AUSTAR

奧星生命科技有限公司

Austar Lifesciences Limited

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

CLEAN ROOM
AUTOMATION & MONITORING SYSTEM
LIQUID SYSTEM
LIFESCIENCES
GMP COMPLIANCE SERVICE
BIOPROCESS SYSTEM
PHARMACEUTICAL EQUIPMENT
POWDER & SOLID SYSTEM
CONSUMABLES

2019 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
6118

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

NON-EXECUTIVE DIRECTOR
Madam Ji Lingling

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin

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

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

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

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

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

COMPANY SECRETARY
Madam Chan Pui Shan, Bessie

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

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
Deutsche Bank AG

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA
Room 1801, Building B
Chaowai Men Office Building
No. 26 Chaowai Street
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISOR AS TO HONG KONG LAW

LCH Lawyers LLP
Room 702, 7/F.
Admiralty Centre Tower One
18 Harcourt Road, Admiralty
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22nd Floor, Prince's Building
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

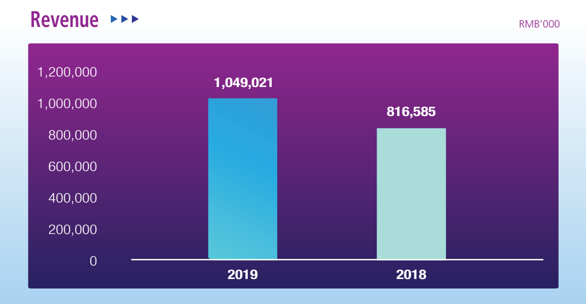
www.austar.com.hk

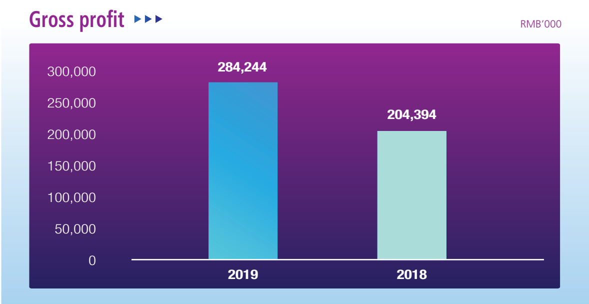
FINANCIAL HIGHLIGHTS

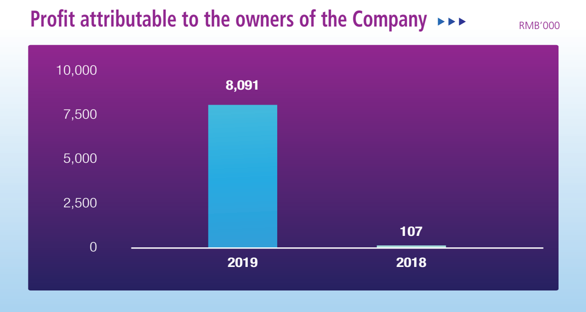
	For the year ended 31 December 2019 RMB'000	2018 RMB'000	Change
Key financials on Consolidated Income Statement			
Revenue	**1,049,021**	816,585	28.5%
Gross profit	**284,244**	204,394	39.1%
Gross profit margin	**27.1%**	25.0%	
Profit attributable to the owners of the Company	**8,091**	107	
Basic earnings per share (RMB) (Note)	**0.02**	0.00	
Diluted earnings per share (RMB) (Note)	**0.02**	0.00	

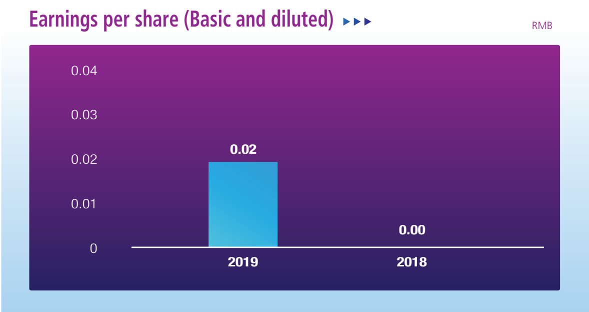
	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	Change
Key financials on Consolidated Balance Sheet			
Total assets	**1,174,322**	1,071,370	9.6%
Net assets	**502,625**	482,923	4.1%
Gearing ratio	**10.2%**	5.4%	

Note: The calculation of earnings per share is based on the profit attributable to the owners of the Company for each of the years ended 31 December 2019 and 2018 and the weighted average number of shares during that year. The Company had no dilutive ordinary shares for each of the years ended 31 December 2019 and 2018.



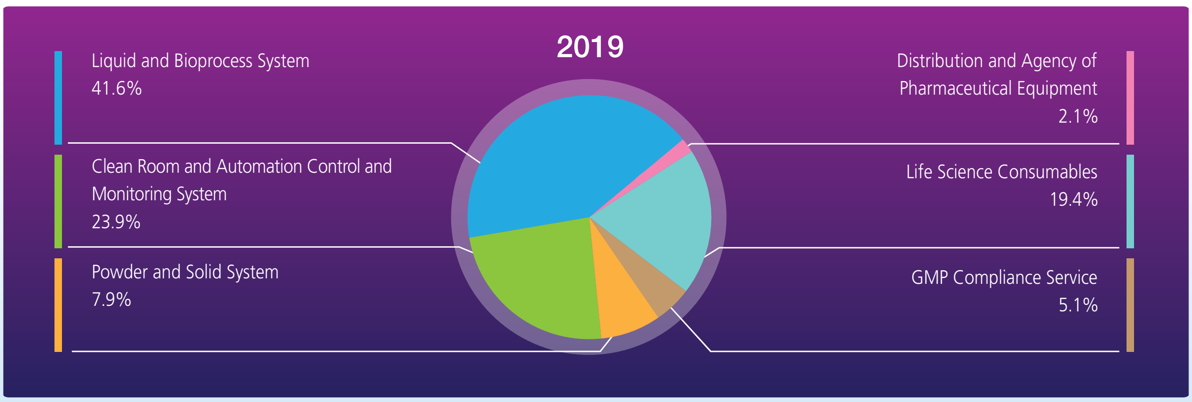


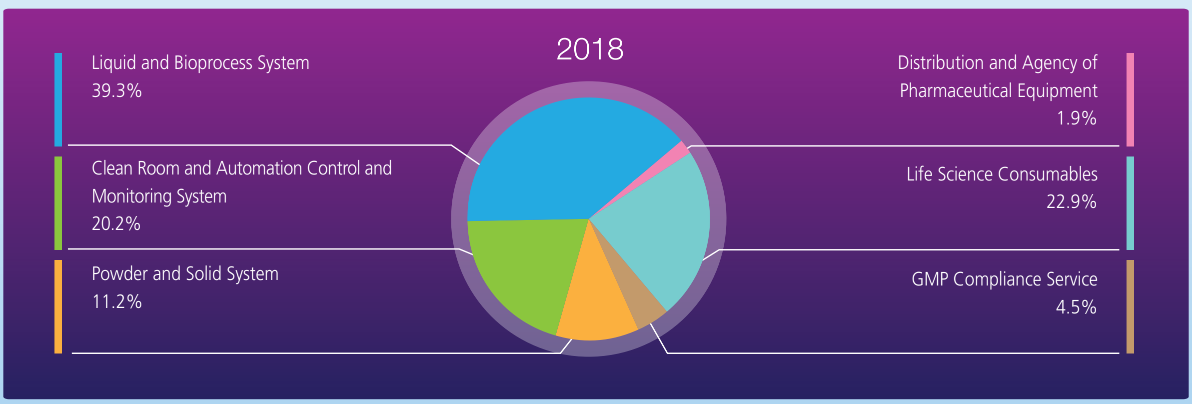




REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Liquid and Bioprocess System	**435,980**	**41.6%**	320,841	39.3%
Clean Room and Automation Control and Monitoring System	**250,875**	**23.9%**	164,712	20.2%
Powder and Solid System	**82,963**	**7.9%**	91,352	11.2%
GMP Compliance Service	**53,641**	**5.1%**	36,880	4.5%
Life Science Consumables	**203,586**	**19.4%**	187,174	22.9%
Distribution and Agency of Pharmaceutical Equipment	**21,976**	**2.1%**	15,626	1.9%
Total	**1,049,021**	**100%**	816,585	100.0%





OUR PATH OF GROWTH

2003

Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd was established and commenced the manufacturing of purified water generators, the foundation of Austar's Liquid and Bioprocess System business

2004

Austar Shijiazhuang Technology Centre was established and commenced Austar's Clean Room and Automation Control and Monitoring System business

2006

Austar formed a joint venture with STERIS Corporation

2007

Austar Clean Equipment (Shanghai) Co., Ltd. was established in Songjiang District, Shanghai and commenced business and processing of clean room enclosure systems

Austar formed a joint venture with ATMI Packaging N.V. (now known as PALL Life Sciences Belgium bvba)

2008

Austar commenced its Liquid and Bioprocess System business

2011

Austar was certified as Siemens AG Solution Partner

2012

Austar was certified as Rockwell Automation, Inc. Recognized System Integrator

2013

Austar was certified as Siemens Gold Solution Partner

Austar assisted Chengdu Institute of Biological Products Co. Ltd to pass WHO pre-qualification of Japanese encephalitis vaccine

2014

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

Shares of Austar listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")

2015

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

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

2016

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

2017

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

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

Austar signed first contract of laboratory equipment packaged services in Ethiopia

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

2018

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

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

2019

H+E Pharma GmbH, a non-wholly owned subsidiary in Germany was established in July 2019

Europe Holding Company Structure with European Team was established in August 2019

A subsidiary in India and two subsidiaries in Malaysia were established in 2019

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively as the "**Group**" or "**Austar**") for the year ended 31 December 2019 ("**Year**").

While I am writing this statement, the entire society is facing a severe threat of the novel coronavirus issue in panic mode. Such public health issue has to be addressed in a more systemic approach with involvement of all heathcare and life science industry stakeholders. Such incident has strengthened our belief on our corporate mission, one of which is to provoke the faster advancement of the life-science industry.

