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

2018

ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

6118

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

COMPANY SECRETARY

Madam 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

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LEGAL ADVISOR AS TO HONG KONG LAWS

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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

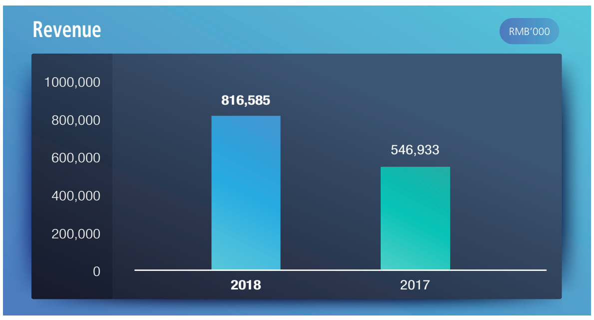
www.austar.com.hk

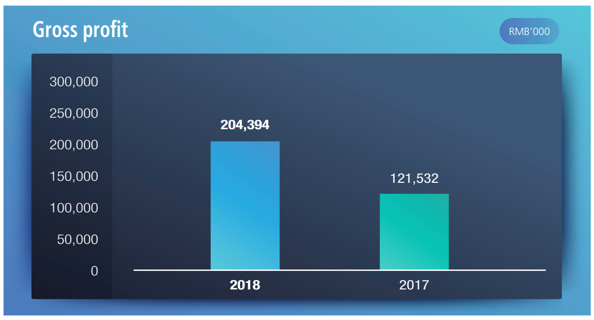
FINANCIAL HIGHLIGHTS

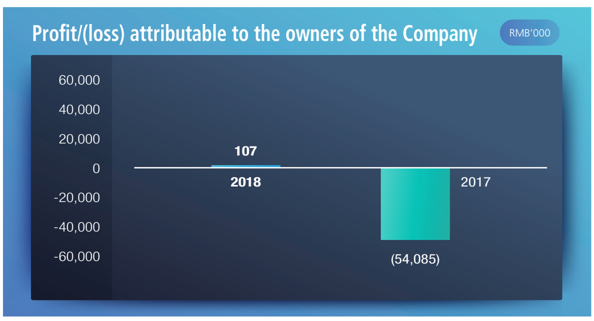
	For the year ended 31 December 2018 RMB'000	2017 RMB'000	Change
Key financials on Consolidated Income Statement			
Revenue	**816,585**	546,933	49.3%
Gross profit	**204,394**	121,532	68.2%
Gross profit margin	**25.0%**	22.2%	
Profit/(loss) attributable to the owners of the Company	**107**	(54,085)	
Basic earnings/(loss) per share (RMB) (Note)	**0.00**	(0.11)	
Diluted earnings/(loss) per share (RMB) (Note)	**0.00**	(0.11)	

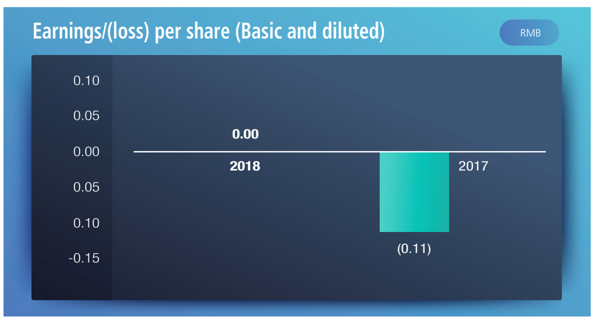
	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000	Change
Key financials on Consolidated Balance Sheet			
Total assets	**1,071,370**	881,567	21.5%
Net assets	**482,923**	480,387	0.5%
Gearing ratio	**5.4%**	4.2%	

Note: The calculation of earnings/(loss) per share is based on the profit/(loss) attributable to the owners of the Company for each of the year ended 31 December 2018 and 2017 and the weighted average number of shares during that year.









REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December 2018 RMB'000	2018 %	2017 RMB'000	2017 %
Liquid and Bioprocess System	**320,841**	**39.3%**	167,711	30.6%
Clean Room and Automation Control and Monitoring System	**164,712**	**20.2%**	128,034	23.4%
Powder and Solid System	**91,352**	**11.2%**	57,182	10.5%
GMP Compliance Service	**36,880**	**4.5%**	25,458	4.7%
Life Science Consumables	**187,174**	**22.9%**	151,026	27.6%
Distribution and Agency of Pharmaceutical Equipment	**15,626**	**1.9%**	17,522	3.2%
Total	**816,585**	**100.0%**	546,933	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

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 (collectively, "**ROTA**"), a world famous liquid filling line provider

2017

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

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

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

2018

In April 2018, the first ROTA filling machine and Austar's freeze-drying machine integrated production line was exhibited at the ACHEMA exhibition in Germany

In May 2018, Austar offered its first continuous manufacturing equipment and process production technology

In June 2018, Austar signed its first clean room workshop service contract with a customer in the medical equipment industry in the PRC

In July 2018, Austar's subsidiary, Hebei Aunity Engineering Consulting Limited, obtained a second-class engineering design qualification certificate for chemical and petrochemical pharmaceutical industry

In November 2018, Austar and Broadley-James Corporation entered into an exclusive agency agreement for bio-process products

In December 2018, Austar signed the first turnkey project with a pharmaceutical engineering company in Algeria, Africa

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 2018 ("**Year**").

Year 2018 was a year of recovery for the Group as our potential for growth which had been suppressed during the last several years was unleashed. We believe the year 2018 was our turnaround year. The momentum of sales order-in-take has regained its energy throughout the Year and our order-in-take has reached a record high with a sharp growth of 39.2%. However, it may take some time for the sales revenue to be recognised to reflect the growth of order-in-take in revenue and profitability growth. Product line development has been our key investment of talents and professionals, with stronger pipeline for further growth reserve for a number of years. The benefits of the challenging re-organisation launched in 2015 can be found in the improvement of morale and performance in business units, such as the performance results of order-in-take, revenue, and gross margin, thus strengthening our leadership's confidence to initiate further transformation with higher growth objectives set in 2018. Results of re-structuring initiated in 2015 brought about project execution effectiveness and efficiency which has contributed to our present profit margin. Transformation initiatives in terms of culture and value, process and systems, and knowledge and competitiveness were initiated during the Year, to eventually benefit our shareholders, customers, partners and our most valuable employees. Such transformation initiatives require more talents for business and functional leadership the recruitment of which might temporarily increase our management and administrative costs. However, such recruitment would bring further, promising, successful and sustainable growth opportunities. We are glad to achieve growth in five of our business 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; and (5) Life Science Consumables, in terms of order-in-take, revenue and gross profit in 2018.

Following the engagement of PricewaterhouseCoopers as consultant for corporate strategies and governance, with the objective to obtain third-party advice for streamlining our strategies and formulating control tactics in our management process in 2018, a Lean Operation Excellence scheme was launched in the last quarter of 2018. The scheme facilitates step-by-step improvements on various aspects, from delivery lead time, product quality to cost-down efficiency. The Austar Technical Advisory Committee is empowered by world-class experts with an objective to create a platform connecting and sharing knowledge and experience in life sciences. They had two meetings in the Year which allowed senior management to listen, learn and share experience, knowledge, advice and opinion.

PRODUCT AND TECHNOLOGICAL DEVELOPMENT

With more than 100 product-line portfolios, 6 business segments and 12 application categories, a lot of products in the early incubation stages of product pipelines required more professional focus and additional resources to ignite their driving momentum and contribute to its revenue and gross margin. We believe that with a strong pipeline of growing product portfolios, sources of revenue growth have been formed solidly and fundamentally for the Company's sustainable growth. Now it is a matter of scale of economy for some product lines to make substantial growth on revenues and that our management is aware of the issues and is keen on driving the Company to change. Application Solutions for combining components/consumable/software, equipment, process system with facility design and strategic consulting and LEAN-based IT consulting would be extremely valuable and helpful for our customers.

Our positioning as a technological company with comprehensive knowledge and experience in life science process technology and applications and industry regulatory rules and practices, allows us to help customers address issues of quality, compliance, and operation excellence.

MANAGEMENT IMPROVEMENT

Roles of corporate headquarter were redefined in the Year with clear directions in four core areas, namely as strategic planning, operation, supervision and coordination, and service support. Learning and Development Platform supported by knowledge system was created in 2018 to facilitate our transformation initiatives. Improvements in more user-friendly approach with portal concept was initiated by Information Technology System support team in the Year with an aim to allow staff to efficiently utilise information with faster and effective responses. Governance process improvement in particular on internal audit and risk management, information security and safety control and customer satisfaction management is an on-going development for the management.

CORPORATE STRATEGIES

Following our global expansion strategies, the Group is constructing a global strategic framework by acquiring our technical and commercial competence in some strategic territories and strengthening our basic capacities, attracting key talents to the Group and providing products and services having competitive advantages of quality and cost in global markets.

Pharmaceutical and biopharmaceutical industrial sectors will remain our 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 as well.

As part of our strategies to capture more businesses in the whole drug product lifecycle, we have been engaging more customers involved in the drug research sector. We realise that more substantial integration of our product lines is crucial for our further success, and the leadership and management of cross-product-lines and cross-business-unit cooperation will be strengthened.

Business models with further product integration stressing on application capabilities with strategic consultancy on process, Pharma IT and Operation Excellence and more comprehensive service contents in the offerings would be strategic directions for competence growth.

A prudent approach to mergers and acquisitions activities has been adopted to ensure the return of those joint ventures or share acquisition investments are promising. By utilising a reasonably modest cash position approach can allow the Group to have more comfort and be ready to make smart acquisition deals when available.

BUSINESS OVERVIEW

The Group adopts the business model as an integrated engineering solution provider for high-end customers in China and the emerging countries focusing on the 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. In 2018, all key business segments have recorded growth in terms of their respective key financial performance and business development and management improvements. During the Year, echoing to our territory expansion strategies, we commenced a business development initiative in Europe with new employees and consultants to capture opportunities in Europe, Russia, Middle East and North Africa.

A good balance between profitability and costs for investment and growth must be well tuned with strong determination and commitment for continuous business success for all key business segments.

INDUSTRY UPDATES

The momentum of capital expenditure (CAPEX) investment fueled by booming status in the biologics sector gave business opportunities for all equipment and process system solution providers in the Year. The regulatory approval for some biosimilar launches and clinical trial approvals in China have been extremely encouraging to biologics pharmaceutical research and manufacturers and their investment and commitment to growth and further investment on new facilities, is something in which the Company relies on.

The vaccine scandal incident happened in during the Year brought about further reform in the government drug administration in China. The recent "Vaccine Administration Methods" issued in November 2018 was to govern vaccine research, clinical trials, drug approval, commercial manufacturing to distribution, in other words, the whole vaccine product lifecycle. The renaming of The National Medical Products Administration of China (NMPA, formerly the China Food and Drug Administration or CFDA) was regarded as a further step to strengthen the regulation and monitoring on the drug research and manufacturing sector.

PROSPECTS

Innovative therapies like Cell Therapies due to more aggressive venture capital funding investment in the drug development sector and more talents availability have been bringing opportunities to the biopharmaceutical industry. Growing investment in immune therapies and regulatory approvals on biosimilars in 2018 continues to maintain our confidence of a prospective contribution from the biopharma sector to our Group. The emerging countries with the strong willingness to improve its pharmaceutical manufacturing capacities and technologies expect China's qualified service providers to offer them technical solutions, which our Group will be able to play an important roles in providing and contributing our experience and knowledge. The technology gap between China and the United States of America in pharmaceutical research and manufacture creates great opportunities for service providers like Austar.

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

28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2018, increasing expectations on better efficacy and safety of drug products and medical services from the regulatory authorities and the public provided unprecedented opportunities and huge challenges to the global pharmaceutical industry.

For PRC regulatory activities: The National Medical Products Administration (NMPA) of China continued adherence to the "Four Most Stringent Rules" in regulatory activities and more attention was paid to the elimination and rectification of high risk products. In Good Manufacturing Practice (GMP), regulatory approaches such as unannounced inspections and inspections for specific reasons were utilised. In addition, after the Changchun Vaccine Event the vaccine regulation system was further optimised. NMPA became a member of International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) in 2017 and was elected to its management committee in 2018, and various regulations and policies were further developed in the areas of drug registration and submission. Other regulatory activities aimed at supporting the overall goals of higher quality product development include the strengthening of the reform in the drug review and approval system, the biological-equivalence study for generic drugs, the implementation of the drug lifecycle approach, the support of research and development (R&D) innovations and the encouragement of United States ("**US**") and China drug submissions.

For EU regulatory activities: European Union ("**EU**") issued the guides on GMP for the production of biological drug substances and drug products, parameter release and advanced therapy medical products (ATMP) as a result of the new product and new technology requirements due to scientific and technological development in the industry. Among the GMP inspection observations by EU in 2018, the number of EU inspections in China is about half of that in India, there is still a lot of room for Chinese drug manufacturers to improve to catch up their Indian peers.

For US Inspections: The US Food and Drug Administration (FDA) issued the guides on changes after approval for active pharmaceutical ingredients (APIs), eutectics and advanced therapy medical products. The expansion of the mutual recognition between EU and the US to the recognition of the regulatory inspections, the international harmonisation and cooperation of drug regulatory would be in a proactive development mode.

For Pharmaceutical Inspection Co-operation Scheme (PIC/S) regulatory activities: Their GMP guides have accepted the EU guide. Attentions are paid to the comments on the data integrity guide of PIC/S by the stakeholders. For World Health Organization (WHO) regulatory activities, the regulation of vaccines has been strengthened. A new working team has been established with PIC/S to revise the Annex 2 Biological Products and ATMP.

On 20 December 2017, the European Commission published the long-awaited revision draft of Annex 1 "Manufacture of Sterile Medicinal Products" of the EU Guideline for good manufacturing practice for drug products and drug substances. The present draft is the first complete revision of the guideline. It was designed to address new issues like quality risk management as well as new technologies and procedures. A new structure was developed in close collaboration by the WHO and PIC/S in order to maintain a sensible linkage with their standards and recommendations and thereby to reach globally agreed standards. The Company has been actively studying these new regulatory guidelines to adapt our product lines with service, knowledge and capacities to cope with the updates, which brought about business opportunities for the Group.

The Group's customers are more aware of the importance of the use of information technology, especially software technology, to provide intelligent control solutions for facilities, to create smart factories, to reshape their companies' new image and enhance competitiveness. With in-depth application of information technology, software and information systems control, the work-flow of material, capital, and knowledge will become the brain of the companies to which the Group is serving. More aggressive business development initiative for LEAN-Operation-Improvement Information System consulting will be launched by the Group.

Due to increasing concerns on substantiality, social responsibilities and environment protection, "Green Pharmaceutical" has gained a momentum that more Chinese pharmaceutical companies are considering and planning to build advanced, unmanned, green, efficient and safe smart factories. The Group have been matching this market trend by introducing our Containment Technology Application, Heating Ventilation and Air Conditioning (HVAC) and Sustainability Application, Pharma IT Application to the market.

The new amendments to the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") which came into effect on 30 April 2018 introduces a listing regime for companies from emerging and innovative sectors which, among other things, now permits pre-revenue biotech companies that do not meet the Main Board financial eligibility tests to list on the Stock Exchange. The change of the listing policies encourages some start-up biotech companies and biotech companies with products still in clinical phases to go public in Hong Kong for further fund raising, and in a way provides venture capital funds to have more exit opportunities. It is believed that fund raising and investment in biotech pharmaceutical companies will increase in the coming years, and more CAPEX investment from those biotech companies with venture capital investment are expected. The momentum on the investment on drug research and development especially on biologics drugs is expected to be accelerating. All the above creates opportunities for companies involved in laboratory instrument, equipment, and compliance consulting services.

BUSINESS REVIEW

The Group maintains as a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and 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. 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. A new business synergy function has been established, now still under development, and expected to be in full operations in 2020, with the following mission:

(a) to help integrate business units and product lines by strategic consulting in front of customers and markets to increase project acquisition success rates;

(b) to help integrate our scattered services among product lines in different business units to be streamlined and promoted under one brand and life-cycle-management concept; and

(c) to create new strategic consulting business in the aspects of bioprocess, Pharma IT and Lean Operations.

During the Year, momentum of sales order-in-take of the Group has regained its energies and its order-in-take has reached a record high with a sharp growth of 39.2%. The revenue recognised for the Year has recorded an increase of 49.3%. It is believed that the revenue for the year 2019 will very likely be able to achieve a similar trend as in the year 2018 as evidenced by the growth figures of sales order-in-take. With our corporate strategies and commitment on our visions and strategies, our Group is still aggressive in investing in human resources, geographical expansion and enhancing product and application solution competences, with the intention to bring about more satisfactory business results for our shareholders.

The Group has been undergoing a serious review on its product lines and trying to find new solutions by combining various product lines together to offer the most cost-effective integrated solutions. The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life-science process technology and applications and industry regulatory rules and practices, being able to help customers to address issues in quality, compliance and operation excellence. Our vision statement was revised and presented to the public in 2018:

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

2. to deploy 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. to gather global resources and leverage products and services empowered with cost and technical advantageous features, and to help upgrading the pharmaceutical industry in emerging countries.

ORDER-IN-TAKE

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

Order-in-take by business segment	For the year ended 31 December 2018 RMB'000	2018 %	2017 RMB'000	2017 %	Change %
Liquid and Bioprocess System	**434,097**	**38.9%**	292,153	36.4%	48.6%
Clean Room and Automation Control and Monitoring System	**268,124**	**24.0%**	205,620	25.6%	30.4%
Powder and Solid System	**125,529**	**11.2%**	79,437	9.9%	58.0%
GMP Compliance Service	**46,602**	**4.2%**	38,172	4.8%	22.1%
Life Science Consumables	**215,740**	**19.3%**	168,538	21.0%	28.0%
Distribution and Agency of Pharmaceutical Equipment	**26,371**	**2.4%**	18,098	2.3%	45.7%
Total	**1,116,463**	**100.0%**	802,018	100.0%	39.2%

During the Year, the total order-in-take amounted to approximately RMB1,116.5 million, representing a significant increase of approximately 39.2% from approximately RMB802.0 million for the year ended 31 December 2017, mainly attributable to the increase in order-in-take amount of the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System and Life Science Consumables. Driven by persistent marketing efforts especially through exhibitions, industry conferences and seminars, synergy and partnership sales model from sales teams' effort together covering customers' various demand of different products, supported by a strong and rich pipeline of products with high quality, and more business opportunities from more pharmaceutical industry CAPEX, the Group achieved a significant increase and strengthened its good position in the overall order-in-take volume, in spite of the continuous keen market competition faced in the Year. The Company will keep on its investment in market, product development, manufacturing capacity, as well as further recruiting talents in sales team, technology application team, industry expertise and etc., to strengthen the comprehensive competitiveness of the Group and support the Group's further growth.

Liquid and Bioprocess System

Through past several years' persistent endeavours, focusing on biopharmaceutical projects and supported by market recognition from high quality products, the Group secured several orders from key biologics companies, vaccines and monoclonal antibodies research and manufacturing, and successfully expanded its order-in-take amount in biopharmaceutical projects. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB434.1 million for the Year, representing an outstanding increase of approximately RMB141.9 million or 48.6% from approximately RMB292.2 million for the year ended 31 December 2017. 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, build core competitiveness through integration and rich process automation experience and knowledge in the biopharmaceutical projects, and strive for the high-end market.

