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AUSTAR

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

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

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue | **546,933** | 672,545 |
| Gross profit | **121,532** | 159,707 |
| Loss before income tax | **(58,420)** | (17,501) |
| Loss attributable to the owners of the Company | **(54,085)** | (18,670) |
| Total assets | **881,567** | 914,776 |
| Net assets | **480,387** | 546,115 |
| Gross profit margin | **22.2%** | 23.7% |
| Current ratio | **1.9** | 2.2 |
| Gearing ratio | **4.2%** | 3.7% |
| Net debt to equity ratio | **Net Cash** | Net Cash |
| Basic loss per share *(Note)* | **RMB(0.11)** | RMB(0.04) |
| Diluted loss per share | **RMB(0.11)** | RMB(0.04) |

*Note:*

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

## ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of Austar Lifesciences Limited (the "**Company**" or "**Austar**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Year**"), together with the comparative figures for the year ended 31 December 2016 as follows:

## CONSOLIDATED INCOME STATEMENT

| | *Note* | **For the year ended 31 December 2017** *RMB'000* | For the year ended 31 December 2016 *RMB'000* |
|---|---|---|---|
| **Revenue** | *3* | **546,933** | 672,545 |
| Cost of sales | *6* | **(425,401)** | (512,838) |
| **Gross profit** | | **121,532** | 159,707 |
| Selling and marketing expenses | *6* | **(100,473)** | (82,687) |
| Administrative expenses | *6* | **(70,946)** | (68,103) |
| Research and development expenses | *6* | **(26,062)** | (32,041) |
| Other income | | **7,438** | 2,103 |
| Other gains/(losses) – net | *5* | **1,001** | (2,083) |
| **Operating loss** | | **(67,510)** | (23,104) |
| Finance income | *4* | **4,332** | 4,053 |
| Finance costs | *4* | **(423)** | (1,845) |
| **Finance income – net** | | **3,909** | 2,208 |
| Share of net profit of investments accounted for using the equity method | | **5,181** | 3,395 |
| **Loss before income tax** | | **(58,420)** | (17,501) |
| Income tax credit/(expense) | *8* | **4,223** | (1,169) |
| **Loss for the year** | | **(54,197)** | (18,670) |
| **Loss attributable to:** | | | |
| The owners of the Company | | **(54,085)** | (18,670) |
| Non-controlling interests | | **(112)** | – |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | **For the year ended 31 December 2017** ***RMB'000*** | For the year ended 31 December 2016 *RMB'000* |
|---|---|---|---|
| **Loss for the year** | | **(54,197)** | (18,670) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Currency translation differences | | **(15,340)** | 14,575 |
| Share of other comprehensive income of investments accounted for using the equity method | | **1,752** | (774) |
| **Other comprehensive income for the year, net of tax** | | **(13,588)** | 13,801 |
| **Total comprehensive income for the year** | | **(67,785)** | (4,869) |
| **Total comprehensive income attributable to:** | | | |
| The owners of the Company | | **(67,673)** | (4,869) |
| Non-controlling interests | | **(112)** | – |
| | | **(67,785)** | (4,869) |
| **Loss per share for loss attributable to the owners of the Company – basic and diluted (RMB)** | *9* | **(0.11)** | (0.04) |

## CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **41,868** | 42,222 |
| Land use rights | | **5,650** | 5,800 |
| Intangible assets | | **6,469** | 4,612 |
| Investments accounted for using the equity method | | **39,608** | 34,586 |
| Deferred income tax assets | | **8,257** | 7,887 |
| Prepayments and other receivables | | **8,464** | 8,810 |
| Other non-current assets | | **16,295** | 16,295 |
| **Total non-current assets** | | **126,611** | 120,212 |
| **Current assets** | | | |
| Inventories | | **77,120** | 90,623 |
| Trade and notes receivables | *12* | **209,948** | 184,291 |
| Prepayments and other receivables | | **35,338** | 32,584 |
| Amounts due from customers for contract work | *11* | **115,157** | 155,496 |
| Pledged bank deposits | | **7,870** | 9,871 |
| Term deposits with initial terms of over three months | | **203** | 35,347 |
| Cash and cash equivalents | | **309,320** | 286,352 |
| **Total current assets** | | **754,956** | 794,564 |
| **Total assets** | | **881,567** | 914,776 |
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | | **4,071** | 4,071 |
| Reserves | | **375,657** | 389,245 |
| Retained earnings | | **98,713** | 152,798 |
| | | **478,441** | 546,114 |
| **Non-controlling interests** | | **1,946** | 1 |
| **Total equity** | | **480,387** | 546,115 |

## CONSOLIDATED BALANCE SHEET *(continued)*

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income | | **555** | 600 |
| Deferred income tax liabilities | | **8,963** | 14,571 |
| **Total non-current liabilities** | | **9,518** | 15,171 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **298,006** | 289,822 |
| Amounts due to customers for contract work | *11* | **72,734** | 42,491 |
| Short-term borrowings | *14* | **20,000** | 20,000 |
| Current income tax liabilities | | **922** | 1,177 |
| **Total current liabilities** | | **391,662** | 353,490 |
| **Total liabilities** | | **401,180** | 368,661 |
| **Total equity and liabilities** | | **881,567** | 914,776 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

### 1. GENERAL INFORMATION

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The consolidated financial statements have been prepared on a historical cost basis.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

***Changes in accounting policy and disclosures***

*(a) New and amended standards adopted by the Group*

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

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and

- Disclosure initiative – Amendments to IAS 7.

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

*(b) New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group.

| | **Effective Time** |
|---|---|
| IFRS 9, 'Financial instruments' | 1 January 2018 |
| IFRS 15, 'Revenue from contracts with customers' | 1 January 2018 |
| IFRS 16, 'Leases' | 1 January 2019 |

The Group has assessed the effects of applying the IFRS 9 on the Group's financial statements and expects to have no material impact.

The Group has assessed the effects of applying the IFRS 15 on the Group's financial statements and has identified certain areas that will be affected.

The Group is in the process of making an assessment of IFRS 16's full impact.

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

## 3. SEGMENT INFORMATION

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

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

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

The segment results for the year ended 31 December 2017 are as follows:

| | Liquid and Bioprocess System *RMB'000* | Clean Room and Automation Control and Monitoring System *RMB'000* | Powder and Solid System *RMB'000* | GMP Compliance Service *RMB'000* | Life Science Consumables *RMB'000* | Distribution and Agency of Pharmaceutical Equipment *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| **Segment revenue and results** | | | | | | | |
| Segment revenue | 196,367 | 133,505 | 58,685 | 43,763 | 156,584 | 19,225 | 608,129 |
| Inter-segment revenue | (28,656) | (5,471) | (1,503) | (18,305) | (5,558) | (1,703) | (61,196) |
| Revenue | 167,711 | 128,034 | 57,182 | 25,458 | 151,026 | 17,522 | 546,933 |
| Cost of sales | (170,808) | (97,298) | (39,787) | (12,811) | (92,741) | (11,956) | (425,401) |
| Segment results | | | | | | | |
| Gross (loss)/profit | (3,097) | 30,736 | 17,395 | 12,647 | 58,285 | 5,566 | 121,532 |
| **Other segment items** | | | | | | | |
| Amortisation | 841 | 58 | 30 | 6 | – | 10 | 945 |
| Depreciation | 4,829 | 1,997 | 489 | 96 | 366 | 137 | 7,914 |
| Impairment of trade and notes receivables | 253 | 1,338 | 740 | 355 | 819 | 226 | 3,731 |
| Impairment of inventories | 7,745 | 495 | – | – | 653 | 17 | 8,910 |
| Impairment provision on amount due from customers for contract work | 4,115 | 60 | 57 | – | – | – | 4,232 |
| Reversal of prepayments and other receivables | – | (15) | (7) | (1) | – | (2) | (25) |
| Share of net profit of investments accounted for using the equity method | 1,157 | 909 | – | – | 3,115 | – | 5,181 |