We believe that Austar can play an important role in supporting human and animal vaccine manufacturers, laboratory animal house facilities, The Centers for Disease Control and Prevention (CDC) biological-safety level (BSL)-2/3 facilities, hospitals and other research institutes' BSL-2/3 laboratories, with manufacturing equipment and systems with better biosafety engineering guidelines including proper decontamination technology, automation and informatization solutions as well as BSL-3 consulting services. Austar is able to offer virology institutes proper engineering design, equipment and systems, consumables to minimize the risks of contamination inside their laboratory and facilities. Our knowledge and skills can definitely contribute the improvement of facility design and good operation practices in maintaining a contamination-controlled facility.

Under the emergency circumstances of the novel coronavirus incident, when we were urgently contacted by our vaccine manufacturing customers to quote our consulting services, equipment, systems and consumable to build and maintain a new facility under BSL-3 within an extremely short delivery time and tight schedule, with our latent energy coupled with sense of commitment and engagement with social responsibility, we were able to mobilize the best resources to support these projects. Year 2019 was a year of significant improvement of our major financial performance indicators. Our order-in-take and sales revenue both grew close to 30% compared with 2018, with an increase in strong order backlog. Gross profit has increased by approximately 39.1% and gross margin has increased by 2.1% as compared to 2018.

To build up our technical competence and territory presence in 2019, we have further invested significantly in leadership team establishment, subject matter experts, project execution teams and consultants which resulted in a significant increase in expenses, and in return the net profit has not reflected the strength of the Group. The decision on investing heavily on improvement of knowledge and competence is based on the belief that there are still tremendous growth opportunities in the coming years. Our establishment of the Technical Advisory Committee was a correct decision giving momentum and guidance for technology applications to support our subject matter experts to strengthen the technical competence of our product lines. We must be well prepared technically and commercially for ourselves for the forthcoming times.

CHAIRMAN'S STATEMENT

The consulting engagement undertaken by the Group in 2018 for corporate strategies and governance has provided our management team with processes and practices to continue our management improvement. LEAN operation improvement initiative with the consulting engagement has been demonstrating satisfactory results in some functions and some divisions, in particular on our manufacturing process. Our proactive acquisition of leadership team talents in the business unit level in 2019 is believed to able to contribute to performance growth in the coming few years. Investing in information technology in our business operation system to offer business intelligence is offering solid management control and monitoring structure.

We have launched out new branding activities including our new logo and new website to allow for a new identification of the "AUSTAR" image and approach in our offerings. By positioning ourselves as "AUSTAR is a technology company which has an in-depth understanding of pharmaceutical regulations and processes, we can integrate global quality resources and help pharmaceutical companies to upgrade their process and to achieve operation excellence, energy efficiency and improve its quality system." This new message will be strengthened by our focus on the twelve technology applications addressing all our key customer current concerns.

The whole market environment inclining to innovative drugs and drugs with better efficacy and quality is definitely an encouragement for market demand growth for the Group and offering to the Group tremendous opportunities. Global regulatory policies and China drug procurement policies are both growth drivers for our compliance consulting services and integrated system solution business. Due to customers' investment strategy changes as a result of China's drug procurement policies and certain emerging countries' request for state independence on drug substance resources in 2019, we have received a lot of project enquires of high-end and sophisticated pharmaceutical bulk chemical plants in particular regarding high-potency requirements.

In 2019, we continued our global expansion strategies with our Europe team talent consolidation and one manufacturing facility in Germany offering more manufacturing location options to our customers. Since 2018, we have initiated cooperation with our global partners to offer products and services as a system integrator in Europe and its surrounding regions, with some concrete activities in progress in 2019 and fruitful results are expected in 2020. The Group's global regional teams will support their own territories with benefits by leveraging on the technical competence of our colleagues in China gained through extraordinary project experience in terms of complexity, scale and number from the past decade.

Digitalisation in biopharmaceutical manufacturing is helping our customers to improve their competences. Research and development on consulting services on automation, information systems under digitalization framework have been further invested in with efforts. The delivery of core equipment of bioprocess systems, such as bioreactors, downstream purification equipment to customers with good qualities and satisfactory performance has motivated our team to commit further on specific technological development. Mainly due to the value propositions derived from our automation control system technology, we have recorded an significant growth on order-in-take of clean room system and pharmaceutical bulk chemical process systems. All of these attributes to AUSTAR's unique Knowledge Acquisition Model.

Medical devices, biosafety, animal vaccine and nutrition supplement are sectors which are required to be explored and developed. On the horizon of the drug lifecycle, product and talent development would be continued on the drug research sector and drug distribution sector. The Group's corporate growth strategies have been focusing on organic growth as existing elements of growth provide a strong momentum and growth capacity reserve. However, we are still proactively looking for acquisition opportunities such as the establishment of our non-wholly owned subsidiary H+E Pharma GmbH in 2019. It is expected that we will continue this strategy with prudent approach in 2020.

Our comprehensive product capacities and our competence as a system integrator can further contribute to the Group to be recognised as a sophisticated turnkey solution provider offering clean utilities, process, clean room, facility turnkey projects to our customers. Capital expenditure investment in innovative and biosimilars biologics facilities and in biosafety-concerned laboratories and facilities would be the basis of our project lead sources. The technological and regulatory gap between emerging countries and developed countries is offering huge opportunities for us to provide our products and services to narrow such gap.

On the behalf of the Board, I would like to express my thanks to my management team, staff, the Directors and customers for turning around our business during the last two years to bringing the Group back into growth mode, and also to thank our shareholders for their continuous support.

Ho Kwok Keung, Mars
Chairman

27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2019, significant progress in drug regulatory development in the People's Republic of China ("**PRC**") under stricter regulatory environment had taken place. Both the "Vaccine Administration Law" and the "Drug Administration Law" of China came into effect on 1 December 2019. This indicated a new chapter of drug regulations in China that would utilise tougher measures and more stringent approaches on the control of the whole drug product lifecycle. Market Authorization Holder (MAH) policies are stipulated in the new Drug Administration Law of China to encourage the industry for more innovative drugs and more professional in each sector of the whole drugs including growth opportunities of contract development and manufacturing organisations (CDMOs). The "Measures for the Supervision over and Administration of Pharmaceutical Production (Draft for Comment)", to be implemented as per the "Four Strictest Requirements", has clarified the legal responsibilities of pharmaceutical MAH and pharmaceutical manufacturing enterprises and fully implemented the pharmaceutical Marketing Authorization Holder system; it also explicitly cancelled drug GMP certification and required the standards of drug manufacturing quality management practices to function with approval of production licenses and daily supervision.

In December 2019, the European Medicines Agency (EMA) launched the "pilot programme for international cooperation in GMP inspection of manufacturers of sterile medicinal products for human use" and such inspection plan is expected to apply on sterile chemicals for human use as well as certain products derived from therapeutic biotechnology (such as monoclonal antibodies and recombinant proteins). This will definitely enhance the enforcement on GMP in a global level in general.

In 2019, the focus of GMP on-site inspection in Europe and the United States still lies on overall inspection observations, the non-conformance reports and other public contents, quality assurance (QA) system, laboratory system, data integrity and cross-contamination. According to the risk-based regulatory model, the US Food and Drug Administration (FDA) will adjust the frequency and intensity of inspections on the basis of, among other things, product, process risk and compliance history. All these policies are driving forces for growth opportunities for engineering consulting services and solution provider business.

Zanubrutinib, the first innovative small-molecule drug developed by a China-based innovative drug research and manufacturer, was approved by the FDA in 2019. This is a milestone for the Chinese pharmaceutical industry, exemplifying a path for drug development that utilising international funding resources and combining top research talents from the United States and China under professional leadership, which fast global standard and cost-effective research for innovative drugs can be achieved by emerging countries, in particular in China with the talent resources.

The recent surge of enquiries for facilities for bulk pharmaceutical chemicals (BPC) in some emerging countries indicates that a strategic struggle is taking place for independence of key resources instead of from one single resource. Product structure has changed from huge-volume antibiotics and vitamin to high-value specific therapeutic bulk chemical, which resulted in a surge of active pharmaceutical ingredient (API) projects in 2019. It is believed that this trend will continue in the next 5 to 8 years.

China's CDMO industrial sector will continue to grow as biologics, chemical drug and bulk pharmaceutical chemical companies choose to outsourcing due to CDMO's cost advantages and advanced technologies in saving time and costs. There are a significant number of start-up research companies including CDMOs receiving research and capital expenditure (CAPEX) funding from various sources, looking for more cost-effective turnkey solutions so as to focus on product development instead of managing the projects by themselves.

Digital transformation in the pharmaceutical industry is not merely a preferred option, but the only way to survive in the long run under stricter data-integrity regulatory environment and increased production costs including labour and energy. Digital transformation can help to achieve cost savings, and to attract talents in the younger generation in the recruitment process.

BUSINESS REVIEW

During the Year, the Group has recorded significant growth of approximately 28.6% of order-in-take and approximately 28.5% of revenue as compared to 2018. This trend of growth has been going on since 2018 and it is believed by the management that such growth pattern and momentum will continue at present and in the foreseeable future under the current market environment. The gross profit for 2019 recorded an increase of approximately 39.1%.

The Group's efforts of transformation including determination for structure reorganisation, which was started since 3 to 4 years ago, now started to see glimpse of achievement. In order to secure the driving elements for growth momentum in the coming few years, the Company has identified some key initiatives for change and improvement, namely, Global Expansion Strategies, AUSTAR Transformation Initiatives, Technology-Application Focus Branding, Knowledge Acquisition Enhancement and Core-Product Manufacturing. All these initiatives for growth require extra resources and additional expenses, which may adversely impact the Group's net profit at this moment. However, it is expected that such initiatives will result in favourable results in the long run. With our corporate strategies and commitment on our visions and strategies, the Group will continue to be bold in investing in human resources, geographical expansion and enhancing product and application solution competences, with the intention to bring about more satisfactory business results for our shareholders.