Clean Room and Automation Control and Monitoring System

Shanghai Aunity Pharmaceutical Science and Technology Limited ("**Aunity**"), the Group's new facility design non-wholly owned subsidiary established in the second half of 2017, brought more contribution to our clean room construction business by providing our integrated engineering solutions. Meanwhile during the Year, relying on strong system engineering knowledge and experience, our automation business team has been aggressively developing its services to support customers for the construction of smart factories. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB62.5 million or 30.4% from approximately RMB205.6 million for the year ended 31 December 2017 to approximately RMB268.1 million for the Year. The Group will continue developing various software to enhance our competence.

Powder and Solid System

Through continuous improvement in the core value of its product and technology upgrade since the establishment of a new oral solid dosage (OSD) product line in 2015, the Group acquired more business opportunities, gained the market recognition for its good quality, and experienced high-speed growth during the Year. The order-in-take amount of the business segment of Powder and Solid System increased by approximately RMB46.1 million or 58.0% from approximately RMB79.4 million for the year ended 31 December 2017 to approximately RMB125.5 million for the Year. The Group will continue to invest in the technology and continuously enhance its competitiveness in this business segment.

GMP Compliance Service

For the past few years, the Group has built a good reputation in GMP Compliance Services field through providing high quality service, and expanded the market share of high-end market by combining the Group's Technical Advisory Committee and global technical resources. The order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB8.4 million or 22.1% from approximately RMB38.2 million for the year ended 31 December 2017 to approximately RMB46.6 million for the Year.

Life Science Consumables

After several years' effort on the integration of various products and services, the Group is able to offer a complete solution of Washing, Disinfection and Sterilization. This unique competence made the business segment of Life Science Consumables continue to keep stable increase in the order-in-take amount by approximately RMB47.2 million or 28.0% from approximately RMB168.5 million for the year ended 31 December 2017 to approximately RMB215.7 million for the Year. The Group will continue to launch more diversified life science consumables and services with latest technology to its customers. This segment still has a huge potential growth after a rapid growth in the past three years.

Distribution and Agency of Pharmaceutical Equipment

During the Year, the Group, together with its joint ventures and overseas business partners, engaged in the distribution of various types of high-end pharmaceutical equipment which led to the increase in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB8.3 million or 45.7% from approximately RMB18.1 million for the year ended 31 December 2017 to approximately RMB26.4 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 2018:

	As at 31 December 2018			
Backlogs by business segment	**Number of Contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	254	30.8%	318,788	46.6%
Clean Room and Automation Control and Monitoring System	216	26.2%	201,123	29.5%
Powder and Solid System	121	14.6%	72,238	10.6%
GMP Compliance Service	101	12.2%	53,780	7.9%
Distribution and Agency of Pharmaceutical Equipment	134	16.2%	36,960	5.4%
Total	826	100.0%	682,889	100.0%

PRODUCTION, EXECUTION AND ORGANISATION

During the Year, the establishment of a new production workshop in Germany for water equipment and biologics process system skids was under serious and thorough investigation. Scheduled to launch in 2019, the new production workshop is expected to enable the Group to support business growth opportunities of Liquid and Bioprocess System business in Europe, Middle East and North Africa and improve our presence in these regions. In the event that this plan is implemented, there would then have 3 production sites for water system equipment and biological process system equipment for China, other emerging countries and Europe. The Group's associate ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**") initiated an investment plan for extending its facilities in 2018 which is expected to be completed in the last quarter of 2019. With the new extension of the facility in Germany, ROTA is expected to have a higher capacity for accommodating higher order-in-take for the liquid filling line business and for installing and testing Austar's licensed freeze-dryer. This action is part of our "One Brand, One Site, One source" strategy for ROTA and its freeze-dryer. In addition, STERIS Corporation, our joint venture partner, decided to license a new product to the Group's joint venture, STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited and its subsidiaries ("**STERIS-AUSTAR JV**"), with this new product to be launched in 2019.

A LEAN manufacturing system establishment was initiated in December 2018 and LEAN trainings and improvement activities will last for years, which will further improve the whole operation system and can provide better products and service to customers with shorter lead time and better quality. IT-based production systems will be implemented for further improvement on management system especially on visual management and simplification of internal working process. The two main manufacturing centres of the Group in Shanghai and Shijiazhuang will be further harmonised to cooperate with each other to fulfil customer needs.

Our manufacturing centre at Shanghai has been focusing on capacity improvement to support sales and marketing development by facility expansion with support from the local government. In this regard, a land would be obtained with the support of the local government for the potential relocation of our Shanghai manufacturing centre on which a new facility with a substantially increased floor area will be constructed. Such potential expansion and movement plan of our Shanghai manufacturing centre is scheduled to be completed in 2020. Meanwhile, the Shanghai manufacturing centre will increase more CAPEX investment on automatic machines for further improvement on efficiency and quality.

During the Year, our manufacturing center at Shijiazhuang has undergone certain improvements such as:

1. Continuous improvement – to achieve enterprise QCD (quality, cost, and lead time) goals through standardisation, 5S (Kaizen) and elimination of "waste" (Muda). Kaizen focuses on the key to improvement, and rationalisation proposal offers reasonable suggestions to improve from the bottom up. Kaizen follows the five "golden rules" to continuously improve the activity procedures and establish the basis of efficient, successful and flat "Gemba" (現場) structure.

2. Culture improvement – by establishing the rationalisation proposal and suggestion box platform, employee motivation can be aligned with the plant's operating objectives; problems discovered in the operation process of employees are used to make up for the deficiency of "un-gemba" (去現場化) implemented by the middle management in policy formulation, process quality and other departments; and allowing more people to participate in the factory management and operations process improvement.

3. Visual management – by establishing a visual "Kanban" (看板) production information management, in the visual signal as the basic means, to open into basic principles, as far as possible allow every staff to see the management requirements and objectives, so as to promote the management of visible, autonomous management, self-control, realise the maximisation of the minimisation and management effect of control input, narrow progress tracking and audit management cost, obviously to ultimately improve manufacturing center management level.

Since the establishment of our Engineering Project Execution Centre in 2015, the team has been developing and consists of around 390 staff at the end of year 2018. This Engineering Project Execution Centre which has consolidated all key execution resources has been contributing a well-recognised pharmaceutical-related engineering and automation execution platform for all our business units and technology application within the Group. As a result, it is believed that the Group has one of the largest engineering project execution team in the pharmaceutical industry in the PRC with sophisticated IT-based project management information system in place together with process-piping, clean room and HVAC mechanical and electrical installation, automation system integration and validation and qualification capabilities all under one roof.

Our Engineering Project Execution Centre has been continuously taking action on improvement of knowledge and work process, which includes:

1. Successful completion of a hybrid system for bioproject which has achieved the sterile containment transfer of buffer solution from stainless steel system to single use system.

2. Our technical maintenance and service team has launched comprehensive water system overhauling and maintenance service.

3. Technical improvement of preparing the detail drawings before construction to help shorten project duration and save project cost.

4. Kaizen improvements and system standardisations which could shorten the duration of programming for all projects.

5. More than 80 external or internal training sessions conducted for all staff, which have improved their professional skills and project management knowledge and offered staff team-building activities.

RESEARCH AND DEVELOPMENT

The Group has obtained 196 registered patents by the end of 2018. The Group obtained 29 registered patents including 6 invention patents during the Year, and applications for 51 patents are currently in progress.

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 a flexible containment system which could replace rigid containment equipment or components with more flexible well-designed flexible film formed system and reduce CAPEX investment requirement for its customers. In 2018 such flexible, instead of rigid, isolator applications were developed and applied. namely (1) contained feeding and discharging of the reactor; (2) contained discharging of centrifuge; (3) contained discharging of dryer; and (4) contained tableting machine and capsule filling machine. Single-use disposable for liquid filling system were developed for customer testing.

Clean room partition system with more thickness choices and ventilation effects, new material with more anti-corrosion and impact-resistance and better energy-saving window glass were under development.

Pharma IT Software like warehouse management system software and production batch electronic-record generation software have been developed and sold in 2018 for trials and customer applications.

The development of technology in large-scale freeze-drying equipment with core innovative technology of freeze-drying (NOD, BTM), energy saving and formulation optimisation management technology will help the Group to enhance its competence to a global first tier level.

The successful R&D achievement of downstream bioprocess equipment has allowed the Group to market a satisfactory number of units in 2018.

In 2018, two projects, one for vaccine and another for monoclonal antibody drug, were under execution with the Group's previously developed Hybrid BioProcess System with single-use disposable and stainless-steel vessels and combined right from the beginning of conceptual and process flow diagram design. The Group's downstream equipment such as deep filtration and ultrafiltration which was developed in 2017 was successfully sold, delivered and tested in 2018. Partnering with PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**"), our joint venture, to produce the single-use disposable designed and developed by the Company to combine other engineering units' capacities like automation engineering, liquid stainless-steel vessel engineering and validation and testing capacities to offer the Hybrid BioProcess Engineering System is very unique in emerging countries and China.

The Group's API modular automated laboratory/pilot process system units were sold in 2018. Such units were developed in 2016 and officially launched in 2017, which was set as the Group's milestone of offering means for process development for pharmaceutical companies which are required to fulfil the new regulatory requirements by proper data integrity and has successfully sparked the awareness of customers in the market.

The wet granulation line for highly potent active and highly toxic drugs which was developed and launched in 2016 has recorded a significant increase in sales in the first half of 2018 as compared to that in 2017. Continuous manufacturing of APIs and OSD with applications of various advanced technologies has been put onto our R&D initial phase list. Continuous manufacturing in the pharmaceutical industry is a new development as batch production is still a normal practice in the industry mainly due to previously conservative considerations of regulatory and science and technology application. Due to recent openness and encouragement by the regulatory authorities, continuous manufacturing especially in OSD production is expected to be realistically achievable and offer a lot of quality and efficiency benefits.

Construction of a freeze-drying process laboratory will be completed and operated in the first half of 2019, and such laboratory was advised and supported by a German university expert. It is believed that this laboratory will be able to offer process technology improvement on our freeze-dryer design and able to offer process development support to our customers. Such investment on talents and laboratory facility will help us differentiate from other existing competitors.

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. Due to the product application nature, sales teams from different product lines evolve gradually onto specific sector customer-focused sales teams, which are able to support customer contacts for different product lines. This is a synergy and partnership sales model which we have started to encourage during the Year. Technical seminars as our key marketing activities in emerging countries like Indonesia, India and Pakistan, North Africa were held in the first half of 2018, in echoing the road shows conducted in countries such as Jordan and Saudi Arabia in 2017. Educational content sharing with PRC provincial drug authorities via seminars were conducted with appreciations.

During the Year, in order to enhance the interaction between each product line and industry, to expand the business scope, to increase the market share and to strengthen the brand image, the Group participated in 6 exhibitions, 10 industry conferences, and organised 8 seminars.

In March 2018, the Center for Food and Drug Inspection of NMPA and China Center for Food and Drug International Exchange (CCFDIE) initiated the compilation of the Guidance for Oral Solid Preparation Process and Site Inspection ("**Guidance**"), which aimed to provide the regulatory authorities and industry with learning materials for oral solid preparation process, so as to enhance the capacity-building of drug regulatory team and promote the development of related industries in China. As a participating unit, Austar has been actively undertaking in the compilation of some chapters of the Guidance on solid preparation process equipment, validation, information construction and so on.

In 2018, quality and safety incidents had occurred frequently in the pharmaceutical industry. In order to help pharmaceutical enterprises to set up a standardised and systematic quality system, the Group and CCFDIE jointly held a seminar on pharmaceutical quality system construction and compliance practice, sharing on issues of the requirements of data integrity inspection on the production site of pharmaceutical enterprises, pharmaceutical quality system and data integrity, efficient validation strategy – control data flow in computerised GXP system, new ideas on validation in the pharmaceutical industry based on ASTM E2500 and current regulations and policies, etc., which was aimed to explore the best practices of drug quality system establishment and compliance, promote standardisation and systematisation construction of the pharmaceutical industry, and help strengthen the communication and exchange between the drug regulators and the manufacturers.

During the Year, the Group had participated in well-established exhibitions such as China International Pharmaceutical Machinery (CIPM) Expo, CPHI & P-MEC, Medtec, API Autumn Exhibition and China Pharm. By participating in the "Consistency Evaluation of Complex Injection Forum", the Group demonstrated its related products and technical service of microsphere technology; By participating in the "13th A-PBA Annual Biosafety Conference", the Group comprehensively demonstrated Austar's advanced equipment and technologies in microbiological control, disinfection and sterilization, and laboratory animal research; In the "China Biological Products Annual Conference" and the "2018 Human and Veterinary Vaccine Industry Summit", the capability of Austar's Biological Process System Engineering was fully demonstrated. In the 8th Drug Delivery & Formulation Asia Summit, the Group promoted its hot melt extrusion and microsphere technology equipment product line through presentations and exhibitions. In addition, by participating in the activities of the 2018 ISPE-CCFDIE China Conference and the Parenteral Drug Industry Congress, which was highly-influential in the pharmaceutical industry, the Group's consulting business of quality management system establishment was promoted.

Austar, at the same time, independently held the "2018 Technology Forum for Soft Capsule Preparation", the "3rd API Pharmaceutical Engineering Technology Forum", and the "Development Trend and New Technology Summit Forum of Microbial Control in Pharmaceutical Cleanroom" and many other seminars, which combined R&D with practice to explore the customers' demands.

The Group's first Germany-assembled purified water equipment partnered with H+E GmbH was exhibited in the CPHI WORLDWIDE Madrid event held in October 2018. The quality of this equipment reflected the equipment craftsmanship skills of Germany, and strengthened the Group's determination in establishing manufacturing capacities in Germany. Successful results from the North Africa seminars and the India/Indonesia seminars organised by the Group in 2018 with support from our partners STERIS Corporation and ROTA, the Group's Technical Advisory Committee members and the Group's biologics customers made the Group believe that the technologies of the Group's products and services can contribute to drug manufacturing development in those emerging countries. The Group has also participated in a key global marketing event, ACHEMA 2018, held at Frankfurt in June 2018, with one Austar booth exhibiting our project execution and automation capabilities; even though the exhibition was held during the period of Ramadan, there were a lot of visitors from Middle East and North Africa. The other booth with ROTA, which we exhibited an integrated Vial Filling Line and freeze-dryer connected with loading and unloading system, has obtained very positive responses at ACHEMA.

New social media opportunities are under thorough study and are expected to be launching out hopefully in 2019. Apart from conventional exhibitions in China, the Group is organising more specific conferences with the authorities like China National Food and Drug International Exchange Centre.

PROSPECTS

Increase the market share in the PRC and the emerging countries

During the Year, there have been increases in the number of customers and number of projects for all key business segments of the Group. The Group's clean utility product line under the Liquid and Bioprocess System business segment is believed to have undergone a significant increase in market share in the PRC during the Year as reflected by a surge in sales of the Group's own-manufactured purified water equipment and those of STERIS-AUSTAR JV's, one of our joint ventures. The Group has also set up a team in India in 2018 focusing on the Liquid and Bioprocess System business segment with an aim to develop India and its neighbouring countries and to establish project execution capability in India. Russia and South Korea are important market for biologics. For Russia, after two years of evaluation, the Group believed that setting up its own team in doing direct sales in Russia will be a more cost-effective approach for success. More aggressive efforts in South Korea in sales and marketing, after the Group has identified a suitable partner, is expected to be launched from 2019.

By the efforts of sales organisation consolidation and further integration of products by the Group, a positive trend on the sales order-in-take performance is expected to continue in the coming months and years. Further breakthrough for turnkey clean room solutions in some sectors like medical devices and lab animal research are foreseeable. In Africa, an Infusion Solution Production Workshop Turnkey project involving all key business segments of the Group was acquired in the end of 2018. This would be a showcase project of the Group for the region.

The Group's presence of staff in the Middle East and North Africa has been generating more sales leads and enquiries, in particular after some technical seminars held in 2017 and 2018 have helped with our market recognition. Agent management process will be critical for those territories in which indirect sales channel are arranged, similar to other territories like Indonesia where under good management process including training and supervision has been demonstrating a success in order-in-take.

Improve services and product offerings

Apart from establishing its own visions and strategies by each business segment of the Group to implement improvements on their respective services and product offerings, the Group's technology application team has started to formalise their activities by creating their own mission, visions and tactics and strategic goals.

Mission:–

1. To help connect the scattered but related product lines onto one package of products with one key application concept.

2. To solve the customers' issues of quality, process, compliance and operational excellence.

3. To increase Austar's technological competence level and thus improve Austar's overall competitiveness as a key transformation Initiative.

Visions:–

1. Through the new value propositions from the technology application team's efforts, business results of more than 50% can be achieved than by proposing a single solution.

2. Creating technological and commercial value to customers, staff and vendors through specific technology applications.

3. Branding as a global technology application leader in 5 to 8 years.

Tactics and Strategic Goals:–

1. Using 4-level from Components/Software, Equipment, Systems to Application Solutions/Facility to create partnership alliance among the sub-business units of the Group, vendors, suppliers and partners.

2. To become a technology application regional leader in 3 years and global leader in 5 to 8 years.

3. For 2019 – team establishment with common shared value and objectives with formalised cooperation structure and mechanism including meeting management and incentive scheme.

In the coming years, the service business will be one of the key growth elements for the Group as in general, it is independent of industry CAPEX investment in particular for preventive maintenance, compliance consulting, operation excellence improvement, upgrading of software and revamping of equipment and systems services. 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. Aunity, our facility design subsidiary established in the second half of 2017, has proved in 2018 to be contributing to the overseas turnkey project business and in the meanwhile, this facility design subsidiary has received enough orders to support the initial stage of organisation development. The Group's facility design service product line is mainly to support the turnkey project business. It is our fundamental strategy to cooperate with all key regional and global Engineering, Procurement, and Construction (EPC) and Engineering, Procurement, Construction Management and Validation (EPCMV) companies as partners to support them with our components/software/equipment/system/services to serve our common customers.

Liquid and Bioprocess System

In the last quarter of 2018 the Group partnered with STERIS Corporation to bid on several clean utility projects in Europe. Our European business development director of bioprocess system engineering was recruited in the last quarter of 2018 to explore more European manufacturing and execution capacities, develop new sales territories and support our established regional territories.

The Group's success in securing orders in 2018 from key biologics companies, vaccines and monoclonal antibodies research and manufacturers has proved that quality in products and efficient project execution could gain trust from customers, where most of the customers from such orders are return customers. In the first half of 2018, the Group successfully verified the process of the bioreactor at one animal vaccine process development laboratory in Beijing. The Group's first pharmaceutical water purification equipment assembled in Europe was exhibited in the CPHI/PMEC Madrid event held in October 2018, which would be our milestone of having equipment manufacturing and factory acceptance test being arranged in Europe. The Group's ultimate goal, is to offer optional factory acceptance test sites for our customers in Europe, Middle East and North Africa not only for water purification equipment but also for biologics process skid assembly. Our exclusive European water system expert have been supporting the Group for business development in Middle East, South East Asia and India. We expect opportunities to capture animal vaccine customers with our partnership with one Beijing animal vaccine process development laboratory, where one bioreactor manufactured by the Group has been installed to generate process data for the vaccines under development. The Group's Single-use Technology BioProcess Engineering team has started to obtain orders for the Hybrid BioProcess System, which can be differentiated from other competitors which are lacking in integration and process automation experience and knowledge.

The Group's associate ROTA made a successful year in 2018 in terms of financial performance and order-in-take. A newly extended production workshop and administration office to accommodate the foreseeable increase in orders and future space for assembly of freeze-dryer products licensed out by the Group are expected to be completed by the end of 2019.

Clean Room and Automation and Monitoring System

During the Year, Austar's clean room engineering business covers animal laboratory research laboratories, medical device facilities, OSD workshops and soft capsule workshops. In 2019, such business will be developed to include biologics facilities.