The segment results for the year ended 31 December 2016 are as follows:

| | Liquid and Bioprocess System *RMB'000* | Clean Room and Automation Control and Monitoring System *RMB'000* | Powder and Solid System *RMB'000* | GMP Compliance Service *RMB'000* | Life Science Consumables *RMB'000* | Distribution and Agency of Pharmaceutical Equipment *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| **Segment revenue and results** | | | | | | | |
| Segment revenue | 326,646 | 171,048 | 54,603 | 26,606 | 118,061 | 26,526 | 723,490 |
| Inter-segment revenue | (22,948) | (18,704) | (2,976) | (128) | (4,556) | (1,633) | (50,945) |
| Revenue | 303,698 | 152,344 | 51,627 | 26,478 | 113,505 | 24,893 | 672,545 |
| Cost of sales | (260,140) | (116,234) | (35,833) | (14,169) | (68,408) | (18,054) | (512,838) |
| Segment results | | | | | | | |
| Gross profit | 43,558 | 36,110 | 15,794 | 12,309 | 45,097 | 6,839 | 159,707 |
| **Other segment items** | | | | | | | |
| Amortisation | 633 | 75 | 20 | 10 | – | 5 | 743 |
| Depreciation | 4,588 | 3,850 | 1,015 | 483 | 689 | 251 | 10,876 |
| Impairment of trade and notes receivables | 4,246 | 2,006 | 628 | 308 | 81 | 304 | 7,573 |
| Impairment of inventories | 9,744 | 287 | 96 | 45 | 823 | 21 | 11,016 |
| Impairment of prepayments and other receivables | 443 | 478 | 182 | 86 | – | 41 | 1,230 |
| Share of net profit/(loss) of investments accounted for using the equity method | 1,394 | (114) | – | – | 2,115 | – | 3,395 |

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

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

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

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

**Geographical information**

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

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

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

## 4. FINANCE INCOME – NET

| | For the year ended 31 December 2017 *RMB'000* | For the year ended 31 December 2016 *RMB'000* |
|---|---|---|
| Interest expenses for short-term bank loan | **(1,223)** | (1,053) |
| Exchange gains/(losses) | **800** | (792) |
| Finance costs | **(423)** | (1,845) |
| Finance income | | |
| – bank deposits | **3,882** | 3,610 |
| – loan to PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**") | **450** | 443 |
| | **4,332** | 4,053 |
| | **3,909** | 2,208 |

## 5. OTHER GAINS/(LOSSES) – NET

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

## 6. EXPENSES BY NATURE

| | For the year ended 31 December 2017 *RMB'000* | For the year ended 31 December 2016 *RMB'000* |
|---|---|---|
| Raw materials | **311,130** | 395,026 |
| Staff costs, including directors' emoluments *(Note 7)* | **139,253** | 127,289 |
| Depreciation | **7,914** | 10,876 |
| Amortisation | **945** | 743 |
| Sales tax and surcharges | **3,451** | 5,609 |
| Office expenses | **8,272** | 6,700 |
| Travel expenses | **32,236** | 29,995 |
| Freight and port charges | **12,569** | 10,815 |
| Promotion expenses | **17,812** | 11,570 |
| Warranty provision | **6,912** | 4,732 |
| Impairment of trade and notes receivables | **3,731** | 7,573 |
| Impairment of inventories | **8,910** | 11,016 |
| Impairment of amount due from customers for contract work | **4,232** | – |
| (Reversal)/impairment of prepayments and other receivables | **(25)** | 1,230 |
| Professional fees | **7,875** | 6,977 |
| Auditor's remuneration | | |
| – Audit service | **3,835** | 3,814 |
| – Non audit service *(Note)* | **994** | 947 |
| Rental expenses | **8,878** | 11,027 |
| Communication expenses | **1,839** | 1,651 |
| On-site subcontract fee | **12,556** | 18,869 |
| Other operating expenses | **29,563** | 29,210 |
| | **622,882** | 695,669 |

