Nomination Committee will consider various factors including the background, experience and qualification of the proposed candidates to ensure that the proposed candidates possess the requisite experience, characters and integrity to act as a Director, and other criteria with regard to the benefits of diversity, including but not limited to gender, age, cultural and educational background, or professional experience and taking into account the Group's business model and specific needs, as set out in the board diversity policy adopted by the Company on 21 October 2014 ("**Board Diversity Policy**") which is available on the websites of the Company and the Stock Exchange.

During the Year, the Nomination Committee held two meetings and the attendance of each member is set out in the section headed "Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

A summary of the work performed by the Nomination Committee during the Year is listed below:

– reviewed the Board's structure, size and composition;

– assessed the independence of the independent non-executive Directors;

– made recommendation to the Board on the re-election of retiring Directors at the 2017 AGM (as defined below); and

– made recommendation of new Director candidate for the Board's approval.

During the Year, the Nomination Committee has principally reviewed the Board composition and was of the opinion that the Board consisted of members with different gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge, which met the requirements under the terms of the Board Diversity Policy.

Corporate Governance Committee

The Board established the Corporate Governance Committee on 21 October 2014 and the Corporate Governance Committee currently comprises one independent non-executive Director, namely Madam Chiu Hoi Shan and two executive Directors, namely Mr. Ho Kwok Keung, Mars and Madam Zhou Ning. Madam Zhou Ning is the chairlady of the Corporate Governance Committee. The terms of reference of the Corporate Governance Committee are published on the Company's website and the website of the Stock Exchange.

The primary duties of the Corporate Governance Committee are to review and monitor the Company's policies and practices on corporate governance matters and on compliance with the Corporate Governance Code and other relevant legal and regulatory requirements. It is also responsible for reviewing and monitoring the training and continuous professional development of the Directors and senior management and compliance with the code of conduct applicable to the employees and Directors.

During the Year, the Corporate Governance Committee held one meeting, at which the members of the Corporate Governance Committee principally reviewed the Company's compliance with the Corporate Governance Code for the year ended 31 December 2016 and reviewed and monitored the training and continuous professional development of the Directors.

The attendance of each member is set out in the section headed "Directors' attendance records of the Board and the Board Committees and general meeting" below.

Risk Management Committee

The Board established the Risk Management Committee on 21 October 2014 and the Risk Management Committee currently comprises one non-executive Director, namely Madam Ji Lingling and two executive Directors, namely Madam Zhou Ning and Mr. Chen Yuewu. Madam Zhou Ning is the chairlady of the Risk Management Committee. The terms of reference of the Risk Management Committee are published on the Company's website and the website of the Stock Exchange.

The primary duties of the Risk Management Committee are to review the Group's risk management policies and standards, the fundamental concepts and scope of compliance management, to provide comment on the overall target and basic policy of compliance and risk management, to monitor and evaluate the risk of the Group's business on sales to sanctioned countries and to take measures to protect the interests of the Group and the Shareholders.

During the Year, the Risk Management Committee held two meetings, at which the members of the Risk Management Committee principally reviewed the compliance by the Group with its undertakings to the Stock Exchange, further details of which are set out below, and reviewed, evaluated and confirmed the effectiveness of the risk management policy and system of the Company.

The attendance of each member is set out in the section headed "Directors' attendance records at meetings of the Board and the Board Committees and general meeting" below.

The Company has undertaken to the Stock Exchange that it will comply with certain undertakings in relation to the use of proceeds from the initial public offering to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any countries which are the targets of economic sanctions as administered by the United States Department of Treasury's Office of Foreign Assets Control ("**OFAC**"), under the laws of other countries and under international law, such as Lebanon and Iran ("**Sanctioned Countries**"), and Russia (where certain persons and entities listed on OFAC's Specially Designated Nationals and Blocked Person List are located) or any other government, individual or entity sanctioned by the European Union, the United Nations, the U.S. or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC administered sanctions ("**Undertaking**").

Subsequent to the listing of the Shares on the Stock Exchange, as a risk management policy, the Company has engaged a firm of international legal counsel to advise on laws of the Sanctioned Countries in order to enable the Company to comply with the Undertaking given by the Company to the Stock Exchange as contained in the Prospectus.

BOARD MEETINGS AND GENERAL MEETING

During the Year, a general meeting, being the 2017 annual general meeting held on 23 June 2017 ("**2017 AGM**"), and six Board meetings were held.

Prior notices convening the Board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company was responsible for keeping minutes for the Board meetings.

In addition to regular Board meetings, the chairman of the Board met with the non-executive Directors (including the independent non-executive Directors) without the presence of other executive Directors during the Year.

The Board is regularly provided with brief reports containing balanced and comprehensive evaluation on the Group's performance, status and prospects to keep it abreast of the Group's affairs and facilitate the Directors' performance of their obligations under the relevant requirements of the Listing Rules.

Directors' attendance records at meetings of the Board and the Board Committees and general meeting

	Attendance/Number of meetings eligible to attend						
Name of Director	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings	Corporate Governance Committee meeting	Risk Management Committee meetings	2017 AGM
Executive Directors							
Mr. Ho Kwok Keung, Mars	6/6	N/A	2/2	N/A	1/1	N/A	1/1
Mr. Ho Kin Hung	6/6	N/A	N/A	N/A	N/A	N/A	0/1
Mr. Chen Yuewu	6/6	N/A	N/A	N/A	N/A	2/2	1/1
Madam Zhou Ning	6/6	N/A	N/A	2/2	1/1	2/2	1/1
Non-executive Director							
Madam Ji Lingling	6/6	2/2	N/A	N/A	N/A	2/2	1/1
Independent non-executive Directors							
Mr. Cheung Lap Kei	6/6	2/2	2/2	2/2	N/A	N/A	1/1
Madam Chiu Hoi Shan	6/6	2/2	2/2	2/2	1/1	N/A	1/1
Mr. Leung Oi Kin (Appointed with effect from 21 October 2017) (Note 1)	1/1	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Raco Ivan Jordanov (alias Racho Jordanov) (Resigned with effect from 21 October 2017) (Note 2)	4/5	N/A	N/A	N/A	N/A	N/A	0/1

Notes:

1. Mr. Leung Oi Kin has been appointed as an independent non-executive Director with effect from 21 October 2017. His attendances above was stated by reference to the number of Board/Board Committee meetings and general meeting held during his tenure.

2. Mr. Raco Ivan Jordanov resigned as an independent non-executive Director with effect from 21 October 2017. His attendances above were stated by reference to the number of Board/Board Committee meetings and general meeting held during his tenure.

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

For the Year, the number of Directors and/or members of the senior management being entitled to emoluments within the following bands were as follows:

Emoluments band	For the year ended 31 December 2017
HK$1,000,000 and below	8
HK$1,000,000 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	1
	11

Pursuant to Appendix 16 to the Listing Rules, the emoluments of the employees who are Directors and who are amongst the five highest paid individuals are set out in Note 24 to the Consolidated Financial Statements.

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

All Directors, namely, Mr. Ho Kwok Keung, Mars, Mr. Ho Kin Hung, Mr. Chen Yuewu, Madam Zhou Ning, Madam Ji Lingling, Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Leung Oi Kin, had participated in continuous professional development with respect to directors' duties, relevant programmes and seminars or had perused reading materials and updated information in relation to business and industrial development. The Directors had provided the relevant training records for the Year to the Company.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her roles, functions, duties and responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group.

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("**Uni-1**"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment and to suit different commercial needs.

Madam Chan Pui Shan, Bessie ("**Madam Chan**"), the representative of Uni-1, was appointed as the named company secretary of the Company ("**Company Secretary**").

Madam Tang Xiangdi, the Group's Financial Controller, is the primary point of contact at the Company for the Company Secretary.

According to the requirements of Rule 3.29 of the Listing Rules, Madam Chan has taken not less than 15 hours of relevant professional training for the Year.

ACCOUNTABILITY AND AUDIT

Responsibilities in respect of the Consolidated Financial Statements

The Directors acknowledge that it is their responsibility to prepare the accounts of the Group and other disclosures required under the Listing Rules and the Management will provide information and explanation to the Board to enable it to make an informed assessment of the financial and other Board decisions.

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the Consolidated Financial Statements for the Year is set out in the section headed "Independent Auditor's Report" on pages 95 to 100 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board's responsibilities for the risk management and internal control systems

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Audit Committee and the Risk Management Committee. However, the Board recognises that no cost effective internal control and risk management systems will preclude all errors and irregularities, as such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Management has provided a confirmation to the Audit Committee and the Risk Management Committee on the effectiveness of these systems for the Year. The Audit Committee and Risk Management Committee have recommended the Board for the approval of the confirmation by the Management.

The dynamics of the Group and the environment within which it operates are continually evolving together with its exposure to risk. The Group continues to review the adequacy of its risk management and internal control framework and looks for opportunities to make improvements and provide appropriate and additional resources when necessary.

Main features of the risk management and internal control systems

The main responsibilities of each party are described as follows:

Board	–	Set up goals for risk management strategy, assess and determine the nature and degree of risk acceptable to achieve the strategic goals
	–	Establish and maintain a proper and effective risk management and internal control systems
	–	Review the effectiveness of the risk management and internal control systems
	–	Review the effectiveness of the Group's processes for financial reporting and Listing Rules compliance
Audit Committee	–	Review the Company's financial controls and internal control system at least annually, and such review should cover all material controls, including financial, operational and compliance controls
	–	Ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions
	–	Discuss the internal control system with the Management to ensure that the Management has performed its duty to have an effective internal control system. The discussion covers adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions
	–	Consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the Management's response to these findings
	–	Consider the major findings of internal investigations and the Management's response
Risk Management Committee	–	Oversee and review the adequacy and effectiveness of risk management procedures that are already in place
	–	Review the effectiveness of the Group's risk management system at least annually
	–	Review the compliance reports and risk assessment reports that need to be reviewed by the Board, and to make recommendations on improvement of the Company's compliance and risk management
	–	Review and provide comment on the overall target and basic policy of compliance and risk management
	–	Allocate resources for the internal control and risk management systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives

The Management	–	Design and implement the risk management and internal control systems
	–	Monitor the status of remediation of internal control weaknesses
	–	Analyse the probability and impact of the risks and assess the existing risk management procedures
	–	Monitor the on-going risk and develop necessary responsive measures according to risk management procedures
	–	Provide confirmation to the Board and the Board Committees on the effectiveness of the risk management and internal control systems

In addition, the Company has engaged external consultant to conduct annual review of the effectiveness of the risk management and internal control systems for the Year, to follow up on the internal control weaknesses identified in 2015 and 2016 and certain remedial actions, to report to the Board and the Board Committees and to develop risk assessment for the Year and 3-year internal audit plans.

Main features of the internal control system

The Management will report to the Board from time to time as regards findings on the internal control weaknesses and provide remedial action plan to the Board. The Management will also follow-up on status of remediation of selected internal control weaknesses which have been reviewed and pointed out by the external consultant.

The Board has engaged an external consultant to conduct an internal control review and assessment for the Year. The external consultant has followed up on the findings on the internal control weaknesses in the last year and the remedial actions taken during the Year. The internal control assessment procedures conducted by the external consultant included a comprehensive system for reviewing and reporting information and findings to the Board and the Management, and to assess whether the material controls are sufficient and adequate for the Group.

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations (COSO) framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

Control Environment	–	the foundation for the other components of internal control and provides discipline and structure
Risk Assessment	–	a dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed

Control Activities	–	actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out
Information and Communication	–	internal and external communication to provide the Group with the information needed to carry out day-to-day controls
Monitoring	–	ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning

Process used to identify, evaluate and manage significant risks

The Group's risk governance composed of four levels: risk management decision-making, the Risk Management Committee, risk management execution and risk management oversight. Risk management execution is further composed of centralised risk management function and specified risk responsible departments.

The Management is the ultimate risk management decision-making body and makes risk management decisions on major risk matters. The Risk Management Committee is responsible for managing the Group's risk matters, directing and coordinating the work of centralised risk management function and specified risk responsible departments. Risk Management Department, as centralised risk management function, is responsible for organising and arranging cross-functional departments and risk management activities. Each specific risk responsible department is responsible for risk management assessment and response in relation to its corresponding business activities.

The Board and the Management have the responsibility for overseeing the effectiveness of the risk assessment framework and risk management functions. The Management reports to the Audit Committee and the Risk Management Committee regarding the results of the risk management framework on an annual basis.

In the Year, the Management assessed that there were no significant changes in the Group's business, and the existing risk assessment framework, methods and procedures are still applicable to the Group.

Based on the existing risk assessment framework, the Group selected the top management personnel to analyse the probability and impact of the risks and assess the existing risk management procedures through questionnaires and interviews with the management personnel.

Methods used by the Management to assess the risk of the Group include (i) confirm the risk management framework, understand and analyse the roles and responsibilities of the risk assessment methods, and introduce risk assessment procedures; (ii) identify and record the major risks and existing risk management procedures; (iii) analyse the probability and impact of the risks and assess the existing risk management procedures; and (iv) report the results of the risk management framework enhancement to the Board/Board Committees.

Process used to review the effectiveness of the risk management and internal control systems

The Board, through the Audit Committee and the Risk Management Committee, had performed annual review on the effectiveness of the Group's risk management and internal control systems, including, but not limited to, (i) the changes in the nature and extent of significant risks and the Company's ability to respond to changes in its business and the external environment, (ii) the scope and quality of the Management's ongoing monitoring of risks and of the internal control systems, (iii) the extent and frequency of communication of monitoring results to the Board, Audit Committee and Risk Management Committee which enables them to assess control of the Company and the effectiveness of risk management, (iv) significant control failings or weaknesses that have been identified, and (v) the effectiveness of the Company's processes for financial reporting and Listing Rules compliance.

For the Year, the Board considered the risk management and internal control systems are effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of such review covers the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting functions and their attitude against internal control of the Group. The Board will continue to work with the Management to discuss and follow-up on the status of remediation of the internal control weaknesses and to monitor the risks of the Group in the coming years.

Whistleblowing policy

All staff is considered to be an informal monitor. The Group relies on each of its employees, at all levels, to monitor the quality, ethics and professionalism of the Group's business operation and the Group's standards. The Group listens to employees' concerns, considers recommendations for improving the Group's practices and controls and announces timely communications on policy changes and other matters of the Group.