The Group has been positioning as a technology-based application solution provider with system integration capability to offer in the life-science industry focusing on pharmaceutical, biologics, bulk pharmaceutical chemical sectors and expanding to medical device, research laboratory animal, animal health sectors with products and services from consulting services, consumables, instruments, equipment, process systems, utility systems to turnkey solutions.

The Group has been undergoing a serious review on its product lines and trying to find new technical solutions by combining various product lines together to offer the most cost-effective integrated solutions. Product-line restructuring will continue to facilitate application and solution offerings, and such restructuring will bring about competence improvement and enable the Group to be more resilient under tougher competitive circumstances.

The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life-science process technology and applications and industry regulatory rules and practices, being able to help customers to address issues in quality, compliance and operation excellence. Our vision statement which was revised and presented to the public in 2018 remains valid as guiding principles for the Group's business segments to establish their own strategies:

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

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

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

ORDER-IN-TAKE

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

	For the year ended 31 December				
	2019		2018		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**607,398**	**42.3%**	434,097	38.9%	39.9%
Clean Room and Automation Control and Monitoring System	**330,727**	**23.0%**	268,124	24.0%	23.3%
Powder and Solid System	**118,418**	**8.3%**	125,529	11.2%	(5.7%)
GMP Compliance Service	**89,284**	**6.2%**	46,602	4.2%	91.6%
Life Science Consumables	**267,527**	**18.6%**	215,740	19.3%	24.0%
Distribution and Agency of Pharmaceutical Equipment	**22,512**	**1.6%**	26,371	2.4%	(14.6%)
Total	**1,435,866**	**100.0%**	1,116,463	100.0%	28.6%

During the Year, the total order-in-take amounted to approximately RMB1,435.9 million, representing a significant increase of approximately 28.6% from approximately RMB1,116.5 million for the year ended 31 December 2018, mainly attributable to the increase in order-in-take amount of the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, GMP Compliance Service and Life Science Consumables, but partially offset by the decrease in order-in-take amount of the business segments of Powder and Solid System and Distribution and Agency of Pharmaceutical Equipment. Driven by persistent marketing efforts especially through exhibitions, industry conferences and seminars, synergy and partnership sales model from the sales teams' efforts together covering customers' various demands of different products, supported by a strong and rich pipeline of products with high quality, and more business opportunities from more pharmaceutical industry CAPEX, the Group achieved a significant increase and strengthened its good position in the overall order-in-take volume, in spite of facing continuous keen market competition in the Year. The Company will keep on its investment in market, product development, LEAN manufacturing, as well as further recruiting talents in the sales teams both in domestic and overseas, technology application team, industry expertise and etc., to strengthen the comprehensive competitiveness of the Group as a technology-based application solution provider with system integration capability, which can intensively drive for further growth of the Group.

Liquid and Bioprocess System

Through several years of persistent endeavours, focusing on biopharmaceutical projects and strongly supported by experienced key account managers and good product with high quality and customised technology application, the Group gained market recognition, as well as a significant increase of order-in-take in the past two years. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB607.4 million for the Year, representing an outstanding increase of approximately RMB173.3 million or 39.9% from approximately RMB434.1 million for the year ended 31 December 2018. In the coming years, the Directors expect that there will be a huge growth potential in the biopharmaceutical field, as compared to the conventional pharmaceutical chemical field. The Group will endeavour to pursue sustainable developments, build core competitiveness through integration and rich process automation experience and knowledge in biopharmaceutical projects, strive for the high-end market in the PRC, and seek for more opportunities in the overseas market, supported by our partnership with H+E GmbH and the Group's non-wholly owned subsidiary H+E Pharma GmbH ("**H+E Pharma**") with the manufacturing facility in Dresden, Germany.

Clean Room and Automation Control and Monitoring System

Through building a unique competence by integrating new technology, continuously-improved automation control system and its partner's latest equipment and software, the Group has successfully expanded its market share and experienced high growth in system turnkey engineering projects. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB62.6 million or 23.3% from approximately RMB268.1 million for the year ended 31 December 2018 to approximately RMB330.7 million for the Year. The Group will devote to develop Pharma IT business as a system integrator to offer comprehensive automation and digitalisation systems and services, and enhance our competence.

Powder and Solid System

After the establishment of a new oral solid dosage (OSD) product line in 2015, the Group's self-developed equipment has gradually gained market recognition. However, facing keen market competition, the order-in-take amount of the business segment of Powder and Solid System decreased slightly by approximately RMB7.1 million or 5.7% from approximately RMB125.5 million for the year ended 31 December 2018 to approximately RMB118.4 million for the Year. Supported by the value-added services of the formulation process laboratories, and leveraging all kinds of internal resources, the Group will continuously enhance its competitiveness and capture more opportunities in this business segment.

GMP Compliance Service

Driven by government regulations and secured by our good reputation in GMP compliance services, the Group was able to capture the strong increasing demand and expanded our market share in the high-end market. The order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB42.7 million or 91.6% from approximately RMB46.6 million for the year ended 31 December 2018 to approximately RMB89.3 million for the Year. Accompanied by the trend of stricter regulations and standards in GMP on-site inspection, there is huge potential of increased opportunities in this business segment.

Life Science Consumables

After several years' effort on the integration of various products and services, the Group was able to offer a complete solution of Washing, Disinfection and Sterilisation. This unique competence made the business segment of Life Science Consumables continue to keep stable increase in the order-in-take amount by approximately RMB51.8 million or 24.0% from approximately RMB215.7 million for the year ended 31 December 2018 to approximately RMB267.5 million for the Year. The Group will continue to launch more diversified life science consumables and services with the latest technology to its customers. The single-use bioprocess bag material capacity expansion brought by the new facility of PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**") in the coming second quarter, is expected to drive the single-use system engineering business intensively. This segment still has a huge potential growth after the rapid growth in the past three years.

Distribution and Agency of Pharmaceutical Equipment

During the Year, the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment experienced a slight decrease by approximately RMB3.9 million or 14.6% from approximately RMB26.4 million for the year ended 31 December 2018 to approximately RMB22.5 million for the Year. The Group, together with its joint ventures and overseas business partners, will keep on engaging in the distribution of various types of high-end pharmaceutical equipments.

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 2019:

	As at 31 December 2019			
Backlogs by business segment	**Number of Contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	**305**	**32.3%**	**404,485**	**45.8%**
Clean Room and Automation Control and Monitoring System	**257**	**27.2%**	**261,648**	**29.6%**
Powder and Solid System	**108**	**11.4%**	**92,644**	**10.5%**
GMP Compliance Service	**107**	**11.3%**	**80,621**	**9.2%**
Distribution and Agency of Pharmaceutical Equipment	**168**	**17.8%**	**43,539**	**4.9%**
Total	**945**	**100.0%**	**882,937**	**100.0%**

PRODUCTION, EXECUTION AND ORGANISATION

One of the key elements of our Manufacturing Operation System Improvement Initiative is to launch and implement our Manufacturing Execution System (MES), which was first applied in one of our manufacturing sites in 2019. This system can be monitored by the Work Wechat app which we have used to link our business control and information system to this app as one of the interfaces. Implemented in 2019, this system offers monitoring of production planning, abnormality alert, performance visual management, man-hour and efficiency calculations. More functions such as overall equipment effectiveness (OEE), production order distribution and bar-code system are planned to be implemented in 2020 as one step further to our vision realisation of the AUSTAR Manufacture Operation System.

Following the establishment of our joint venture H+E Pharma in Stuttgart, Germany and its wholly-owned assembly plant of S-Tec GmbH ("**S-Tec**") in Dresden, Germany in 2019, the Group is considering the feasibility of constructing a new building for S-Tec for assembling bioreactors and process skids as well as for freeze-dryers, which, if materialised, will offer our customers more choices on origin of manufacturing and flexibility on production capacity from the perspectives of smart manufacturing resource utilisation.

Under the guidance of LEAN manufacturing, the Group's container manufacturing plant in Songjiang, Shanghai has optimised its pressure vessel manufacturing process flow. A large-scale German-made plate rolling unit has been installed and is under final commissioning. An advanced hydraulic knife for hole-cutting on vessel header has been purchased and is expected to be installed by the end of April 2020. Together, a modern vessel manufacturing line composed mainly of plasma cutting machine, large plate roller, hydraulic knife for header hole-cutting along with vessel circular and longitudinal automatic welding machines will increase the production efficiency of pressure vessels significantly.

The year-end headcount of the Group of 2019 recorded an increase of 15.3% as compared to that of 2018. Although such an increase will bring about increase in costs and expenses, the management believes that such planned action is an important step of setting our foundation for further growth, especially for product development, knowledge and competence development and customer relations development.

The Group is also building up its global organisation structure by setting up new subsidiaries in preparation for a more aggressive approach on manufacturing and engineering execution capacity expansion in Europe, which is currently in progress.

A new facility of our joint venture, PALL-AUSTAR JV, for providing single-use bioprocess bag material to our biologic's customers, is under construction and scheduled to be ready for use in the second quarter of 2020. It is expected that with this new facility, a significant increase in production capacity can be achieved to relieve the pressure of supply, and will definitely become a reliable and strong component vendor to the Group's single-use system engineering business.

The facility expansion plan of the Group's associate, ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**"), in Wehr, Germany is scheduled to be completed within the first half year of 2020. It is expected that the integrated freeze-dryer equipment of the Group can be tested and run with the new factory-acceptance-test work stations inside ROTA's expanded facility.

In 2019, a subsidiary in India and two subsidiaries in Malaysia were established to pursue the objectives of establishing technical and commercial competence in the Asia region in a gradual manner. A European team was established for serving the partnership with STERIS Corporation and H+E Pharma.