The Group is establishing project execution partnership with high-quality sub-contractors in strategic emerging countries to ensure the quality of the clean room construction business and enhance its international visibility. Our automation business team has been aggressively developing its services to support customers for the construction of smart factories in the pharmaceutical industry to help customers to achieve operational excellence. In 2019, the Group plans to launch LEAN-based manufacturing digitalisation, and it is believed that Austar will be a unique company to offer such services to pharmaceutical companies. Process Automation, Utility Automation and Manufacturing Information System are the basic pre-requisites for smart factory or digitalisation. The Group is strong at these system engineering knowledge and experience. Pharmaceutical facility digitalisation is encouraged by the authorities to support more data acquisition for compliance inspection. The Group's customers have strong intention to utilise facility digitalisation technology to upgrade their operations, quality, compliance and profitability, meanwhile incentive schemes for such CAPEX investment have been devised by local governments in China. Our pharmaceutical automation engineering team has been continuously developing various software to enhance our competitiveness.

The Clean Room and Automation and Monitoring System business segment's process automation team has developed a fully automatic controlled process equipment for API synthesis equipment which has been launched and sold to the market; such equipment is designed for:

1. Critical process parameters analysis – through key process parameters analysis in scale-up process, to accurately proceed parameter space design. online record analysis, to avoid deviation.

2. Risk assessment – for research on risk of scale up process, and to achieve technology transfer.

3. Formulation building – through comparative analysis of the formulation, and gold batch screening, to ensure the transfer of the process formulation from the R&D phase to commercial production.

Powder and Solid System

In 2018, the Powder and Solid System business segment is still focusing on highly toxic or highly potent powder/solids projects. It has gained the market recognition for its technical competence. It is now an important integrated solution provider for oncology and hormone process equipment and system in the PRC. It has offered its first continuous manufacturing equipment and process production technology to a customer in 2018.

The Group's self-developed AUSmill brand particle-sizing equipment has gradually gained market recognition; its unique mechanical design has a prominent performance in handling materials with high hardness and has successfully solved difficult technical problems.

The success of the Powder and Solid System business segment is heavily dependent on its knowledge-set of containment application technology, material handling technology and formulation process system engineering and supported by fundamental knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering.

GMP Compliance Service

The Group's conventional GMP Compliance Service has been further extending to other GXP services, like Good Clinical Practice (GCP) data integrity consulting services to cover more sectors over the whole drug product life cycle. The Group will continue to promote services like LEAN Production, ICH Q10 Quality Management Systems, and Quality by Design, and it is believed that such opportunities will grow significantly as a result of the tougher policies as issued by the drug authorities. The GMP Compliance Service business segment will continue to explore the service scope contents of the ASTM E2500 (Standard Guide for Specification, Design, and Verification of Pharmaceutical and Biopharmaceutical Manufacturing Systems and Equipment) as Good Engineering Practice/Commissioning & Qualification consulting service model.

The GMP Compliance Service business segment has been taking action to:–

1. undertake the different compliance requirements at different stages of the drug life cycle, and further expanding the compliance service of "Drug Research Quality Management" and "Clinical Sample Production Workshop Quality System";

2. acquire high-end foreign consultants and continue to expand the market share of high-end market by combining the Group's Technical Advisory Committee and global technical resources under a knowledge platform;

3. continue to expand to the biological products sector such as PD-1 antibody, CAR-T cell therapy, and other popular biopharmaceuticals; and

4. support customers to cope with the challenges imposed by the recently released Europe GMP Annex I.

Life Science Consumables

Having an integrated solution for contamination control is the key factor in our further success in our revised product line of Washing, Disinfection and Sterilization. Compliance with the current Europe GMP rules can be properly met only with the competence to support customers to cope with their contamination control strategies as a whole. The Group's Life Science Consumables business segment is able to offer a 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 the life science industries but also in other industrial sectors requiring hygienic or sterile working environment.

One of the key success factors of the Group's Life Science Consumables business segment is due to its successful business development process and practices. A momentum of product development and strong revenue growth drive have been continuously bringing about to the Group new life science-related products and services to support the pipeline, which include laboratory packages, biosafety, animal vaccines, laboratory instruments, medical devices, etc. The Group's Pharm Lab IT product line which was introduced last year has led the Group to further enter the pharmaceutical research sector and quality assurance/quality control laboratory sector, which in turn it is believed that it will help our other product lines to enter such sectors.

Strengthen research and development, product design and development capabilities

The corporate office of the Group has adopted a new function to harmonise and coordinate the cross-business segment R&D on the group R&D technical execution platform. Online data monitoring was developed in the integrated control system for the online process analytical technology (PAT) particle size monitoring of the wet granulating line. The wet granulator and fluid bed with 5kg exchangeable container had been developed, designed and manufactured. Sterile isolators for powder filler and single-use liquid filling machine for biologics application are being under development.

With respect to the loading system of 15 to 25kg packaging bags in API, food, health care products, and fine chemical industries, a fully automatic debagging system has been developed to meeting the requirements in bulk operation, contained operation, smart operation and traceability application. A new type of powder feeding system has been developed to solve the problems of powder/solids layering and breakage of particle materials during the high-fall materials delivery process; at the same time, it can avoid the static generation during the rapid fall of the materials and consequently avoid the dust explosion risk.

The soft capsule product and process development laboratory in partnership with Pharmagel Technology S.r.l. which was completed in 2017 is ready to receive customer product tests. A new laboratory for freeze-dryer process development in partnership with a German university expert, with the aim to support customers on freeze-drying process development. It is our aim to differentiate from the competitors by provision of advanced process technology services in addition to hardware technical advantages.

Expand by strategic acquisition of business and/or companies

The Group is continuing to explore opportunities in acquiring related facility in Europe through joint venture with strategic partners. Such initiative may help both our Liquid and Bioprocess System business segment to improve the market access to Europe and provide a manufacturing and factory acceptance test option for customers in the region's vicinity. The Group will continue its efforts in identifying potential acquisition targets by using our target screening principles of leveraging technological and market territory opportunities.

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 RMB816.6 million, representing an increase of approximately 49.3% over 2017, primarily attributable to the increase in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Life Science Consumables, Powder and Solid System, and GMP Compliance Service and which was slightly offset by the decrease in revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the years ended 31 December 2018 and 2017, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2018		2017		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**320,841**	**39.3%**	167,711	30.6%	91.3%
Clean Room and Automation Control and Monitoring System	**164,712**	**20.2%**	128,034	23.4%	28.6%
Powder and Solid System	**91,352**	**11.2%**	57,182	10.5%	59.8%
GMP Compliance Service	**36,880**	**4.5%**	25,458	4.7%	44.9%
Life Science Consumables	**187,174**	**22.9%**	151,026	27.6%	23.9%
Distribution and Agency of Pharmaceutical Equipment	**15,626**	**1.9%**	17,522	3.2%	(10.8%)
Total	**816,585**	**100.0%**	546,933	100.0%	49.3%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased significantly by approximately RMB153.1 million or 91.3% from approximately RMB167.7 million for the year ended 31 December 2017 to approximately RMB320.8 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2017 and the increase in the order-in-take in the business segment of Liquid and Bioprocess System for the Year, which part of amount were recognised as revenue, and improved project execution efficiency with quality control.

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 increased by approximately RMB36.7 million or 28.6% from approximately RMB128.0 million for the year ended 31 December 2017 to approximately RMB164.7 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2017 and the increase in the order-in-take in the business segment of Clean Room and Automation Control and Monitoring System for the Year, parts of which were recognised as revenue.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System had a significant increase by approximately RMB34.2 million or 59.8% from approximately RMB57.2 million for the year ended 31 December 2017 to approximately RMB91.4 million for the Year. The increase was primarily resulted from improvement in strength enhancement in total-solution service in the OSD field after the establishment of a new OSD product line, and the substantially increased amount of order-in-take in the business segment of Powder and Solid System for the Year, which part of amount were recognised as revenue.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB11.4 million or 44.9% from approximately RMB25.5 million for the year ended 31 December 2017 to approximately RMB36.9 million for the Year. The increase was mainly attributable to the improved project execution efficiency.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB36.1 million or 23.9% from approximately RMB151.0 million for the year ended 31 December 2017 to approximately RMB187.2 million for the Year, which was primarily attributable to (i) the competence by offering a complete solution of Washing, Disinfection and Sterilization; and (ii) the launch of more diversified life science consumables and services with latest technology, including the new Pharm Lab IT product line.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased slightly by approximately RMB1.9 million or 10.8% from approximately RMB17.5 million for the year ended 31 December 2017 to approximately RMB15.6 million for the Year, which was due to the decrease in the amount of backlog in the business segment of Distribution and Agency of Pharmaceutical Equipment as at 31 December 2017. The Group will continue to explore and distribute the various types of high-end pharmaceutical equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years ended 31 December 2018 and 2017:

	For the year ended 31 December				
	2018		2017		Change
Revenue	RMB'000	%	RMB'000	%	%
Mainland China	766,057	93.8%	481,844	88.1%	59.0%
Other locations	50,528	6.2%	65,089	11.9%	(22.4%)
Total	816,585	100.0%	546,933	100.0%	49.3%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 93.8% of the total revenue for the Year (2017: approximately 88.1%).

Cost of sales

The Group's cost of sales increased by approximately RMB186.8 million or 43.9% from approximately RMB425.4 million for the year ended 31 December 2017 to approximately RMB612.2 million for the Year. Such increase was mainly in line with the increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB82.9 million or 68.2% from approximately RMB121.5 million for the year ended 31 December 2017 to approximately RMB204.4 million for the Year. The gross profit margin increased from approximately 22.2% for the year ended 31 December 2017 to approximately 25.0% for the Year, which was attributable to the increase in gross profit margin from the business segments of Liquid and Bioprocess System, Powder and Solid System, GMP Compliance Service, Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.

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

Gross profit/(loss) margin by business segment	For the year ended 31 December 2018 RMB'000	%	Gross profit margin %	2017 RMB'000	%	Gross profit/(loss) margin %
Liquid and Bioprocess System	**40,571**	**19.8%**	**12.6%**	(3,097)	(2.5%)	(1.8%)
Clean Room and Automation Control and Monitoring System	**35,723**	**17.5%**	**21.7%**	30,736	25.3%	24.0%
Powder and Solid System	**29,558**	**14.5%**	**32.4%**	17,395	14.3%	30.4%
GMP Compliance Service	**18,932**	**9.3%**	**51.3%**	12,647	10.3%	49.7%
Life Science Consumables	**73,982**	**36.2%**	**39.5%**	58,285	48.0%	38.6%
Distribution and Agency of Pharmaceutical Equipment	**5,628**	**2.7%**	**36.0%**	5,566	4.6%	31.8%
Total	**204,394**	**100.0%**	**25.0%**	121,532	100.0%	22.2%

Notes:

1. Gross profit/(loss) margin by business segment represents gross profit/(loss) divided by revenue of the respective business segment for the year.

2. Total gross profit margin represents gross profit divided by total revenue for the year.

Liquid and Bioprocess System

The Group recorded a gross profit from the business segment of Liquid and Bioprocess System of approximately RMB40.6 million for the Year as opposed to a 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 was approximately 12.6% for the Year as compared to approximately negative 1.8% for year ended 31 December 2017, which was mainly attributable to the improved project execution management and cost control measures brought by the Group's engineering and automation execution platform.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB5.0 million or 16.2% from approximately RMB30.7 million for the year ended 31 December 2017 to approximately RMB35.7 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 24.0% for the year ended 31 December 2017 to approximately 21.7% for the Year, which was primarily due to the keen market competition in the product line of clean room and the Group undertook several projects with lower gross profit margin compared to the year 2017. The Group will continuously develop various software and plan to launch LEAN-based manufacturing digitalisation, which will upgrade the clients' operations, quality, compliance and cost control management.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB12.2 million or 69.9% from approximately RMB17.4 million for the year ended 31 December 2017 to approximately RMB29.6 million for the Year. The gross profit margin from the business segment of Powder and Solid System increased from approximately 30.4% for the year ended 31 December 2017 to approximately 32.4% for the Year, mainly attributable to the continual improvement in overall project control in the OSD product line after its establishment in 2015.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB6.3 million or 49.7% from approximately RMB12.6 million for the year ended 31 December 2017 to approximately RMB18.9 million for the Year. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 49.7% for the year ended 31 December 2017 to approximately 51.3% for the Year, which was mainly attributable to the maturity of the Group's technical and proficient management in cost control in this business segment.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB15.7 million or 26.9% from approximately RMB58.3 million for the year ended 31 December 2017 to approximately RMB74.0 million for the Year. The gross profit margin from the business segment of Life Science Consumables increased from approximately 38.6% for the year ended 31 December 2017 to approximately 39.5% for the Year, which was mainly attributable to the improved cost control.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB0.1 million or 1.1% from approximately RMB5.6 million for the year ended 31 December 2017 to approximately RMB5.6 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 31.8% for the year ended 31 December 2017 to approximately 36.0% for the Year, 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 decreased by approximately RMB4.3 million or 57.7% to approximately RMB3.1 million for the Year from approximately RMB7.4 million for the year ended 31 December 2017, mainly due to the decrease in the subsidies granted by local government authorities of the PRC in the Year.

Other (losses)/gains – net

The Group recorded other losses of approximately RMB1.7 million for the Year as compared to other gains of approximately RMB1.0 million for the year ended 31 December 2017, mainly attributable to currency exchange losses arising from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB5.2 million or 5.1% to approximately RMB105.6 million for the Year from approximately RMB100.5 million for the year ended 31 December 2017. The increase was primarily due to the increase in the staff costs and travel expenses.

Administrative expenses

Administrative expenses increased by approximately RMB6.5 million or 9.2% to approximately RMB77.5 million for the Year from approximately RMB70.9 million for the year ended 31 December 2017. The increase was primarily due to the increase in the staff costs by a total amount of approximately RMB9.2 million, and partially offset by the decrease in impairment of inventories by a total amount of approximately RMB2.0 million.

Research and development expenses

As at 31 December 2018, the Group had 41 research and development personnel which accounted for approximately 3.6% 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 increased by approximately RMB4.2 million or 16.3% to approximately RMB30.3 million for the Year, compared to approximately RMB26.1 million for the year ended 31 December 2017, mainly due to the increase of staff costs and materials utilised in more research projects. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Net finance income decreased from approximately RMB3.9 million for the year ended 31 December 2017 to approximately RMB3.4 million for the Year, which was mainly due to the currency exchange losses of approximately RMB0.2 million arising from retranslation of foreign currency cash and cash equivalents balances and pledged bank deposits for the Year, as compared to the currency exchange gains of approximately RMB0.8 million for the year ended 31 December 2017, but partially offset by the increase of interest income.

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 RMB6.5 million, from approximately RMB5.2 million for the year ended 31 December 2017 to approximately RMB11.7 million for the Year, primarily attributable to the increase in profit contribution from the Group's investments in two joint ventures, PALL-AUSTAR JV, STERIS-AUSTAR JV and an associate, ROTA, by approximately RMB0.9 million, RMB2.3 million and RMB3.3 million respectively.

Profit/(loss) before income tax

The Group recorded profit before income tax of approximately RMB3.5 million for the Year as opposed to a loss before income tax of 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 (expense)/credit

The Group recorded an income tax expense of approximately RMB3.4 million for the Year as compared to an income tax credit of approximately RMB4.2 million for the year ended 31 December 2017, which was mainly due to the decrease of recognition of deferred income tax by approximately RMB6.3 million and the increase of current income tax expense by approximately RMB1.3 million.

Profit/(loss) for the year

The Group recorded a profit of approximately RMB0.1 million for the Year as compared to a loss of 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	
	2018	2017
	RMB'000	RMB'000
Net cash used in operating activities	**(77,598)**	(6,171)
Net cash (used in)/generated from investing activities	**(39,495)**	27,505
Net cash generated from financing activities	**4,440**	834
Net (decrease)/increase in cash and cash equivalents	**(112,653)**	22,168

For the Year, the Group had net cash used in operating activities of approximately RMB77.6 million mainly due to:

i. the increase in trade and notes receivables of approximately RMB76.2 million, inventories of approximately RMB54.8 million and prepayments and other receivables of approximately RMB19.8 million;

ii. the increase in pledged bank deposits of approximately RMB88.9 million;

iii. the increase in contract assets and other assets of approximately RMB11.1 million as compared to amounts due from customers for contract work as at 31 December 2017;

iv. the increase in contract liabilities of approximately RMB121.2 million as compared to amounts due to customers for contract work as at 31 December 2017; and

v. the increase in trade and other payables of approximately RMB58.1 million.

For the Year, the Group had net cash used in investing activities of approximately RMB39.5 million, which was mainly attributable to:

i. purchase of land use right of approximately RMB32.2 million;

ii. purchase of property, plant, equipment and intangible assets of approximately RMB9.0 million which consisted of machinery, equipment and tools purchased for various business segments; and

iii. dividend received from joint venture of approximately RMB1.7 million.

For the Year, the Group had net cash generated from financing activities of approximately RMB4.4 million mainly as a result of net proceeds from borrowings of approximately RMB25.9 million, but partially offset by repayments of borrowings of RMB20.0 million and interest paid of approximately RMB1.4 million.

As at 31 December 2018 and 31 December 2017, the Group had cash and cash equivalents of approximately RMB196.5 million and RMB309.3 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB96.8 million and RMB7.9 million respectively.

Net current assets

The Group's net current assets as at 31 December 2018 had decreased by approximately RMB47.4 million, from approximately RMB363.3 million as at 31 December 2017 to approximately RMB315.9 million as at 31 December 2018.

As at 31 December 2018, the Group's total current assets amounted to approximately RMB892.9 million, which was an increase of approximately RMB137.9 million as compared with approximately RMB755.0 million as at 31 December 2017. The increase was primarily attributable to:

i. the increase in trade and notes receivables of approximately RMB76.2 million, inventories of approximately RMB54.8 million, prepayment and other receivables of approximately RMB19.8 million, and contract assets of approximately RMB11.1 million as compared to amounts due from customers for contract work, which was mainly attributable to the fast business expansion during the Year; and

ii. the decrease in cash and cash equivalents of approximately RMB112.9 million during the Year, but such decrease was partially offset by the increase in pledged bank deposits of approximately RMB88.9 million.

As at 31 December 2018, the Group's total current liabilities amounted to approximately RMB576.9 million, which was an increase of approximately RMB185.3 million as compared with approximately RMB391.7 million as at 31 December 2017. The increase was primarily due to the increase in contract liabilities in the amount of approximately RMB121.2 million as compared to amounts due to customers for contract work, and trade and other payables in the amount of approximately RMB58.1 million.

Borrowings and gearing ratio

As at 31 December 2018, the total interest-bearing borrowings amounted to approximately RMB20.0 million, which is the same amount as at 31 December 2017, composed of secured short-term bank borrowing with the amount of RMB5 million and RMB15 million bearing interest rates of 4.35% and 4.79% per annum respectively (31 December 2017: 4.35% Secured; 4.79% Guaranteed). The short-term borrowings also include notes discounted with recourse of approximately RMB5.9 million.

The Group's gearing ratio is approximately 5.4% as at 31 December 2018 (31 December 2017: 4.2%). 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 2018, in addition to pledged bank deposits of approximately RMB96.8 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB7.1 million and approximately RMB5.5 million respectively (31 December 2017: approximately RMB7.8 million and approximately RMB5.7 million respectively) which are pledged as security for short-term bank borrowings with carrying amount of approximately RMB20.0 million (31 December 2017: approximately RMB5.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

HUMAN RESOURCES

As at 31 December 2018, the Group had 1,138 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 182 employees as compared to the number of employees as at 31 December 2017. The employee costs (including the Directors' remuneration) were approximately RMB162.8 million for the Year, which was an increase of approximately 16.9% as compared with approximately RMB139.3 million for the year ended 31 December 2017.