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

## 7. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

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

## 8. INCOME TAX CREDIT/(EXPENSE)

| | **For the year ended 31 December 2017** *RMB'000* | For the year ended 31 December 2016 *RMB'000* |
|---|---|---|
| Current income tax expense | **(1,755)** | (3,516) |
| Deferred income tax credit | **5,978** | 2,347 |
| | **4,223** | (1,169) |

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

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

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

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

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") and Austar 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. 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.

## 9. LOSS PER SHARE

### (a) Basic

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

| | **For the year ended 31 December 2017** | For the year ended 31 December 2016 |
|---|---|---|
| Loss attributable to the owners of the Company *(RMB'000)* | **(54,085)** | (18,670) |
| Weighted average number of ordinary shares in issue *(Thousands)* | **512,582** | 512,582 |
| Basic loss per share *(RMB)* | **(0.11)** | (0.04) |

### (b) Diluted

As the Company had no dilutive ordinary shares for each of the year ended 31 December 2017 and 2016, dilutive loss per share for the years ended 31 December 2017 and 2016 are the same as basic loss per share.

## 10. DIVIDENDS

The Board did not propose any final dividend for the year ended 31 December 2017 (2016: Nil).

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

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

| | For the year ended 31 December 2017 *RMB'000* | For the year ended 31 December 2016 *RMB'000* |
|---|---|---|
| Construction contract revenue | **326,911** | 444,634 |

## 12. TRADE AND NOTES RECEIVABLES

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

*Notes:*

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

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

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

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

## 13. TRADE AND OTHER PAYABLES

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

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

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

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

## 14. SHORT-TERM BORROWINGS

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

*Notes:*

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

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

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

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

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

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

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

**Business Review**

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

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

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

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

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

Under the changing circumstances in the pharmaceutical industry brought by new policies of the PRC authorities, the Group continues to develop more cutting-edge technologies and solutions with its innovation and aspires to expand its market and supply its products to more manufacturers in the cosmetic and medical device industries by leveraging its technological competence to reduce the risk caused by market transformation and consolidate its sales revenue and profit.

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

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

During the Year, the Group has been working on providing more services and application solutions in order to differentiate its offerings from its competitors. Further exploration of service scope of each business segment of the Group has been undergoing, with the aim to increase the ratio of service to system to improve business results through lesser reliance on CAPEX investment from the Group's customers. New cross segment application teams specialised in Containment Technology, Heating Ventilation and Air Conditioning (HVAC) Technology, Single-use Technology, BIO Technology and Turnkey Solutions have been established to synergise product supply scope to create more comprehensive and unique technical solutions.

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

## Order-in-take

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

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

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

*Liquid and Bioprocess System*

During the Year, despite keen market competition in this segment, the Group maintained and developed a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in Beijing, Sichuan, and Jiangsu Province of the PRC. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB292.2 million for the year ended 31 December 2017, representing a slight increase of approximately RMB3.8 million or 1.3% from approximately RMB288.3 million for the year ended 31 December 2016. In the coming few years, there will be potential huge growth in the biopharmaceutical field, as compared to conventional pharmaceutical chemical field. The Group will endeavour to pursue sustainable developments in the biopharmaceutical projects and strive for the high-end market.

*Clean Room and Automation Control and Monitoring System*

During the Year, relying on good reputation of products and services, the Group successfully acquired several more high value-added automation control and turnkey projects with large contracts. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB42.7 million or 26.2% from approximately RMB162.9 million for the year ended 31 December 2016 to approximately RMB205.6 million for the year ended 31 December 2017. The Group will continue revamping the technology in Automation Control and Monitoring System.