The establishment of a LEAN manufacturing system was initiated in December 2018. Through LEAN production management and process re-engineering, production process control management could be strengthened, flexibility of the manufacturing system could be improved, and the operation process of the production system could be rationally laid out. In 2019, phase-one of the LEAN trainings and basic system structure was applied to certain business units and manufacturing units of the Group. In 2020, the next phase of LEAN improvement initiative will cover more business units and manufacturing units of the Group as the LEAN trainings and improvement activities will last for years, which will further improve the whole operation system and can provide better products and service to customers with shorter lead time and better quality.

At the end of 2019, the Group's Project Execution Center (PEC) consisted of 424 project execution members from more than 20 provinces in China and several emerging countries. The PEC has been working on 771 project site contracts and has finished 454 site projects in 2019. Improvement in customer satisfaction by introducing a simplified customer feedback daily reporting mechanism can ensure a higher chance of repeated orders. More automation control system software tests and validation efforts have been executed at the factory-acceptance-test phase to drastically reduce the on-site man-hours in site-acceptance-test which in return, can help reduce project cost execution.

SALES AND MARKETING

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to its customers in the PRC. Overseas sales are conducted through a mixture of direct, agency and distribution sales models. Due to the product application nature, sales teams from different product lines evolve gradually onto specific sector customer-focused sales teams, which are able to support customer contacts for different product lines. This synergetic and internal partnership sales model will be further consolidated.

In 2019, the Group continued to invest its efforts in marketing and has participated in several major events and exhibitions such as CPhI&P-MEC, CIPM and Medtec in China focusing on the promotion of powder-solid integrated solutions, biopharmaceutical process system solutions, intelligent chemical plant construction and integration of Heating Ventilation and Air Conditioning (HVAC) technology clean room system. The Group also participated in exhibitions held in Russia, India, Indonesia, Bangladesh and Germany. The Group organised a seminar platform with a theme related to biotechnology and bioprocess at Seoul, South Korea, and a powder & solid and containment technology seminar at Jakarta, Indonesia in 2019.

In 2019, Austar has organised five seminars with specific themes in China, namely, "API Pharmaceutical Technology Forum", "New Technology Research and Application Forum of Solid Dosage Form", "Soft Capsule Preparation Process and Technology Forum", "High Activity Pharmaceutical Production, EHS and Engineering" and "Pharmaceutical Process Pollution Control Seminar".

The Group is also a key participant in "International Biopharma 4.0 Summit", "Global CAR-T cell Therapy Development and Manufacturing Forum" and "INT Immuno & Norel Therapy Summit".

During the Year, Austar established nine Wechat Official Public Accounts with various technology application themes to share our views and knowledge in the industry. In 2019, the Group published 180 tweets of professional technical guidance content in the industry. An "AUSTAR Think Tank" Knowledge Sharing Platform with on-line live broadcast tool was established, aiming to better share professional knowledge and promote industry progress. With this sharing platform, 25 professional online seminars were held, covering 5 various professional subjects of the pharmaceutical industry. Digital marketing would be our approach in coming years.

RESEARCH AND DEVELOPMENT

As at 31 December 2019, the Group has obtained 228 registered patents. The Group obtained 32 registered patents including 3 invention patents during the Year, and applications for 49 patents are currently in progress.

During the Year, the Group came to a strategic partnership agreement with Siemens for enhancing pharmaceutical industry digitalisation with the Group as the first company in the pharmaceutical industry in our region to support Siemens' Mindsphere, the cloud-based IoT (Internet of Things) operating system. The Group has been developing a new Facility Equipment Management System to facilitate the exploration of data utilisation of facility and equipment of the Group's customers. Pharma LeanTec was launched as a brand with Lean-based Information System Consulting Services. Pharma LeanDigital is another brand which was launched to differentiate from the former one to offer more comprehensive digitalisation systems.

New software application development on partners software platform was implemented in projects such as:–

- Pharmaceutical Manufacturing Operation Management Platform
- Industrial Internet Platform
- Industrial Data Mining Cloud Platform
- Integrated Management and Control Platform (MES + BATCH)
- Digital Visualisation Solution

The AusMill brand Particle-Sizing Milling equipment with more options are still under further technical development and after further standardisation, the Group expects to launch this product-line to Europe and other emerging countries soon in 2020.

Vacuum Conical Dryer for APIs was developed and more than 30 sets of such new me-better equipment have been sold. This vacuum conical dryer is one of the key equipments for manufacturing bulk pharmaceutical chemicals including APIs, recipients and intermediates. Collaborating with an API equipment specialist from Europe has been negotiated and cooperation is expected to start in 2020; with the action, full product portfolios of bulk pharmaceutical chemicals or APIs would be available through further research and development.

All key process analytical technology (PAT) instruments and devices were installed and integrated in the wet-granulation pilot laboratory equipment to collect data for process development. The formulation and process laboratories with soft capsule, dry granulation & wet granulation, and particle-sizing equipment can offer value-added services to our OSD equipment and system. Stressing on the cutting-edge technology application and collaborating with the European Provider of continuous drying and hot melt extrusion. Capability of trial in lab scale gives experimental data generation for our customer product process development. PAT solution for OSD equipment is very helpful for developing continuous manufacturing technology applications.

New technical features including advanced cooling control system have been applied in our freeze-dryer design and have already been applied in one project. The service of the new freeze-dryer research and development (R&D) laboratory partnership with scholars in University of Erlangen-Nuremberg was officially launched with a full-time scientist based in Germany to support our freeze-drying process consulting services. Freeze-drying process tests assigned by customers have embarked on its ambitious journey to be a world-class biologics freeze-dryer and protein-product stability laboratory. The shelf temperature control technology of freeze-dryer was developed to make temperature control more accurate, which is crucial for enabling the high quality of biologics drug.

The application on integrity membrane towards water pretreatment and cold water for injection (WFI) has been developed and commercialised with an order placed. Bioprocess downstream in-line dilution equipment is under the development phase. The automation control software of bioreactor is partnering with GPC from France for product development.

The clean-room partition system with high-pressure-lamination material developed in the first half of 2019 will offer more options for customers for stricter technical environment. The R&D for energy-saving components and devices for HVAC will be enhanced by the recent recruitment of a specialist with substantial energy-saving and sustainability background.

PROSPECTS

Increasing the market share in the emerging countries

During the Year, STERIS Corporation granted a wholly-own subsidiary of the Group the exclusive rights for the sales of water equipments for injection and pure-steam. It will allow the Group to act as water system integrator with the STERIS products in India. STERIS and H+E Pharma, our subsidiary in co-operation with H+E GmbH, have started to work in Europe and its nearby regions for the sales and proposed a partnership to offer critical utility system turnkey solutions with Austar's role as system integrator.

As part of our global expansion strategies, a sales marketing and business development team in Europe with the disciplines of clean utilities, bioprocess equipment and systems, clean room systems and integrated fill and finish has been established. It allows additional sales and business development resources to explore more market opportunities in Europe, the Middle East and North Africa. A partnership of sales activity and project execution resources for Spain and Latin America market was negotiated in 2019 and hopefully a concrete action plan can be initiated in 2020. The Group's market presence in the Middle East was strengthened by a new experienced business development leader recruited from and located in Jordan.

After some years of market study, the Group has decided to develop our own team in Russia with our own subsidiary instead of forming a joint venture in Russia and the Commonwealth of Independent States (CIS) countries. The Group expects to secure a business development leader of Russia located in Moscow in mid-2020 and meanwhile, business development for Russia was managed by the Group's Europe team and a lot of sales projects were under discussion. Sales territory development in Asia was under further evaluation in 2019 and a new experienced business development leader of East Asia and South Asia located in Malaysia will create growth opportunities in parallel with the existing growth of business in Hong Kong and Taiwan.

The Group will further improve its agency management with better alignment. Identification, qualification and appointment of new agents in Asia, the Middle East and North Africa, and South America will help improve our market presence.

Through the Group's efforts in sales organisation consolidation and further integration of products, the Group's order-in-take increased significantly in 2019 as compared to 2018. During the Year, there have been some significant breakthrough in the orders of the product-lines of freeze-dryers and clean room system engineering. It is believed that our market share in these two product lines will be further improved. In addition, a number of product lines of the Group which are now in their incubation phases are expected to mature gradually and to offer new streams of revenues for the Group.

Increasing the market share in the PRC

The growth of biopharmaceutical and pharmaceutical market in China has given the Company sufficient project orders for consolidating the concrete foundation for building core competence elements including product, technologies, knowledge and expertise. These elements can contribute to the growth of our business in other emerging countries. The strong pipeline of sales leads and project enquires in the emerging countries with now improved interfaces and elevated communication supported by more sales and proposal personnel can generate stronger stream of revenues for the Group in the coming years.

Sales organisation in China has further aligned with our sector-focused strategies, including different sectors such as bulk pharmaceutical chemical, biologics, OSD, research sector, animal vaccine and lab animal research. The Group is gradually developing more sector-focused sales and proposal teams for each specific sector leveraging on the Group's China territory sales teams. It is expected that such sector-focused strategies will bring about further growth driving elements.

Proactive marketing and rebranding supported by social media, webinars, seminars and exhibitions could improve the Group's brand awareness and allow customers to revisit the strength and technical improvement and new value propositions of our products and services.

For project execution, customer satisfaction on the Company's quality, value-price ratio and project-management control will definitely push up further the Company's existing reputation in China. We believe that there is no competitor in China which has similar or closer project execution competence as the Company in terms of scale, integration capacities, project control tools and technical knowledge.