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 2018 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 US dollar. Foreign exchange risk arises from the ending balances of the internal borrowings amounted the Group's subsidiaries which have different functional currencies, the foreign currencies held by the Group's subsidiaries and offices and the sales of the Group's products and services to overseas customers who settle payments in foreign currencies. The Directors do not consider the foreign exchange rate risks as material to the Group and therefore, did not carry out any financial instruments such as forward currency exchange contracts to hedge the risks.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Our Board 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	56	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	61	Executive Director
Mr. Chen Yuewu	52	Executive Director
Madam Zhou Ning	46	Executive Director
Non-executive Director		
Madam Ji Lingling	36	Non-executive Director
Independent non-executive Directors		
Mr. Cheung Lap Kei	47	Independent non-executive Director
Madam Chiu Hoi Shan	42	Independent non-executive Director
Mr. Leung Oi Kin	44	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho") (何國強), aged 56, 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 ("**Nomination Committee**") and a member of the corporate governance committee of the Board ("**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 (Cap. 571 of the Laws of Hong Kong) ("**SFO**") and the controlling shareholder (as defined under the Listing Rules) of the Company.

Mr. Ho Kin Hung ("Mr. Ho") (何建紅), aged 61, 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 over 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 52, 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 ("**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 46, 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 ("**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 36, 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 ("**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 47, 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 a member of The Hong Kong Independent Non-Executive Director Association, fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over 25 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. He has served as chief financial officer of Orient Victory Travel Group Company Limited (Stock code: 265) since December 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 42, 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, the Nomination Committee and the 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 has served as company secretary of Chongqing Machinery & Electric Co., Ltd* (Stock code: 2722) since October 2014, joint company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053) since March 2018 and joint company secretary of Maanshan Iron & Steel Company Limited (Stock code: 323) since April 2018, shares of all of the above companies are listed on the Main Board of the Stock Exchange.

** For identification purpose*

Mr. Leung Oi Kin ("Mr. Leung") (梁愷健), aged 44, 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 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, shares of which 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 has served 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
Senior management		
Madam Wang Wei, Lena	45	Vice-president
Madam Tang Xiangdi	41	Financial controller

Madam Wang Wei, Lena ("Madam Wang") (王瑋), aged 45, 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 41, 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 13 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*

The Board is pleased to present this report of the Directors 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**"). The net proceeds received by the Company from the IPO amounted to approximately HK$411.8 million (after deducting underwriting commissions and all related expenses) ("**Net Proceeds**").

The Company has, and will continue to utilise the Net Proceeds for the purposes consistent with the section headed "Future Plans and use of proceeds" as set out in the prospectus of the Company dated 28 October 2014 ("**Prospectus**"). As at 31 December 2018, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	Proposed percentage of utilisation	Proposed utilisation amount		Utilised amount up to 31 December 2018		Unutilised amount as at 31 December 2018	
		HK$ in million	RMB in million	HK$ in million	RMB in million	HK$ in million	RMB in million
Establishment of the Shijiazhuang R&D and Production Centre	39.6%	163.1	126.7	55.7	32.6	107.4	94.1
Development of the Songjiang Production Centre	14.2%	58.4	45.4	–	–	58.4	45.4
Expansion of sales and marketing network	6.8%	28.0	21.8	19.8	14.6	8.2	7.2
Research and development activities	9.5%	39.1	30.4	39.0	30.3	0.1	0.1
Potential acquisition of interests in companies possessing critical product technologies in the pharmaceutical equipment, process system and service market	20%	82.4	64.0	29.9	18.0	52.5	46.0
Working capital and other general corporate purposes	9.9%	40.8	31.7	40.8	31.7	–	–
Total		**411.8**	**320.0**	**185.2**	**127.2**	**226.6**	**192.8**

The unutilised amount of the Net Proceeds of approximately HK$226.6 million has been deposited into the banks.

On 18 September 2018, the Group by a successful bid won the public tender of the land use right of a piece of state-owned land situated in the Shijiazhuang Hi-Tech Industrial Development Zone, Shijiazhuang, Hebei Province, PRC with a site area of 39,166.48 square metres at a bidding price of RMB29.7 million to be used for the construction of the Shijiazhuang R&D and Production Centre. The total purchase price for the land use right of such land, including the relevant fees and applicable tax, is estimated to be approximately RMB49.0 million and the Group will fund the purchase price by its internal resources and from the Net Proceeds allocated to the establishment of the Shijiazhuang R&D and Production Centre as set out in the section headed "Future plans and use of proceeds" in the Prospectus.

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 36 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 – the sections headed "Chairman's Statement" and the "Management Discussion and Analysis" 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 – the paragraph headed "Risks and Uncertainties" of this report of the Directors.

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	MAJOR RELEVANT ALLEVIATING MEASURES
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.	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 and to provide the tailor-made products and services to different clients for enhancing the price advantage of the Group. 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.
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.	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. Allocating ample resources to staff training and development with the aim of sustaining a competent, professional and ethical staff force, and assisting the long-term career development of staff.
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 15.3% 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 RMB151,000 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" 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 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" of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Financial Statements 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 Monday, 27 May 2019 ("**2019 AGM**").

For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2019 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 Tuesday, 21 May 2019.

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 2017 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 2018 are set out in Note 21 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 19 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 pages 111 to 112 and in Note 35 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 2018 amounted to RMB446,510,000 (31 December 2017: RMB432,863,000).

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

In accordance with Articles 84(1) and 84(2) of the Articles, Mr. Ho Kin Hung, Mr. Chen Yuewu and Madam Chiu Hoi Shan will retire by rotation at the 2019 AGM and, being eligible, will offer themselves for re-election.

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 2018, 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 the 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 2018, 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 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 2018, 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	37,500,000 Shares *(Note 4)*	7.32%

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 2018, 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 2018, 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 2018 interim report of the Company are set out below:

– Mr. Cheung Lap Kei, an independent non-executive Director, has been appointed as chief financial officer of Orient Victory Travel Group Company Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock code: 265), since December 2018;

– Annual salary of Mr. Ho Kin Hung, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to HK$1,645,188.48 with effect from 1 January 2019;

– Annual salary of Mr. Chen Yuewu, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to RMB896,868 with effect from 1 January 2019;

- Annual salary of Madam Zhou Ning, executive Director, payable by her employment contract with a subsidiary of the Company has been revised to RMB600,300 with effect from 1 January 2019; and

- Annual Director's fee of Madam Ji Lingling, non-executive Director, has been revised to RMB411,588.45 with effect from 1 January 2019.

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

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 33 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 26 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 2018 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 2.24 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 2018, 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	30,980,000	6.04%
Madam Cheung Chau Ping ("**Madam Cheung**")	Interest of spouse	37,500,000 *(Note 4)*	7.32%
TWG	Beneficial owner	37,500,000	7.32%

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) SHF 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 2018, 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 4.9% and 11.4% 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 15.3% and 31.7% 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 2019 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2019 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

28 March 2019

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 ("**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	

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 of 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 2017 and interim financial statements for the six months ended 30 June 2018 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; 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 one meeting 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 meeting, 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 the Directors and senior management;

– reviewed and recommended to the Board the proposal for salary adjustments for executive Director and senior management of the Company; 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.

To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities which, in particular, are set out as follows:

(a) participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the Audit Committee, and the Remuneration Committee and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board committees, if invited;

(d) bringing a range of business and financial experience to the Board, giving the Board and any Board committees on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the meetings of the Board/Board Committees;

(e) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(f) ensuring the Board committees on which he or she serves to perform their powers and functions conferred on them by the Board; and

(g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

If a candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent with such qualifications or expertise as required under Rule 3.10(2) of the Listing Rules.

When considering the appointment or re-appointment 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 one meeting 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; and

– made recommendation to the Board on the re-election of retiring Directors at the 2018 AGM (as defined below).

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 2017 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 IPO 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 US 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 2018 annual general meeting held on 24 May 2018 ("**2018 AGM**"), and four 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 the general meeting

Name of Director	Board meetings	Audit Committee meetings	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Risk Management Committee meetings	2018 AGM
	Attendance/Number of meetings eligible to attend						
Executive Directors							
Mr. Ho Kwok Keung, Mars	4/4	N/A	1/1	N/A	1/1	N/A	1/1
Mr. Ho Kin Hung	4/4	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Chen Yuewu	4/4	N/A	N/A	N/A	N/A	2/2	1/1
Madam Zhou Ning	4/4	N/A	N/A	1/1	1/1	2/2	1/1
Non-executive Director							
Madam Ji Lingling	4/4	2/2	N/A	N/A	N/A	2/2	1/1
Independent non-executive Directors							
Mr. Cheung Lap Kei	4/4	2/2	1/1	1/1	N/A	N/A	1/1
Madam Chiu Hoi Shan	4/4	2/2	1/1	1/1	1/1	N/A	1/1
Mr. Leung Oi Kin	4/4	N/A	N/A	N/A	N/A	N/A	1/1

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 2018**
HK$1,000,000 and below	**6**
HK$1,000,000 to HK$1,500,000	**2**
HK$1,500,001 to HK$2,000,000	**2**
	10

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 26 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 101 to 106 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 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 2017 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.

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 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 2018 RMB'000
Statutory audit	**3,000**
Non-audit services	**1,270**
Total	**4,270**

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.

DIVIDEND POLICY

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow Shareholders to participate in the Company's profit and for the Company to retain adequate reserves for the Group's future growth. In proposing any dividend payout, the Company would consider various factors including but not limited to the Group's overall results of operation, financial condition, working capital requirements, capital expenditure requirements, liquidity, future expansion plans, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group.

Any declaration and payment as well as the amount of the dividends will be subject to any restrictions under the applicable laws and the Company's constitutional documents. The Company does not have any pre-determined dividend distribution proportion or distribution ratio. Any future declarations of dividends may or may not reflect the Company's historical declarations of dividends and will be at the absolute discretion of the Directors.

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

28 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The Environmental, Social and Governance (ESG) Report of Austar Lifesciences Limited ("**Company**", together with its subsidiaries, "**Austar**" or the "**Group**") has made reference, based on the principles of materiality, quantitative, balance and consistency, 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 our report content.

The scope of this Report includes environmental data and activities of the Company and its major subsidiaries, including Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar Equipment**"), Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Technology**") and Austar Hansen Lifesciences (Shanghai) Ltd ("**Austar Hansen**") in the People's Republic of China ("**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 2018 (the "**year**" or "**reporting period**").

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 2018 to 31 December 2018, the financial period of our Annual Report 2018.

Organisations covered: Austar Lifesciences Limited 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:

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- Tel: +86 10 85653399
- Fax: +86 10 85653325
- Email: info@austar.com.cn
- Official Website: http://www.austar.com.cn

CHAIRMAN'S MESSAGE

In order to facilitate the development of the PRC pharmaceutical manufacturing industry and utilising high-end manufacturing technologies to create extra value for the industry, Austar has paid a tremendous effort to offer integrated engineering solution to reputable pharmaceutical manufacturers and research institutes in the PRC and other emerging countries. Over the past year, we have restructured part of our business operations and established an interdepartmental working unit. As a result, we have recorded a positive growth of the orders. Looking forward, we are committed to maintain the quality of our products and simultaneously being a socially responsible and trustworthy business partner.

We have released the environmental related data and policies for the first-time last year, and the similar disclosure practise will be maintained and further improved in 2018 in order to enhance the transparency of our environmental and social activities, and continuously improve the company's internal management system and sustainable development policies. In term of environmental aspect, Austar has firstly introduced organic exhaust gas facilities to reduce emissions and introduced "lean production" to reduce raw materials wastage. In terms of social aspect, we have followed the previous year's plan and conducted social audit on every supplier by self-assessment and on-site audit to ensure the quality of their manufacturing environment and their supplying materials.

Looking forward, apart from continuously enhancing the core value of our products and upgrading our manufacturing technologies to optimise the product process, we are going to invest more resources, such as conducting regular pre-job training and on-job general skills training, etc., to improve the skills and the sense of belongings of our employees. In the foreseeable future, we firmly believe that through continuously improving our products, meeting customers' expectations, and strengthening our employee's abilities can elevate the value of Austar and seize the growing market opportunities in the future.

I also take this opportunity to thank all the staff of Austar for their commitment to the company in the past year and to achieve better performance.

Ho Kwok Keung, Mars
Chairman

28 March 2019

OVERVIEW

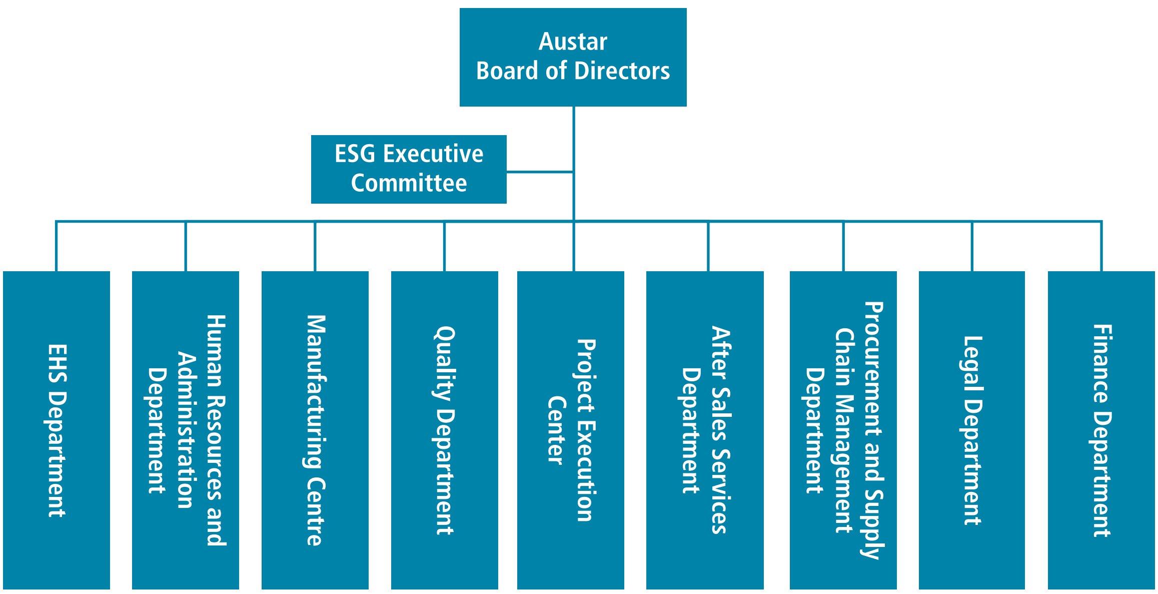
Obtaining recognised accreditations and reputable ranking in the pharmaceutical equipment industry, the Group endeavours to offer integrated engineering solutions with high-end and comprehensive services and products to reputable pharmaceutical manufacturers and research institutes in the PRC continuously. 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 a 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 as a part of 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 oversees 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 fulfil corporate social responsibility.



STAKEHOLDER IDENTIFICATION AND COMMUNICATION

The stakeholders of Austar's Environmental, Social and Governance include both internal stakeholders and external stakeholders. The internal key stakeholders include directors and employees, whereas external key stakeholders include shareholders/investors, suppliers/customers, distributors, government and communities/institutions.

In view of no material changes were observed during this financial year, after consideration, we have decided to apply the assessment results obtained in the previous year to prepare the Report. A new round of materiality assessment will be conducted next year. In order to obtain more comprehensive results of the materiality assessment, we intend to expand the participation of stakeholders in the 2019 reporting period and reach out to more external stakeholders.

ENVIRONMENTAL PERFORMANCE

The main products of Austar are pharmaceutical equipment and consumables. The major energy consumption in the production process is electricity, and a small amount of harmful waste is generated, including waste oil, developing solutions, and emulsifier used for lubricating machinery. With variation of environmental emissions, Austar has been using its own environmental data collection environmental management system to continuously and closely monitor the performance and review the effectiveness of the measures adopted during the year.

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 to the environment. The Group had set up a thorough environmental management system for environmental data collection which would be highly useful for the Group to keep track of the performance and review the efficiency of the measures that have deployed during the year.

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

As the business operation of Austar did not experience any major changes in the reporting period, the related regulations and laws regarding to environment are considered to be the same as the year ended 31 December 2017.

1. Emissions

Most of our emissions generated from our principal business are mainly originated from indirect electricity consumption. In order to comply with national and local laws, as well as other related regulations, Austar has strengthened our emissions management. We have outlined the "Management Rules on Waste Water, Waste Gases and Noises" to ensure that all production complies with the regulations and relevant industry guidelines. Since last year, we have been replacing most of the vehicles with older emission standards with newer vehicles that complies with new emission standards. We firmly believe such replacement would effectively reduce emissions of air pollutants. Besides, we have also installed exhaust gas purification devices into out diesel vehicles during the reporting year to reduce carbon monoxide and nitrogen oxide emissions.

Austar has also stipulated several management documents which correspond to different environmental aspects to ensure emissions generated from our manufacturing and operation locations comply with laws and regulations. The documents also provide emission reduction measures to offices and manufactures personnel to maximise our effort. We will review our management facilities and agreements to improve our management system in order to achieve our environmental management targets.

Overview of the management documents related to emission control policies:

Documents	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

Energy saving and emission reduction has always been an essential focus of the Group. Our production units adopt enclosed production workshop and we have installed organic waste gas treatment facility to filter and purify gas emissions through active charcoal and photo-oxidising equipment. We believe such measures could effectively reduce air pollutants emitted to the atmosphere and keep our indoor air quality clean. Moreover, our production facilities have received certificates from third-party certification companies confirming that we have complied with national standards, which sufficiently recognise the Group's implemented measures. Besides, Shanghai Technology and Austar Hansen have also received ISO14001 Environmental Management System certification.

Apart from the above-mentioned 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 monitor departmental staff to switch off all electrical equipment and production facilities during breaks and after work;
- Human Resources and Administration Department reviews the performances of each department;
- Regularly maintain electrical equipment and circuits to reduce energy consumption;
- Set up ventilation and air-conditioning system and maintain at 25 degrees Celsius;
- Promote "Paper-free" office and encourage staff to reduce printing demands.

During the reporting period, the Group generated only a small amount of waste paper and house refuse, including kitchen waste and household waste, 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.

During the reporting period, Austar has applied environmental data collection system to collect corresponding emission data, which can directly compare and evaluate the effectiveness of our reduction measures.

Major Gas Emission Indicators

Vehicular Emissions	Unit	Emission in 2018
Carbon Dioxide (CO_2)	kg	23541.8
Methane (CH_4)	kg	2.34
Nitrous Oxide (N_2O)	kg	10.2
Nitrogen Oxides (NO_x)	kg	7.2
Sulphur Oxides (SO_x)	kg	0.15
Particulate Matter (PM)	kg	0.53

Total GHG Emissions	Unit	Emission in 2018
Direct emission from vehicles	t-CO_2 eq.	26.7
Indirect emission from electricity consumption	t-CO_2 eq.	868.6

Other Indirect Emissions	Unit	Emission in 2018
Emissions from processing scrap paper	Tonnes	5.0
Emissions from flights	Tonnes	208.7

Emission Intensity (per employee)	Unit	Emission in 2018
Direct emission from vehicles	t-CO_2 eq.	0.0236
Indirect emission from electricity consumption	t-CO_2 eq.	0.7694
Emissions from processing scrap paper	Tonnes	0.0044
Emissions from flights	Tonnes	0.1849

1.2 Waste Management

Austar has a comprehensive waste management system to handle different types of waste, including hazardous and non-hazardous waste. For non-hazardous waste, such as used office documents, we always encourage employees to collect and recycle some of the materials for re-using purposes.