In addition, the Company establishes a whistleblowing policy, under which employees and those who deal with the Company are provided with ways to raise their concerns about possible improprieties in any matter relating to the Company without fear of reprisal or victimisation, and in a responsible and effective manner. Written complaints can be lodged directly to the executive Directors. The executive Directors will then convene a meeting to decide whether and/or how to carry out any necessary investigation and, depending upon the circumstances, consider to nominate investigating officer or set up a special committee to investigate the matter independently.

Procedure and internal controls for the handling and dissemination of inside information

The Group has no written policy on handling and dissemination of inside information but certain measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include the following:

– The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

– All employees are required to strictly adhere to the employment terms regarding the management of confidential information.

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in the announcements or circulars of the Company are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Internal audit function

The Company does not have an internal audit department. The Board has reviewed, on an annual basis, the need for an internal audit function and is of the view that in light of the size, nature and complexity of the business of the Group, as opposed to diverting resources to establish a separate internal audit department, it would be more cost effective to appoint external independent professionals to perform independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

INSURANCE ON DIRECTOR'S AND OFFICER'S LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Directors and the senior management of the Company. The insurance coverage is reviewed by the Board on an annual basis.

COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKING FROM CONTROLLING SHAREHOLDERS

As disclosed in the Prospectus, to protect the Group from any potential competition, Mr. Ho Kwok Keung, Mars, Standard Fortune Holdings Limited, Mr. Ho Kin Hung and True Worth Global Limited ("**Covenantors**") have given non-competition undertaking ("**Non-competition Undertaking**") in favour of the Company on 21 October 2014 pursuant to which each of the Covenantors has, among other matters, undertaken with the Company that each of the Covenantors and their respective associates (other than the Group) shall not engage in any business which will or may compete with the business currently and from time to time engaged by the Group. Details of the Non-competition Undertaking have been set out in the paragraph headed "Relationship with Controlling Shareholders – Non-competition Undertaking" of the Prospectus.

The Company has received the annual declaration from each of the Covenantors in respect of their respective compliance with the terms of the Non-competition Undertaking during the Year. The independent non-executive Directors, having reviewed the annual declarations and made reasonable enquiry, were satisfied that the Covenantors have complied with the terms of the Non-competition Undertaking during the Year.

REMUNERATION TO THE COMPANY'S AUDITOR

For the Year, the remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, is set out below:

Services rendered	For the year ended 31 December 2017 RMB'000
Statutory audit	**3,835**
Non-audit services	**994**
Total	**4,829**

Note: The non-audit services provided by the external auditor of the Company during the Year mainly include advisory services.

SHAREHOLDERS' RIGHTS

Pursuant to Article 58 of the Articles, Shareholders holding not less than one-tenth of the paid up capital of the Company have the right to convene an extraordinary general meeting at all times by written requisitions to the Board or the company secretary of the Company. Such meeting shall be held within 2 months after the deposit of such written requisitions.

Save for the procedures for Shareholders to convene a general meeting as set out above, there are no provisions allowing Shareholders to put forward proposals at the general meeting under the Articles or under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition. The written requisition must state the objects of the meeting, and must be signed by the relevant shareholder(s) and deposited to the company secretary of the Company at the Company's 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.

CONSTITUTIONAL DOCUMENTS

The existing Articles were adopted on 21 October 2014. Since its adoption and up to the date of this annual report, there was no change in the Company's constitutional documents.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Shareholders and public investors may direct their enquiries to the Company Secretary, by post at Workshop 6 on 1/F. New Trade Plaza, No. 6 On Ping Street, Shatin, New Territories, Hong Kong, by facsimile or via email at the contact information as provided on the website of the Company.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

26 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This Environmental, Social and Governance (ESG) Report of Austar Lifesciences Limited ("**Austar**") refers to the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKEx ESG Reporting Guide**") to define its report content.

The scope of this Report includes environmental data and activities of Austar and its major subsidiaries, including Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar Equipment**"), Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**") and Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") (collectively referred as the "**Group**" hereinafter) in the People's Republic of China (the "**PRC**"), unless specifically stated otherwise. There were no significant changes in the Group's operation locations, the location of suppliers and supply chain structure in the financial year ended 31 December 2017 (the "**year**" or "**reporting period**").

Austar commits to long-term sustainability practices. In preparation of this Report, our Group has consulted our major stakeholders in order to understand their concerns about our development. This Report also explains how Austar complies with the "comply or explain" provisions of the HKEx ESG Reporting Guide and discloses information on the Group's ESG management approaches, strategy, priorities and objectives.

This Report has been reviewed and approved by the Board of Directors of Austar.

REPORTING PERIOD AND SCOPE

The statistics, figures and information cited in this Report are referenced from the archived questionnaires, records and research of the Group. This Report highlights Austar's sustainability efforts in environmental and social aspects.

Reporting period: 1 January 2017 to 31 December 2017, the financial period of our Annual Report 2017.

Organisations covered: Austar and its subsidiaries

REFERENCE GUIDELINES

HKEx ESG Reporting Guide

CONTACT

Should you have any enquiries or feedback on this Report, please feel free to contact us via the following methods:

- Address: Room 1801, Building B, Chaowai Men Office Building, No. 26 Chaowai Street, Chaoyang District, Beijing, PRC
- Tel: +86 10 85653399
- Fax: +86 10 85653325
- Email: info@austar.com.cn
- Official Website: www.austar.com.hk

CHAIRMAN'S MESSAGE

On behalf of Austar, I would like to share our commitments to our customers and the community. We would like to continue to be a reliable and trusted partner to provide technological products to pharmaceutical researchers and manufacturers. At the same time, it is paramount for us to run our business in a sustainable manner.

Engaging our stakeholders has been one of our priority issues. We treasure our stakeholders' opinions and work proactively to listen to their concerns. We invited our stakeholders to participate in our materiality assessment process and mapped out the most significant topics in order to improve our business operations and continue to meet their needs and aspirations.

In terms of transparency of our environmental performances, 2017 was a remarkable year for Austar as this is our first year to disclose our environmental data to the investors and the general public. We believe this is one of the best opportunities for Austar to grow and help improve the Group to strive for continuous improvements towards a more flourishing and thriving future. Over the past year, our company has outlined a number of management practices to minimise environmental emissions and constantly reviewed our policies to meet our goal. We will never stop investigating any possible measures to mitigate our carbon footprint and attain higher energy efficiency levels among our business operations.

We cherish our employees and deem every single employee as an invaluable asset of our Group. Without them, Austar would not have achieved today's success and be prepared for future challenges, and therefore, we strive for a better working environment for our employees by providing pre-job orientation trainings and timely briefings to ensure they are able to cope with new business and enhance their working ability in the long-run. Besides, the Group continues to engage in more philanthropic activities and encourages our employees to serve the society.

I look forward to a more promising environmental and social performance in 2018 and beyond. Thank you for joining us on our sustainable journey and I wish everyone a fruitful and prosperous year ahead.

Ho Kwok Keung, Mars
Chairman

26 March 2018

OVERVIEW

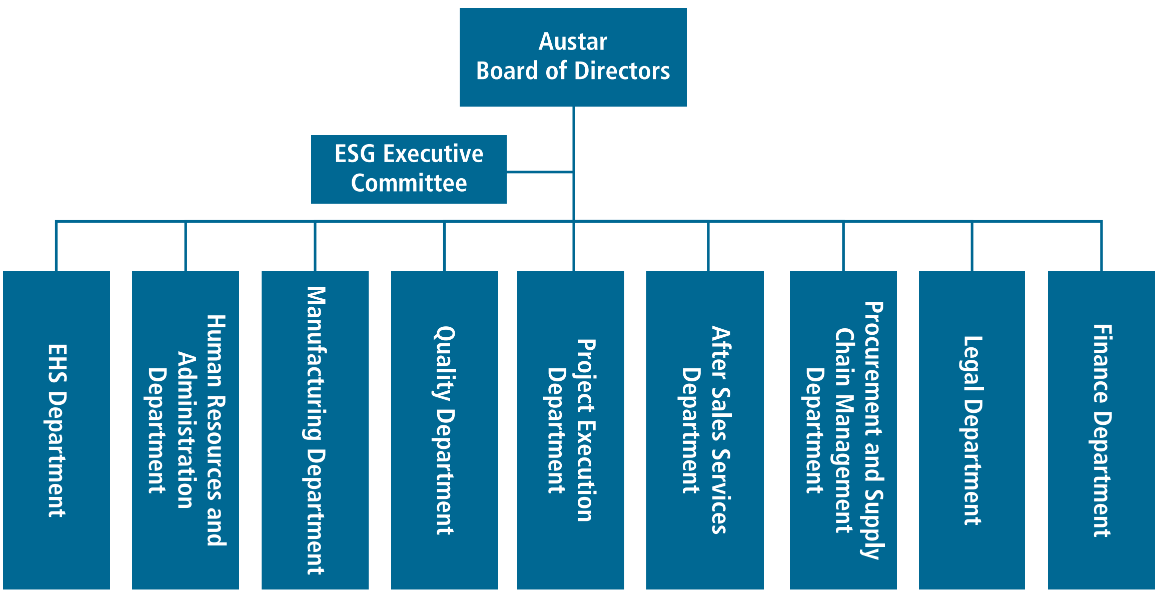
Obtaining recognised accreditations and reputable ranking in the pharmaceutical equipment industry, the Group endeavours to offer integrated engineering solutions with high-end and comprehensive services and products to reputable pharmaceutical manufacturers and research institutes in the PRC continuously. We also assist our customers to set up production facilities and build up a clean environment which are both critical for pharmaceutical production. By far, the Group has established long-term business relationship with key customers by offering diversified product portfolio and services.

CORE VALUES/MANAGEMENT PRINCIPLES

Austar envisions a better ESG management and integrates the concept of triple bottom line (TBL) into our corporate culture – we aspire to strike a balance and see equal importance between economic development, environmental protection and societal contribution. Through incorporating sustainable development strategies to our management principles, Austar firmly believes perfection and excellence can be pursued while creating values in social responsibilities for its stakeholders. The Group also seeks and values every opportunity to collaborate with its suppliers to provide high-quality product and integrates this as a part of its corporate culture.

MANAGEMENT STRUCTURE

The Group has established an ESG Executive Committee to carry out the concept of sustainable development effectively. The committee is responsible for reviewing ESG strategic plans, principles and policies and overseeing the related practices and procedures. Besides, it also ensures the Group operates in a manner that improves its positive contribution to the environment and society and enhances Austar's ability to fulfill corporate social responsibility.



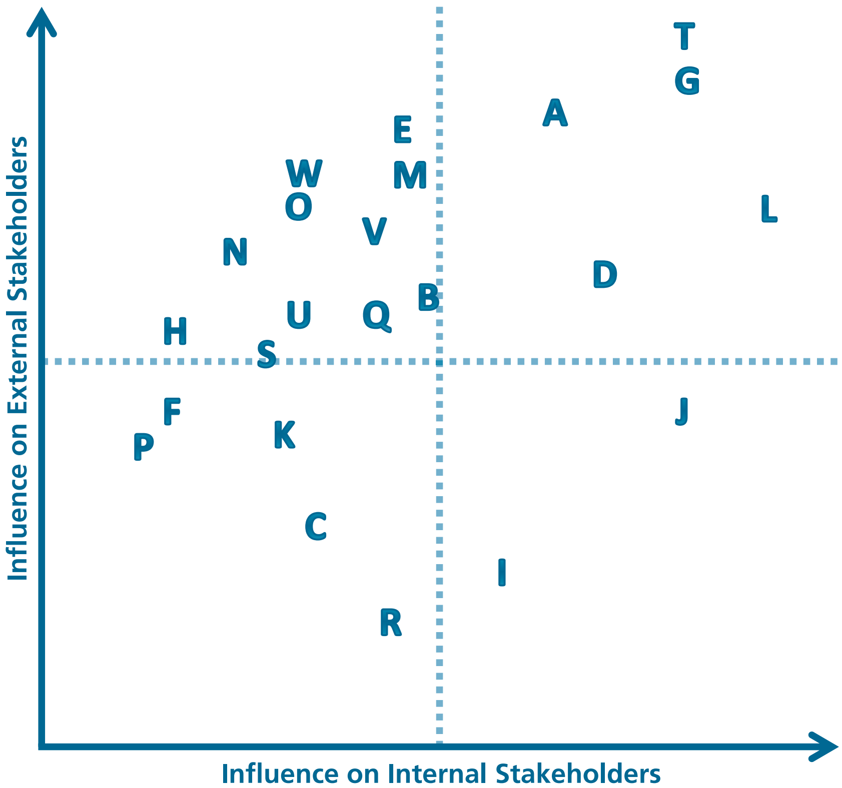
STAKEHOLDER IDENTIFICATION AND COMMUNICATION

Austar deeply believes that stakeholder engagement is one of the key drivers to understand the concerns of our stakeholders which can significantly improve the Group's ESG performance continuously. Therefore, the Group invited our suppliers, employees, customers and other stakeholders to comment our approaches to ESG issues and further improve its internal control system and corporate governance structure. The table below shows the key methods to communicate with our internal and external stakeholders.

	Types of Stakeholders	Focus Topics	Means of Communication
Internal Stakeholders	Board of Directors	Risk Management Corporate Operating Conditions Corporate Reputation	Consultation via phone calls and emails Direct communication Company conference Suggestion box
Internal Stakeholders	Employees	Occupational Training and Development Remuneration and Benefit Health and Safety	Consultation via phone calls and emails Direct communication Meetings Suggestion box
External Stakeholders	Shareholders/investors	Stable Investment Returns Information Disclosure	Annual General Meeting Consultation via phone calls and emails Annual report
External Stakeholders	Suppliers/customers	Sound Performance of Contract Standard Supplier Management and Procurement Process Establishment of Complaint System	Annual report Meetings
External Stakeholders	Distributors	Complete Information Exchange System Steady and Stable Supply of Products	After-sales opinion box Consultation via phone calls and emails Meetings
External Stakeholders	Government and Regulators	Operation in Compliance with Laws and Regulations	Annual report Meetings
External Stakeholders	Community	Contribution to Community Development	Annual report Community service

MATERIALITY ASSESSMENT

In order to incorporate stakeholders' feedback on sustainability topics in this year's ESG report and understand the material topics of our ESG work, Austar conducted materiality assessment by consulting the Group's major stakeholders. Material topics are evaluated and assessed externally and internally according to the impact on business. The Group has identified the following major concerns of stakeholders: Environmental Management System and related policies of the Group, water consumption and wastewater discharge control, occupational health and safety, product safety and quality assurance management, and employees' training and development.