Improving services and product offerings

The Group has been developing 12 technology applications in our competence and knowledge model. The technology applications are namely:

- Clean Utilities
- Pharmaceutical automation and digitalization
- Pharmaceutical formulation technology
- Biopharma process and technology
- Regulatory compliance and operation excellence
- Laboratory technology and facilities
- Biosafety technology and facilities
- Cleaning, sterilization and disinfection
- Clean room/HVAC/EMS/BMS
- Quality/measurement and analytics
- Filling, freeze-drying and inspection
- Containment technology

As disclosed in our 2018 Annual Report, individual specific technology application teams are being gradually established step by step to cover all 12 technology applications within 2 to 3 years. Our approach of offerings would be gradually presented as a technology application solution provider instead of individual product lines and services. Each application team consists of internal Subject Matter Experts (SMEs), external consultants, Technical Advisory Committee (TAC) members, sales proposals and execution staff. Each application team will be able to facilitate the knowledge acquisition model. Each of the individual application team would formalise or revise their mission, visions and strategies under the following guiding principles:

Mission:—

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

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

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

Visions:—

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

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

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

Tactics and Strategic Goals:—

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

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

3. Team establishment with common shared value and objectives with formalised cooperation structure and mechanism including meeting management and incentive scheme.

The Group has its uniqueness in product offerings with the following capacities:–

1. Offering complete products and service by meeting the regulatory compliance requirements for instance, in solving the customers' contamination control regulatory requirements, consumables, equipment, services are integrated to offer unique solutions to the customers.

2. Offering an integrated solution from the component/software level, to equipment level, to system level to tackle with an application issue – for instance as for containment application, components like flexible containment vessels, valves, to equipment level such as isolator and powder transfer equipment, are integrated to complete the OSD system under one roof.

3. Offering an integrated solution by integrated application technologies – for instance, combining the knowledge of HVAC, VHP, Environmental Monitoring System (EMS), Building Management System (BMS) and energy saving to offer an integrated and automated building solution.

The service business would be one of the key growth elements within our business portfolios. Serious action has been taken to make preparation and planning for restructuring all services scattered around in different product lines in various business segments onto a harmonised portfolio of services. Ultimately, our goal is to achieve service professionalism, wider differentiation from competitors, better unification of scattered services with customised service plan and more efficient communications between our Group and our customers.

The Group is further improving and strengthening its proposal and front-end engineering team resources to speed up the feedback for technical and commercial proposal requests. It is believed such initiatives would cater for the further surge of order-in-take in 2020 and in coming years.

Liquid and Bioprocess System

The Liquid and Bioprocess System business segment is able and confident to offer more sophisticated bioprocess systems to our customers especially after the completion of the detail design of a monoclonal antibody bioprocess plant project by our Project Execution Centre. This complex project system consists of 4 lines: 2*2000 L Perfusion, 1*2000 L Fed Batch, and 1*500 L Fed Batch production lines; the system includes 82 sets of vessels and 53 sets of skids.

For bioprocess system engineering, through more and more experience gained by project execution in the past several years, the Company is able to develop technical competence in specific segments such as blood products, monoclonal antibodies, recombinant proteins, human vaccines and animal vaccines. With this segmentised focus, our offerings could become more specific and more adaptable to specific needs, and as a result, more market opportunities and competence upgrade are foreseeable.

The business units of Clean Utilities System Engineering and Bioprocess System Engineering were established as a result of the restructuring of this business segment. With the Clean Utilities System Engineering business unit, our mid-long-term objectives are to bring our presently regional champion business unit onto the highest global level. With the Bioprocess System Engineering business unit, our goal is to become a global top-tier bioprocess equipment and system supplier. Such goals are foreseeable as the competence and knowledge acquisition are possible only when a supplier is able to acquire a significant number of projects to gain the experience and competence from, as we have much more projects in the region than other global top-tier suppliers.

The establishment of H+E Pharma, our subsidiary in co-operation with H+E GmBH in 2019 will help contribute to the Company's visions on implementing our global expansion strategies in the scope of clean utilities system, by leveraging the Group's competitive edges of project management, automation and validation in the life sciences industry and H+E's pretreatment and purified equipment technology, after-sales services and manufacturing capacities. With the establishment of H+E Pharma and the Company's commitment and visions, the Group together with our partners in Europe, will be able to offer better services and systems to our customers in Europe with high customer satisfaction.

The Group's Single-use Technology BioProcess Engineering team is working with this business segment to offer Hybrid (stainless steel multi-use and plastic disposable) BioProcess System Engineering, which can be differentiated from other competitors which are lacking in integration, process automation and validation experience and knowledge.

ROTA, the Group's associate, made another successful year in 2019 in terms of order-in-take and revenue. With the new extension of the facility expected to be completed within the first half year of 2020, ROTA will be able to deliver more complete vial and ampoule filling line, plus the possibility of offering freeze-dryers factory acceptance test runs. The successful site acceptance tests of 3 freeze-dryers with vial loading and unloading device at one innovative vaccine plant was completed with customer satisfaction and excellent test performances. One of the largest blood product and vaccine manufacturer in China in 2019 bought 3 production-scale freeze-dryers and the equipment is expected to be delivered in 2020 with test runs.

Clean Room and Automation and Monitoring System

Digitalisation business initiatives – in 2019, the Group signed a strategic cooperation agreement with Siemens to promote digital factory solutions in the Chinese pharmaceutical industry. Austar is the first in the Chinese pharmaceutical industry to partner with Siemens to offer Simens's cloud-based IOT (Internet of Things) platform, Mindsphere. Based on the confidence and trust built with the successful cooperation in automation control systems with Siemens in the last 10 years, it is believed that the strategic partnering with Siemens to offer Mindsphere will bring customers in China to capture the future opportunities and benefits of machine-learning and IOT.

The Group has been initiating partnership cooperation with a sizable pharmaceutical group to explore the path of digital factory transformation by employing the concept of "LEAN manufacturing digitalisation" into practice in the pharmaceutical industry. LEAN manufacturing practices have been adopted by most multinational companies, but there are still a lot of opportunities of improvement in the emerging countries. Digitalisation and automation control system will help emerging countries in a faster pace to reach the goals of compliance, quality and cost operation excellence.

The Group has also entered into a partnership agreement with Werum IT Solutions, a subsidiary of Körber Group, with a vision to work with Werum to provide customers with world-leading biotechnology manufacturing execution systems (MES) solutions. The company will act as software and system integrator to include Werum software and other software onto our newly-structured REMOIS (Research & Manufacturing Operation Integration System) platform to offer very unique, flexible and versatile solutions to customers. This platform can allow us to integrate automation control and informatisation capabilities to facilitate pharmaceutical companies to build and become world-class informatised research and manufacturing enterprises with multifunctional, multi-products and modular design concept.

Clean room engineering business momentum and drivers – Austar's Clean Room Engineering Services provides integrated engineering solutions integrating HVAC, space-disinfection VHP, air-monitoring and building management system BMS and EMS and green energy-saving technologies through comprehensive clean room technology applications with the following additional services:

(a) design and construction of clean room in compliance with GMP requirements;

(b) integrated BMS/EMS/MES intelligent control system to realise data collection and energy-saving control;

(c) integrating the VHP ductwork-on-line-disinfection system to provide disinfection control in clean areas in full compliance with regulatory and operation requirements;

(d) GMP qualification and HVAC system validation;

(e) building information modelling (BIM) solutions to realise 3D visualisation of the project, through collision detection and secondary optimisation design to control construction quality and cost effectively; and

(f) technology-based clean room engineering solutions to differentiate the Group from other competitors in the market, not only in China and the emerging countries but also in developed countries as well.

Powder and Solid System

The success of the Powder and Solid System business segment depends heavily on integration with containment technology, Powder handling technology and formulation process system engineering, and also supported by fundamental knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering.

Following the standardisation of containment and barrier technology products like aseptic isolators and particle-sizing products like the Group's AusMill series milling machines, for more of the Group's agents and distributors can directly promote and distribute them in quantity. Standardisation facilitates the possibilities of manufacturing those products in more locations including in the manufacture facilities in Europe, and closer delivery to the neighbouring countries of Europe.

With its core knowledge of containment technology, this business segment will create higher value to customers involved in highly toxic and/or highly potent drugs and will continue to focus to serve the market of oncology and hormone related drugs.

This business segment will focus more on chemical drug manufacturer, either bulk pharmaceutical chemicals or chemical formulation finished products, especially in the specific field of containment and occupational safety. Increasing sales orders of the Group's milling equipment and drying equipment has strengthened this business segment; supported by the Group's Technical Advisory Committee (TAC) advisors and manufacturing consultants, it is expected that these equipment will soon be improved to become world-class level. The Group's self-developed AusMill brand particle-sizing equipment has gradually gained market recognition; its unique mechanical design has a prominent performance in handling materials with high hardness and has successfully solved difficult technical problems. The strong growth in the order-in-take in 2019 was attributed partly to more customers' demand on higher quality and efficiency expectations on APIs.

GMP Compliance Service

The service scope of the GMP Compliance Service business segment has been expanded to cover other GxP services, like Good Clinical Practice (GCP) data integrity consulting services to cover more sectors over the whole drug product life-cycle, such as clinical batch production shop. The Group will continue to promote services like Good Engineering Practice (GEP), ICH Q10 Quality Management Systems, and Quality by Design, where opportunities are expected to grow significantly as a result of the tougher policies as issued by the drug authorities. ASTM E2500 (Standard Guide for Specification, Design, and Verification of Pharmaceutical and Biopharmaceutical Manufacturing Systems and Equipment) as Good Engineering Practice/Commissioning & Qualification consulting service model will be further investigated to support the existing growing Commissioning, Qualification and Validation (CQV) services. The GMP Compliance Service business segment will extend more CQV and Quality Management System (QMS) consulting services to drug research sector and cover more biologics customers like PD-1 Antibody and CAR-T cell therapy.

Technology transfer has become a more important tool for innovative drug and CDMO companies at the different phases of the drug product cycle and clinical trials to either transfer products and processes inside their own organisations or cross-border or cross-companies to other organisations for the purpose of licensing or site changes. This will give opportunities for the Company to provide technology transfer project management support to the parties to the technology transfer, whether on the transfer-side or the receiving-side. This will in turn create further opportunities for CAPEX and engineering and consulting services as a result.

Pharmaceutical Quality System (PQS) based on ICH Q10 consulting service has been in high demand as well. This service is one of the strengths of this business segment. This service can be expanded into different scenarios such as research and manufacturing quality system and QMS in the technology transfer process.