*Powder and Solid System*

During the Year, the Group's advancement in technical competency in containment technology, material handling technology, and unique knowledge skill, which is built through continuous investment in this business segment in the past several years, led to an increase in the order-in-take in this business segment. The order-in-take amount of the business segment of Powder and Solid System increased by approximately RMB21.3 million or 36.7% from approximately RMB58.1 million for the year ended 31 December 2016 to approximately RMB79.4 million for the year ended 31 December 2017. The Group will continue to invest in the technology to generate more technical barriers for other competitors in this business segment.

*GMP Compliance Service*

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

*Life Science Consumables*

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

*Distribution and Agency of Pharmaceutical Equipment*

During the Year, the Group achieved an increase in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB1.8 million or 10.7% from approximately RMB16.3 million for the year ended 31 December 2016 to approximately RMB18.1 million for the year ended 31 December 2017.

**Backlogs**

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

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

**Production, Execution and Organisation**

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

Both of the Group's facilities in Shijiazhuang and Shanghai have obtained the pressure vessel certificate of the American Society of Mechanical Engineers (ASME), on one hand creating more opportunities to the Group for international business, and on the other hand providing the Group's high-end customers convenience for the purpose of their supplier audit with a two-facility choice. Both the manufacture centers in Shanghai and Shijiazhuang are able to produce water and liquid process equipment skids, following the management improvement efforts which have increased the capacity flexibility in terms of production task allocation. Following the Group's investment in ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**") in 2016, freeze-dryer manufacturing is expected to be implemented at ROTA's facility in Germany in 2019, offering "one brand one site one source", with the decision for further space expansion having been approved by ROTA's supervisory board to facilitate this initiative.

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

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

**Research and Development**

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

Hybrid bioprocess system in China is believed to have significant growth opportunities. Further research and development by both our single-use technology team and conventional bioprocess system team is under progress in order to capture the opportunities ahead. It is believed that China's biologics customers have started to realise the economical and technical feature benefits of the hybrid bioprocess system, witnessed by one vaccine project at Beijing being successfully acquired by our sales team to apply hybrid bioprocess system concept right from the beginning of the conceptual design stage. The Group has also successfully applied single-use disposable concept to high-end chemical drug products with sterility and containment requirements as well apart from the biologics process application. To amplify the Group's capabilities in the containment field, based on its existing single-use bioprocess technologies and manufacturing capabilities, the Group has further developed soft containment system which could replace rigid containment equipment or components with more flexible well-designed soft film formed system and reduce CAPEX investment requirement for its customers. This application demonstrated the Group's successful innovative technical approach towards research model and received further acceptance from additional customers during the Year.

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

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

**Sales and Marketing**

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to its customers in the PRC. Overseas sales are conducted through a mixture of direct, agency and distribution sales models. The Group's sales administration has been further strengthened by its self-developed customer relationship management system, now coupled with mobile phone application to support its operation. More sales cooperation among different product line sales teams are encouraged to leverage the current sales infrastructure. The sales team is strongly supported by additional initiatives of our marketing and communications department.

Streamlining of sales organisation and further recruitment of sales talents with more comprehensive training are still undergoing and are believed to bring better results to the Group. The Group's improvement in sales organisation has contributed to some significant sales growth in certain product lines of the Group's business segments. More sales talents were recruited in India, Russia and the Middle East during the Year to support our global expansion strategy.

Marketing and communications is a critical function for improvements of the Group's order-in-take. New products and services can be better promoted and communicated to the market. Improved communication tools and more proactive marketing activities are under development, in line with intensified product training with on-line learning tools to assist sales staff in acquiring new and sufficient product knowledge. Technology Application Teams on Biologics, API Process Systems, Containment and HVAC were established to team up personnel across different business segments. In the Year, six technical seminars were organised by the Group, two on API Automation, one on Containment Technology, one on Quality by Design and two technical seminars held overseas. In addition, the Group took part in seven key biologics related conferences and seminars to promote key biologics related product lines, including two generic drugs conference and one conference held by the Parenteral Drug Industry Congress.