A Environmental management system and related policies
B Compliance with laws and regulations on emissions
C Waste management and recycling method
D Water consumption and wastewater discharge control
E Employees' rights and turnover rate
F Donation and community investment
G Product safety and quality assurance management
H Anti-corruption policies
I Information on greenhouse gas emission
J Amount of hazardous waste generated and handling method
K Energy efficiency and management
L Occupational health and safety
M Employees' welfare and pay system
N Stakeholder communication
O Customer data protection and privacy policies
P Whistle-blowing procedures
Q Measures to reduce emissions and achievements
R Amount to non-hazardous waste generated and handling method
S Resource management
T Employees' training and development
U Employment practices to avoid child labour and forced labour
V Supply chain management
W Customer satisfaction survey

ENVIRONMENTAL PERFORMANCE

Austar faces a lot of environmental scenarios such as energy consumption, greenhouse gas emissions and waste management, in our daily operations. Besides maintaining Austar's business develops in line with the industry, Austar is aware of the importance of environmental management and has dedicated to put extensive resources to minimise our impact on the environment. The Group has set up a thorough environmental management system for environmental data collection which would be highly useful for the Group to keep track on the performance and review the efficiency of the measures that have deployed during the year.

All businesses among the Group are in strict compliance with all national and local laws, regulations and other related industrial standards, such as the *PRC Environmental Protection Law, the Law on the Prevention and Control Atmospheric Pollution, the Law on the Prevention and Control of Water Pollution, the Law on the Prevention and Control of Solid Waste Pollution*, and *the Environmental Impact Assessment Law of the PRC*.

Field	Specifications	Number of laws and regulations identified by Austar as having a significant impact on Austar
Environment	Environment-related laws and regulations at national level, and in Shanghai, Hebei Province and Shijiazhuang; emission standards on wastewater, gases, noise, hazardous waste, chemicals, and resources and energy management.	77

The business operation of Austar did not have any major changes in the reporting period and complies with the latest environmental-related laws and regulations.

1. Emissions

Apart from the above-mentioned compliances with the national and local laws and regulations, Austar also puts a lot of efforts into managing emission from its production activities. The Group has outlined the "Management Rules on Waste Water, Waste Gases and Noises" to ensure our production activities meet the requirements of local environmental laws and regulations and relevant industrial standards, and also to minimise the environmental impact and protect employees' health. All vehicles of the Group comply with the international emission standards. Exhaust gas emission tests are conducted annually and vehicles with old emission standards have been phasing out starting from 2017 and replaced by the ones which fulfil the latest emission standards.

Austar has also established several management policies which focus on different kinds of environmental issues under different circumstances, to ensure that any generation of exhaust gases and wastes could be strictly managed under the control of the Group. These policies also provide solutions for management personnel in office and manufacturing centres to reduce their environmental impacts. Austar also reviews all the existing protocols and management measures annually in order to continuously improve the entire management system and achieve the Group's goal on environmental management.

Overview of the management policies related to emission:

Policies	Applicable Locations	Details
"Management Rules on Waste Water, Waste Gases and Noises"	All manufacturing locations	Ensure the production activities meet the requirements of local environmental laws and regulations and relevant industrial standards regarding to waste water, waste gases and noises.
"Management Rules on Energy Conservation and Consumption Reduction"	Offices and all production units	Set out the goals for efficient use of electricity in office per capita and in manufacturing centres per unit production.
"Management Rules on Waste"	All manufacturing locations	Categorise the waste types from production and state the legit ways to collect, store and dispose waste under the national requirements.

1.1. Gas Emission

In 2017, Austar has adopted several measures with the concepts of energy conservation and emission reduction to minimise emissions. The production units adopt enclosed production workshop with purification plant and ventilation equipment in order to reduce hazardous gas emission to the atmosphere and maintain indoor air quality level at a safe level. Daily inspection and regular maintenance are conducted to keep the system in a good condition. According to the emission monitoring report, the emission level from Austar Equipment and Shanghai Austar's manufacturing centres has met the national standard, which also proves the effectiveness of the measures Austar has implemented. Currently, Shanghai Austar and Austar Hansen have obtained certification on the Environmental Management System (ISO 14001).

Apart from the abovementioned measures, the "Management Rules on Energy Conservation and Consumption Reduction" has listed out the recommendation approaches for reducing CO_2 emission. The major measures mainly require:

- All departments to manage their own power consumption of air-conditioners, and to turn off air-conditioners during breaks and immediately after working hours;
- All employees to turn off the lights when they leave the workplace, and in case of regional production, only lights at the specific production area can be switched on;
- All departments to turn off equipment that are not in use, and to assign people to confirm that all electric appliances are turned off after work, whereas the Human Resources and Administration Department ("**HR Department**") is responsible for corresponding check in the public areas;

- Electric appliances and circuits are maintained to reduce energy consumption;
- All departments to manage their own use of industrial electricity, and to train employees to avoid waste with the assistance of the HR Department.

During the reporting period, the Group generated only a small amount of waste paper and house refuse, which left no apparent environmental impact, and such non-hazardous wastes were treated by local property management and civic departments at refuse depots for processing.

As this reporting period is the first year the Group started to collect emission data, the Group cannot provide comparable result to show achievement in emission reduction in this Report. However, reduction of emission to be reflected in all emission data is expected in the future. The Group also identified the leakage of refrigerant from the AC system may be one of the sources of greenhouse gas emission. The Group has conducted regular maintenance on each AC unit to prevent any leakage and will collect relevant emission data in this regard. Given this is the first year the Group started to set up the system to collect the refrigerant inventory data, such data are expected to be available in the next reporting period.

Major Gas Emission Indicators

Vehicular Emissions	Unit	Emission in 2017
Carbon Dioxide (CO_2)	kg	10982.7
Methane (CH_4)	kg	1.03
Nitrous Oxide (N_2O)	kg	4.4
Nitrogen Oxides (NO_x)	kg	0.33
Sulphur Oxides (SO_x)	kg	0.06
Particulate Matter (PM)	kg	0.24

Total GHG Emissions	Unit	Emission in 2017
Direct emission from vehicles	t-CO_2 eq.	12.4
Indirect emission from electricity consumption	t-CO_2 eq.	660.6

Other Indirect Emissions	Unit	Emission in 2017
Emissions from processing scrap paper	Tonnes	4.7
Emissions from flights	Tonnes	1321.6

Emission Intensity (per employee)	Unit	Emission in 2017
Direct emission from vehicles	t-CO_2 eq.	0.0124
Indirect emission from electricity consumption	t-CO_2 eq.	0.6606
Emissions from processing scrap paper	Tonnes	0.0047
Emissions from flights	Tonnes	1.3216

1.2 Waste Management

Austar has a well-managed system to handle all types of waste (hazardous and non-hazardous). For non-hazardous waste, every department has assigned staff to collect recyclable or reusable materials, such as papers, for other purposes. The Group has also appointed recycling companies which are certified by the national authority to collect other recyclable solid waste whereas non-recyclable wastes and other general wastes (household wastes) are disposed of by municipal sanitation department.

For hazardous waste, Austar only generates waste oil and emulsifier, and developing solution agents, which are for machinery lubrication. The Group strongly opposes illegal waste disposal and strictly follows the national protocols and guidelines. In the manufacturing centres, Austar stores all identified hazardous waste into special warehouse, which complies with the regulation. Regular checking and maintenance are placed in order to prevent any leakages of hazardous waste which may further affect the surrounding environment and neighbourhood. The Group also arranges certified waste treatment collectors to collect and process any potential hazardous wastes. The data of the waste collected and transfers are reported by the local environmental protection bureaus. Austar strictly follows the policy and legal requirements for hazardous waste handling.

As this is the first year for Austar to collect the waste data, changes of waste production after the implementation of the above-mentioned measures are expected to be reported in the next reporting period.

Major Waste Generation Indicator

Waste Types	Unit	Consumption in 2017
Hazardous waste	Tonnes	0.8
Non-Hazardous waste	Tonnes	60

Waste Intensity (per employee)	Unit	Consumption in 2017
Hazardous waste	Tonnes	0.0008
Non-Hazardous waste	Tonnes	0.06

1.3 Water Discharge

The manufacturing processes Austar adopted do not consist of any potential water and land contamination based on the environmental impact assessment report and related documents. Austar follows the water discharge requirements to divert rain and sewage water which can prevent water bodies and soil around the production site from being polluted. Sewage is also processed in a septic tank before discharging into the municipal sewerage system.

Major Wastewater Indicator

Water Type	Unit	Emission in 2017
Sewage water	Tonnes	6497.6

Sewage Water Intensity (per employee)	Unit	Emission in 2017
Sewage water	Tonnes	6.5

2. Use of Resources

Austar believes environmental protection is a fundamental social responsibility for all businesses. All along, the Group has been an active advocator in energy saving and emissions reduction. During daily operations, the Group proactively reduces its consumption of energy and other resources to mitigate the environmental impact brought from its operation. The Group has established the "Management Rules on Energy Conservation and Consumption Reduction" which guides the employees on water, electricity and paper usages. Monthly electricity consumption of all departments is recorded for the Group to review and achieve effective control on power consumption. During this reporting period, the Group has implemented new measures as follows:

Promoting a Paperless Office:

Austar implements electronic office platforms and systems such as Enterprise Resource Planning and Customer Relationship Management to reduce paper usage for daily management works. All employees are also reminded not to print documents in hard copies where possible.

Regular Water Auditing:

During its operation, Austar only consumes water from municipal supply. Austar has assigned staff to conduct regular maintenance checks on every area within the manufacturing centre with regard to water usage. A reporting system has been established to record and follow up every issue immediately to tackle water wastage problems. All production units are also instructed to report immediately in case of any water pipe damages and leakages. Account department also records the monthly water consumption. As a result, any abnormalities for water usage can be spotted at the earliest opportunity. During the reporting period, no abnormalities of sourcing water were observed as the Group directly sources from municipal water supplies.

Resource Consumption	Unit	Consumption in 2017
Electricity	Kilowatt Per Hour	789,559
Gasoline	Litre	9,800
Diesel	Litre	590
Water	Tonnes	8,122
Packaging materials – Woods	Tonnes	25
Packaging materials – Papers	Tonnes	5

Resource Consumption Intensity (per employee)	Unit	Consumption in 2017
Electricity	Kilowatt Per Hour	789.56
Gasoline	Litre	9.8
Diesel	Litre	0.59
Water	Tonnes	8.1
Packaging materials – Woods	Tonnes	0.025
Packaging materials – Papers	Tonnes	0.005

3. The Environment and Natural Resources

Austar takes environmental risk into account during the planning of its business development. Environmental impact assessment is conducted before the commencement of every project. Pollution mitigation equipment and measures are considered during the design and construction stage of the projects. Before actual operation, the Group would oversee the whole process and make sure the environmental protection measures being in place in order to prevent any breaches of the environmental regulations in the future.

Austar also implements rules and protocols to manage exhaust gases, noises and wastes with reference to the environmental impact assessment. Management rules are also formulated into several policies such as "Procedures for Identifying and Evaluating Environmental Factors", "Control Procedures on EHS-Related Parties" and "EHS Operation Control Procedures". At the moment, the management system is a huge asset of the Group on effective management of all the environmental impact. And based on the principles of ISO 14001 on Environmental Management System, the Group reviews the current measures annually and improves them at the same time. As a result, a suitable and feasible environmental target, indicator, and management plans could be well implemented.

Austar has implemented different measures on mitigating the environmental and occupational safety impact caused by the manufacturing equipment, such as installation of sound insulation and absorption measures to minimise the effect on excess noises emissions. The Group has also collected leakage of oil through a groove to reduce environmental pollution. In the perspectives of technological improvements, the Group promotes non-toxic technology by simplifying its production processes and reduces the use of toxic substances during the stages of planning, packaging, storage and transportation processes. As a result, material production per unit production is effectively reduced. The Group would maintain all of the above implementations and continually monitor the improvements.

SOCIAL PERFORMANCE

1. Employment

With over 900 employees, who are the major driver to maintaining Austar's competitiveness and service delivery, the Group fully complies with *the Labour Law of the PRC, the Labour Contract Law of the PRC, the Employment Promotion Law of the PRC, the Labour Dispute Mediation and Arbitration Law, the Regulation on the Annual Leave of Employees* and local labour laws and regulations. The Group has structured various policies and provisions to optimise human resources allocation, including the "Staff Handbook", "Training and Development Control Procedures", "Personnel Files and Documents Management Control Procedures", "Attendance and Leave Management Control Procedures" and "Employee Benefits Control Procedures" which clearly list out the management measures and requirements on compensation and benefits, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, staff training, attendance and performance.

To nurture a better environment for Austar employees to work and let them enjoy a good work-life balance, the Group has its "Staff Handbook" and the number of daily working hours is set at 8 hours. Approvals from seniors are required for working overtime. The provisions of "Attendance and Leave Management Control Procedures" and "Employee Benefits Control Procedures" entitle the Group's employees to a number of leave benefits, including annual leave, marriage leave and maternity leave. In addition to basic salary, Austar offers comprehensive benefits, such as supplementary medical insurance, medical reimbursement, monetary gift for maternity and birthday and allowances for housing, communication and food to all employees.

Besides, the "Staff Handbook" and "Personnel Files and Documents Management Control Procedures" offer equal and fair employment opportunity to employees. Management measures, such as information on compensation and benefits, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, staff training, attendance and performance, are clearly listed in the aforementioned documents. Austar is an equal opportunities employer and sees all employees equally. We recruit our staff in strict accordance with the Group's policies and systems, with zero tolerance of discrimination over gender, disability, pregnancy, family status, age, race, sexual orientation, nationality, ethnicity, religion or other conditions recognised in law. The policies also include provisions to deal with discrimination, harassment and victimisation in the workplace.

Promoting a corporate culture to allow employees to learn at work is of equal importance to retain talents and therefore, the "Training and Development Control Procedures" clearly outlines excellent career development opportunities for the Group's staff to realise their career goals. The Group aims to assist employees to grow their capabilities with their own career ambitions in line with Austar's business objectives. The human resources management policy aims at increasing employees' identity with the corporate culture, so as to realise the enterprise's value and fulfil social responsibility.