Occupational safety-related consulting services including cross-containment assessment services can be offered to customers involved in multi-product facilities especially for CDMOs for biologics and high potent drug products. Such compliance consulting can cover facility layout/ product line assessment, Occupational Exposure Limit (OEL)/ Occupational Exposure Band (OEB) analysis, Permitted Daily Exposure (PDE)/residue analysis, cleaning risk-based assessment and cleaning validation.

The Group has gathered, with some years of business and knowledge development, proper resources for biosafety facility and compliance consulting. In particular, with the recent novel coronavirus outbreak, it would give the Company an opportunity to deliver our expertise and knowledge in the field of biosafety level-3 to laboratories and facilities with biologics safety and contamination concerns.

Life Sciences Consumables

The novel coronavirus outbreak which started in early 2020 has brought about the awareness of biosafety. One of the key elements for biosafety measures is to ensure the facility is designed and maintained with proper decontamination concept, design, consumable, equipment and process installed. The core-competence of the Life Sciences Consumables business segment is decontamination related to washing, disinfection and sterilization. This unique competence knowledge-set is believed to offer a strong competitive edge not only in the life science industry but also in other industrial sectors requiring hygienic or sterile working environment. We believe that due to consideration of precautious concerns on further virus outbreak, a lot of services, consumables and equipment would be required to improve in biosafety laboratories and vaccine facilities.

The Vaccine Administration Law of the PRC has imposed stricter requirements related to the biosafety concerns in the vaccine production process. Based on years of experience in contamination control applications in the pharmaceutical field, the Life Sciences Consumables business segment has an excellent opportunity and the capability to be a pioneer in the field of biosafety. It is believed that in the coming years, the steam autoclave and dry heat sterilizer, VHP and newly introduced decontamination equipment and bio-containment system products will gain new business growth opportunities for this business segment.

The revenue from this business segment is mainly limited to the PRC market. However, it is expected that the Group's knowledge and experience gained in China so far can be utilised in other emerging countries for business development. More proactive sales organisations or partnerships will be established to achieve global expansion goals.

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 RMB1,049.0 million, representing an increase of approximately 28.5% over 2018, primarily attributable to the increase in revenue from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Life Science Consumables, GMP Compliance Service, and Distribution and Agency of Pharmaceutical Equipment, and which was slightly offset by the decrease in revenue from the business segment of Powder and Solid System.

The following table sets forth, for the years ended 31 December 2019 and 2018, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2019		2018		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**435,980**	**41.6%**	320,841	39.3%	35.9%
Clean Room and Automation Control and Monitoring System	**250,875**	**23.9%**	164,712	20.2%	52.3%
Powder and Solid System	**82,963**	**7.9%**	91,352	11.2%	(9.2%)
GMP Compliance Service	**53,641**	**5.1%**	36,880	4.5%	45.4%
Life Science Consumables	**203,586**	**19.4%**	187,174	22.9%	8.8%
Distribution and Agency of Pharmaceutical Equipment	**21,976**	**2.1%**	15,626	1.9%	40.6%
Total	**1,049,021**	**100.0%**	816,585	100.0%	28.5%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased significantly by approximately RMB115.2 million or 35.9% from approximately RMB320.8 million for the year ended 31 December 2018 to approximately RMB436.0 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2018 and the increase in the order-in-take in the business segment of Liquid and Bioprocess System for the Year, a part of which was recognised as revenue.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System increased substantially by approximately RMB86.2 million or 52.3% from approximately RMB164.7 million for the year ended 31 December 2018 to approximately RMB250.9 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2018 and the increase in the order-in-take in the business segment of Clean Room and Automation Control and Monitoring System for the Year, especially in some huge integrated-solution projects, a part of which was recognised as revenue.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System had a slight decrease by approximately RMB8.4 million or 9.2% from approximately RMB91.4 million for the year ended 31 December 2018 to approximately RMB83.0 million for the Year. The decrease was primarily due to a large part of order-in-take in the business segment of Powder and Solid System, which was obtained in the fourth quarter in 2019 has not yet been recognised as revenue for the Year.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased significantly by approximately RMB16.7 million or 45.4% from approximately RMB36.9 million for the year ended 31 December 2018 to approximately RMB53.6 million for the Year. The increase was mainly attributable to the increase in the order-in-take in the business segment of GMP Compliance Service for the Year, a part of which was recognised as revenue.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB16.4 million or 8.8% from approximately RMB187.2 million for the year ended 31 December 2018 to approximately RMB203.6 million for the Year, which was primarily attributable to the continuous launching of more diversified life science consumables and services with the latest technology.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased significantly by approximately RMB6.4 million or 40.6% from approximately RMB15.6 million for the year ended 31 December 2018 to approximately RMB22.0 million for the Year, which was mainly attributable to the increasing demand of high-end pharmaceutical equipment from the customers, and the increase in the amount of backlog in the business segment of Distribution and Agency of Pharmaceutical Equipment as at 31 December 2018, which part of amount were recognised as revenue for the Year.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years ended 31 December 2019 and 2018:

	For the year ended 31 December				
	2019		2018		Change
Revenue	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**964,135**	**91.9%**	766,057	93.8%	25.9%
Other locations	**84,886**	**8.1%**	50,528	6.2%	68.0%
Total	**1,049,021**	**100.0%**	816,585	100.0%	28.5%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 91.9% of the total revenue for the Year (2018: approximately 93.8%).

Cost of sales

The Group's cost of sales increased by approximately RMB152.6 million or 24.9% from approximately RMB612.2 million for the year ended 31 December 2018 to approximately RMB764.8 million for the Year. Such increase was mainly in line with the increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB79.8 million or 39.1% from approximately RMB204.4 million for the year ended 31 December 2018 to approximately RMB284.2 million for the Year. The gross profit margin increased from approximately 25.0% for the year ended 31 December 2018 to approximately 27.1% for the Year, which was attributable to the general increase in gross profit margin across all business segments of the Group during the Year.

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

Gross profit marginby business segment	For the year ended 31 December 2019 RMB'000	%	Gross profit margin %	2018 RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**74,633**	**26.3%**	**17.1%**	40,571	19.8%	12.6%
Clean Room and Automation Control and Monitoring System	**58,895**	**20.7%**	**23.5%**	35,723	17.5%	21.7%
Powder and Solid System	**27,915**	**9.8%**	**33.6%**	29,558	14.5%	32.4%
GMP Compliance Service	**28,116**	**9.9%**	**52.4%**	18,932	9.3%	51.3%
Life Science Consumables	**86,645**	**30.5%**	**42.6%**	73,982	36.2%	39.5%
Distribution and Agency of Pharmaceutical Equipment	**8,040**	**2.8%**	**36.6%**	5,628	2.7%	36.0%
Total	**284,244**	**100.0%**	**27.1%**	204,394	100.0%	25.0%

Notes:

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

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

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System increased by approximately RMB34.0 million or 83.7% from approximately RMB40.6 million for the year ended 31 December 2018 to approximately RMB74.6 million for the Year. The gross profit margin from the business segment of Liquid and Bioprocess System increased from approximately 12.6% for the year ended 31 December 2018 to approximately 17.1% for the Year, which was mainly attributable to the improved project execution management, cost control measures, and project execution efficiency driven by the continuous improvement of engineers' knowledge and experience.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB23.2 million or 65.0% from approximately RMB35.7 million for the year ended 31 December 2018 to approximately RMB58.9 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System increased from approximately 21.7% for the year ended 31 December 2018 to approximately 23.5% for the Year, which was mainly attributable to the unique competence of the Group by providing integrated engineering solutions by combining new technology, continuous improved automation control system and its partner's latest equipment and software. The Group will continuously develop various software and get better control over cost management through LEAN-based manufacturing management.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System decreased slightly by approximately RMB1.7 million or 5.7% from approximately RMB29.6 million for the year ended 31 December 2018 to approximately RMB27.9 million for the Year. The gross profit margin from the business segment of Powder and Solid System increased from approximately 32.4% for the year ended 31 December 2018 to approximately 33.6% for the Year, mainly attributable to the continuous improvement in overall project control.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB9.2 million or 48.7% from approximately RMB18.9 million for the year ended 31 December 2018 to approximately RMB28.1 million for the Year. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 51.3% for the year ended 31 December 2018 to approximately 52.4% for the Year. The Group will keep on providing high quality service and improving cost control.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB12.6 million or 17.0% from approximately RMB74.0 million for the year ended 31 December 2018 to approximately RMB86.6 million for the Year. The gross profit margin from the business segment of Life Science Consumables increased from approximately 39.5% for the year ended 31 December 2018 to approximately 42.6% for the Year, which was mainly attributable to the continuously-improved cost control.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB2.4 million or 42.9% from approximately RMB5.6 million for the year ended 31 December 2018 to approximately RMB8.0 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 36.0% for the year ended 31 December 2018 to approximately 36.6% for the Year. The Group, together with its joint ventures and overseas business partners, will keep on engaging in the distribution of various types of high-end pharmaceutical equipment.

Other income

Other income increased by approximately RMB6.1 million or 196.8% to approximately RMB9.2 million for the Year from approximately RMB3.1 million for the year ended 31 December 2018, mainly attributable to the increase in the subsidies granted by local government authorities of the PRC in the Year.

Other gains/(losses) – net

The Group recorded other gains of approximately RMB0.1 million for the Year as compared to other losses of approximately RMB1.7 million for the year ended 31 December 2018, mainly attributable to currency exchange gains arising from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB31.5 million or 29.8% to approximately RMB137.1 million for the Year from approximately RMB105.6 million for the year ended 31 December 2018. The increase was primarily due to the increase in the staff costs and travel expenses.

Administrative expenses

Administrative expenses increased by approximately RMB31.2 million or 40.3% to approximately RMB108.7 million for the Year from approximately RMB77.5 million for the year ended 31 December 2018. The increase was primarily due to the increase in the staff costs and impairment of inventories.