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

**Prospects**

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

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

*Improve services and product offerings*

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

1. Continuous improvement on the core value of its product to the customers

2. Further integration of individual products by offering more comprehensive package

3. Value enhancement on individual products with additional supplementary and supportive service provided

4. Offering more advanced IT Software and Automation support to the products

5. Provision of compliance and quality-related concerned support to the individual products

Following up on the service business review study conducted by the Company, all business segment product managers have been instructed and educated to reconsider and improve the scope and the extent of services in the existing product portfolios. The Group believes that the offering of integrated services as a package of services by leveraging the strengths from different business segments of the Group is very unique in the pharmaceutical service industry.

A new facility design subsidiary, Aunity, was established in the second half of 2017 with shareholder partners from Switzerland and local facility design experts. Aunity is expected to not only assist the Group's overseas turnkey project business but also enable the Group to target the industrial sectors in terms of medical device and laboratory animal research turnkey projects.

*Liquid and Bioprocess System*

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

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

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

*Powder and Solid System*

Technical competence elements of this business segment relate to technical capacities of containment technology, material handling technology, formulation process system engineering with knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering. Such unique knowledge skill-set supports the current business development of the Group with comprehensive product line and ensures our future growth momentum. Containment Technology application knowledge including the Standardized Measurement of Equipment Particulate Airborne Concentration (SMEPAC) test service capabilities and powder handling experience is contributing to the Group's oral solid dosage process system business. The more the pharmaceutical industry stresses on EHS issues, the more opportunities ahead for the Group are expected from this business segment. The process development laboratory of several dosage forms and processes like softgel, dry granulation, wet granulation and milling can help customers develop improved formulation process parameters meeting the stricter regulatory requirements. The Company is familiar with microsphere technologies and jet-mill micronization technologies commonly adopted in new drug formulations but as of today such technologies are still under research and development in China. The more generic drug is to be developed in conformity with the original brand drug as now required by the CFDA's newly issued regulatory requirements, the more opportunities are ahead for the Group.

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

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

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

*GMP Compliance Service*

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

*Life Science Consumables*

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

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

The Company strongly believes that with the effort of the leadership team of this segment, the Group's business segment of Life Science Consumables can continue to grow steadily.

***Strengthen research and development, product design and development capabilities***

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

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

***Expand by strategic acquisition of business and/or companies***

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

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

## RESULTS OF OPERATIONS

### Revenue

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

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

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

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

### *Liquid and Bioprocess System*

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

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

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB24.3 million or 16.0% from approximately RMB152.3 million for the year ended 31 December 2016 to approximately RMB128.0 million for the year ended 31 December 2017. The decrease was mainly due to prolonged execution time for several automation control system contracts with large amount.

### *Powder and Solid System*

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB5.6 million or 10.8% from approximately RMB51.6 million for the year ended 31 December 2016 to approximately RMB57.2 million for the year ended 31 December 2017. The increase was primarily resulted from improvement in project execution efficiency and strength enhancement in total-solution service in the oral solid dosage (OSD) field after the establishment of a new OSD product line in 2015.

### *GMP Compliance Service*

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

*Life Science Consumables*

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB37.5 million or 33.1% from approximately RMB113.5 million for the year ended 31 December 2016 to approximately RMB151.0 million for the year ended 31 December 2017, which was primarily attributable to (i) the Group's excellent integrated service of providing diversified life science consumables with latest technology to its customers; and (ii) the launch of new pharmaceutical instruments which have a wider scope of use in research institutes.

*Distribution and Agency of Pharmaceutical Equipment*

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB7.4 million or 29.6% from approximately RMB24.9 million for the year ended 31 December 2016 to approximately RMB17.5 million for the year ended 31 December 2017, which was due to decrease in the amount of backlog in the business segment of Distribution and Agency of Pharmaceutical Equipment at the end of 2016.