2. Health and Safety

Complying with laws and regulations, particularly *the Labour Law of the PRC, the Fire Prevention Law of the PRC, the Prevention and Control of Occupational Diseases of the PRC, the Measures for the Ascertainment of Work-related injuries* and local laws and regulations, the Group strives to build and maintain occupational hazards free environment and healthy and safe working condition to our employees. Austar has stipulated internal policies and guidance to ensure safe operation and get prepared for emergencies. Reviews on occupational hazard factors are conducted and assessed annually and the Group has met the requirements and obtained the certification of Occupational Health and Safety Assessment Series (OHSAS18001) standards.

To constantly ensure employees' health, the Group not only provides medical check-ups at professional institutions and pre-job, on-the-job, off-post and occupational health examinations for employees who are occasionally exposed to occupational-disease-inductive factors, but also established a database to keep track of employees' health record where necessary. All employees are informed and explained to the potential harm, consequences and prevention measures of occupational diseases when entering into labour contracts with the Group. Austar has arranged qualified occupational-disease-inductive factors inspections and employees' occupational disease health check during the reporting period.

Austar puts extensive effort to minimise the occurrence of workplace accidents and has thus established a work-related injury management system by forming the "Control Procedures on Incident Investigation, Treatment and Report", which specifies the nature and responsibility of work-related injuries and treatment process. The Group also coordinates regular health and safety training programs for staff to ensure safe production and eliminate occupational hazards.

3. Development and Training

To strengthen work-related skills and knowledge, Austar has stipulated the "Training and Development Control Procedures" and the "Training Management Control Procedures" for regulating the details on training implementation and accountability. The Group also provides comprehensive orientation training for newly hired employees to understand Austar's corporate culture, product knowledge and the work process of the department concerned. Pre-job trainings are provided in three levels: institutional, departmental and positional. It is believed that these trainings can equip the Group's employees with the necessary knowledge and skills to cope with new business and enhance their working ability.

As listed in the "Staff Handbook", overseas training, management training, professional skills training and occupational health training are also provided to improve operational efficiency among the organisation every year. Furthermore, employees will be provided with different trainings, for example when there are new technologies and new equipment among business operations, in terms of needs and requirements during different stages of work and they are highly encouraged to attend other training courses hosted by external institutions, such as English courses and pharmaceutical engineering project management courses. Austar will also invite external experts to provide training on topics of suppliers, finance and human resources. Regular departmental meetings are held to foster the exchange of knowledge and skills and experience sharing.

4. Labour Standards

In order to prohibit child labour and forced labour, Austar strictly abides by the *Labour Law of the PRC, the Labour Contract Law of PRC, the Provisions on Prohibition of Child Labour of the PRC, the Law of the PRC on the Protection of Minors* and other related labour laws and regulations. As stated in the "Staff Handbook", valid identity documents will be requested by the Group's Human Resources staff upon recruitment processes to ensure the applicants are employable and to avoid employment of child labour. If the applicants are found in providing any false information, the Group possesses the rights to terminate the employment with immediate effect.

The "Staff Handbook" and the "Attendance and Leave Management Control Procedures" also set out the guidelines and provisions on work attendance, labour intensity and overtime working. Austar encourages employees to increase their working efficiency and finish their job on time. During the reporting period, we did not encounter any situations related to the employment of child labour or forced labour.

5. Supply Chain Management on Environmental and Social Risks

Austar pays huge amount of efforts on suppliers' control as their performance directly relate to the Group's product quality. The Group has already established for its supply chain management system a series of policies such as the "Control Procedures on Evaluating and Managing Suppliers", "Procurement Control Procedures", and "Procurement Manual", to set standardised procedures for the Sales and Procurement Department and the Quality Control and Production Units to rate the performance of the suppliers. The Group conducts annual review of the management system and improves the system continually.

In the past, the Group rated the suppliers only based on their qualities, effectiveness, and price of their products. However, the Group now also puts their environmental and social performance as one of the important criteria for assessing the suppliers' overall performance. In addition to the established "Control Procedures on EHS-Related Parties", the Group also plans to introduce the "Environmental, Social and Governance Self-Assessment Form", an assessment form designed for suppliers to confirm whether they have introduced environmentally-friendly policies and abide by any related local laws and regulations. For every shortlisted potential supplier, the Group will require it to fill in this form and provide supporting documents. Potential suppliers will need to provide us information on whether they are using environmental-friendly technologies and the implementation of any environmental management system, etc. The overall scores will contribute to the total rating of the suppliers' performance. For existing suppliers, the Group also assesses their performance annually. Suppliers with huge environmental and social risks are put under the "List of Related Parties in Special Need of Influence". The Group will re-assess their performance on a half yearly basis until such suppliers could meet the Group's standard.

Austar is aware that the current measure may not be fully effective in assessing suppliers' environmental and social performance. The Group is planning on arranging social audit on suppliers' factory in the future which would allow more comprehensive examination on the suppliers' performance.

6. Product Responsibility

As a reputable service provider for pharmaceutical manufacturers and research institute in PRC, the Group produces various pharmaceutical drugs-related products. Austar strictly complies with the PRC Pharmaceutical Administration Law and its Implementation Rules, as well as other national laws and regulations on product safety. The Group is fully aware that pharmaceutical products manufacturing requires a highly precise and hygienic environment. Quality assurance of the products is the most important task for the Group.

Austar serves its clients with integrity. No false information is allowed for any promotional uses. Austar uses its best effort to provide clients with products of top quality and which are environmentally friendly, and to provide clients with excellent customer experience. With regular internal quality auditing being carried out with a standardised procedure, we are pleased to report that the Group has obtained Certification on Quality Management System (ISO9001). With the internationally recognised ISO9001 standards, Austar is committed to improve our customer satisfaction by planning for and striving to meet customer requirements. The Group has also established the "Management Procedures on Inspection and Testing", which provides guidance to the quality control personnel on how to conduct product inspection.

Management of Customer Complaints

Austar values customers' feedback on its products. The Group strictly follows the *Law of the PRC on the Protection of Customer Rights and Interests*. In order to effectively handle customer complaints and feedback, Austar has established the "Management Procedures on Customer Requirements and Complaints" which are summarised as follows:

1. Austar receives complaints from customers' inquiry, visit and phone call, internal staff's feedback, engineers' report and customer satisfaction survey.

2. Staff of the Customer Service Department would coordinate with the relevant department to undergo root cause analysis by going through the whole production cycles of the relevant products or services.

3. The corresponding department would give feedback to the Customer Service Department on the causes of the complaint. Various solutions to handle the complaints would be suggested. The Customer Service Department would record the analysis and results in the "Record of Customer Requirements and Complaints", which is used to record the total complaints received by Austar.

4. Specialists from the Customer Service Department would contact the complaining customer to verify their feedbacks and/or satisfaction on the resolution of the issues. The Customer Service Department would go through the complaints received and their resolutions every 6 months in order to review and improve the current customer compliant management system.

Protecting Intellectual Property

Austar owns different types of intellectual properties such as patents and copyrights. In order to standardise the application procedures of patents, utility models and inventions, and the publicity and registration of copyright, and also protect the Group's intellectual property rights, the Group has established its own policies on "Patent Management" and "Management Rules on the Group's Copyrights of Austar Pharmaceutical Equipment and Process System".

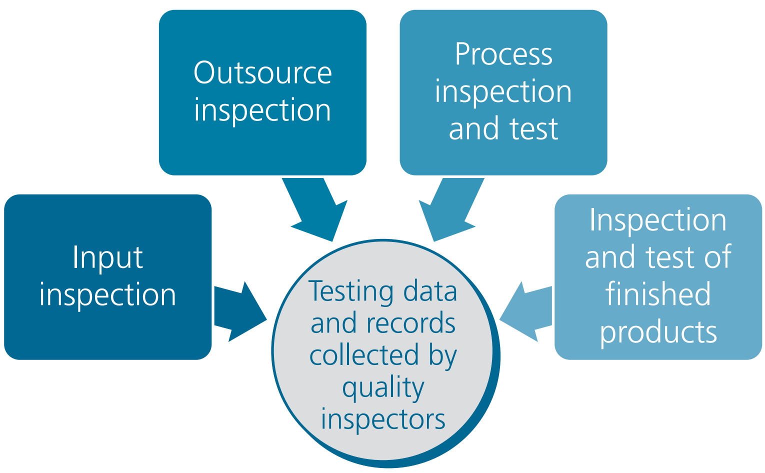
As at the end of the reporting period, the Group possessed the following intellectual properties:

Types of Intellectual Properties	Number
Copyrights	37
Patents	172

The "*Staff Handbook*" clearly requires every employee to agree to the Group's policies on intellectual property rights and confidentiality upon joining the Group. All staffs are confined to protect the intellectual property and any breaches of the agreement may subject to mediation or litigation, depending on the circumstances.

Strict Quality Assurance

Based on the "Management Procedures on Inspection and Test", Austar has different quality control processes during different stages of production:



- Input inspection: Inspectors would take random samples from the materials from the List of Goods, and conduct inspection according to the "Guidance to Input Inspection"; following which the inspectors would give feedback on the inspection results to the Procurement Department or inventory responsible personnel. The quality control engineer records the results on the Record of Material Inspection.

- Outsource inspection: Inspectors would examine products from contracted companies, and qualified products are stored in the Area for Qualified Products, whereas unqualified products stored in the Area for Unqualified Products will be further handled in accordance with the "Control Procedures of Unqualified Products".

- Process Inspection and test: All products are inspected and cross-checked by all operators and sent for further inspections as required by the process. Only qualified products with verification and inspectors' signature can be delivered to the next stage or to the storage facilities.

- Inspection and test of finished products: Various indicators would be implemented at this stage to further verify whether the products meet customer requirements such as products' characteristics and on-time delivery.

Data and records of inspection throughout the whole process are collected by quality inspectors and managed by the Quality Department. Only products that have passed all quality inspections can be delivered out of factory. Since Austar's products are customised and cannot be recycled, no related procedures for product repurchase have been established.

Protecting Customer Information

Clients' information is Austar's first priority to safeguard and protect. During the service process, Test Service Department obtains clients' sensitive information to provide tailor-made and suitable advices to clients. Austar would enter into confidential agreements with clients and its IT information management and contracts archiving systems are ensured to be safe. During the reporting period, the management was not aware of any leakage of clients' information.

7. Anti-Corruption

Austar advocated honesty, integrity and responsibility as its ethical concepts and code of conduct. The Group stands firmly its ground on any form of corrupt behaviour, including without limitation bribery, extortion, fraud and money laundering. The "Staff Handbook" clearly states the Group's policies on anti-bribery, fraud and money laundering.

For examples, employees and agents are strictly prohibited from:

- Offering or receiving money, gifts, loans or other benefits that may benefit business decisions or interfere with independent judgment; or

- Offering or receiving kickbacks, remuneration or secret commissions to solicit business for Austar and its subsidiaries; or

- Bribing government officials or facilitating bribing to obtain favorable terms or conditions; or

- Insider dealings, etc.

During the reporting period, no case of corruption, extortion, fraud and money laundering occurred to the Group, and the Group strictly complied with relevant laws and regulations such as the *PRC Criminal Law* and its Judicial Interpretation, *the Criminal Procedure Law* and its Judicial Interpretation, *the Interpretation on Several Issues Concerning the Applicable Laws to Handling Criminal Cases of Embezzlement and Bribery*, and *the Anti-Money Laundering Law*.

Austar offers two channels for report on illegal or suspicious behaviours:

(A) Report on commercial bribery and fraud:

To: the Executive Director of the Group
Email: internal.audit@bj.austar.com.cn

(B) Report on other behaviors that violate the employees' "Code of Conduct"

To: the HR Department
Email: internal.audit.HR@bj.austar.com.cn.

If any violation of the Code of Conduct was discovered by the Group, immediate investigation actions will be taken. The Group will report to the government authorities in accordance with law. If a violation is confirmed, employees who are involved would be penalised according to the severity of the breaches.

8. Community Investment

Community interest remains a dominant consideration for the Group in its business development. The Group not only stresses the establishment of harmonious and win-win relations with its community stakeholders, but also promotes active participation in community activities, to fully understand community demands and ensure community interests are fully incorporated into the Group's business development.

The Trade Union of Austar Equipment has advocated in local community services such as elders visits and education activities. The Group has facilitated the formation of the 'People's Studio' for its employees, which sets to listen to employees opinions and suggestions with regard to their working condition, solve conflicts between employees, organise community services and enrich employees cultural habit. Austar has additionally provided resources to and participated in fundraising activity organised by the Hebei Federation of Trade Union.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Austar Lifesciences Limited (the "Company") and its subsidiaries (the "Group") set out on pages 101 to 179, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED (Continued)
(incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit is the recoverability of trade receivables and amounts due from customers for contract work.

Key Audit Matter	How our audit addressed the Key Audit Matter
The recoverability of trade receivables and amounts due from customers for contract work Refer to note 13 and note 14 to the consolidated financial statements. As at 31 December 2017, the carrying amounts of trade receivables and amounts due from customers for contract work amounted to RMB170 million and RMB115 million, representing 19% and 13% of total assets respectively. It is the industry practice to bill work in progress to customers long after the construction work has been carried out. Due to slow payment cycles experienced in this industry and the declining economic conditions, it normally takes an even longer period of time for receivable balances to be settled. The recoverability of outstanding trade receivables and amounts due from customers for contract work balances could be of question.	In addressing this matter, we had performed following procedures: • We understood the Group's monitoring controls on analysing recoverability of trade receivables and billing of amounts due from customers for contract work. • We enquired management the basis and reasons of provisions made against the trade receivable and amounts due from customers for contract work, if any. • We performed procedures on the balances (i) For trade receivables, we requested and received direct confirmations on a sample basis, or performed appropriate alternative procedures and checked the reconciliation, if any; and (ii) For amounts due from customers for contract works, we checked the calculations and agreed the information used for the calculations to accounting records, estimated total contract costs, contract sum and progress billings.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED (Continued)
(incorporated in the Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
The recoverability of trade receivables and amounts due from customers for contract work (Continued) Because of the magnitude of the trade receivables balance and amounts due from customers for contract work as at 31 December 2017, together with the use of significant judgements and various assumptions in estimating the recoverability of such balances, we had identified this matter as a key audit matter.	• For trade receivables, we enquired management on the level of provision made, taking into consideration of various factors, including explanations from management, aging profile, subsequent settlement status, historical settlement pattern as well as specific circumstance of individual customers. • For amounts due from customers for contract work balances, we enquired management on the level of provision made, taking into consideration of enquiry to management on contracts progress, terms of billing as set out in the contracts, and recoverability of outstanding receivable balances of same customers, where applicable. Based upon our work, we found the assessment of the recoverability of trade receivables and amounts due from customers for contract work determined by management is supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED (Continued)
(incorporated in the Cayman Islands with limited liability)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED (Continued)
(incorporated in the Cayman Islands with limited liability)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED (Continued)
(incorporated in the Cayman Islands with limited liability)

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEONG Kin Bong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

(If there is any inconsistency between the English and Chinese version of this independent auditor's report, the English version shall prevail.)