Research and development expenses

As at 31 December 2019, the Group had 43 research and development personnel which accounted for approximately 3.3% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses increased by approximately RMB12.3 million or 40.6% to approximately RMB42.6 million for the Year, compared to approximately RMB30.3 million for the year ended 31 December 2018, mainly due to the increase of staff costs and materials utilised in more research projects. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Net finance income decreased from approximately RMB3.4 million for the year ended 31 December 2018 to approximately RMB2.0 million for the Year, which was mainly due to the increase of the interest paid/payable for lease liabilities of approximately RMB1.6 million, and for short term bank loan approximately RMB0.3 million for the Year, but partially offset by the increase of interest income of approximately RMB0.6 million.

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 decreased by approximately RMB1.5 million, from approximately RMB11.7 million for the year ended 31 December 2018 to approximately RMB10.2 million for the Year, primarily due to the decrease in profit of the associate, ROTA, by approximately RMB4.4 million, because of equipments of some orders with large amount were delivered and completed site acceptance test in the first season in 2020, and revenue and gross profit were recognised in 2020 accordingly, but partially offset by the increase in profit contribution from the Group's investments in two joint ventures, PALL-AUSTAR JV and STERIS-AUSTAR JV by approximately RMB1.1 million and RMB1.8 million respectively.

Profit before income tax

Profit before income tax increased from approximately RMB3.5 million for the year ended 31 December 2018 to approximately RMB12.2 million for the Year, which was primarily due to the factors as described above in this section.

Income tax expense

Income tax expense increased by approximately RMB1.3 million, from approximately RMB3.4 million for the year ended 31 December 2018 to approximately RMB4.7 million for the Year, which was mainly due to the increase of deferred income tax expense by approximately RMB1.5 million.

Profit for the year

Profit for the year increased from approximately RMB0.1 million for the year ended 31 December 2018 to approximately RMB7.5 million for the Year, which was primarily attributable 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	
	2019	2018
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**37,793**	(77,598)
Net cash used in investing activities	**(22,087)**	(39,495)
Net cash (used in)/generated from financing activities	**(20,694)**	4,440
Net decrease in cash and cash equivalents	**(4,988)**	(112,653)

For the Year, the Group had net cash generated from operating activities of approximately RMB37.8 million mainly attributable to:

i. the profit before income tax of approximately RMB12.2 million, plus the depreciation of property, plant, equipment and right-of-use assets of approximately RMB24.0 million and the amortisation of intangible assets of approximately RMB2.3 million;

ii. the decrease in trade and notes receivables of approximately RMB35.0 million, and prepayments and other receivables of approximately RMB7.4 million;

iii. the increase in contract liabilities of approximately RMB28.3 million, and trade and other payables of approximately RMB22.6 million; and

iv. partially offset by the increase in inventories of approximately RMB31.6 million, and contract assets of approximately RMB59.5 million.

For the Year, the Group had net cash used in investing activities of approximately RMB22.1 million, which was mainly attributable to:

i. acquisition of H+E Pharma of approximately RMB11.5 million; and

ii. purchase of property, plant, equipment and intangible assets of approximately RMB13.7 million which consisted of machinery, equipment and tools purchased for various business segments.

For the Year, the Group had net cash used in financing activities of approximately RMB20.7 million mainly due to repayments of borrowings of approximately RMB30.9 million, principal elements of lease payments of approximately RMB10.1 million, interest paid of approximately RMB3.3 million, and repayment of loan from a non-controlling shareholder of a subsidiary of approximately RMB1.4 million, but partially offset by net proceeds from borrowings of approximately RMB25.0 million.

As at 31 December 2019 and 31 December 2018, the Group had cash and cash equivalents of approximately RMB191.1 million and RMB196.5 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB88.8 million and RMB96.8 million respectively.

Net current assets

The Group's net current assets as at 31 December 2019 had decreased by approximately RMB21.5 million, from approximately RMB315.9 million as at 31 December 2018 to approximately RMB294.4 million as at 31 December 2019.

As at 31 December 2019, the Group's total current assets amounted to approximately RMB928.2 million, which was an increase of approximately RMB35.3 million as compared with approximately RMB892.9 million as at 31 December 2018. The increase was primarily attributable to:

i. the increase in inventories of approximately RMB31.6 million, and contract assets of approximately RMB59.5 million, which was mainly attributable to the fast business expansion during the Year; and

ii. partially offset by the decrease in trade and notes receivables of approximately RMB35.0 million, prepayment and other receivables of approximately RMB7.4 million, pledged bank deposits of approximately RMB8.0 million, and cash and cash equivalents of approximately RMB5.4 million.

As at 31 December 2019, the Group's total current liabilities amounted to approximately RMB633.8 million, which was an increase of approximately RMB56.9 million as compared with approximately RMB576.9 million as at 31 December 2018. The increase was primarily due to the increase in contract liabilities of approximately RMB28.3 million, trade and other payables of approximately RMB22.6 million, and lease liabilities of approximately RMB11.9 million, but partially offset by the decrease in short-term borrowings of approximately RMB5.9 million.

Borrowings and gearing ratio

As at 31 December 2019, the total interest-bearing borrowings amounted to approximately RMB20.0 million, represented a decrease of approximately RMB5.9 million, secured by the Group's buildings and right-of-use of lands, and bearing interest rate of 4.57% per annum (2018: 4.35% to 4.79%).

The Group's gearing ratio is approximately 10.2% as at 31 December 2019 (31 December 2018: 5.4%). The ratio is calculated based on the total debts as of the respective dates divided by total capital as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2019, in addition to pledged bank deposits of approximately RMB88.8 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB6.4 million and approximately RMB5.4 million respectively (31 December 2018: approximately RMB7.1 million and approximately RMB5.5 million respectively) which are pledged as security for short-term bank borrowings with carrying amount of approximately RMB20.0 million (31 December 2018: approximately RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

HUMAN RESOURCES

As at 31 December 2019, the Group had 1,312 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 174 employees as compared to the number of employees as at 31 December 2018. The employee costs (including the Directors' remuneration) were approximately RMB225.7 million for the Year, which was an increase of approximately 38.6% as compared with approximately RMB162.8 million for the year ended 31 December 2018.

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 2019 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, US dollar and HK dollar. Foreign exchange risk arises from the ending balances of the internal borrowings amounted the Group's subsidiaries which have different functional currencies, the foreign currencies held by the Group's subsidiaries and offices and the sales of the Group's products and services to overseas customers who settle payments in foreign currencies. The Directors do not consider the foreign exchange rate risks as material to the Group and therefore, did not carry out any financial instruments such as forward currency exchange contracts to hedge the risks.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Position
Executive Directors		
Mr. Ho Kwok Keung, Mars	57	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	62	Executive Director
Mr. Chen Yuewu	53	Executive Director
Madam Zhou Ning	47	Executive Director
Non-executive Director		
Madam Ji Lingling	37	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	48	Independent non-executive Director
Madam Chiu Hoi Shan	43	Independent non-executive Director
Mr. Leung Oi Kin	45	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho") (何國強), aged 57, is the founder of the Group and was appointed as a director of the Company on 9 January 2014 and became an executive Director with effect from 20 June 2014. He is the chairman of the Board and the chief executive officer of the Company. Mr. Mars Ho is also the chairman of the nomination committee of the Board ("**Nomination Committee**") and a member of the corporate governance committee of the Board ("**Corporate Governance Committee**"), and a director of certain subsidiaries of the Company. He is responsible for overseeing the business, corporate strategy and long-term planning all-round development of the Group. Mr. Mars Ho has over 30 years of experience in the pharmaceutical industry. Prior to founding the Group, Mr. Mars Ho worked as an assistant manager in the Pharmaceutical Equipment Department of Sun Hung Kai (China) Limited* from June 1985 to April 1988, where he was responsible for marketing of pharmaceutical equipment. Sun Hung Kai (China) Limited* was primarily engaged in a number of businesses, including property development, hotels, infrastructures, telecommunications and property management. From May 1988 to October 1990, he worked as a sales manager of Pharmaceutical and Chemical Industry for Leybold Limited (Hong Kong), where he was primarily responsible for the sales and marketing of products in the pharmaceutical, chemical and vacuum coating industries. Leybold Limited (Hong Kong) was primarily engaged in vacuum technology, vacuum process engineering, measuring and analytical technology. Mr. Mars Ho also worked as a sales manager for China Fen Hin Industrial Co., Ltd from November 1990 to April 1991 where he was responsible for managing and supervising the sales department and designing marketing plans. China Fen Hin Industrial Co., Ltd was engaged in the export and wholesale of Chinese medicine and health products. Since 1991, Mr. Mars Ho started his own business of an equipment agent company. Through co-operating with various reputable companies and by founding various pharmaceutical related companies, Mr. Mars Ho has been exposed in different aspects of the pharmaceutical industry. Mr. Mars Ho has also been serving some of the multinational pharmaceutical companies clients and pharmaceutical research institutes and manufacturers in the PRC. His technical knowledge has been acquired from his execution of projects and business with various partners over the past decades.

** For identification purpose*

In recognition of Mr. Mars Ho's dedication and achievements in the pharmaceutical industry, he was selected and awarded the honor of pharmaceutical 中國醫藥「60年60人」("60 Elites of 60 years" in China Pharmaceutical) in November 2009, which is a recognition of his effort in influencing and contributing to the pharmaceutical industry in China and was awarded the title of 行業領航人 ("Industry Pilots") by China National Pharmaceutical Packaging Association in April 2019, which is a recognition of his long-term and outstanding contribution to the development of pharmaceutical packaging of China. He served as the chairman of China Affiliate of International Society of Pharmaceutical Engineering (ISPE) from 2011 to 2012, which is an organisation established with the mission of connecting the world of pharmaceutical industry professionals. He was a member of the ISPE China board of directors and executive council from 2013 to 2017. Mr. Mars Ho co-edited a number of pharmaceutical professional books such as Pharmaceutical Process Validation Manual, Microbial Control in Pharmaceutical Cleanroom, Pharmaceutical Liquid Process, and Pharmaceutical Water Systems. He is the current technical consultant and a member of the board of directors of China National Pharmaceutical Packaging Association. Mr. Mars Ho obtained a bachelor of science degree in engineering from The University of Hong Kong in November 1985. Mr. Mars Ho is a director of Standard Fortune Holdings Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**") and the controlling shareholder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) of the Company.