Austar only produces waste oil and emulsifier for mechanical lubrication, and development solutions. Austar strictly abides by national regulations and guidelines to deal with hazardous waste and to protect the surrounding environment with our best effort. At our production base, we store all identified hazardous wastes at designated locations, such as storing used waste oil in the hazardous waste storage tank, storing the oil drums in secondary containers to prevent potential leakage, as well as carrying out regular inspection and maintenance works to prevent leakage of harmful substances from affecting the surrounding environment. The hazardous wastes of Austar are collected and disposed of by nationally recognised waste disposal collectors. According to the regulations, the collection and processing data of these wastes will be provided to local environmental protection bureau. Austar strictly abides by the policies and regulations regarding waste disposal. The Group has introduced "lean production" during this reporting period to increase the production efficiency and reduce waste production.

Major Waste Generation Indicator

Waste Types	Unit	Emission in 2018
Hazardous Waste	Tonnes	0.5
Non-Hazardous Waste	Tonnes	57.8

Waste Intensity (per employee)	Unit	Emission in 2018
Hazardous Waste	Tonnes	0.0004
Non-Hazardous Waste	Tonnes	0.05

1.3 *Water Discharge*

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

Major Wastewater Indicator

Water Type	Unit	Emission in 2018
Sewage water	Tonnes	6717.0

Sewage Water Intensity (per employee)	Unit	Emission in 2018
Sewage water	Tonnes	6.0

2. Use of Resources

Environmental protection is paramount to Austar and as preserving the Earth's resources is the fundamental of all enterprises. In the past year, Austar strongly advocated saving resources and reducing the impact of enterprises to the environment. In addition, the concept of "lean production" was introduced during the reporting year to reduce wasteful waste and improve resource utilization rate in the production process. Austar only consumes water from the supply of municipal pipelines. Moreover, we conduct regular checks to the pipes within the area of our operations. Repair and maintenance will be conducted by specialised employees, if any issues are discovered, which could reduce water waste. Austar also records monthly water consumption to spot any waste usage abnormalities as early as possible. During the reporting period, no abnormalities in sourcing water were observed by the Group.

Resource Consumption	Unit	Consumption in 2018
Electricity	Kilowatt Per Hour	1,038,166
Gasoline	Litre	9,200
Diesel	Litre	700
Water	Tonnes	6,717
Packaging materials – Woods	Tonnes	24
Packaging materials – Papers	Tonnes	5

Resource Consumption Intensity (per employee)	Unit	Consumption in 2018
Electricity	Kilowatt Per Hour	919.5
Gasoline	Litre	8.1
Diesel	Litre	0.62
Water	Tonnes	5.9
Packaging materials – Woods	Tonnes	0.021
Packaging materials – Papers	Tonnes	0.004

3. The Environment and Natural Resources

While we proactively expand and develop our business, Austar will also consider the environmental impact, and conduct environmental impact assessments with reference to national regulations before implementation process. When we have to carry out relevant developments decisions, apart from strictly complying with all environmental regulations, we will also actively incorporate any feasible emission reduction schemes into the design and process to minimise our impact on the environment. Austar will also appoint personnel to supervise the entire project development process to ensure that all environmental protection measures have been implemented to ensure compliance with all environmental regulations.

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 documents such as "Procedures for Identifying and Evaluating Environmental Factors", "Control Procedures on EHS-Related Parties" and "EHS Operation Control Procedures". Based on the principles of ISO14001 Environmental Management System, the Group reviews the current measures annually and improves them at the same time and invites independent third-party authority to review the Group's management system.

Furthermore, Austar continues to manage equipment and facilities that may cause significant environmental impacts and occupational health and safety hazards, and implement different measures, such as installing sound barriers and sound absorption materials to prevent causing noise nuisance to the neighbouring area of the plant, as well as installing oil pipelines to collect and analyse oil leakage problems. Other implemented measures include the use of non-toxic materials and consumption reduction from planning, packaging, storage and transportation.

We have also been monitoring the effectiveness of the measures and exploring any room for improvement.

SOCIAL PERFORMANCE

1. Employment

To align with our business expansion, Austar has employed more than 1,100 employees during the reporting year which also implies the Group demands a higher flexibility in human resources to ensure Austar maintains a promising competitiveness and service ability. We also fully comply with *Labour Law of the PRC, the Labour Contract Law of the PRC, Employment Promotion Law of the PRC, Labour Dispute Mediation and Arbitration Law, Regulation on the Annual Leave of Employees* and local labour laws and regulations. Additionally, we have structured various policies and provisions to regulate and protect our employees' compensation and benefits, recruitment and promotion, working hours, rest periods, entitled leaves, equal opportunity, diversity, anti-discrimination, staff training, attendance and performance.

Austar cares about the working environment and overall quality of our employees, so that all employees can achieve a balance between work and life. It is clearly stated in the "Employee Handbook" formulated by the Group that all employees adopt an eight-hour work system. If they need to work overtime, they must apply to the supervisor and obtain approval. The Group also provides employees with additional benefits and allowances such as annual leave, marriage leave and maternity leave, medical insurance, medical reimbursement, maternity subsidies, and meal allowances.

Austar implements an internal recruitment system and clearly sets out compensation and benefits, recruitment and promotion, working hours, rest time, anti-discrimination policies, employee training, attendance and performance in the "Staff Handbook" and "Personnel Files and Documents Management Control Procedures", as well as other relevant management measures to provide employees with equal and fair employment opportunities. We also introduce campus recruitment in different institutions, social recruitment and internal referrals to attract high-calibre talents. Being an equal opportunity employer, every staff member in Austar is treated equally. During the recruitment process, the personnel of the Human Resources and Administration Department strictly abide by the Group's recruitment policy system and possess zero tolerance in any discrimination against laws such as gender, disability, pregnancy, family status, age, race, sexual orientation, nationality, ethnicity and religious beliefs, and we do not allow any discrimination or harassment in the workplace. Any discrimination or harassment behaviour observed in workplace will be treated according to internal procedures.

We are committed to grow with our employees and talent retention is one of our core considerations. Accordingly, the "Training and Development Control Procedures" we have established clearly outlines the career development opportunities of employees in the Group, so that employees can clearly understand their position and development potential in the group, and stay consistent with the business objectives of Austar. Thus increasing the sense of belonging of Austar's employees to our corporate culture would facilitate the realisation of corporate value and fulfil social responsibility.

2. Health and Safety

Austar emphasises and highlights the safety of the working environment and the daily health of our employees, thus we have formulated the Group's policies based on prevention principle and strictly abide by *the Labour Law of the PRC, the Prevention and Control of Occupational Diseases of the PRC, Fire Prevention Law of the PRC, Measures for the Ascertainment of Work-related injuries* and local laws and regulations, in which we endeavour to provide a safe and comfortable working environment for our employees. The Group also regularly conducts assessment in our workplace and stipulates various procedures to handle emergency circumstances and ensure our employees work under a safe environment. The Group's Occupational Health and Safety Assessment Series (OHSAS18001) standard certification is reviewed annually by third-party certification companies to ensure that the system operates effectively among the Group's workplace. In addition, the Group's standardised safety production inspection system has been successfully launched and improved continuously, so that each production unit can fulfil the requirements of corresponding laws, regulations and standards.

We also provide pre-job training prepared by professional institutions to all employees, including preventive measures on potential occupational hazards, brief introductions to sequelae, and regular on-the-job and off-post physical examinations. Such practices are carried out to ensure that employees are working at a safe and sound environment and prevent any potential accidental injuries. During the reporting period, Austar conducted inspections on occupational disease infection factors and physical examinations of employees and has obtained satisfactory results.

In order to minimise the potential of work-related injuries, Austar has established an industrial accident management system and formulated "Control Procedures on Incident Investigation, Treatment and Report", which clearly outlines the response plans, responsibilities and treatment processes under different scenarios. We have also conducted regular occupational health and safety training to reduce the risk associated with work injuries.

3. Development and Training

Apart from safety training, enhancing working abilities and knowledge of our staffs are also our prime focus. Therefore, Austar has established the "Training and Development Control Procedures" and the "Training Management Control Procedures" to systematically manage the details and context of our trainings. In addition, we also create a series of training for newly hired employees to introduce the corporate culture, products and working procedures of different departments of Austar to the corresponding employees. Pre-job trainings are provided in three levels: institutional, departmental and positional, we believe these trainings can provide sufficient work-related knowledge and skills to them on handling new works and hence increasing their working abilities.

To further increase the operation efficiency, we also provide overseas training, management training, professional skills training and occupational health training to the applicable colleagues. Moreover, we would provide specific training for the employees when there are new technologies and new equipment among business operations so as to help them better adapt to the new technologies and equipment. We also encourage our employees to participate in other training courses hosted by other organisations, such as English courses, and pharmaceutical engineering project management courses. To further facilitate the exchange of knowledge and technologies, we regularly organise departmental meetings and invite expert for supply chain management, finance and human resources training.

4. Labour Standards

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

In addition, the guidelines and regulations for attendance, labour intensity and overtime work are listed in the "Staff Handbook" and "Attendance and Leave Management Control Procedures". We also encourage employees to complete their duties within the specified time to improve work efficiency. During the reporting period, Austar did not find any use of forced labour and child labour.

5. Supply Chain Management on Environmental and Social Risks

Austar has maintained a close relationship with our suppliers and their performance also directly affects the quality of our products and services. In view of this, we have spent a considerable amount of resources on managing the supplier's issues, and established a series of documents including the "Control Procedures on Evaluating and Managing Suppliers", "Procurement Control Procedures", and "Procurement Manual" to facilitate Sales, Purchasing Department, the Quality Control Department and the Production Department to establish an assessment mechanism and evaluate the performance of suppliers. We also review the management system on an annual basis to meet the latest industry standards and the recommendations made in the previous year's review, which will not improve our own shortcomings.

In the previous years, we have introduced "Environmental, Social and Governance Self-Assessment Form" and we have distributed the assessment form to our potential suppliers to evaluate their performances in the aspects environmental, social and government during the reporting period. For existing suppliers, we have also conducted annual performance review and listed certain suppliers with potential risks in environmental and social aspects in the "List of Related Parties in Special Need of Influence". During the reporting period, our potential suppliers have scored 91.5 and 91.4 for self-assessment and on-site audit assessment respectively.

6. Product Responsibility

Austar's products and services are indirectly related to pharmaceuticals. Positioned as one of the well-known pharmaceutical manufacturer and research institution in the PRC, we fully understand that the manufacturing process of pharmaceutical products require a high-precision and hygienic environment. The Group also strictly complies with *Pharmaceutical Administration Law of the PRC* and its Implementation Rules, *Good Supply Practice for Pharmaceutical Products* and its Implementation Rules, as well as other national laws and regulations on product safety. Besides, Austar also receives certification of ISO9001 Quality Management System, which recognises our product quality has achieved international standards and empowers us to further enhance our product quality.

Management of Customer Complaints

Austar considers customers' feedback regarding our products as the major focus of the organisation. The Group strictly follows the *Law of the PRC on the Protection of Customer Rights and Interests*. In response to customer complaints, Austar has established "Management Procedures on Customer Requirements and Complaints" in order to effectively handle customer complaints and feedback. Details are listed below:

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

2. Then the customer service team staff would coordinate with the corresponding department to undergo root cause analysis by going through the whole production cycles of the products or services.

3. Austar suggested several solutions to handle the complaints which may be caused by different factors. Then the corresponding department would give feedback to the Customer Service Department on the causes of the complaint. At last, the customer service department would record the results in the "Record of Customer Requirements and Complaints", which was used to record the total complaints during the year.

4. Specialists from Customer Service Department would contact the related customer to verify their feedbacks on the resolution of the issues. The Customer Service Department would analyse the complaints every 6 months which may be useful for reviewing the current management system and self-improvement.

Protecting Intellectual Property

Austar owns and values different types of intellectual properties such as patents and copyrights. All software installed in our office are genuine products and the Group is a system integrator of Siemens. 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 had established the "Patent Management" and "Management Rules on the Group's Copyrights of Austar Pharmaceutical Equipment and Process System".

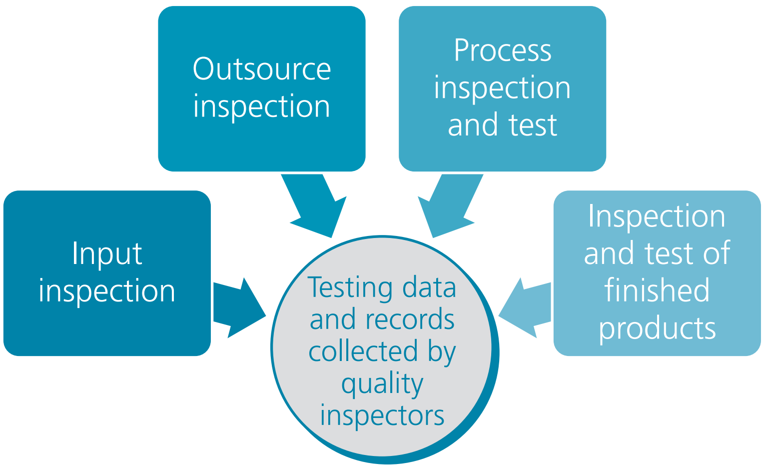
As at the end of the reporting period, the Group possessed the following intellectual properties:

Types of intellectual properties	Number
Copyrights	48
Patents	196

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 staff confine to protect the intellectual property and any breaches of the agreement may subject to mediation or litigation, depending on the circumstances.

Strict Quality Assurance

Under different production stages, Austar has established different quality inspection stages based on "Management Procedures on Inspection and Test", the major product quality assurance system consists of: raw materials inspection, process quality inspection and final inspection. During the entire production process, the Group will conduct three inspection phases: self-inspection, mutual inspection and special inspection. After the whole product processing process is completed, the quality department will notify the customer to accept the inspected product upon completion of inspection. After confirming the product quality, it will be delivered to the customer site for installation and debug procedures. As the whole production process will invite customers to inspect and confirm the product is in satisfactory status, there shall be no recalling procedures involved. The inspection of the entire production process includes:



- 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"; and then the inspectors 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 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 send them 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

Austar prioritises customer's data privacy. During the service operation process, Test Service Department may obtain clients' sensitive information in order to provide tailor-made and suitable advices to clients. Austar would sign 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 upholds a zero-tolerance attitude towards corruption in any form of bribery, extortion, fraud, money laundering and etc. We also promote honesty, integrity and responsibility as our corporate culture and code of conduct. For example, employees and agents are 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, *Criminal Procedure Law* and its Judicial Interpretation, *Interpretation on Several Issues Concerning the Applicable Laws to Handling Criminal Cases of Embezzlement and Bribery*, and *Anti-Money Laundering Law*.

Austar has two channels to report 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 behaviour 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 the violation is confirmed, employees who are involved would be punished according to the severity of the breaches.

8. Community Investment

Austar always values the development of surrounding communities. We do not only emphasise the establishment of a harmonious and win-win relationship with community stakeholders, but also encourage our employees to participate in different community activities and fully understand the needs of community communities to ensure that we fully consider the interests of the community while developing the Group's business.

During the reporting period, Austar held a donation activity for employees, which encouraged employees to raise funds and donate money to charities in the community.

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General Disclosure	A3	Policies on minimizing the issuer's significant impact on the environment and natural resources	88-89
KPI	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	89

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	89-90
Aspect B2: Health and Safety			
General Disclosure	B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	90-91
KPI	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	90-91
Aspect B3: Development and Training			
General Disclosure	B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	91

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
Aspect B4: Labour Standards			
General Disclosure	B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	91
KPI	B4.1	Description of measures to review employment practices to avoid child and forced labour	91
	B4.2	Description of steps taken to eliminate such practices when discovered	91
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	B5	Policies on managing environmental and social risks of the supply chain	92
Aspect B6: Product Responsibility			
General Disclosure	B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress	92-95

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
KPI	B6.3	Description of practices relating to observing and protecting intellectual property rights	93
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Aspect B7: Anti-corruption			
General Disclosure	B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	95-96
KPI	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	95-96
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General Disclosure	B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	96
KPI	B8.1	Focus areas of contribution	96

羅兵咸永道

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 107 to 201, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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.

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

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.

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 matter identified in our audit is related to impairment of trade receivables and contract assets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables and contract assets Refer to note 15 and note 13 to the consolidated financial statements. As of 31 December 2018, the gross amounts of trade receivables and contract assets totalling approximately RMB227 million and RMB129 million where impairment provisions totalling RMB27 million was made for trade receivables and contract assets.	In addressing this matter, we had performed following procedures: 1. We understood, evaluated, and tested key controls related to assessment of the expected credit losses of trade receivables and contract assets performed by management. 2. For expected credit losses specifically provided against individual customers, we discussed with management to understand the detailed circumstances and basis of provision on specific customers, such as credit related information, and historical repayment record. We obtained management's assessments and reviewed the evidence available to us, including background information of customers, past transaction history and historical repayment record.

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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
Impairment provisions of trade receivables and contract assets were made based on an assessment of the expected credit losses, which include an assessment of the risk of default and the expected credit loss rate. Trade receivable and contract assets relating to customers with known financial difficulties or significant doubt on collection of trade receivables and contract assets are assessed individually for impairment provisions. Expected credit losses are also estimated by grouping the remaining trade receivables and contract assets based on similar credit risk characteristics and collectively assessed for likelihood of recovery by taking into account of their credit history, as well as the prevailing market conditions. Both current economic conditions and forward looking information were also taken into consideration by management in the estimation such as changes in macroeconomic conditions and industry trends, where appropriate. Because of the significance of the balances of trade receivables and contract assets and significant management's judgements involved, we have identified the impairment assessment of trade receivables and contract assets as a key audit matter.	3. For expected credit losses based on risk characteristics provided for trade receivables and contract assets, we (i) discussed with management to evaluate the appropriateness of the model of estimating lifetime expected losses used by management, which include historical settlement record and ageing profile; (ii) evaluated adjustment to the historical loss rates based on current economic conditions and forward looking information; (iii) tested, on sample basis, the accuracy of ageing analysis of trade receivables prepared by management; and (iv) checked the arithmetic calculations of the impairment losses. Based upon our work, we found the management's judgements used in the assessment of impairment of trade receivables and contract assets were supported by available evidence.

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

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.

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 THE 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.

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

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

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.

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.

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

- 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.