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**41,868**	42,222
Land use rights	7	**5,650**	5,800
Intangible assets	8	**6,469**	4,612
Investments accounted for using the equity method	9	**39,608**	34,586
Deferred income tax assets	10	**8,257**	7,887
Prepayments and other receivables	15	**8,464**	8,810
Other non-current assets	11	**16,295**	16,295
Total non-current assets		**126,611**	120,212
Current assets			
Inventories	12	**77,120**	90,623
Trade and notes receivables	14	**209,948**	184,291
Prepayments and other receivables	15	**35,338**	32,584
Amounts due from customers for contract work	13	**115,157**	155,496
Pledged bank deposits	16	**7,870**	9,871
Term deposits with initial terms of over three months	16	**203**	35,347
Cash and cash equivalents	16	**309,320**	286,352
Total current assets		**754,956**	794,564
Total assets		**881,567**	914,776

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	17	**4,071**	4,071
Reserves		**375,657**	389,245
Retained earnings		**98,713**	152,798
		478,441	546,114
Non-controlling interests		**1,946**	1
Total equity		**480,387**	546,115
LIABILITIES			
Non-current liabilities			
Deferred income	18	**555**	600
Deferred income tax liabilities	10	**8,963**	14,571
Total non-current liabilities		**9,518**	15,171
Current liabilities			
Trade and other payables	20	**298,006**	289,822
Amounts due to customers for contract work	13	**72,734**	42,491
Short-term borrowings	19	**20,000**	20,000
Current income tax liabilities		**922**	1,177
Total current liabilities		**391,662**	353,490
Total liabilities		**401,180**	368,661
Total equity and liabilities		**881,567**	914,776

The notes on pages 107 to 179 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 101 to 179 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

Mr. Ho Kwok Keung, Mars	**Madam Zhou Ning**
Executive Director	*Executive Director*

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000
Revenue	5	**546,933**	672,545
Cost of sales	5,21	**(425,401)**	(512,838)
Gross profit		**121,532**	159,707
Selling and marketing expenses	21	**(100,473)**	(82,687)
Administrative expenses	21	**(70,946)**	(68,103)
Research and development expenses	21	**(26,062)**	(32,041)
Other income	22	**7,438**	2,103
Other gains/(losses) – net	23	**1,001**	(2,083)
Operating loss		**(67,510)**	(23,104)
Finance income	25	**4,332**	4,053
Finance costs	25	**(423)**	(1,845)
Finance income – net		**3,909**	2,208
Share of net profit of investments accounted for using the equity method	9	**5,181**	3,395
Loss before income tax		**(58,420)**	(17,501)
Income tax credit/(expense)	26	**4,223**	(1,169)
Loss for the year		**(54,197)**	(18,670)
Loss attributable to:			
The owners of the Company		**(54,085)**	(18,670)
Non-controlling interests		**(112)**	–
Loss per share for loss attributable to the owners of the Company - basic and diluted (RMB)	27	**(0.11)**	(0.04)

The notes on pages 107 to 179 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000
Loss for the year		**(54,197)**	(18,670)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(15,340)**	14,575
Share of other comprehensive income of investments accounted for using the equity method		**1,752**	(774)
Other comprehensive income for the year, net of tax		**(13,588)**	13,801
Total comprehensive income for the year		**(67,785)**	(4,869)
Total comprehensive income attributable to:			
The owners of the Company		**(67,673)**	(4,869)
Non-controlling interests		**(112)**	–
		(67,785)	(4,869)

The notes on pages 107 to 179 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital RMB'000	Capital surplus RMB'000	Share premium RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to the owners of the Company							
Balance at 1 January 2016		4,071	30,150	314,009	171,468	31,285	550,983	1	550,984
Comprehensive income									
Loss for the year		–	–	–	(18,670)	–	(18,670)	–	(18,670)
Other comprehensive income									
Currency translation differences		–	–	–	–	14,575	14,575	–	14,575
Share of other comprehensive income of investments accounted for using the equity method	9	–	–	–	–	(774)	(774)	–	(774)
Total comprehensive income		–	–	–	(18,670)	13,801	(4,869)	–	(4,869)
Balance at 31 December 2016		4,071	30,150	314,009	152,798	45,086	546,114	1	546,115
Balance at 1 January 2017		**4,071**	**30,150**	**314,009**	**152,798**	**45,086**	**546,114**	**1**	**546,115**
Comprehensive income									
Loss for the year		**–**	**–**	**–**	**(54,085)**	**–**	**(54,085)**	**(112)**	**(54,197)**
Other comprehensive income									
Currency translation differences		**–**	**–**	**–**	**–**	**(15,340)**	**(15,340)**	**–**	**(15,340)**
Share of other comprehensive income of investments accounted for using the equity method	9	**–**	**–**	**–**	**–**	**1,752**	**1,752**	**–**	**1,752**
Total comprehensive income		**–**	**–**	**–**	**(54,085)**	**(13,588)**	**(67,673)**	**(112)**	**(67,785)**
Transactions with owners in their capacity as owners									
Investment by non-controlling interests	34	**–**	**–**	**–**	**–**	**–**	**–**	**2,058**	**2,058**
Acquisition of shares of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Total transactions with owners, recognised directly in equity		**–**	**–**	**–**	**–**	**–**	**–**	**2,057**	**2,057**
Balance at 31 December 2017		**4,071**	**30,150**	**314,009**	**98,713**	**31,498**	**478,441**	**1,946**	**480,387**

The notes on pages 107 to 179 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Cash flows from operating activities			
Cash used in operations	29	**(8,008)**	(28,195)
Income tax paid		**(2,010)**	(5,773)
Interest received		**3,847**	3,506
Net cash used in operating activities		**(6,171)**	(30,462)
Cash flows from investing activities			
Decrease/(increase) in term deposits with initial terms of over three months	16	**35,144**	(35,347)
Investment in an associate	9	**–**	(15,874)
Dividend received from joint ventures	9	**1,911**	2,089
Payment for property, plant and equipment		**(9,097)**	(11,014)
Payment for intangible assets		**(453)**	(1,520)
Proceeds from disposal of property, plant and equipment		**–**	653
Interest received from the loan to a joint venture		**–**	717
Cash received from government grants	18	**–**	600
Net cash generated from/(used in) investing activities		**27,505**	(59,696)
Cash flows from financing activities			
Interest paid		**(1,224)**	(1,081)
Proceeds from borrowings	19	**35,000**	20,000
Repayments of borrowings	19	**(35,000)**	(35,000)
Capital injection from non-controlling interests	34	**2,058**	–
Net cash generated from/(used in) financing activities		**834**	(16,081)
Net increase/(decrease) in cash and cash equivalents		**22,168**	(106,239)
Cash and cash equivalents at beginning of year	16	**286,352**	393,383
Exchange gains/(losses) on cash and cash equivalents		**800**	(792)
Cash and cash equivalents at end of year	16	**309,320**	286,352

The notes on pages 107 to 179 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in thousands of Renminbi Yuan (the "RMB"), unless otherwise stated, and is approved for issue by the Board of Directors on 26 March 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of the consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries (the "Group").

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with IFRSs. The consolidated financial statements have been prepared on a historical cost basis.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to International Accounting Standard (IAS) 12, and

- Disclosure initiative – Amendments to IAS 7.

The adoption of these amendments are not material to the Group.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 9 Financial Instruments (Continued)

Impact (Continued)

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 amortised 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. Based on the assessments undertaken to date, the Group expects to have no material impact.

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.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 Revenue from Contracts with Customers

Nature of change

The International Accounting Standard Board ("IASB") has issued a new standard for the recognition of revenue. IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised 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.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Impact (Continued)

(i) Sales contracts of equipment with installation

IFRS 15 required that at contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify each promise to the customer as a performance obligation. Two performance obligations will be resulted from each of these kind of contracts, including sales of equipment, and subsequent installation, trail run and training service. Sales of equipment will be recognised at the time of customer having received and accepted the products, and sales of services will be recognised over time as the customer simultaneously receives and consumes the benefits from performance of the contracts by the Group.

The Group estimates that the revenue will have to be reduced by approximately RMB1 million, contract assets will be increased approximately by RMB2 million, and net retained earnings will be decreased approximately by RMB1 million, as a result of the adoption of the new standard.

(ii) System engineering contract

IFRS 15 required that entity's performance creates or enhances an asset (e.g. WIP) that customer controls as the asset is created (e.g. constructing building on customer's land). Revenue recognition will be delayed using over-time pattern after transferring the products to customer's construction site under IFRS 15. The Group estimates that revenue will have to be reduced by approximately RMB19 million, contract assets will be decreased approximately by RMB4 million and net retained earnings will be decreased approximately by RMB3 million, as a result of the adoption of the new standard.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and comparatives will not be restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised 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 recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitment of RMB6,901,000. The Group is in the process of making an assessment of IFRS 16's full impact.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There is no other IFRS or International Financial Reporting Interpretations Committee interpretations that is not yet effective is expected to have a material impact on the Group.

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(a) *Subsidiaries* (Continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) *Associates*

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(b) *Associates* (Continued)

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

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

(c) *Join arrangements*

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group only has joint ventures.

Interests in joint ventures are accounted for using the equity method (see (d) below), after initially being recognised at cost in the consolidated balance sheet.

(d) *Equity accounting*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(e) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

(a) Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amounts of the net assets obtained and the carrying amount of the consideration paid is recorded in reserve. All direct transaction cost attributable to the business combination is recorded in the income statement in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

(b) Business combinations not under common control

The cost of a combination is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

(b) Business combinations not under common control (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer, vice presidents and directors of the Company.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Group's presentation currency, and the Company's functional currency is HKD.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income/(expenses), net'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses)'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(c) Group companies (Continued)

(iii) all resulting exchange differences are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in joint ventures or associates that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to the profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the profit or loss during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful lives
Buildings	20 years
Machinery	5-10 years
Vehicles	5 years
Others	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses)' in the income statement.

2.8 Land use rights

Land use rights represent upfront prepayments made for the land use rights and are expensed in the profit or loss on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the profit or loss.

2.9 Intangible assets

Intangible assets mainly represent computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Research and development

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible assets so that it will be available for use or sale;

(ii) management intends to complete the intangible assets and use or sell it;

(iii) there is an ability to use or sell the intangible assets;

(iv) it can be demonstrated how the intangible assets will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available; and

(vi) the expenditure attributable to the intangible assets during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised on a straight-line basis over its useful life.

2.11 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise: 'trade and notes receivables', 'other receivables', 'pledged bank deposits', 'term deposits with initial terms of over three months', and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

2.12.2 Recognition and measurement

Purchases and sales of financial assets in the regular way are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset with the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the moving average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(b) *Deferred income tax* (Continued)

Inside basis differences (Continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, joint ventures and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits

Pension and social obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised and allocated to related cost of assets and expenses based on different beneficiaries.

All Chinese employees of the Group participate in other employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are recorded as production costs or expensed as incurred.

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers.

2.24 Provisions

Provisions for product and service warranty are recognised when: the Group has a present contractual or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Construction contracts

A construction contract is defined by IAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case. The respective balance items are 'amounts due from customers for contract work' and 'amounts due to customers for contract work'.

Contract work-in-progress is valued at the cost of the work done, plus the expected profit upon completion of the project in proportion to the progress made and less progress billings and provisions. Provisions are recognised for expected losses on contract work-in-progress, as soon as they are foreseen, and deducted from the cost. The cost includes direct project costs, which consist of direct payroll costs, materials, costs of subcontracted work, maintenance costs for the equipment used and other direct costs.

Profits are not recognised unless a reliable estimate can be made of the result of completion of the project. The balance of the value of contract work-in-progress and progress billings is determined on a project-by-project basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for sale of goods, construction contracts and rendering of services, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Construction contracts*

When the outcome of a contract can be estimated reliably, revenue from construction contracts is recognised under the percentage of completion method and is measured mainly by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that the recoverability is probable and such contract costs is recognised as an expense when incurred.

(b) *Sales of goods*

Sales of goods are recognised when significant risks and rewards of ownership of the goods are transferred to the customers, and the customer has accepted the projects and collectability of the related receivables is reasonably assured.

(c) *Rendering of services*

Services rendered mainly include technique development, design, consultation and supervision services. Service revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.27 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are deferred and recognised in the consolidated income statement over the periods necessary to match them with the related costs that they are intended to compensate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Government grants (Continued)

Government grant relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.28 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.29 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.30 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

3.1 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar and Euro (EUR). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(i) *Foreign exchange risk* (Continued)

As at 31 December 2017, if Hong Kong dollar had weakened/strengthened by 1% against the US dollar with all other variables held constant, (loss)/profit before income tax for the years would have been RMB232,000 (as at 31 December 2016: RMB264,000) lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated cash and cash equivalents, term deposits with initial terms of over three months, receivables and payables held by the Group entities.

As at 31 December 2017, if Hong Kong dollar had weakened/strengthened by 5% against the EUR with all other variables held constant, (loss)/profit before income tax for the years would have been RMB1,123,000 (as at 31 December 2016: RMB1,187,000) lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of EUR denominated cash and cash equivalents, term deposits with initial terms of over three months, receivables and payables held by the Group entities.

(b) *Credit risk*

As the majority of the cash at bank balance and restricted cash are placed with state-owned banks which management believes are of high credit quality. The corresponding credit risk is relatively low. Therefore, the Group's credit risk arises primarily from trade and notes receivables. The Group has no significant concentrations of credit risk. Ageing analysis of the Group's trade receivables is disclosed in Note 14. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. Management does not expect any losses from non-performance by these counterparties except for those recognised.