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

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

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

**Cost of sales**

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

**Gross profit and gross profit margin**

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

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

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

*Notes:*

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

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

***Liquid and Bioprocess System***

The Group's gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB46.7 million or 107.1% from approximately RMB43.6 million for the year ended 31 December 2016 to gross loss of approximately RMB3.1 million for the year ended 31 December 2017. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 14.3% for year ended 31 December 2016 to approximately negative 1.8% for the year ended 31 December 2017, which was mainly resulted from (i) prolonged execution time due to complex technology for certain biopharmaceutical projects undertaken by the Group during the Year resulting in a decrease in the overall revenue of the Group and an increase in budgeted costs as compared with the corresponding period in 2016; and (ii) certain projects undertaken during the Year carried a relatively lower gross profit margin for the purpose of penetrating into the bioprocess market and retaining long term customers.

***Clean Room and Automation Control and Monitoring System***

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB5.4 million or 14.9% from approximately RMB36.1 million for the year ended 31 December 2016 to approximately RMB30.7 million for the year ended 31 December 2017 mainly due to the decrease in the revenue of Automation Control system. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System slightly increased from approximately 23.7% for the year ended 31 December 2016 to approximately 24.0% for the year ended 31 December 2017.

***Powder and Solid System***

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

***GMP Compliance Service***

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB0.3 million or 2.7% from approximately RMB12.3 million for the year ended 31 December 2016 to approximately RMB12.6 million for the year ended 31 December 2017. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 46.5% for the year ended 31 December 2016 to approximately 49.7% for the year ended 31 December 2017, which was mainly attributable to the maturity of the Group's technical and proficient management in cost control in this segment.

***Life Science Consumables***

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB13.2 million or 29.2% from approximately RMB45.1 million for the year ended 31 December 2016 to approximately RMB58.3 million for the year ended 31 December 2017. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 39.7% for the year ended 31 December 2016 to approximately 38.6% for the year ended 31 December 2017, which was mainly due to increase in sales of new pharmaceutical instruments which had a lower gross profit margin as compared to consumables.

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

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB1.3 million or 18.6% from approximately RMB6.8 million for the year ended 31 December 2016 to approximately RMB5.6 million for the year ended 31 December 2017. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 27.5% for the year ended 31 December 2016 to approximately 31.8% for the year ended 31 December 2017, which was mainly due to the increase in amount of technical service provided for pharmaceutical equipment which had higher gross profit margin.

**Other income**

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

**Other gains/(losses) – net**

Other gains/(losses) – net increased by approximately RMB3.1 million to a gain of approximately RMB1.0 million for the year ended 31 December 2017 from a loss of approximately RMB2.1 million for the year ended 31 December 2016, mainly attributable to currency exchange gain arising from retranslation of foreign currency denominated trade related balances.

**Selling and marketing expenses**

Selling and marketing expenses increased by approximately RMB17.8 million or 21.5% to approximately RMB100.5 million for the year ended 31 December 2017 from approximately RMB82.7 million for the year ended 31 December 2016. The increase was primarily due to the increase in the staff costs and market promotion expenses, warranty provision and travel expenses.

**Administrative expenses**

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

**Research and development expenses**

As at 31 December 2017, the Group had 38 research and development personnel which accounted for approximately 4.0% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses decreased by approximately RMB6.0 million or 18.7% to approximately RMB26.1 million for the year ended 31 December 2017, compared to approximately RMB32.0 million for the year ended 31 December 2016, mainly due to the decrease of materials consumed in some large research projects which are close to completion. The Group will make continuous efforts to enhance research and development activities.