We communicate with the 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 the 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 the 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, 28 March 2019

(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

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**50,569**	41,868
Land use rights	7	**54,212**	5,650
Intangible assets	8	**9,012**	6,469
Deferred income tax assets	10	**7,264**	8,257
Investments accounted for using the equity method	9	**47,728**	39,608
Prepayments and other receivables	16	**9,724**	8,464
Other non-current assets	11	**–**	16,295
Total non-current assets		**178,509**	126,611
Current assets			
Inventories	12	**131,885**	77,120
Contract assets and other assets	13	**126,235**	–
Amounts due from customers for contract work	14	**–**	115,157
Trade and notes receivables	15	**286,133**	209,948
Prepayments and other receivables	16	**55,127**	35,338
Pledged bank deposits	17	**96,816**	7,870
Term deposits with initial terms of over three months	17	**206**	203
Cash and cash equivalents	17	**196,459**	309,320
Total current assets		**892,861**	754,956
Total assets		**1,071,370**	881,567

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
EQUITY			
Equity attribute to the owners of the Company			
Share capital	19	**4,071**	4,071
Reserves		**384,078**	375,657
Retained earnings		**92,815**	98,713
		480,964	478,441
Non-controlling interests		**1,959**	1,946
Total equity		**482,923**	480,387
LIABILITIES			
Non-current liabilities			
Deferred income	20	**3,511**	555
Deferred income tax liabilities	10	**8,009**	8,963
Total non-current liabilities		**11,520**	9,518
Current liabilities			
Trade and other payables	22	**356,077**	298,006
Contract liabilities	13	**193,977**	–
Amounts due to customers for contract work	14	**–**	72,734
Current income tax liabilities		**985**	922
Short-term borrowings	21	**25,888**	20,000
Total current liabilities		**576,927**	391,662
Total liabilities		**588,447**	401,180
Total equity and liabilities		**1,071,370**	881,567

The accompanying notes on pages 114 to 201 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 107 to 201 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Revenue	5	**816,585**	546,933
Cost of sales	5, 23	**(612,191)**	(425,401)
Gross profit		**204,394**	121,532
Selling and marketing expenses	23	**(105,635)**	(100,473)
Administrative expenses	23	**(77,450)**	(70,946)
Net impairment losses on financial and contract assets	3	**(4,066)**	—
Research and development expenses	23	**(30,308)**	(26,062)
Other income	24	**3,148**	7,438
Other (losses)/gains – net	25	**(1,667)**	1,001
Operating loss		**(11,584)**	(67,510)
Finance income	27	**5,073**	4,332
Finance costs	27	**(1,653)**	(423)
Finance income – net		**3,420**	3,909
Share of net profit of investments accounted for using the equity method	9	**11,662**	5,181
Profit/(loss) before income tax		**3,498**	(58,420)
Income tax (expense)/credit	28	**(3,378)**	4,223
Profit/(loss) for the year		**120**	(54,197)
Profit/(loss) attributable to:			
The owners of the Company		**107**	(54,085)
Non-controlling interests		**13**	(112)
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company – basic and diluted (RMB)	29	**0.00**	(0.11)

The accompanying notes on pages 114 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**For the year ended 31 December 2018 RMB'000**	For the year ended 31 December 2017 RMB'000
Profit/(loss) for the year		**120**	(54,197)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**8,774**	(15,340)
Changes in the fair value of financial assets at fair value through other comprehensive income		**(129)**	–
Share of other comprehensive income of investments accounted for using the equity method		**(277)**	1,752
Other comprehensive income for the year, net of tax		**8,368**	(13,588)
Total comprehensive income for the year		**8,488**	(67,785)
Total comprehensive income attributable to:			
The owners of the Company		**8,475**	(67,673)
Non-controlling interests		**13**	(112)
		8,488	(67,785)

The accompanying notes on pages 114 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company							
	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
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		–	–	–	–	–	–	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 accompanying notes on pages 114 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company								
	Notes	Share capital RMB'000	Capital surplus RMB'000	Share premium RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017		4,071	30,150	314,009	98,713	31,498	–	478,441	1,946	480,387
Adjustment on adoption of IFRS 15, net of tax		–	–	–	(6,005)	53	–	(5,952)	–	(5,952)
Restate balance at 1 January 2018		4,071	30,150	314,009	92,708	31,551	–	472,489	1,946	474,435
Comprehensive income										
Profit for the year		–	–	–	107	–	–	107	13	120
Other comprehensive income										
Currency translation differences		–	–	–	–	8,774	–	8,774	–	8,774
Changes in the fair value of financial assets at fair value through other comprehensive income		–	–	–	–	–	(129)	(129)	–	(129)
Share of other comprehensive income of investments accounted for using the equity method	9	–	–	–	–	(277)	–	(277)	–	(277)
Total comprehensive income		–	–	–	107	8,497	(129)	8,475	13	8,488
Balance at 31 December 2018		4,071	30,150	314,009	92,815	40,048	(129)	480,964	1,959	482,923

The accompanying notes on pages 114 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Cash flows from operating activities			
Cash used in operations	31	**(79,199)**	(8,008)
Income taxes paid		**(2,973)**	(2,010)
Interest received		**4,574**	3,847
Net cash used in operating activities		**(77,598)**	(6,171)
Cash flows from investing activities			
(Increase)/decrease in term deposits with initial terms of over three months	17	**(3)**	35,144
Dividend received from joint ventures	9	**1,688**	1,911
Payment for property, plant and equipment		**(5,186)**	(9,097)
Payment for intangible assets		**(3,766)**	(453)
Proceeds from disposal of property, plant and equipment		**22**	–
Payment for land use right		**(32,219)**	–
Payment for investment in an associate	9	**(31)**	–
Net cash (used in)/generated from investing activities		**(39,495)**	27,505
Cash flows from financing activities			
Interest paid		**(1,448)**	(1,224)
Proceeds from borrowings	21	**25,888**	35,000
Repayments of borrowings	21	**(20,000)**	(35,000)
Capital injection from non-controlling interests		**–**	2,058
Net cash generated from financing activities		**4,440**	834
Net (decrease)/increase in cash and cash equivalents		**(112,653)**	22,168
Cash and cash equivalents at beginning of year	17	**309,320**	286,352
Exchange (losses)/gains on cash and cash equivalents		**(208)**	800
Cash and cash equivalents at end of year	17	**196,459**	309,320

The accompanying notes on pages 114 to 201 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 ("PRC"). The ultimate holding company of the Company is Standard Fortune Holdings Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability and wholly owned by Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho", also the "Controlling Shareholder"), an executive Director and the chief executive officer of the Company ("Chief Executive Officer").

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

The consolidated financial statements are presented in thousands of Renminbi Yuan ("RMB"), unless otherwise stated, and is approved for issue by the Board of Directors on 28 March 2019.

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 ("Group").

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and requirements of the Hong Kong Companies Ordinance (Cap. 622).The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers

The Group had changed its accounting policies and make adjustments following the adoption of IFRS9 and IFRS15. The other amendments and interpretations to existing standards that are effective for the financial year from 1 January 2018 did not have material impact or are not relevant 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 2018 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 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 by lessees, 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.

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 commitments of RMB16.1 million (Note 32).

For the lease commitments the Group expects to recognise right-of-use assets of approximately RMB37.7 million on 1 January 2019, lease liabilities of RMB35.6 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Net current assets will be RMB13.3 million lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit before tax will decrease by approximately RMB0.8 million for 2019 as a result of adopting the new rules.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 16 Leases (Continued)

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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

2.2 Changes in accounting policies and disclosures

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

2.2.1 IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2.13 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.1 *IFRS 9 Financial Instruments* (Continued)

The impact of adoption IFRS 9

The Group has four types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables
- notes receivables
- contract assets
- other receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred losses. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. At the date of initial application of IFRS 9 (1 January 2018), the Group's management has assessed which business models applied to the financial assets held by the Group and the application of IFRS 9 does not have material impact on the classification, recognition and measurement of financial assets held by the Group.

2.2.2 *IFRS 15 Revenue from Contracts with Customers*

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings in 2018.

The following tables show the adjustments recognised for each affected individual line item as at 1 January 2018, the date of initial recognition and 31 December 2018. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.2 *IFRS 15 Revenue from Contracts with Customers* (Continued)

a. *Reclassification and adjustments to balance sheet as at 1 January 2018*

Balance sheet (extract)	Note	As at 31 December 2017 As previously stated	Reclassifications under IFRS 15	Remeasurement under IFRS 15	As at 1 January 2018 Restated
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Investments accounted for using the equity method	ii	39,608	–	(1,608)	38,000
Current assets					
Inventories	i	77,120	–	18,344	95,464
Contract assets and other assets	i,ii,iii	–	118,440	(3,001)	115,439
Amounts due from customers for contract work	i,iv	115,157	(115,157)	–	–
Trade and notes receivables	ii	209,948	–	(2,940)	207,008
Total assets		881,567	3,283	10,795	895,645
Non-current liabilities					
Deferred income tax liabilities	i, ii	8,963	–	(303)	8,660
Current liabilities					
Trade and other payables	i, ii, iv	298,006	(45,199)	(317)	252,490
Contract liabilities	i, ii, iv	–	121,216	17,367	138,583
Amounts due to customers for contract work	i iv	72,734	(72,734)	–	–
Total liabilities		401,180	3,283	16,747	421,210
Equity					
Reserves		375,657	–	53	375,710
Retained earnings		98,713	–	(6,005)	92,708
Total equity		480,387	–	(5,952)	474,435

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.2 *IFRS 15 Revenue from Contracts with Customers* (Continued)

b. Reclassification and adjustments to balance sheet as at 31 December 2018

Balance sheet (extract)	Note	As at 31 December 2018 Results without the adoption of IFRS 15 RMB'000	Effects of the adoption of IFRS 15 RMB'000	Results as reported RMB'000
Non-current assets				
Investments accounted for using the equity method	ii	51,046	(3,318)	47,728
Deferred income tax assets	i, ii	6,685	579	7,264
Current assets				
Inventories	i	97,269	34,616	131,885
Contract assets and other assets	i,ii,iii	–	126,235	126,235
Amounts due from customers for contract work	i,iv	135,862	(135,862)	–
Trade and notes receivables	ii	287,893	(1,760)	286,133
Total assets		1,050,880	20,490	1,071,370
Non-current liabilities				
Deferred income tax liabilities	i,ii	8,674	(665)	8,009
Current liabilities				
Trade and other payables	i,ii,iv	409,739	(53,662)	356,077
Contract liabilities	i, ii	–	193,977	193,977
Amounts due to customers for contract work	i,iv	107,618	(107,618)	–
Total liabilities		556,415	32,032	588,447
Equity				
Reserves		384,118	(40)	384,078
Retained earnings		104,317	(11,502)	92,815
Total equity		494,465	(11,542)	482,923

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.2 *IFRS 15 Revenue from Contracts with Customers* (Continued)

b. *Reclassification and adjustments to balance sheet as at 31 December 2018* (Continued)

i. Revenue from system engineering contract

In previous reporting periods, revenue for system engineering contract is recognised over the period of the contract by reference to the stage of completion which 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. 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.

Under IFRS15, revenues are recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred over time as the Group's performance creates and enhances an asset that the customer controls as the Group performs. Revenue from system engineering contract is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The Group presents the total contract costs incurred in "inventory" before the control of assets is transferred.

As a consequence, the inventories have been increased by RMB18,344,000, the contract assets have been reduced by RMB4,627,000, the contract liabilities have been increased by RMB17,367,000 and retained earnings have been reduced by RMB4,139,000 as at 1 January 2018.

As at 31 December 2018, the inventories have been increased by RMB34,616,000, the contract assets have been reduced by RMB14,093,000, the contract liabilities have been increased by RMB30,262,000 and retained earnings have been reduced by RMB8,785,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.2 *IFRS 15 Revenue from Contracts with Customers* (Continued)

b. Reclassification and adjustments to balance sheet as at 31 December 2018 (Continued)

ii. Revenue from sales contracts of equipment with installation

In previous reporting periods, revenue was 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. The Group accounts revenue according to the contract amount agreed and accounts cost of sales as per the total incurred cost and accrued installation cost.

Under IFRS15, the Group shall identify each promise to the customer as a performance obligation. Two performance obligations will be resulted from these kind of contracts, including sales of equipment, and subsequent installation. Sales of equipment will be recognised at the time of customer having received and accepted the products, and subsequent installation will be recognised over time as the customer simultaneously receives and consumes the benefits from performance of the contracts by the Group.

As a consequence, as at 1 January 2018, trade receivables have been reduced by RMB2,940,000, and contract assets have been increased by RMB1,626,000, and retained earnings have been reduced by RMB561,000 and trade and other payables have been reduced by RMB753,000. The investments accounted for using the equity method have been reduced by RMB1,608,000.

As at 31 December 2018, trade receivables have been reduced by RMB1,760,000, and contract assets have been increased by RMB1,104,000, and retained earnings have been reduced by RMB643,000 and trade and other payables have been reduced by RMB27,000,and contract liabilities have been increased by RMB14,000. The investments accounted for using the equity method have been reduced by RMB3,318,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.2 *IFRS 15 Revenue from Contracts with Customers* (Continued)

b. *Reclassification and adjustments to balance sheet as at 31 December 2018* (Continued)

iii. Accounting for costs to obtain a contract

In 2018, costs amounting to RMB3,362,000 (RMB3,283,000 as at 1 January 2018) relate directly to obtain the contract are expected to be recovered. They were therefore capitalised as costs to obtain a contract following the adoption of IFRS 15 and included in other assets in the balance sheet on 31 December 2018. The asset is amortised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation, consistent with the pattern of recognition of the associated revenue.

iv. Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

Contract assets were previously included in amounts due from customers for contract work.

Contract liabilities were previously included in amounts due to customers for contract work and trade and other payables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

2.2.2 *IFRS 15 Revenue from Contracts with Customers* (Continued)

c. *Reclassification and adjustments to income statement and statement of comprehensive income for the year ended 31 December 2018:*

Income statement (extract)	For the year ended 31 December 2018 Results without the adoption of IFRS 15 RMB'000	Effects of the adoption of IFRS 15 RMB'000	Results as reported RMB'000
Revenue	833,584	(16,999)	816,585
Cost of sales	(624,462)	12,271	(612,191)
Gross profit	209,122	(4,728)	204,394
Share of net profit of investments accounted for using the equity method	13,372	(1,710)	11,662
Profit before income tax	9,936	(6,438)	3,498
Income tax expense	(4,319)	941	(3,378)
Profit for the year	5,617	(5,497)	120
Profit attributable to:			
The owners of the Company	5,604	(5,497)	107
Non-controlling interests	13	–	13
Statement of Comprehensive Income (extract)			
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences	8,867	(93)	8,774
Other comprehensive income for the year, net of tax	8,461	(93)	8,368
Total comprehensive income for the year	14,078	(5,590)	8,488
Total comprehensive income attributable to:			
The owners of the Company	14,065	(5,590)	8,475
Non-controlling interests	13	–	13

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 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 2.4).

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 or joint 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 after initially being recognised at cost (see (d) below). 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.

(c) *Joint 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(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 2.12.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(e) Changes in ownership interests (Continued)

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.

2.4 Business combinations

(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 acquired business, the equity interests issued by the Group, fair value of any assets or liability results from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (Continued)

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

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired as a bargain purchase, the difference is recognised directly in the income statement.

2.5 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.

2.6 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 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. 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 generally recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(c) *Group companies* (Continued)

(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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) *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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, net of 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 2.13).

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.

2.9 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.

2.10 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)

2.11 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 asset so that it will be available for use or sale;

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

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

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

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

(vi) the expenditure attributable to the intangible asset 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.

2.12 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the 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 of disposal 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 which are largely independent of the cash inflows from other assets or groups of assets (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)

2.13 Financial assets

2.13.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. Management determines the classification of its financial assets at initial recognition.

2.13.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial assets (Continued)

2.13.3 Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the income statement.

- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment losses are presented as separate line item in the income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial assets (Continued)

2.13.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit loss with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance to be recognised from initial recognition of all trade receivables, see note 15 for further details.

2.13.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but there is no impact on the classification and recognition of financial assets and financial liabilities. The impact of impairment provisions is immaterial. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Assets carried at amortised cost

Until 31 December 2017 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.

Impairment

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial assets (Continued)

2.13.5 Accounting policies applied until 31 December 2017 (Continued)

Assets carried at amortised cost (Continued)

Impairment (Continued)

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.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has 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.

2.15 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments*; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial guarantee contracts (Continued)

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.16 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, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Trade receivables

Trade receivables are amounts due from customers for goods 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 15 for further information about the Group's accounting for trade receivables and note 3.1 for a description of the Group's impairment policies.

2.18 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 that they are readily convertible to know amounts of cash and which are subject to an insignificant risk of changes in value.

2.19 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 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.

2.21 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.

2.22 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.

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(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

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.

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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(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.

2.24 Employee benefits

Liabilities for wages and salaries are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current liabilities-trade and other payable in the balance sheet.

Pension and social obligations

A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administrated pension insurance plans on a mandatory, contractual or voluntary basis. 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. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Provisions

Provisions for legal claim product and service warranties are recognised when the Group has a present 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.

2.26 Revenue recognition

Revenue is measured at the transaction price agreed under the contract and is shown after eliminating sales within the Group. The Group considers the effects of variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration payable to a customer to determine the transaction price.

Revenues are recognised when or as the control of the asset is transferred to the customer and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Revenue from system engineering contract

Revenues are recognised when or as the control of the asset is transferred to the customer. Control of the asset for system engineering contracts is transferred over time as the Group's performance creates and enhances an asset that the customer controls as the Group performs. Revenue from system engineering contract is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Expected losses are fully provided on contracts when identified.

(b) Revenue from sale of goods

Revenue from sale of goods are recognised when control of the products has been transferred, being when the products are delivered to the customer. The control of the products refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(c) Revenue from Services rendered

Revenue for services rendered including technique development, design, consultation and supervision services, is recognised over the period of rendering services by the progress towards complete satisfaction of that performance obligation and when it is probable that the economic benefits associated with the transaction will flow to the entity.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 exposures on foreign currencies for those entities adopted Hong Kong dollar as functional currency.

As at 31 December 2018, if Hong Kong dollar had weakened/strengthened by 1% against the US dollar with all other variables held constant, profit before income tax for the years would have been RMB271,000 (as at 31 December 2017: RMB232,000) 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, pledged bank deposit, receivables and payables held by the Group entities.

As at 31 December 2018, if Hong Kong dollar had weakened/strengthened by 5% against the EUR with all other variables held constant, profit before income tax for the years would have been RMB1,271,000 (as at 31 December 2017: RMB1,123,000) 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, pledged bank deposit, receivables and payables held by the Group entities.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk*

The Group is exposed to credit risk mainly in relation to its trade and notes receivables, other receivables, contract assets and cash deposits with banks.

(i) Risk management

To manage this risk, the management places bank deposits mainly with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. For trade receivables and contract assets, the Group assesses the credit quality of the customer, taking its financial position, past experience and other factors into consideration. The compliance with credit limit by customers is regularly monitored by the management. The Group has policies in place that sales are made to customers with solid financial position and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables and contract assets to ensure that adequate impairment losses are made. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

(ii) Impairment of financial assets

The Group has four types of financial assets that are subject to the expected credit loss model:

- trade receivables
- contract assets
- note receivables
- other receivables

While pledged bank deposits, term deposits with initial terms of over three months and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

The Group considered most of notes receivables are bank acceptance with maturity dates within six months to have low credit risk. Management consider notes receivables low credit risk when they have a low risk of default and the accepting bank has a strong capacity to meet its contractual cash flow obligations in the near term. The identified impairment loss was immaterial.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the ageing days. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected credit loss rates for trade receivables are a reasonable approximation of that for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group considers the following indicator in forward looking estimates, such as changes in macroeconomic conditions, industry trends and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2018 (on adoption of IFRS9) was determinded as follows for both trade receivables and contract assets.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

31 December 2018	Within 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected loss rate	0.53%	2.70%	14.37%	28.72%	64.96%	
Gross carrying amount – trade receivables	141,333	20,817	43,218	5,333	11,577	222,278
Gross carrying amount – contract assets	120,447	–	–	–	–	120,447
Loss allowance	1,387	562	6,210	1,532	7,520	17,211

As at 31 December 2018, specific provisions of RMB9,667,000 have been provided against trade receivables and contract assets of RMB13,044,000 for customers with known financial difficulties.

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconciles to the opening loss allowances on 1 January 2018 and to the closing loss allowance as at 31 December 2018 follows:

	Contract assets and Trade receivables RMB'000
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	23,240
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	23,240
Increase in loss allowance recognised in profit or loss during the year	3,919
Receivables written off during the year as uncollectible	(281)
Closing loss allowance as at 31 December 2018	26,878

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. This is generally the case when the Group determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

Other financial assets at amortised cost include loans to related parties and deposits as guarantee for bidding reccognised in 'other receivables'.