Counterparty risk related to trade receivables is limited due to the large number of customers in the Group's customer portfolio and their diversification throughout various business sectors.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

The liquidity risk of the Group is mainly controlled by maintaining sufficient cash and cash equivalents through funds from shareholders. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000
As at 31 December 2016	
Trade payables	167,929
Notes payables	25,390
Other payables	30,435
Short-term borrowings	20,416
	244,170

	Less than 1 year RMB'000
As at 31 December 2017	
Trade payables	**136,928**
Notes payables	**27,207**
Other payables	**50,005**
Short-term borrowings	**20,419**
	234,559

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the investors and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as total borrowings, including current and non-current borrowings as shown in the consolidated balance sheets.

The gearing ratio as at 31 December 2017 and 2016 are as follows:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Total debt	**20,000**	20,000
Total equity	**480,387**	546,115
Total capital	**500,387**	566,115
Gearing ratio	**4%**	4%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at each balance sheet date. Management reassesses the adequacy of impairment provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be public information or easily accessible public information and market volatility that might bear a significant impact but might not be easily ascertained.

(b) Construction contracts

Revenue from individual contract is recognised under the percentage of completion method, which requires estimations, by management. Anticipated losses are fully provided on contracts when identified. Because of the nature of the activity undertaken in construction and engineering businesses, the date at which the contract is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the profit or loss in the period in which the circumstances that give rise to the revision become known by the management.

(c) Impairment of inventories

Inventories are reviewed for impairment whenever events or changes in circumstances cause their carrying amounts to exceed their recoverable amounts. The determination of recoverable amount of the inventories requires the use of estimates. The Group's management determined the recoverable amount of inventories.

(d) Income taxes and deferred income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on the income tax expenses.

5. SEGMENT INFORMATION

The CODM has been identified as the Chief Executive Officer, the vice presidents and the Directors who review the Group's internal reports in order to assess performance and allocate resources.

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

The measurement of results and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the reportable segments based on gross profit.

The segment results for the year ended 31 December 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
Segment revenue and results							
Segment revenue	196,367	133,505	58,685	43,763	156,584	19,225	608,129
Inter-segment revenue	(28,656)	(5,471)	(1,503)	(18,305)	(5,558)	(1,703)	(61,196)
Revenue	167,711	128,034	57,182	25,458	151,026	17,522	546,933
Cost of sales	(170,808)	(97,298)	(39,787)	(12,811)	(92,741)	(11,956)	(425,401)
Segment results							
Gross (loss)/profit	(3,097)	30,736	17,395	12,647	58,285	5,566	121,532
Other segment items							
Amortisation	841	58	30	6	–	10	945
Depreciation	4,829	1,997	489	96	366	137	7,914
Impairment of trade and notes receivables	253	1,338	740	355	819	226	3,731
Impairment of inventories	7,745	495	–	–	653	17	8,910
Impairment provision on amounts due from customers for contract work	4,115	60	57	–	–	–	4,232
Reversal of prepayments and other receivables	–	(15)	(7)	(1)	–	(2)	(25)
Share of net profit of investments accounted for using the equity method	1,157	909	–	–	3,115	–	5,181

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 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
Segment revenue and results							
Segment revenue	326,646	171,048	54,603	26,606	118,061	26,526	723,490
Inter-segment revenue	(22,948)	(18,704)	(2,976)	(128)	(4,556)	(1,633)	(50,945)
Revenue	303,698	152,344	51,627	26,478	113,505	24,893	672,545
Cost of sales	(260,140)	(116,234)	(35,833)	(14,169)	(68,408)	(18,054)	(512,838)
Segment results							
Gross profit	43,558	36,110	15,794	12,309	45,097	6,839	159,707
Other segment items							
Amortisation	633	75	20	10	–	5	743
Depreciation	4,588	3,850	1,015	483	689	251	10,876
Impairment of trade and notes receivables	4,246	2,006	628	308	81	304	7,573
Impairment of inventories	9,744	287	96	45	823	21	11,016
Impairment of prepayments and other receivables	443	478	182	86	–	41	1,230
Share of net profit/(loss) of investments accounted for using the equity method	1,394	(114)	–	–	2,115	–	3,395

5. SEGMENT INFORMATION (Continued)

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

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Liquid and Bioprocess System	**(3,097)**	43,558
Clean Room and Automation Control and Monitoring System	**30,736**	36,110
Powder and Solid System	**17,395**	15,794
GMP Compliance Service	**12,647**	12,309
Life Science Consumables	**58,285**	45,097
Distribution and Agency of Pharmaceutical Equipment	**5,566**	6,839
Total gross profit for reportable segments	**121,532**	159,707
Selling and marketing expenses	**(100,473)**	(82,687)
Administrative expenses	**(70,946)**	(68,103)
Research and development expenses	**(26,062)**	(32,041)
Other income	**7,438**	2,103
Other gains/(losses) – net	**1,001**	(2,083)
Finance income – net	**3,909**	2,208
Share of net profit of investments accounted for using the equity method	**5,181**	3,395
Loss before income tax	**(58,420)**	(17,501)

5. SEGMENT INFORMATION (Continued)

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

	As at 31 December 2017		As at 31 December 2016	
	Total assets RMB'000	Investments accounted for using the equity method RMB'000	Total assets RMB'000	Investments accounted for using the equity method RMB'000
Liquid and Bioprocess System	209,103	11,984	297,057	12,745
Clean Room and Automation Control and Monitoring System	138,109	17,615	126,351	15,617
Powder and Solid System	45,914	–	36,801	–
GMP Compliance Service	22,254	–	22,494	–
Life Science Consumables	64,806	10,009	60,900	6,224
Distribution and Agency of Pharmaceutical Equipment	9,238	–	9,580	–
Total segment assets	489,424	39,608	553,183	34,586
Unallocated				
Deferred income tax assets	8,257		7,887	
Headquarter assets	383,886		353,706	
Total assets	881,567		914,776	

5. SEGMENT INFORMATION (Continued)

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

The Group's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

	As at 31 December 2017 Total liabilities RMB'000	As at 31 December 2016 Total liabilities RMB'000
Liquid and Bioprocess System	**161,329**	181,119
Clean Room and Automation Control and Monitoring System	**75,199**	56,065
Powder and Solid System	**28,694**	25,676
GMP Compliance Service	**11,321**	6,492
Life Science Consumables	**38,113**	31,362
Distribution and Agency of Pharmaceutical Equipment	**6,640**	3,754
Total segment liabilities	**321,296**	304,468
Unallocated		
Deferred income tax liabilities	**8,963**	14,571
Short term borrowings	**20,000**	20,000
Headquarter liabilities	**50,921**	29,622
Total liabilities	**401,180**	368,661

5. SEGMENT INFORMATION (Continued)

Geographical information

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

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Revenue		
Mainland China	**481,844**	596,629
Other locations	**65,089**	75,916
	546,933	672,545

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Non-current assets other than deferred income tax assets		
Mainland China	**70,139**	68,730
Other locations	**48,215**	43,595
	118,354	112,325

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2016					
Opening net book value	9,309	20,998	2,219	11,031	43,557
Additions	–	5,507	–	6,843	12,350
Depreciation charge (Note 21)	(740)	(2,617)	(576)	(6,943)	(10,876)
Disposal	–	(1,903)	(56)	(850)	(2,809)
Closing net book value	8,569	21,985	1,587	10,081	42,222
As at 31 December 2016					
Cost	16,443	35,034	3,770	30,252	85,499
Accumulated depreciation	(7,874)	(13,049)	(2,183)	(20,171)	(43,277)
Net book value	8,569	21,985	1,587	10,081	42,222
Year ended 31 December 2017					
Opening net book value	**8,569**	**21,985**	**1,587**	**10,081**	**42,222**
Additions	**–**	**265**	**823**	**8,379**	**9,467**
Depreciation charge (Note 21)	**(740)**	**(1,348)**	**(553)**	**(5,273)**	**(7,914)**
Transfer to intangible assets	**–**	**–**	**–**	**(1,743)**	**(1,743)**
Disposal	**–**	**(17)**	**–**	**(147)**	**(164)**
Closing net book value	**7,829**	**20,885**	**1,857**	**11,297**	**41,868**
As at 31 December 2017					
Cost	**16,443**	**35,242**	**4,593**	**27,880**	**84,158**
Accumulated depreciation	**(8,614)**	**(14,357)**	**(2,736)**	**(16,583)**	**(42,290)**
Net book value	**7,829**	**20,885**	**1,857**	**11,297**	**41,868**

As at 31 December 2017 and 2016, the Group's buildings were pledged as security for short-term borrowings (Note 19).

7. LAND USE RIGHTS

	RMB'000
Year ended 31 December 2016	
Opening net book value	5,950
Amortisation charge	(150)
Closing net book value	5,800
As at 31 December 2016	
Cost	7,500
Accumulated amortisation	(1,700)
Net book value	5,800
Year ended 31 December 2017	
Opening net book value	**5,800**
Amortisation charge (Note)	**(150)**
Closing net book value	**5,650**
As at 31 December 2017	
Cost	**7,500**
Accumulated amortisation	**(1,850)**
Net book value	**5,650**

Note: Amortisation expenses are included in administrative expenses RMB150,000 (2016: RMB150,000).

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 remaining lease period of 38 years. As at 31 December 2017 and 2016, the Group's land use rights were pledged as security for short-term borrowings (Note 19).

8. INTANGIBLE ASSETS

	Software and others RMB'000
Year ended 31 December 2016	
Opening net book value	2,116
Additions	3,089
Amortisation charge	(593)
Closing net book value	4,612
As at 31 December 2016	
Cost	6,954
Accumulated amortisation	(2,342)
Net book value	4,612
Year ended 31 December 2017	
Opening net book value	**4,612**
Additions	**2,652**
Amortisation charge (Note)	**(795)**
Closing net book value	**6,469**
As at 31 December 2017	
Cost	**9,606**
Accumulated amortisation	**(3,137)**
Net book value	**6,469**

Note: Amortisation expenses are included in cost of sales RMB12,000 (2016: nil), selling and marketing expenses RMB19,000 (2016: RMB15,000), and administrative expenses RMB764,000 (2016: RMB578,000).

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Opening balance 1 January	**34,586**	18,180
Additions	**–**	15,874
Share of profit	**5,181**	3,395
Share of other comprehensive income	**1,752**	(774)
Dividend received	**(1,911)**	(2,089)
Closing balance 31 December	**39,608**	34,586

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Nature of relationship**	**Note**	**Measurement method**
STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited ("STERIS-AUSTAR JV")	Hong Kong	49.00%	Joint Venture	Note (a)	Equity
Steris Austar Pharmaceutical Equipment (Shanghai) Co., Ltd. ("STERIS-AUSTAR WFOE")	Shanghai	49.00%	Joint Venture	Note (a)	Equity
PALL-AUSTAR Lifesciences Limited ("PALL-AUSTAR JV")	Hong Kong	60.00%	Joint Venture	Note (b)	Equity
PALL-Austar Packaging Technology (Beijing) Co., Ltd. ("PALL-AUSTAR WFOE")	Beijing	60.00%	Joint Venture	Note (b)	Equity
ROTA Verpackungstechnik Co. KG ("ROTA KG")	Germany	33.33%	Associate	Note (c)	Equity
ROTA Verpackungstechnik GmbH ("ROTA GmbH")	Germany	33.33%	Associate	Note (c)	Equity

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

(a) STERIS-AUSTAR JV is a strategic partnership to the Group, which develops and produces pharmaceutical equipment via its subsidiary STERIS-AUSTAR WFOE in the PRC.

(b) PALL-AUSTAR JV is a strategic partnership to the Group, which develops and produces life science consumables via its subsidiary PALL-AUSTAR WFOE in the PRC.

(c) ROTA KG is a strategic partnership to the Group, which develops and produces pharmaceutical equipment in Germany. ROTA GmbH, the general partner of ROTA KG, is an investment holding company.

Summarised balance sheet

Set out below are the summarised consolidated financial information for STERIS-AUSTAR JV, PALL-AUSTAR JV and ROTA KG which are accounted for using the equity method.

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG	
	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000
Current						
Cash and cash equivalents	**16,096**	14,038	**13,588**	8,337	**37**	2,988
Other current assets	**17,538**	18,223	**13,334**	13,820	**89,024**	67,661
Total current assets	**33,634**	32,261	**26,922**	22,157	**89,061**	70,649
Financial liabilities (excluding trade payables)	**(3,092)**	(2,981)	**(3,030)**	(5,195)	**(5,190)**	(14,942)
Other current liabilities (including trade payables)	**(7,044)**	(4,884)	**(2,510)**	(3,563)	**(59,507)**	(49,979)
Total current liabilities	**(10,136)**	(7,865)	**(5,540)**	(8,758)	**(64,697)**	(64,921)
Non-current						
Assets	**2,006**	2,137	**13,768**	15,144	**37,784**	36,486
Financial liabilities	**–**	–	**(17,181)**	(17,238)	**(14,978)**	(2,009)
Other liabilities	**(1,046)**	(522)	**(1,287)**	(932)	**(20,604)**	(19,633)
Net assets	**24,458**	26,011	**16,682**	10,373	**26,566**	20,572

* The financial information includes its respective subsidiary.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

Summarised comprehensive income statement

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG	
	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	**Year ended 31 December 2017 RMB'000**	Year ended 31 December 2016 RMB'000	**Year ended 31 December 2017 RMB'000**	For the 9 months ended 31 December 2016 RMB'000
Revenue	**27,869**	31,424	**28,176**	24,798	**111,213**	80,283
Depreciation and amortisation	**(257)**	(213)	**(1,844)**	(1,658)	**(3,503)**	(3,468)
Interest income	**110**	138	**6**	(13)	**–**	–
Interest expense	**(100)**	180	**(959)**	128	**(1,525)**	(938)
Profit/(loss) before income tax	**4,300**	4,673	**6,883**	4,778	**3,239**	(79)
Income tax expense	**(1,938)**	(1,829)	**(1,692)**	(1,252)	**(511)**	(262)
Profit/(loss) for the year	**2,362**	2,844	**5,191**	3,526	**2,728**	(341)
Other comprehensive income	**(16)**	26	**1,118**	(1,074)	**3,266**	(430)
Total comprehensive income	**2,346**	2,870	**6,309**	2,452	**5,994**	(771)
Dividends received from joint ventures	**1,911**	2,089	**–**	–	**–**	–

* The financial information includes its respective subsidiary.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

Summarised financial information

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG**	
	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000
Opening net assets 1 January	**26,011**	27,404	**10,373**	7,921	**20,572**	21,343
Profit/(loss) for the year	**2,362**	2,844	**5,191**	3,526	**2,728**	(341)
Dividends	**(3,899)**	(4,263)	**–**	–	**–**	–
Other comprehensive income	**(16)**	26	**1,118**	(1,074)	**3,266**	(430)
Closing net assets	**24,458**	26,011	**16,682**	10,373	**26,566**	20,572
Interest	**11,984**	12,745	**10,009**	6,224	**8,855**	6,857
Goodwill	**–**	–	**–**	–	**8,760**	8,760
Carrying value	**11,984**	12,745	**10,009**	6,224	**17,615**	15,617

* The financial information includes its respective subsidiary.