**Finance income – net**

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

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

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

**Loss before income tax**

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

**Income tax credit/(expense)**

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

**Loss for the year**

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

## LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

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

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

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

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

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

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

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

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

**Net current assets**

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

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

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

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

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

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

**Borrowings and gearing ratio**

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

The Group's gearing ratio is approximately 4.2% as at 31 December 2017 (31 December 2016: 3.7%). The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

**Pledged assets**

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

**Contingent liabilities**

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

**HUMAN RESOURCES**

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

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

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

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

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

## CAPITAL COMMITMENT

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

## FOREIGN EXCHANGE RISK

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

## USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING AND POSSIBLE CHANGE OF USE OF PROCEEDS

On 7 November 2014, the Shares were first listed on the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). As at 31 December 2017, out of the aggregated net proceeds from the IPO of approximately HK$411.8 million, (i) as to approximately RMB26.2 million (equivalent to approximately HK$31.3 million) had been utilised for general research and development; (ii) as to approximately RMB7.8 million (equivalent to approximately HK$9.4 million) had been utilised for sales and marketing; (iii) as to approximately RMB31.7 million (equivalent to approximately HK$40.8 million had been applied for as general working capital of the Group; (iv) as to approximately RMB16.3 million (equivalent to approximately HK$20.5 million) had been applied for prepayment of premium in connection with acquisition of land use right as explained below; (v) as to approximately RMB15.9 million (equivalent to approximately HK$18.6 million) had been utilised for merger and acquisition; and (vi) the remaining of approximately RMB222.1 million (equivalent to approximately HK$291.2 million) has been deposited into the banks and has not yet been utilised. Such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of proceeds" in the prospectus of the Company dated 28 October 2014 ("**Prospectus**").

As at 31 December 2017, premium of approximately RMB16.3 million (including approximately RMB12.5 million paid in June 2015 and approximately RMB3.8 million paid in July 2015) ("**Premium**") had been prepaid to the Shijiazhuang Government in connection with the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Zone**"). The Group was given to understand that the Premium advanced to the Shijiazhuang Government was for the purpose of facilitating the land expropriation process and increasing the lands available for tender in the Zone by the Shijiazhuang Government. Subject to the signing of any legally binding agreement between the Shijiazhuang Government and the Group, the Premium prepaid by the Group shall be applied as part payment of the consideration for the acquisition of the land use rights of a piece of land in the Zone.

In addition to the Premium paid, as at the date hereof, the Group has expended approximately RMB13.7 million (equivalent to approximately HK$16.1 million) on certain assets and equipment out of its internal resources in preparation for the operation of the Group's Shijiazhuang R&D and Production Centre to be constructed. Notwithstanding the aforesaid, based on information currently available to the Group, the timetable of the land being listed for tender and transferred by the Shijiazhuang Government is uncertain. Given the process of acquiring the land by the Group is slower than expected and the development plans of the Group's Shijiazhuang R&D and

Production Centre on such land as set out in the section headed "Business" in the Prospectus have been lagging behind schedule, the Company has been considering changing part of its net proceeds from the IPO originally allocated for establishment of the Shijiazhuang R&D and Production Centre to potential mergers and acquisitions ("**Possible Change of Use of Proceeds**") in order to better utilise the resources of the Group.

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

## EVENT AFTER THE YEAR

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2017 and up to the date of this announcement.

## FINAL DIVIDEND

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

## CLOSURE OF REGISTER OF MEMBERS

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

## CORPORATE GOVERNANCE PRACTICE

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

Save for the deviation from code provision A.2.1 of the Corporate Governance Code as described below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the 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.

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

## COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

## 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.

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

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

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

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

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

## AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the consolidated financial statements of the Company for the Year.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.austar.com.hk). The annual report of the Company for the year ended 31 December 2017 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

## APPRECIATION

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

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

Hong Kong, 26 March 2018

*As at the date of this announcement, the executive Directors are Mr. Ho Kwok Keung, Mars, Mr. Ho Kin Hung, Mr. Chen Yuewu and Madam Zhou Ning; the non-executive Director is Madam Ji Lingling; and the independent non-executive Directors are Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Leung Oi Kin.*