Impairment on other financial assets at amortised cost is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The loss allowance for other financial assets at amortised cost as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Other receivables RMB'000
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	–
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	–
Increase in the allowance recognised in profit or loss during the year	147
Closing loss allowance as at 31 December 2018	147

The restatement on transition to IFRS 9 as a result of applying the expected credit risk model was immaterial. See note 2.13 for the previous accounting policy on impairment of financial assets, including other receivables.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Previous accounting policy for impairment of receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Net impairment losses on financial and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2018 **RMB'000**
Impairment losses for trade receivables and contract assets	**3,919**
Impairment losses on other financial assets	**147**
Net impairment losses on financial and contract assets	**4,066**

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 and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. 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	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017			
Trade payables	136,928	136,928	136,928
Notes payables	27,207	27,207	27,207
Other payables	50,005	50,005	50,005
Short-term borrowings	20,419	20,419	20,419
	234,559	234,559	234,559

	Less than 1 year RMB'000	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
As at 31 December 2018			
Trade payables	**215,007**	**215,007**	**215,007**
Notes payables	**25,934**	**25,934**	**25,934**
Other payables	**31,416**	**31,416**	**31,416**
Short-term borrowings	**26,064**	**26,064**	**26,064**
Financial guarantee contracts (Note 37)	**6,960**	**6,960**	**–**
	305,381	**305,381**	**298,421**

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 sheet.

The gearing ratio as at 31 December 2018 and 2017 are as follows:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Total debt	**25,888**	20,000
Total equity	**482,923**	480,387
Total capital	**508,811**	500,387
Gearing ratio	**5%**	4%

3.3 Fair value estimation

Financial assets

(i) *Fair value hierarchy*

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Financial assets (Continued)

(i) *Fair value hierarchy* (Continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
At 31 December 2018			
Financial assets			
FVOCI			
– Notes receivable	**–**	**10,405**	**–**
Total financial assets	**–**	**10,405**	**–**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
At 31 December 2017			
Financial assets			
FVOCI			
– Notes receivable	–	–	–
Total financial assets	–	–	–

There were no transfers between levels 1,2 and 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Financial assets (Continued)

(i) *Fair value hierarchy* (Continued)

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) *Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments.
- discounted cash flow analysis.

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.

(a) Impairment of trade receivables and contract assets

The loss allowances for financial assets are based on assumptions about risk of default and expected credit loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 3.

(b) Revenue recognised over time

Revenue recognised over time by reference to the progress towards complete satisfaction of performance obligation requires estimations by management because of the nature of the performance obligations in contracts with customers, customers control the asset as it is created or enhanced by the Group or receive the benefits of the Group's performance as the Group performs and simultaneously consume those benefits over the period of the contract. Management regularly reviews the proportion of contract costs incurred for work performed to date to estimated stage of completion of the performance obligations of specific transactions. If circumstances arise that may change the original estimates of transaction price, costs or extent of performance obligation satisfaction, 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Impairment of inventories

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

(d) Income taxes and deferred income taxation

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 income tax provisions in the period in which such determination is made. In addition, the realisation of deferred income tax assets is dependent on the Group's ability to generate sufficient taxable profit 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.

5. SEGMENT INFORMATION (Continued)

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 2018 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	350,953	207,397	93,001	38,968	191,309	21,534	903,162
Inter-segment revenue	(30,112)	(42,685)	(1,649)	(2,088)	(4,135)	(5,908)	(86,577)
Revenue	320,841	164,712	91,352	36,880	187,174	15,626	816,585
Recognised at a point in time	246,969	31,609	26,005	2,283	187,174	15,417	509,457
Recognised over time	73,872	133,103	65,347	34,597	–	209	307,128
Cost of sales	(280,270)	(128,989)	(61,794)	(17,948)	(113,192)	(9,998)	(612,191)
Segment results							
Gross profit	40,571	35,723	29,558	18,932	73,982	5,628	204,394
Other segment items							
Amortisation	1,142	728	90	36	14	13	2,023
Depreciation	4,559	1,692	548	219	475	80	7,573
Net impairment losses on financial and contract assets	1,146	1,275	880	353	347	65	4,066
Impairment of inventories	5,328	293	140	58	1,026	23	6,868
Share of net profit of investments accounted for using the equity method	3,418	4,180	–	–	4,064	–	11,662

5. SEGMENT INFORMATION (Continued)

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 impairment 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)

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

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Liquid and Bioprocess System	**40,571**	(3,097)
Clean Room and Automation Control and Monitoring System	**35,723**	30,736
Powder and Solid System	**29,558**	17,395
GMP Compliance Service	**18,932**	12,647
Life Science Consumables	**73,982**	58,285
Distribution and Agency of Pharmaceutical Equipment	**5,628**	5,566
Total gross profit for reportable segments	**204,394**	121,532
Selling and marketing expenses	**(105,635)**	(100,473)
Administrative expenses	**(77,450)**	(70,946)
Net impairment losses on financial and contract assets	**(4,066)**	–
Research and development expenses	**(30,308)**	(26,062)
Other income	**3,148**	7,438
Other (losses)/gains – net	**(1,667)**	1,001
Finance income – net	**3,420**	3,909
Share of net profit of investments accounted for using the equity method	**11,662**	5,181
Profit/(loss) before income tax	**3,498**	(58,420)

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2018 and 2017 are as follows:

	As at 31 December 2018		As at 31 December 2017	
	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	**306,283**	**12,164**	209,103	11,984
Clean Room and Automation Control and Monitoring System	**185,321**	**21,923**	138,109	17,615
Powder and Solid System	**65,426**	**–**	45,914	–
GMP Compliance Service	**24,256**	**–**	22,254	–
Life Science Consumables	**87,610**	**13,641**	64,806	10,009
Distribution and Agency of Pharmaceutical Equipment	**11,673**	**–**	9,238	–
Total segment assets	**680,569**	**47,728**	489,424	39,608
Unallocated				
Deferred income tax assets	**7,264**		8,257	
Headquarter assets	**383,537**		383,886	
Total assets	**1,071,370**		881,567	

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 2018 Total liabilities RMB'000	As at 31 December 2017 Total liabilities RMB'000
Liquid and Bioprocess System	**278,316**	161,329
Clean Room and Automation Control and Monitoring System	**86,483**	75,199
Powder and Solid System	**36,538**	28,694
GMP Compliance Service	**12,015**	11,321
Life Science Consumables	**56,289**	38,113
Distribution and Agency of Pharmaceutical Equipment	**9,175**	6,640
Total segment liabilities	**478,816**	321,296
Unallocated		
Deferred income tax liabilities	**8,009**	8,963
Short term borrowings	**25,888**	20,000
Headquarter liabilities	**75,734**	50,921
Total liabilities	**588,447**	401,180

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 2018 RMB'000	Year ended 31 December 2017 RMB'000
Revenue		
Mainland China	**766,057**	481,844
Other locations	**50,528**	65,089
	816,585	546,933

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Non-current assets other than deferred tax assets		
Mainland China	**113,669**	70,139
Other locations	**57,576**	48,215
	171,245	118,354

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Others RMB'000	Total RMB'000
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 23)	(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
Year ended 31 December 2018					
Opening net book value	**7,829**	**20,885**	**1,857**	**11,297**	**41,868**
Additions	**–**	**12,486**	**42**	**4,093**	**16,621**
Depreciation charge (Note 23)	**(740)**	**(2,569)**	**(497)**	**(3,767)**	**(7,573)**
Disposal	**–**	**(7)**	**–**	**(340)**	**(347)**
Closing net book value	**7,089**	**30,795**	**1,402**	**11,283**	**50,569**
As at 31 December 2018					
Cost	**16,443**	**47,719**	**4,635**	**29,289**	**98,086**
Accumulated depreciation	**(9,354)**	**(16,924)**	**(3,233)**	**(18,006)**	**(47,517)**
Net book value	**7,089**	**30,795**	**1,402**	**11,283**	**50,569**

As at 31 December 2018 and 2017, the Group's buildings were pledged as security for short-term borrowings (Note 21).

7. LAND USE RIGHTS

	RMB'000
Year ended 31 December 2017	
Opening net book value	5,800
Amortisation charge (Note (b))	(150)
Closing net book value	5,650
As at 31 December 2017	
Cost	7,500
Accumulated amortisation	(1,850)
Net book value	5,650
Year ended 31 December 2018	
Opening net book value	**5,650**
Additions (Note (a))	**49,039**
Amortisation charge (Note (b))	**(477)**
Closing net book value	**54,212**
As at 31 December 2018	
Cost	**56,539**
Accumulated amortisation	**(2,327)**
Net book value	**54,212**

(a) In September 2018, Austar Pharmaceutical Process System (Shijiazhuang) Limited ("APTS SJZ") has entered into a Land Use Right Grant Contract with the local government. The total consideration includes land transfer fee and various transaction fees and levies totalling approximately RMB49,039,000. As at 31 December 2018, amounts totalling RMB32,219,000 have been paid.

As at 31 December 2018, APTS SJZ has not yet obtained the Certificate of Land Use. APTS SJZ will apply for the certificate of land use right upon full payment.

(b) Amortisation expenses are included in administrative expenses RMB477,000 (2017: 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 37 years and 49 years for the land located in Shanghai and Shijiazhuang respectively. As at 31 December 2018 and 2017, the land use rights for land located in Shanghai were pledged as security for short-term borrowings (Note 21).

8. INTANGIBLE ASSETS

	Software and others RMB'000
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
Year ended 31 December 2018	
Opening net book value	**6,469**
Additions	**4,089**
Amortisation charge (Note)	**(1,546)**
Closing net book value	**9,012**
As at 31 December 2018	
Cost	**13,695**
Accumulated amortisation	**(4,683)**
Net book value	**9,012**

Note: Amortisation expenses are included in cost of sales RMB43,000 (2017: RMB12,000), selling and marketing expenses RMB186,000 (2017: RMB19,000), and administrative expenses RMB1,317,000 (2017: RMB764,000).

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	2018 RMB'000	2017 RMB'000
Opening balance at 1 January	39,608	34,586
Changes in accounting policies (Note 2.2.2(a))	(1,608)	–
Additions (Note)	31	–
Share of net profit	11,662	5,181
Share of other comprehensive income	(277)	1,752
Dividend received	(1,688)	(1,911)
Closing balance at 31 December	47,728	39,608

Note: On 19 April 2018, Austar Long Sheng Pharmaceutical Process System Limited ("Austar Long Sheng JV") was incorporated in Hong Kong with a share capital of USD50,000. The Group holds 10% equity interest and is entitled to appoint one director to its board. On 15 February 2019, the Group entered into a contract with the 90% majority shareholder dispose of its shares in Austar Long Sheng JV at a consideration of USD5,000.

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 Systems (Shanghai) 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 GmbH & Co. KG ("ROTA KG")	Germany	33.33%	Associate	Note (c)	Equity
ROTA Verpackungstechnik Verwaltungsgesellschaft mbH ("ROTA GmbH")	Germany	33.33%	Associate	Note (c)	Equity
Austar Long Sheng JV	Hong Kong	10.00%	Associate		Equity
LLC Austar Long Sheng Group	Russia	10.00%	Associate		Equity

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

Note:

(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 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 2018 RMB'000	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000
Current						
Cash and cash equivalents	**18,010**	16,096	**21,109**	13,588	**8,455**	37
Other current assets	**29,500**	17,538	**19,474**	13,334	**99,756**	89,024
Total current assets	**47,510**	33,634	**40,583**	26,922	**108,211**	89,061
Financial liabilities (excluding trade payables)	**(4,634)**	(3,092)	**(3,154)**	(3,030)	**(9,673)**	(5,190)
Other current liabilities (including trade payables)	**(19,177)**	(7,044)	**(6,173)**	(2,510)	**(78,802)**	(59,507)
Total current liabilities	**(23,811)**	(10,136)	**(9,327)**	(5,540)	**(88,475)**	(64,697)
Non-current						
Assets	**2,167**	2,006	**12,351**	13,768	**39,205**	37,784
Financial liabilities	**–**	–	**(18,705)**	(17,181)	**(10,460)**	(14,978)
Other liabilities	**(1,041)**	(1,046)	**(2,167)**	(1,287)	**(8,993)**	(20,604)
Net assets	**24,825**	24,458	**22,735**	16,682	**39,488**	26,566

* 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 2018 RMB'000	Year ended 31 December 2017 RMB'000	**Year ended 31 December 2018 RMB'000**	Year ended 31 December 2017 RMB'000	**Year ended 31 December 2018 RMB'000**	Year ended 31 December 2017 RMB'000
Revenue	**51,763**	27,869	**33,007**	28,176	**130,902**	111,213
Depreciation and amortisation	**(213)**	(257)	**(2,019)**	(1,844)	**(2,989)**	(3,503)
Interest income	**137**	110	**12**	6	**–**	–
Interest expense	**(10)**	(100)	**(928)**	(959)	**(2,252)**	(1,525)
Profit before income tax	**9,677**	4,300	**8,804**	6,883	**15,965**	3,239
Income tax expense	**(2,534)**	(1,938)	**(2,031)**	(1,692)	**(3,424)**	(511)
Profit for the year	**7,143**	2,362	**6,773**	5,191	**12,541**	2,728
Other comprehensive income	**(49)**	(16)	**(720)**	1,118	**381**	3,266
Total comprehensive income	**7,094**	2,346	**6,053**	6,309	**12,922**	5,994
Dividends received from joint ventures	**1,688**	1,911	**–**	–	**–**	–

* 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 2018 RMB'000	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000
Opening net assets as at 1 January	**24,458**	26,011	**16,682**	10,373	**26,566**	20,572
Changes in accounting policies	**(3,282)**	–	**–**	–	**–**	–
Profit for the year	**7,143**	2,362	**6,773**	5,191	**12,541**	2,728
Dividends	**(3,445)**	(3,899)	**–**	–	**–**	–
Other comprehensive income	**(49)**	(16)	**(720)**	1,118	**381**	3,266
Closing net assets	**24,825**	24,458	**22,735**	16,682	**39,488**	26,566
Interest	**12,164**	11,984	**13,641**	10,009	**13,163**	8,855
Goodwill	**–**	–	**–**	–	**8,760**	8,760
Carrying value	**12,164**	11,984	**13,641**	10,009	**21,923**	17,615

* The financial information includes its respective subsidiary.

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	**5,810**	6,728
– to be recovered after more than 12 months	**1,454**	1,529
	7,264	8,257
Deferred income tax liabilities		
– to be recovered after more than 12 months	**(8,009)**	(8,963)
	(745)	(706)

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.

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

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
As at 31 December 2017	**(706)**	(6,684)
Changes in accounting policies	**303**	–
As at 1 January 2018	**(403)**	(6,684)
(Charged)/credited to the consolidated income statement (Note 28)	**(342)**	5,978
As at 31 December 2018	**(745)**	(706)

10. DEFERRED INCOME TAX (Continued)

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 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
Charged to the consolidated income statement	(192)	(580)	(221)	(993)
As at 31 December 2018	**1,262**	**5,506**	**496**	**7,264**

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 2018, the Group did not recognise deferred income tax assets of RMB3,523,000 (2017: RMB3,108,000) in respect of losses amounting to RMB24,578,000 (2017: RMB18,954,000) that can be carried forward indefinitely and have no expiry date.

For the year ended 31 December 2018, the Group did not recognise deferred income tax assets of RMB21,584,000 (2017: RMB18,869,000) in respect of losses amounting to RMB157,923,000 (2017: RMB120,831,000) that can be carried forward in next 5 or 10 years.

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000
As at 31 December 2016	(14,571)
Credited to the consolidated income statement	5,608
As at 31 December 2017	(8,963)
Changes in accounting policies	303
As at 1 January 2018	**(8,660)**
Credited to the consolidated income statement	**651**
As at 31 December 2018	**(8,009)**

11. OTHER NON-CURRENT ASSETS

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Advance payment for land use rights	–	16,295

Pursuant to a 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 APTS SJZ of increasing its investment in connection with building a factory in Shijiazhuang city. Advance payment of RMB16.3million has been made in 2015 to government authority as prepayment for land use right of a piece of land.

In August 2018, APTS SJZ received RMB15.9 million refund from government authority before the invitation of the public tender of the land use rights. APTS SJZ has successfully awarded the public tender for the land use right in September (Note 7(a)). The remaining balance RMB0.4 million is expected to be refunded within one year and has been re-classified to current assets.

12. INVENTORIES

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Raw materials	**57,882**	47,715
Work-in-progress	**52,825**	30,087
Finished goods	**28,712**	16,959
	139,419	94,761
Less: provision for inventories	**(7,534)**	(17,641)
	131,885	77,120

Movements of provision for inventories are analysed as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Beginning of the year	**(17,641)**	(12,635)
Addition	**(7,622)**	(9,074)
Reversal	**754**	164
Write-off	**16,975**	3,904
End of the year	**(7,534)**	(17,641)

13. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognised the following assets and liabilities related to contracts with customers:

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Contract assets	(i)	**128,547**	—
Loss allowance of contract assets	3.1(b)	**(5,674)**	—
		122,873	—
Costs incurred to obtain contracts	(iv)	**3,362**	—
Total contract assets and other assets		**126,235**	—
Contract liabilities	(i)	**(193,977)**	—

(i) Significant changes in contract assets and liabilities

As at 1 January 2018, the contract assets and contract liabilities were RMB115,439,000 and RMB138,583,000 respectively upon adoption of IFRS 15.

There was increase in contract assets as the Group has provided more services ahead of the agreed payment schedules and an increase in overall contract activity. The Group also recognised a loss allowance for contract assets following the adoption of IFRS 9, see note 3.1(b) for further information.

There was increase in contract liabilities by RMB55,394,000 due to an increase in overall contract activity.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**106,761**	–

13. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS (Continued)

(iii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts.

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	**682,889**	–

As of 31 December 2018, the aggregate amount of the transaction price allocated to the remaining performance obligation ("backlog") is RMB682.9 million and management expects that the Group will recognise this revenue as the contracts are completed, most of which is expected to occur over the next 24 months.

(iv) Costs incurred to obtain contracts

In addition to the contract balances disclosed above, the Group has also recognised assets in relation to costs to obtain contracts. This is presented within contract assets and other assets in the balance sheet.

	As at 31 December 2018 RMB'000
Asset recognised from costs incurred to obtain contracts at 31 December	**3,362**
Amortisation recognised as cost of satisfying performance obligations during the year	**1,945**

In adopting IFRS 15, the Group recognised assets in relation to costs incurred to obtain contracts. The assets is amortised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation over the term of the specific contracts they relates to, consistent with the pattern of recognition of the associated revenue.

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Contract cost incurred plus recognised profit less foreseeable losses	**—**	588,472
Less: Progress billings	**—**	(541,817)
Less: Provision of contract impairment (Note 23)	**—**	(4,232)
Contract work in progress	**—**	42,423
Representing:		
Amounts due from customers for contract work	**—**	115,157
Amounts due to customers for contract work	**—**	(72,734)
	—	42,423

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Construction contract revenue	**—**	326,911

15. TRADE AND NOTES RECEIVABLES

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Trade receivables (Note (b))	**227,222**	188,650
Notes receivable (Note (a))	**80,115**	40,306
	307,337	228,956
Less: loss allowance	**(21,204)**	(19,008)
	286,133	209,948

15. TRADE AND NOTES RECEIVABLES (Continued)

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2017: within six months).