** The opening net assets was at 31 March 2016, being the date of acquisition by the Group and the loss covered the period from 1 April 2016 to 31 December 2016.

The information above reflects the amounts presented in the financial statements of the associates and joint ventures (and not the Group's share of those amounts). They have been amended to reflect adjustment made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policies between the Group and the associates and joint ventures.

10. DEFERRED INCOME TAX

Deferred income tax assets

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
The balance comprises temporary differences attributable to:		
Provision of doubtful debts and obsolete inventories	**6,086**	4,057
Tax losses	**1,454**	2,700
Warranty provisions	**946**	901
Other	**(229)**	229
Total deferred income tax assets	**8,257**	7,887
Set-off of deferred income tax liabilities pursuant to set-off provisions	**(8,963)**	(14,571)
Net deferred income tax assets	**(706)**	(6,684)

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	**6,728**	5,097
– to be recovered after more than 12 months	**1,529**	2,790
	8,257	7,887
Deferred income tax liabilities		
– to be recovered after more than 12 months	**(8,963)**	(14,571)
	(706)	(6,684)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

10. DEFERRED INCOME TAX (Continued)

The gross movement of the deferred income tax account is as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Beginning of the year	**(6,684)**	(9,031)
Credited to the consolidated income statement (Note 26)	**5,978**	2,347
End of the year	**(706)**	(6,684)

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
As at 31 December 2015	3,989	1,677	2,040	7,706
(Charged)/credited to the consolidated income statement	(1,289)	2,380	(910)	181
As at 31 December 2016	2,700	4,057	1,130	7,887
(Charged)/credited to the consolidated income statement	(1,246)	2,029	(413)	370
As at 31 December 2017	**1,454**	**6,086**	**717**	**8,257**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

For the year ended 31 December 2017, the Group did not recognise deferred income tax assets of RMB3,108,000 (2016: RMB2,633,000) in respect of losses amounting to RMB18,954,000 (2016: RMB15,987,000) that can be carried forward indefinitely and have no expiry date.

10. DEFERRED INCOME TAX (Continued)

For the year ended 31 December 2017, the Group did not recognise deferred income tax assets of RMB18,869,000 (2016: RMB7,677,000) in respect of losses amounting to RMB120,831,000 (2016: RMB46,160,000) that can be carried forward in the next five years.

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000
As at 31 December 2015	(16,737)
Credited to the consolidated income statement	2,166
As at 31 December 2016	(14,571)
Credited to the consolidated income statement	5,608
As at 31 December 2017	**(8,963)**

11. OTHER NON-CURRENT ASSETS

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Advance payment for land use rights	**16,295**	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) on 16 April 2015, the bureau has approved Austar Pharmaceutical Process System (Shijiazhuang) Limited ("APTS SJZ") of increasing investment in connection with building a factory in Shijiazhuang city. Advance payment of RMB16.3 million has been made in 2015 to government authority as prepayment for land use rights of a piece of land. It was for the purpose of facilitating the land expropriation process and increasing the lands available for tender.

12. INVENTORIES

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Raw materials	**47,715**	50,723
Work-in-progress	**30,087**	28,071
Finished goods	**16,959**	24,464
	94,761	103,258
Less: provision for inventories	**(17,641)**	(12,635)
	77,120	90,623

Movements of provision for inventories are analysed as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Beginning of the year	**(12,635)**	(1,619)
Addition	**(9,074)**	(11,263)
Reversal	**164**	247
Write-off	**3,904**	–
End of the year	**(17,641)**	(12,635)

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Contract cost incurred plus recognised profit less foreseeable losses	**588,472**	584,826
Less: Progress billings	**(541,817)**	(471,821)
Less: Provision of contract impairment (Note 21)	**(4,232)**	–
Contract work in progress	**42,423**	113,005
Representing:		
Amounts due from customers for contract work	**115,157**	155,496
Amounts due to customers for contract work	**(72,734)**	(42,491)
	42,423	113,005

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Construction contract revenue	**326,911**	444,634

14. TRADE AND NOTES RECEIVABLES

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Trade receivables (Note (b))	**188,650**	185,604
Notes receivable (Note (a))	**40,306**	14,662
	228,956	200,266
Less: provision for impairment	**(19,008)**	(15,975)
	209,948	184,291

14. TRADE AND NOTES RECEIVABLES (Continued)

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2016: within six months).

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Within 3 months	**84,101**	86,333
3 to 6 months	**27,664**	16,904
6 months to 1 year	**22,538**	29,211
1 to 2 years	**31,788**	32,311
2 to 3 years	**11,819**	13,963
Over 3 years	**10,740**	6,882
	188,650	185,604

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

As at 31 December 2017, there are retention money receivables of RMB44,097,000 (31 December 2016: RMB41,424,000).

As at 31 December 2017 and 2016, the past due but not impaired trade receivables due from external customers relate to customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Within 3 months	**36,128**	52,480
3 to 6 months	**17,323**	11,497
6 months to 1 year	**10,631**	22,327
1 to 2 years	**17,283**	17,729
2 to 3 years	**6,890**	4,380
Over 3 years	**501**	484
	88,756	108,897

14. TRADE AND NOTES RECEIVABLES (Continued)

(c) Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Beginning of the year	**(15,975)**	(9,789)
Addition	**(6,625)**	(11,378)
Reversal	**2,894**	3,805
Write-off	**698**	1,387
End of the year	**(19,008)**	(15,975)

As at 31 December 2017 and 2016, the carrying amounts of trade and notes receivables approximated their fair values.

(d) The carrying amounts of the Group's trade and notes receivables are denominated in the following currencies:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
RMB	**198,799**	172,291
US$	**8,650**	12,000
HK$	**2,359**	–
EUR	**140**	–
	209,948	184,291

15. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Current:		
Prepayments to suppliers	**16,354**	17,062
Staff advances	**2,971**	2,592
Deposits as guarantee for tender	**10,438**	6,717
Others	**6,585**	7,301
	36,348	33,672
Less: provision for impairment	**(1,010)**	(1,088)
	35,338	32,584
Non-current:		
Loan and interest to PALL-AUSTAR JV (Note (d), Note 31(c)(i))	**8,464**	8,810

(a) As at 31 December 2017 and 2016, the carrying amounts of other receivables approximated their fair values.

(b) Movements on the Group's provision for impairment of prepayments and other receivables are as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Beginning of the year	**(1,088)**	(207)
Addition	**(137)**	(1,279)
Reversal	**162**	49
Write-off	**53**	349
End of the year	**(1,010)**	(1,088)

15. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(c) The carrying amount of the Group's other receivables is denominated in the following currencies:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
RMB	**18,516**	13,305
US$	**302**	8,831
HK$	**222**	95
	19,040	22,231

(d) This loan to PALL-AUSTAR JV is provided by its shareholder Austar Pharmaceutical Process Systems Limited ("APPS"), a subsidiary of the Company. This loan is unsecured and bearing interest rate at LIBOR plus an interest rate variable as prescribed in the loan agreement. For the year ended 31 December 2017, the effective interest rate ranged from 5.93% to 6.84% (2016: 5.62% to 6.59%) per annum. This loan is extended for another 3 years in 2017, and the maturity of this loan is more than one year.

16. CASH AND BANK BALANCES

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Pledged bank deposits (Note (a))	**7,870**	9,871
Term deposits with initial terms of over three months	**203**	35,347
Cash and cash equivalents		
– Cash on hand	**32**	54
– Deposits in bank	**309,288**	286,298
	309,320	286,352
	317,393	331,570

(a) The pledged bank deposits were held as security for letter of guarantee.

16. CASH AND BANK BALANCES

(b) Cash and bank were denominated in the following currencies:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
HK$	**166,789**	190,024
RMB	**131,509**	119,937
US$	**13,812**	13,893
EUR	**5,283**	7,716
	317,393	331,570

17. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2016 and 2017	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
Issued and fully paid, HK$0.01 each:			
At 31 December 2016 and 2017	512,582	5,126	4,071

18. DEFERRED INCOME

As at 31 December 2017, deferred income is the government grant obtained relating to purchase of plant, property and equipment.

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
At beginning of the year	**600**	–
Addition	**–**	600
Charged to consolidated income statement	**(45)**	–
At end of the year	**555**	600

19. SHORT-TERM BORROWINGS

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Bank borrowings		
– Secured (Note (a))	**5,000**	20,000
– Guaranteed (Note (b))	**15,000**	–
	20,000	20,000

(a) As at 31 December 2017, secured short-term bank borrowing is denominated in RMB, secured by the Group's buildings (Note 6) and land use rights (Note 7), bearing interest at 4.35% (2016: 4.35%) per annum and is repayable within one year.

(b) As at 31 December 2017, guaranteed short-term bank borrowing is guaranteed by Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("Austar SJZ"), a subsidiary of the Company. The loan is denominated in RMB, bearing interest at 4.785% (2016: N/A) per annum and is repayable within one year from respective drawdown dates.

20. TRADE AND OTHER PAYABLES

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Trade payables	**136,928**	167,929
Notes payables	**27,207**	25,390
Advances from customers	**48,482**	38,340
Payroll and welfare payable	**23,436**	17,418
Taxes other than income taxes payable	**5,669**	6,078
Warranty provision	**6,282**	4,109
Accrued expenses	**19,991**	10,114
Employee payable	**5,528**	3,694
Others	**24,483**	16,750
	298,006	289,822

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Within 6 months	**101,787**	146,452
6 months to 1 year	**19,491**	12,208
1 to 2 years	**10,154**	6,350
2 to 3 years	**3,238**	2,233
Over 3 years	**2,258**	686
	136,928	167,929

(b) As at 31 December 2017 and 2016, the carrying amounts of trade and other payables approximated their fair values.

20. TRADE AND OTHER PAYABLES (Continued)

(c) The carrying amounts of the Group's trade and other payables (excluding advances from customers) are denominated in the following currencies:

	As at 31 December 2017 RMB' 000	As at 31 December 2016 RMB' 000
RMB	**230,320**	239,555
US$	**12,689**	3,476
HK$	**3,730**	7,434
EUR	**1,914**	1,017
CHF	**565**	–
INR	**211**	–
GBP	**95**	–
	249,524	251,482

21. EXPENSE BY NATURE

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Raw materials	311,130	395,026
Staff costs, including directors' emoluments (Note 24)	139,253	127,289
Depreciation (Note 6)	7,914	10,876
Amortisation (Note 7, 8)	945	743
Sales tax and surcharges	3,451	5,609
Office expenses	8,272	6,700
Travel expenses	32,236	29,995
Freight and port charges	12,569	10,815
Promotion expenses	17,812	11,570
Warranty provision	6,912	4,732
Impairment of trade and notes receivables	3,731	7,573
Impairment of inventories (Note 12)	8,910	11,016
Impairment of amounts due from customers for contract work (Note 13)	4,232	–
(Reversal)/impairment of prepayments and other receivables	(25)	1,230
Professional fees	7,875	6,977
Auditor's remuneration		
– Audit service	3,835	3,814
– Non audit service (Note)	994	947
Rental expenses		
– Madam Gu Xun	935	935
– Austar Limited	88	82
– Others	7,855	10,010
Communication expenses	1,839	1,651
On-site subcontract fee	12,556	18,869
Other operating expenses	29,563	29,210
	622,882	695,669

Note: The non-audit services provided by the external auditor of the Company during the year are mainly advisory services.

22. OTHER INCOME

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Government grants (Note)	**7,024**	1,689
Rental income (Note 31(b)(iv))	**414**	414
	7,438	2,103

Note: There are no unfulfilled conditions or other contingencies attaching to these grants.

23. OTHER GAINS/(LOSSES)-NET

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Loss on disposal of property, plant and equipment	**(20)**	(1,509)
Exchange gains/(losses)	**630**	(1,062)
Others	**391**	488
	1,001	(2,083)

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Salaries and bonuses	**107,033**	96,509
Pension and social obligations	**32,220**	30,780
	139,253	127,289

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Directors	**3**	4
Non-director individuals	**2**	1
	5	5

The Directors' emoluments were reflected in the analysis presented below. The emoluments payable to the remaining individuals were as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Basic salaries and allowances	**1,020**	409
Discretionary bonuses	**483**	361
Other benefits including pension	**169**	36
	1,672	806

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December 2017	Year ended 31 December 2016
Emolument bands		
HK$1,000,000 and below	**1**	1
HK$1,000,001~HK$1,500,000	**1**	–
	2	1

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	–	1,098	–	–	–	–	–	–	16	1,114
Ho Kin Hung	–	1,319	368	–	–	–	–	–	16	1,703
Chen Yuewu	–	792	–	23	–	–	–	–	49	864
Zhou Ning	–	503	–	32	–	–	–	–	88	623
Non-Executive Directors										
Ji Lingling	311	–	–	–	–	–	–	–	–	311
Raco Ivan Jordanov	84	–	–	–	–	–	–	–	–	84
Chiu Hoi Shan	110	–	–	–	–	–	–	–	–	110
Cheung Lap Kei	110	–	–	–	–	–	–	–	–	110
Leung Oi Kin	27	–	–	–	–	–	–	–	–	27

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(b) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2016 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	–	1,290	–	–	–	–	–	–	15	1,305
Ho Kin Hung	–	1,280	312	–	–	–	–	–	15	1,607
Chen Yuewu	–	763	–	20	–	–	–	–	19	802
Zhou Ning	–	483	–	29	–	–	–	–	77	589
Non-Executive Directors										
Ji Lingling	296	–	–	–	–	–	–	–	–	296
Raco Ivan Jordanov	102	–	–	–	–	–	–	–	–	102
Chiu Hoi Shan	103	–	–	–	–	–	–	–	–	103
Cheung Lap Kei	103	–	–	–	–	–	–	–	–	103

(c) Directors' retirement benefits

During the year, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his/her services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2016: nil).

(d) Directors' termination benefits

During the year, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2016: nil).

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(e) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available director's services (2016: nil).

(f) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2016: nil).

(g) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: nil).

25. FINANCE INCOME - NET

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Interest expenses from short-term bank loan	**(1,223)**	(1,053)
Exchange gains/(losses)	**800**	(792)
Finance costs	**(423)**	(1,845)
Finance income		
– bank deposits	**3,882**	3,610
– loan to PALL-AUSTAR JV (Note 31(b)(v))	**450**	443
	4,332	4,053
	3,909	2,208

26. INCOME TAX CREDIT/(EXPENSE)

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Current income tax expense	**(1,755)**	(3,516)
Deferred income tax credit (Note 10)	**5,978**	2,347
	4,223	(1,169)

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

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

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

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

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("Shanghai Austar"), Austar Hansen Lifesciences (Shanghai) Ltd. ("Austar Hansen") and Austar SJZ are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2014 and renewed its "High and New Technology Enterprise" qualification for another three years in 2015. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2016.

26. INCOME TAX CREDIT/(EXPENSE) (Continued)

The tax on the Group's loss/profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Loss before income tax	**(58,420)**	(17,501)
Tax expense calculated at applicable statutory tax rate	**8,824**	3,232
Impact of loss that not recognise deferred income tax	**(11,667)**	(7,628)
Expenses not deductible for taxation purposes	**(789)**	(987)
Withholding tax	**5,608**	2,166
Non-taxable income	**650**	381
Additional tax deduction of research and development expenses	**1,345**	1,678
Others	**252**	(11)
Income tax credit/(expense)	**4,223**	(1,169)

27. 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 year.

	Year ended 31 December 2017	Year ended 31 December 2016
Loss attributable to the owners of the Company (RMB'000)	**(54,085)**	(18,670)
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic loss per share (RMB)	**(0.11)**	(0.04)

(b) Diluted

As the Company had no dilutive ordinary shares for each of the year ended 31 December 2017 and 2016, dilutive loss per share for the years ended 31 December 2017 and 2016 are the same as basic loss per share.

28. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2017 (2016: nil).

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of loss before income tax to net cash flow used in operations :

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Loss before income tax	**(58,420)**	(17,501)
Adjustments for:		
Depreciation (Note 6)	**7,914**	10,876
Amortisation (Note 7, 8)	**945**	743
Losses on disposals on property, plant and equipment	**20**	1,509
Provision of trade and notes receivables	**3,731**	7,573
(Reversal)/provision of prepayments and other receivables	**(25)**	1,230
Impairment provision for inventories	**8,910**	11,016
Provision of amounts due from customers	**4,232**	–
Share of net profit of investments accounted for using the equity method	**(5,181)**	(3,395)
Finance income-net (Note 25)	**(3,909)**	(2,208)
Deferred income (Note 18)	**(45)**	–
Changes in working capital:		
Decrease in restricted cash	**2,001**	11,552
Decrease/(increase) in inventories	**4,376**	(26,514)
(Increase)/decrease in trade and other receivables	**(46,629)**	22,180
Increase in trade and other payables	**7,722**	16,368
Increase/(decrease) in amounts due to customers for contract work	**30,243**	(38,791)
Decrease/(increase) in amounts due from customers for contract work	**36,107**	(22,833)
Cash used in operations	**(8,008)**	(28,195)

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

(b) Non-cash investing and financing activities

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Additions of property, plant and equipment as a result of transfer from inventories	**310**	312

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Cash and cash equivalents	**309,320**	286,352
Borrowings – repayable within one year	**(20,000)**	(20,000)
Net debt	**289,320**	266,352
Cash and liquid investments	**309,320**	286,352
Gross debt – variable interest rates	**(20,000)**	(20,000)
Net debt	**289,320**	266,352

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

(c) Net debt reconciliation (Continued)

	Other assets	Liabilities from financing activities	
	Cash RMB'000	Borrowing due within 1 year RMB'000	Total RMB'000
Net debt as at 1 January 2017	286,352	(20,000)	266,352
Cash flows	22,168	–	22,168
Foreign exchange adjustments	800	–	800
Net debt as at 31 December 2017	309,320	(20,000)	289,320

30. COMMITMENTS

(a) Capital commitments

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Capital expenditure contracted for but not yet incurred:		
Property, plant and equipment	1,849	2,179
Intangible assets	328	206
	2,177	2,385

30. COMMITMENTS (Continued)

(b) Operating lease commitments

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Within 1 year	**4,259**	5,131
Between 1 to 5 years	**2,642**	2,679
	6,901	7,810

31. RELATED PARTY TRANSACTIONS

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

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2017 and 2016:

Names of the related parties	**Nature of relationship**
PALL-AUSTAR JV	Joint venture of the Group
PALL-AUSTAR WFOE	Subsidiary of PALL-AUSTAR JV
STERIS-AUSTAR WFOE	Joint venture of the Group
Austar Limited	Under common control of the Controlling Shareholder
Madam Gu Xun	Close family member of the Controlling Shareholder
ROTA KG	Associate of the Group

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

During the year, the Group has the following significant transactions with related parties:

(i) Purchase of goods and services

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
PALL-AUSTAR WFOE	**22,487**	18,142
STERIS-AUSTAR WFOE	**21,939**	28,159
ROTA KG	**3,286**	–
Austar Limited	**15**	–
	47,727	46,301

(ii) Sales of goods and services

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
STERIS-AUSTAR WFOE	**8,764**	5,164
PALL-AUSTAR WFOE	**1,230**	1,558
	9,994	6,722

(iii) Rental fee expenses

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Madam Gu Xun	**935**	935
Austar Limited	**88**	82
	1,023	1,017

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iv) Rental fee and miscellaneous income

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
STERIS-AUSTAR WFOE	**414**	414

(v) Loan provided to and interest income from a joint venture

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
PALL-AUSTAR JV		
Interest income	**450**	443

(c) Balances with related parties

(i) Receivable due from/prepayments to related parties

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Receivable due from:		
PALL-AUSTAR JV (Note 15)	**8,464**	8,810
STERIS-AUSTAR WFOE	**5,324**	2,655
Madam Gu Xun	**468**	468
PALL-AUSTAR WFOE	**148**	541
Austar Limited	**13**	14
Prepayments to:		
STERIS-AUSTAR WFOE	**948**	–
ROTA KG	**–**	406
	15,365	12,894

31. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties (Continued)

(ii) Payable due to related parties

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
PALL-AUSTAR WFOE	**6,420**	5,074
STERIS-AUSTAR WFOE	**1,387**	11,183
ROTA KG	**144**	–
Austar Limited	**–**	15
	7,951	16,272

(d) Key management compensation

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Salaries and bonuses	**6,036**	5,961
Pension and others	**394**	318
	6,430	6,279

32. ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for short-term borrowings are:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Property, plant and equipment	**7,830**	8,569
Land use rights	**5,650**	5,800
Total assets pledged as security	**13,480**	14,369

33. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**103,060**	110,285
	103,060	110,285
Current assets		
Prepayments and other receivables	**173,863**	160,028
Cash and cash equivalents	**163,539**	189,658
Total assets	**440,462**	459,971
Equity and liabilities		
Equity attributable to the owners of the company		
Share capital	**4,071**	4,071
Capital surplus	**411,879**	411,879
Currency translation differences	**21,793**	52,056
Retained earnings	**(809)**	(11,540)
Total equity	**436,934**	456,466
Liabilities		
Non-current liabilities		
Trade and other payables	**3,528**	3,505
Total liabilities	**3,528**	3,505
Total equity and liabilities	**440,462**	459,971

33. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

Reserve movement of the Company

	Capital surplus RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000
At 1 January 2016	411,879	17,466	40
Loss for the year	–	–	(11,580)
Currency translation differences	–	34,590	–
At 31 December 2016	411,879	52,056	(11,540)
At 1 January 2017	**411,879**	**52,056**	**(11,540)**
Loss for the year	**–**	**–**	**10,731**
Currency translation differences	**–**	**(30,263)**	**–**
At 31 December 2017	**411,879**	**21,793**	**(809)**

The balance sheet of the Company was approved by the Board of Directors on 26 March 2018 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

34. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2017:

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Directly owned:					
Austar Equipment Limited (奧星設備有限公司)	Limited liability company	BVI/25 January 2005	US$100	100%	Investment holding/BVI
Indirectly owned:					
Shanghai Austar	Limited liability company	Shanghai, the PRC/ 20 August 2003	US$ 20,638,528	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar SJZ	Limited liability company	Shijiazhuang, the PRC/ 9 July 2004	RMB 20,060,000	100%	Provision of integrated engineering solutions pharmaceutical equipment manufacturing, maintenance, GMP compliance service/ the PRC
Austar Hansen	Limited liability company	Shanghai, the PRC/ 29 March 2001	RMB 1,660,000	100%	Distribution and agency/the PRC
Austar Clean Equipment (Shanghai) Co., Ltd. (奧星潔淨設備(上海)有限公司)	Limited liability company	Shanghai, the PRC/ 12 November 2007	RMB 2,155,446	100%	Provision of integrated solution of clean room enclosure system/ the PRC
APPS	Limited liability company	Hong Kong/ 20 April 2012	HK$ 55,812,404	100%	Investment holdings, distribution and agency/ Hong Kong
AAE (Note (a))	Limited liability company	Italy/27 July 2012	EUR 20,000	100%	Provision of consulting service/ Italy
APTS SJZ	Limited liability company	Shijiazhuang, the PRC/ 6 May 2014	RMB 28,000,000	100%	Provision of integrated solution of clean room enclosure system/ the PRC
Austar Pharmaceutical Technology (SJZ) Ltd. (奧星製藥科技(石家莊)有限公司)	Limited liability company	Hong Kong/27 January 2015	HK$100	100%	Investment holding/Hong Kong

34. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiaries as at 31 December 2017:

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar Pharmaceutical Equipment (NJ) Ltd. (奧星製藥設備(南京)有限公司)	Limited liability company	Hong Kong/ 27 January 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Equipment (Nanjing) Ltd. (奧星制藥技朮設备(南京)有限公司)	Limited liability company	Nanjing, the PRC/ 18 May 2015	RMB 500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar Biosciences Investment Ltd. (奧星生命科技投資有限公司)	Limited liability company	BVI/1 April 2015	US$100	100%	Investment holding/BVI
Austar Biosciences Ltd. (奧星生物科技有限公司)	Limited liability company	Hong Kong/ 20 April 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Investment (SJZ) Ltd. (奧星製藥科技投資(石家莊)有限公司)	Limited liability company	BVI/12 January 2015	US$ 12,048,383	100%	Investment holding/BVI
Austar Pharmaceutical Equipment Investment (NJ) Ltd. (奧星製藥設備投資(南京)有限公司)	Limited liability company	BVI/12 January 2015	US$ 209,717	100%	Investment holding/BVI
Austar Biosciences GmbH	Limited liability company	Germany/29 January 2016	EUR 25,000	100%	Investment holding/Germany
Shanghai Austar Biotechnology Co., Ltd. (上海奧星生物科技有限公司)	Limited liability company	Shanghai, the PRC/ 20 May 2015	–	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar India Investment Ltd. (奧星印度投資有限公司)	Limited liability company	BVI/19 July 2017	US$ 1	100%	Investment holding/BVI

34. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiaries as at 31 December 2017:

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Shanghai Austar Pharmaceutical Science and Technology Limited (上海奥星医药科技有限公司)	Limited liability company	Shanghai, the PRC/ 7 August 2017	RMB 2,150,000	100%	Investment holding/the PRC
Shanghai Aunity Pharmaceutical Science and Technology Limited 上海奥恒医药科技有限公司 ("Aunity Shanghai") (Note (b))	Limited liability company	Shanghai, the PRC/ 24 October 2017	RMB 4,200,000	51%	Investment holding/the PRC
Hebei Aunity Engineering Consulting Limited 河北奥恒工程设計咨询有限公司	Limited liability company	Shijiazhuang,the PRC/ 2 November 2017	RMB 3,822,000	100%	Provision of pharmaceutical engineering design/the PRC

The English names of certain subsidiaries referred to herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

(a) During the year, the Company acquired 1% shareholding interest in AAE through APPS from its non-controlling shareholder, who is a director of AAE, at a consideration of EUR200.

(b) Aunity Shanghai was incorporated in 2017. The Company invested RMB2,142,000 for 51% equity interest. The other two shareholders, namely Hebei Yaoyi Engineering Design and Consultancy Limited and CB Counsultancy AG, invested RMB1,680,000 and RMB378,000 respectively and own 40% and 9% equity interest in Aunity Shanghai respectively.

35. COMPARATIVE INFORMATION RECLASSIFICATION

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

36. CONTINGENT LIABILITIES

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

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**546,933**	672,545	627,544	679,750	705,153
Cost of sales	**(425,401)**	(512,838)	(473,297)	(451,143)	(490,187)
Gross profit	**121,532**	159,707	154,247	228,607	214,966
Selling and marketing expenses	**(100,473)**	(82,687)	(71,002)	(65,134)	(72,104)
Administrative expenses	**(70,946)**	(68,103)	(56,213)	(57,278)	(47,849)
Research and development expenses	**(26,062)**	(32,041)	(26,908)	(23,594)	(23,897)
Other income	**7,438**	2,103	2,860	2,097	1,130
Other gains/(losses) – net	**1,001**	(2,083)	278	(288)	(46)
Operating (loss)/profit	**(67,510)**	(23,104)	3,262	84,410	72,200
Finance income/(expenses) – net	**3,909**	2,208	(928)	(809)	(42)
Share of net profit of investments accounted for using the equity method	**5,181**	3,395	5,256	4,224	4,495
(Loss)/profit before income tax	**(58,420)**	(17,501)	7,590	87,825	76,653
Income tax credit/(expense)	**4,223**	(1,169)	(1,207)	(22,632)	(23,082)
(Loss)/profit for the year	**(54,197)**	(18,670)	6,383	65,193	53,571
(Loss)/profit attributable to:					
The owners of the Company	**(54,085)**	(18,670)	6,384	65,193	53,571
Non-controlling interests	**(112)**	–	(1)	–	–
(Loss)/profit for the year	**(54,197)**	(18,670)	6,383	65,193	53,571

ASSETS AND LIABILITIES

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**881,567**	914,776	960,985	869,390	606,853
Total liabilities	**401,180**	368,661	410,001	320,334	478,478
Total assets less current liabilities	**489,905**	561,286	567,721	564,727	140,654
Total equity attributable to the owners of the Company	**478,441**	546,114	550,983	549,055	128,374