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Within 6 months	**141,334**	111,765
6 months to 1 year	**20,817**	22,538
1 to 2 years	**43,624**	31,788
2 to 3 years	**8,581**	11,819
Over 3 years	**12,866**	10,740
	227,222	188,650

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

As at 31 December 2018, there are retention money receivables of RMB 47,250,000 (31 December 2017: RMB 44,097,000).

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
RMB	**280,706**	198,799
US$	**5,195**	8,650
HK$	**56**	2,359
EUR	**168**	140
CHF	**8**	–
	286,133	209,948

16. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Current:		
Non-financial assets		
– Prepayments to suppliers	**32,200**	16,354
– Staff advance	**3,325**	2,971
– Others	**8,165**	6,585
	43,690	25,910
Less: provision for impairment (Note(b))	**(1,111)**	(1,010)
	42,579	24,900
Financial assets at amortised cost		
– Deposits as guarantee for bidding	**12,695**	10,438
Less : loss allowance	**(147)**	–
	12,548	10,438
	55,127	35,338
Non-current:		
Loan and interest to PALL-AUSTAR JV (Note (d), Note 33(c)(i))	**9,724**	8,464

(a) As at 31 December 2018 and 2017, the carrying amounts of other receivables approximated their fair values.

16. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(b) Movements on the Group's provision for impairment of prepayments and other receivables (excluding those assets measured at amortised cost) are as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Beginning of the year	**(1,010)**	(1,088)
Addition	**(101)**	(137)
Reversal	**–**	162
Write-off	**–**	53
End of the year	**(1,111)**	(1,010)

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
RMB	**22,380**	18,516
US$	**146**	302
HK$	**611**	222
	23,137	19,040

(d) This loan to PALL-AUSTAR JV is provided by its shareholder Austar Pharmaceutical Process Systems Limited ("APPS"), a subsidiary of the Group. 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 2018, the effective interest rate ranged from 6.02% to 6.95% (2017: 5.93% to 6.84%) per annum. This loan is extended for another 5 years in 2018, and will be expired in 2023.

17. CASH AND BANK BALANCES

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Cash and cash equivalents		
– Cash on hand	**79**	32
– Deposits in bank	**196,380**	309,288
	196,459	309,320
Pledged bank deposits (Note (a))	**96,816**	7,870
Term deposits with initial terms of over three months	**206**	203
	293,481	317,393

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

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
HK$	**155,107**	166,789
RMB	**108,989**	131,509
US$	**23,663**	13,812
EUR	**5,708**	5,283
Others	**14**	–
	293,481	317,393

18. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Financial assets		
Financial assets at amortised cost		
– Loan and interest to PALL-AUSTAR JV (Note 16)	9,724	8,464
– Trade receivables (Note 15)	227,222	188,650
– Notes receivables (Note 15)	69,710	40,306
– Deposits as guarantee for bidding (Note 16)	12,695	10,438
– Pledged bank deposits (Note 17)	96,816	7,870
– Term deposits with initial terms of over three months (Note 17)	206	203
– Cash and cash equivalents (Note 17)	196,459	309,320
FVOCI		
– Notes receivables (Note 15)	10,405	–
Total	623,237	565,251
Financial liabilities		
Financial liabilities at amortised cost		
– Trade and other payables	272,357	214,140
– Borrowings (Note 21)	25,888	20,000
Total	298,245	234,140

19. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2017 and 2018	10,000,000	100,000

	Number of ordinary share 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 2017 and 2018	512,582	5,126	4,071

20. DEFERRED INCOME

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
At beginning of the year	**555**	600
Additions of government grant obtained	**3,822**	–
Charged to consolidated income statement	**(866)**	(45)
At end of the year	**3,511**	555

21. SHORT-TERM BORROWINGS

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Bank borrowings		
– Secured (Note)	**20,000**	5,000
– Guaranteed	**–**	15,000
Notes discounted with recourse	**5,888**	–
	25,888	20,000

Note: As at 31 December 2018, secured short-term bank borrowing is denominated in RMB, secured by the Group's buildings (Note 6) and land use rights (Note 7). For the year ended 31 December 2018, the short-term bank borrowing bears interest rate from 4.35% to 4.79% (2017: 4.35% Secured; 4.79% Guaranteed) per annum and is repayable within one year.

22. TRADE AND OTHER PAYABLES

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Trade payables	**215,007**	136,928
Notes payables	**25,934**	27,207
Advances from customers	**–**	48,482
Payroll and welfare payable	**37,622**	23,436
Taxes other than income taxes payable	**12,845**	5,669
Warranty provision	**6,250**	6,282
Accrued expenses	**18,923**	19,991
Employee payable	**7,552**	5,528
Others	**31,944**	24,483
	356,077	298,006

22. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Within 6 months	**194,042**	101,787
6 months to 1 year	**9,231**	19,491
1 to 2 years	**5,127**	10,154
2 to 3 years	**2,143**	3,238
Over 3 years	**4,464**	2,258
	215,007	136,928

(b) As at 31 December 2018 and 2017, the carrying amounts of trade and other payables approximated their fair values.

(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 2018 RMB'000	As at 31 December 2017 RMB'000
RMB	**335,017**	230,320
US$	**13,902**	12,689
HK$	**4,322**	3,730
EUR	**2,601**	1,914
GBP	**179**	95
CHF	**56**	565
INR	**–**	211
	356,077	249,524

(d) As at 31 December 2018, payments for trade payables RMB56,341,000 (31 December 2017: RMB17,012,000) with notes receivable were not derecognised.

23. EXPENSES BY NATURE

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Raw materials	**485,646**	311,130
Staff costs, including directors' emoluments (Note 26)	**162,787**	139,253
Depreciation (Note 6)	**7,573**	7,914
Amortisation (Note 7, 8)	**2,023**	945
Sales tax and surcharges	**3,553**	3,451
Office expenses	**11,032**	8,272
Travel expenses	**38,211**	32,236
Freight and port charges	**14,012**	12,569
Promotion expenses	**16,453**	17,812
Warranty provision	**4,279**	6,912
Impairment of trade and notes receivables	**–**	3,731
Impairment of inventories (Note 12)	**6,868**	8,910
Impairment of amounts due from customers for contract work (Note 14)	**–**	4,232
Impairment/(reversal) of prepayments and other receivables	**101**	(25)
Professional fees	**8,281**	7,875
Auditor's remuneration		
– Audit service	**3,194**	3,835
– Non audit service	**1,270**	994
Rental expenses		
– Madam Gu Xun	**935**	935
– Austar Limited	**91**	88
– others	**8,913**	7,855
Communication expenses	**1,773**	1,839
On-site subcontract fee	**24,671**	12,556
Other operating expenses	**23,918**	29,563
	825,584	622,882

24. OTHER INCOME

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Government grants (Note)	**2,728**	7,024
Rental income (Note 33 (b)(iv))	**420**	414
	3,148	7,438

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

25. OTHER (LOSSES)/GAINS – NET

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Losses on disposal of property, plant and equipment	**(175)**	(20)
Exchange (losses)/gains	**(1,328)**	630
Others	**(164)**	391
	(1,667)	1,001

26. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Salaries and bonuses	**126,857**	107,033
Pension and social obligations	**35,930**	32,220
	162,787	139,253

26. 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 2018	Year ended 31 December 2017
Directors	**3**	3
Non-director individuals	**2**	2
	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 2018 RMB'000	Year ended 31 December 2017 RMB'000
Basic salaries and allowances	**1,104**	1,020
Discretionary bonuses	**919**	483
Other benefits including pension	**175**	169
	2,198	1,672

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December 2018	Year ended 31 December 2017
Emolument bands		
HK$1,000,000 and below	**–**	1
HK$1,000,001~HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	2	2

26. 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 2018 (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	–	865	–	–	–	–	–	–	15	880
Ho Kin Hung	–	1,337	–	–	–	–	–	–	15	1,352
Chen Yuewu	–	801	–	–	–	–	–	–	56	857
Zhou Ning	–	522	–	–	–	–	–	–	125	647
Non-Executive Directors										
Ji Lingling	358	–	–	–	–	–	–	–	–	358
Chiu Hoi Shan	132	–	–	–	–	–	–	–	–	132
Cheung Lap Kei	132	–	–	–	–	–	–	–	–	132
Leung Oi Kin	132	–	–	–	–	–	–	–	–	132

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

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

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

(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 (2017: 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 (2017: nil).

26. 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 (2017: 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 (2017: 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 (2017: nil).

27. FINANCE INCOME – NET

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Interest expenses from short-term bank loan	**(1,445)**	(1,223)
Exchange (losses)/gains	**(208)**	800
Finance costs	**(1,653)**	(423)
Finance income		
– bank deposits	**4,582**	3,882
– loan to PALL-AUSTAR JV (Note 33 (b)(v))	**491**	450
	5,073	4,332
	3,420	3,909

28. INCOME TAX (EXPENSE)/CREDIT

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Current income tax expense	**(3,036)**	(1,755)
Deferred income tax (expense)/credit (Note 10)	**(342)**	5,978
	(3,378)	4,223

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 Group's subsidiaries incorporated in the BVI under the International Business Companies Acts or, as the case may be, BVI Business Companies Act of the BVI are exempted from local income tax.

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the year (2017: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the year (2017: 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 Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("Austar SJZ") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. 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. During the year ended 31 December 2018, Austar SJZ renewed its "High and New Technology Enterprise" qualification for another three years. 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. During the year ended 31 December 2018, Hebei Aunity Engineering Consulting Limited ("Hebei Aunity") met the criteria for Micro and Small Enterprises and was entitled to preferential income tax rate of 20%, and was eligible to have income tax calculated based on 50 percent of taxable income.

28. INCOME TAX (EXPENSE)/CREDIT (Continued)

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Profit/(loss) before income tax	**3,498**	(58,420)
Tax expense calculated at applicable statutory tax rate	**(767)**	8,824
Impact of loss that not recognise deferred income tax	**(6,124)**	(11,667)
Expenses not deductible for taxation purposes	**(739)**	(789)
Withholding tax	**651**	5,608
Non-taxable income	**1,297**	650
Additional tax deduction of research and development expenses	**2,275**	1,345
Others	**29**	252
Income tax (expense)/credit	**(3,378)**	4,223

29. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(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 2018	Year ended 31 December 2017
Profit/(loss) attributable to the owners of the Company (RMB'000)	**107**	(54,085)
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic earnings/(loss) per share (RMB)	**0.00**	(0.11)

(b) Diluted

As the Company had no dilutive ordinary shares for each of the years ended 31 December 2018 and 2017, dilutive earnings/(loss) per share for the years ended 31 December 2018 and 2017 are the same as basic earnings/(loss) per share.

30. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2018 (2017: nil).

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit/(loss) before income tax to net cash flow used in operations:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Profit/(loss) before income tax	3,498	(58,420)
Adjustments for:		
Depreciation (Note 6)	7,573	7,914
Amortisation (Note 7, 8)	2,023	945
Net impairment losses on financial and contract assets	4,066	–
Losses on disposals on property, plant and equipment	175	20
Provision of trade and other receivables	–	3,731
Impairment/(reversal) of prepayments and other receivables	101	(25)
Impairment of inventories	6,868	8,910
Impairment of amounts due from customers for contract work	–	4,232
Share of net profit of investments accounted for using the equity method	(11,662)	(5,181)
Finance income – net (Note 27)	(3,420)	(3,909)
Deferred income (Note 20)	(866)	(45)
Changes in working capital:		
(Increase)/decrease in restricted cash	(88,946)	2,001
(Increase)/decrease in inventories	(54,606)	4,376
Increase in trade and other receivables	(77,408)	(46,629)
Increase in trade and other payables	86,426	7,722
Increase in amounts due to customers for contract work	–	30,243
Decrease in amounts due from customers for contract work	–	36,107
Decrease in contract liabilities	55,394	–
Increase in contract assets	(12,237)	–
Increase in deferred income	3,822	–
Cash used in operations	(79,199)	(8,008)

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

(b) Non-cash investing and financing activities

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Acquisition of property, plant and equipment transferred from inventories	**11,214**	310

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Cash and cash equivalents	**196,459**	309,320
Borrowings – repayable within one year	**(25,888)**	(20,000)
Net debt	**170,571**	289,320
Cash and liquid investments	**196,459**	309,320
Gross debt	**(25,888)**	(20,000)
Net debt	**170,571**	289,320

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(c) Net debt reconciliation (Continued)

	Other assets	Liabilities from financing activities	
	Cash	Borrowing due within 1 year	Total
	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2018	309,320	(20,000)	289,320
Cash flows	(112,653)	(5,888)	(118,541)
Foreign exchange adjustments	(208)	–	(208)
Net debt as at 31 December 2018	196,459	(25,888)	170,571

32. COMMITMENTS

(a) Capital commitments

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Capital expenditure contracted for but not yet incurred:		
Property, plant and equipment	1,688	1,849
Intangible assets	537	328
	2,225	2,177

32. 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 2018 RMB'000	As at 31 December 2017 RMB'000
Within 1 year	**5,361**	4,259
Between 1 to 5 years	**9,023**	2,642
Above 5 years	**1,721**	–
	16,105	6,901

33. 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 member 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 2018 and 2017:

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	An associate of the Group

33. 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 2018 RMB'000	Year ended 31 December 2017 RMB'000
PALL-AUSTAR WFOE	**28,473**	22,487
STERIS-AUSTAR WFOE	**55,988**	21,939
ROTA KG	**481**	3,286
Austar Limited	**–**	15
	84,942	47,727

(ii) *Sales of goods and services*

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
STERIS-AUSTAR WFOE	**15,416**	8,764
PALL-AUSTAR WFOE	**1,473**	1,230
Austar Limited	**47**	–
	16,936	9,994

(iii) *Rental fee expenses*

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Madam Gu Xun	**935**	935
Austar Limited	**91**	88
	1,026	1,023

33. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iv) Rental fee and miscellaneous income

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
STERIS-AUSTAR WFOE	420	414

(v) Loan provided to and interest income from a joint venture

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
PALL-AUSTAR JV		
Interest income	491	450

(c) Balances with related parties

(i) Receivable due from /prepayments to related parties

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Receivable due from:		
PALL-AUSTAR JV (Note 16)	9,724	8,464
STERIS-AUSTAR WFOE	9,588	5,324
Madam Gu Xun	468	468
PALL-AUSTAR WFOE	254	148
Austar Limited	16	13
Prepayments to:		
STERIS-AUSTAR WFOE	16	948
ROTA KG	442	–
Madam Gu Xun	234	–
	20,742	15,365

33. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties (Continued)

(ii) Payable due to related parties

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
PALL-AUSTAR WFOE	**5,960**	6,420
STERIS-AUSTAR WFOE	**7,378**	1,387
ROTA KG	**10**	144
	13,348	7,951

(d) Key management compensation

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Salaries and bonuses	**6,072**	6,036
Pension and others	**385**	394
	6,457	6,430

34. ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for short-term borrowings are:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Property plant and equipment	**7,089**	7,830
Land use rights	**5,500**	5,650
Total assets pledged as security	**12,589**	13,480

35. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**108,029**	103,060
	108,029	103,060
Current assets		
Prepayments and other receivables	**232,001**	173,863
Cash and cash equivalents	**112,594**	163,539
Total assets	**452,624**	440,462
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	**42,582**	21,793
Retained earnings	**(7,951)**	(809)
Total equity	**450,581**	436,934
Liabilities		
Non-current liabilities		
Trade and other payables	**2,043**	3,528
Total liabilities	**2,043**	3,528
Total equity and liabilities	**452,624**	440,462

35. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY
(Continued)

Reserve movement of the Company

	Capital surplus RMB'000	Currency translation differences RMB'000	Accumulated losses RMB'000
At 1 January 2017	411,879	52,056	(11,540)
Profit for the year	–	–	10,731
Currency translation differences	–	(30,263)	–
At 31 December 2017	411,879	21,793	(809)
At 1 January 2018	**411,879**	**21,793**	**(809)**
Loss for the year	**–**	**–**	**(7,142)**
Currency translation differences	**–**	**20,789**	**–**
At 31 December 2018	**411,879**	**42,582**	**(7,951)**

The balance sheet of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

36. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2018:

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	RMB20,060,000	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	RMB6,660,000	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	RMB2,155,446	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
Austar Europe S.r.l	Limited liability company	Italy/27 July 2012	EUR20,000	100%	Provision of consulting service/ Italy
APTS SJZ	Limited liability company	Shijiazhuang, the PRC /6 May 2014	RMB43,000,000	100%	Provision of integrated solution of clean room enclosure system/ the PRC
Austar Pharmaceutical Technology (SJZ) Limited (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

36. SUBSIDIARIES (Continued)

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) Limited (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. (奧星制藥技術設備(南京)有限公司)	Limited liability company	Nanjing, the PRC/ 18 May 2015	RMB500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing /the PRC
Austar Biosciences Investment Limited (奧星生物科技投資有限公司)	Limited liability company	BVI/1 April 2015	US$100	100%	Investment holding/BVI
Austar Biosciences Limited (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) Limited (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) Limited (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	EUR25,000	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

36. SUBSIDIARIES (Continued)

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 (上海奧星醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/7 August 2017	RMB2,150,000	100%	Investment holding/the PRC
Shanghai Aunity Pharmaceutical Science and Technology Limited 上海奧恒醫藥科技有限公司 ("Aunity Shanghai")	Limited liability company	Shanghai, the PRC/24 October 2017	RMB4,200,000	51%	Investment holding/the PRC
Hebei Aunity	Limited liability company	Hebei,the PRC/2 November 2017	RMB3,822,000	100%	Provision of pharmaceutical engineering design/the PRC

The English names of certain subsidiaries and joint ventures referred to herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

37. CONTINGENT LIABILITIES

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

As at 31 December 2018, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR887,000 approximated at RMB6,960,000. It sets forth the maximum exposure of these guarantees to the Group.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**816,585**	546,933	672,545	627,544	679,750
Cost of sales	**(612,191)**	(425,401)	(512,838)	(473,297)	(451,143)
Gross profit	**204,394**	121,532	159,707	154,247	228,607
Selling and marketing expenses	**(105,635)**	(100,473)	(82,687)	(71,002)	(65,134)
Administrative expenses	**(77,450)**	(70,946)	(68,103)	(56,213)	(57,278)
Net impairment losses on financial and contract assets	**(4,066)**	–	–	–	–
Research and development expenses	**(30,308)**	(26,062)	(32,041)	(26,908)	(23,594)
Other income	**3,148**	7,438	2,103	2,860	2,097
Other (losses)/gains – net	**(1,667)**	1,001	(2,083)	278	(288)
Operating (loss)/profit	**(11,584)**	(67,510)	(23,104)	3,262	84,410
Finance income/(expenses) – net	**3,420**	3,909	2,208	(928)	(809)
Share of net profit of investments accounted for using the equity method	**11,662**	5,181	3,395	5,256	4,224
Profit/(loss) before income tax	**3,498**	(58,420)	(17,501)	7,590	87,825
Income tax (expense)/credit	**(3,378)**	4,223	(1,169)	(1,207)	(22,632)
Profit/(loss) for the year	**120**	(54,197)	(18,670)	6,383	65,193
Profit/(loss) attributable to:					
The owners of the Company	**107**	(54,085)	(18,670)	6,384	65,193
Non-controlling interests	**13**	(112)	–	(1)	–
Profit/(loss) for the year	**120**	(54,197)	(18,670)	6,383	65,193

ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	**1,071,370**	881,567	914,776	960,985	869,390
Total liabilities	**588,447**	401,180	368,661	410,001	320,334
Total assets less current liabilities	**494,443**	489,905	561,286	567,721	564,727
Total equity attributable to the owners of the Company	**480,964**	478,441	546,114	550,983	549,055