Mr. Ho Kin Hung ("Mr. Ho") (何建紅), aged 62, joined the Group on 20 August 2003. He was appointed as a director of the Company on 9 January 2014 and became an executive Director with effect from 20 June 2014. Mr. Ho is also a director of two subsidiaries of the Company. He is responsible for overall management of operations and sales of the Group. He has over 35 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in china trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987. Mr. Ho is a director of True Worth Global Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Chen Yuewu ("Mr. Chen") (陳躍武), aged 53, joined the Group on 1 August 2005 and was appointed as an executive Director with effect from 20 June 2014. He is also a member of the risk management committee of the Board ("**Risk Management Committee**") and a director of a subsidiary of the Company. Mr. Chen is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has over 29 years of experience in the pharmaceutical industry. Prior to joining the Group, he worked as a production manager at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) from September 1990 to March 2000 where he was responsible for managing the engineering department and the production department. 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) was engaged in pharmaceutical production. Mr. Chen has been a technical services manager in a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company prior to joining the Group. Mr. Chen obtained a bachelor's degree of electrical engineering in industrial electrical and automated production in July 1990 from 河北工學院 (Hebei Institute of Technology*) in China. He further completed a one-year course in economics and management strategy at 北京大學 (Peking University*) in October 2012. In December 2014, Mr. Chen obtained the qualification certificate as senior engineer in pharmaceutical engineering from the Title Reform Leading Group Office of Hebei Province.

** For identification purpose*

Madam Zhou Ning ("Madam Zhou") (周寧), aged 47, joined the Group on 10 April 2014 and was appointed as an executive Director with effect from 20 June 2014. She is also the chairlady of each of the Corporate Governance Committee and the Risk Management Committee and a member of the remuneration committee of the Board ("**Remuneration Committee**"). Madam Zhou is also a director of certain subsidiaries of the Company. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 10 years of experience in the pharmaceutical industry. Prior to joining the Group, Madam Zhou worked as project manager at 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) from July 1995 to December 1999, where she was responsible for the operations of international exhibitions. 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) is a subsidiary of 北京市貿促會 (China Council for the Promotion of International Trade Beijing Sub-council*), which was engaged in the promotion of international trade and exchange of technology between different countries and the PRC, and a sub-council of 中國國際貿易促進委員會 (China Council for the Promotion of International Trade*). Before joining the Group in April 2014, from November 2005 to February 2014, Madam Zhou had been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting the coordination and communication of different business segments, and as the chief financial officer, where she was responsible for procurement and financial matters. Madam Zhou graduated with a bachelor's degree of arts from 北京師範大學 (Beijing Normal University*) in China in June 1995 and a master's degree in business administration from 北京大學 (Peking University*) in China in January 2006.

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling ("Madam Ji") (季玲玲), aged 37, was appointed as a non-executive Director with effect from 20 June 2014, on which she joined the Group. She is also a member of each of the audit committee of the Board ("**Audit Committee**") and the Risk Management Committee. Madam Ji is a qualified lawyer in the PRC and has over 10 years' experience in legal compliance. Prior to becoming the chairman's assistant in 2005, she worked as a sales assistant in 北京啟迪世紀通訊技術有限公司 (Beijing Unismobile Communication Technology Co*) which is a company engaged in the research and development of communication and computer products from May 2004 to July 2005. Since July 2005, Madam Ji has been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting him in overseeing all legal matters. Madam Ji graduated from 中國人民大學 (Ren Min University of China*) in China with a bachelor's degree in laws in July 2004 and from 北京大學 (Peking University*) in China with a master's degree in laws in January 2012 respectively. Madam Ji also obtained the Master of Laws degree from Temple University of the United States in November 2017.

** For identification purpose*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("Mr. Cheung") (張立基), aged 48, was appointed as an independent non-executive Director with effect from 21 October 2014. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Cheung is a member of The Hong Kong Independent Non-Executive Director Association, fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over 25 years of experience in auditing and accounting field. Mr. Cheung worked as an audit assistant for George Yau & Co, a certified public accountants' firm from May 1994 to February 1996. From December 1996 to December 1998, he worked as a staff accountant for Ernst & Young. He worked for KPMG from October 1999 to January 2005. By the time he left KPMG, he was a manager. Both Ernst & Young and KPMG are certified public accountants' practice offering a variety of professional services including audit and assurance, consultancy, corporate finance and tax. Mr. Cheung served as the group financial controller, qualified accountant and company secretary of China Ruifeng Renewable Energy Holdings Limited (Stock code: 527) from February 2005 to January 2008. He served as the chief financial officer, qualified accountant and company secretary of United Photovoltaics Group Limited (now known as Panda Green Energy Group Limited) (Stock code: 686) from July 2008 to January 2009. He served as chief financial officer and company secretary of China Zhongwang Holdings Limited (Stock code: 1333) from December 2008 to June 2016. He served as executive director, chief financial officer and company secretary of Wan Kei Group Holdings Limited (Stock code: 1718) from January 2017 to January 2018. He served as chief financial officer of Orient Victory Travel Group Company Limited (Stock code: 265) from December 2018 to August 2019, He has served as company secretary of Agile Group Holdings Limited (Stock code: 3383) since September 2019. The shares of all of the above companies are listed on the Main Board of the Stock Exchange. Mr. Cheung received a bachelor's degree in commerce from Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006.

Madam Chiu Hoi Shan ("Madam Chiu") (趙凱珊), aged 43, was appointed as an independent non-executive Director with effect from 21 October 2014. She is also the chairlady of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee. Madam Chiu obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in December 1998 and June 1999 respectively. She has been practicing as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. Madam Chiu commenced practice as a founding partner of Chiu & Co. as from August 2017 and remains as a partner of S.H. Leung & Co, both are solicitors' firms in Hong Kong engaged in the provision of various legal services. Madam Chiu has served as company secretary of Chongqing Machinery & Electric Co., Ltd* (Stock code: 2722) since October 2014, joint company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053) since March 2018 and joint company secretary of Maanshan Iron & Steel Company Limited (Stock code: 323) since April 2018, shares of all of the above companies are listed on the Main Board of the Stock Exchange.

** For identification purpose*

Mr. Leung Oi Kin ("Mr. Leung") (梁愷健), aged 45, was appointed as an independent non-executive Director with effect from 21 October 2017. Mr. Leung is a professional accountant and a fellow member of the Certified Practising Accountants Australia. He has over 20 years of experience in accounting and financial management. Mr. Leung worked in PricewaterhouseCoopers as an auditor. He also served as the company secretary and chief financial officer of Wisdom Holdings Group (now known as Wisdom Sports Group) (Stock code: 1661), shares of which are listed on the Main Board of the Stock Exchange; and the chief financial officer of Linekong Interactive Group Co., Ltd. (Stock code: 8267), shares of which are listed on GEM of the Stock Exchange. Mr. Leung has served as an executive director and the company secretary of G-Resources Group Limited (Stock code: 1051), shares of which are listed on the Main Board of the Stock Exchange, since November 2016 and December 2016, respectively. Mr. Leung received a bachelor's degree in commerce from University of Adelaide, Australia in 1997.

SENIOR MANAGEMENT

Name	Age	Position
Executive Directors		
Madam Wang Wei, Lena	46	Vice-president
Madam Tang Xiangdi	42	Financial controller

Madam Wang Wei, Lena ("Madam Wang") (王瑋), aged 46, was appointed as the Group's vice-president in October 2015 and she is primarily responsible for the marketing of the Group. Madam Wang joined the Group in October 2003 and was responsible for sales marketing and operation of consumables, instrument and equipment in Lifesciences industry until June 2015. From June 2015, Madam Wang takes charge of full operations of Lifesciences Instrument & Consumables Business Unit. She was also appointed as general manager of Austar Hansen Lifesciences (Shanghai) Ltd. in June 2015. Prior to joining the Group, Madam Wang worked for NCPC Genetec Biotechnology Co. Limited as quality assurance supervisor from 2000 to 2003 and served as the leader of Strain Breeding Group, Hebei Welcome Pharmaceutical Co., Ltd. from 1995 to 1999. Madam Wang obtained a bachelor's degree from Hebei University of Science and Technology on 5 January 2010.

Madam Tang Xiangdi ("Madam Tang") (唐湘娣), aged 42, was appointed as our Group's financial controller from 1 November 2013 and she is primarily responsible for the financial management of our Group. Madam Tang joined our Group in January 2013. She has over 13 years of experience in financial reporting and treasury management. From July 2000 to May 2002, she worked as an accountant at 北京匯金科技有限責任公司 (Beijing Nasoft Co. Ltd*), a company engaged in the research and development of software and information systems and she was responsible for preparing the accounting documents and tax returns. She worked as a finance manager in 樂金電子(中國)有限公司(北京營業部) (LG Electronics (China) Co., Ltd (Beijing Sales office)*), a company engaged in the manufacturing, sales, and the research and development of various electronic products, and home appliances, from May 2002 to June 2007 and she was responsible for reviewing the daily, monthly and annual financial reports. From June 2007 to April 2009 she worked as a finance manager responsible for reviewing, examining and monitoring the revenue and expenses in the daily operations, audit reports and inventory level at 北京同樂寒舍國際餐飲有限責任公司 (My Humble House in Beijing (Restaurant) Company Limited*), a company engaged in catering business. She has been a finance manager since April 2009 in a company controlled by Mr. Mars Ho, the chairman of the Board, chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, prior to joining our Group. Madam Tang obtained a bachelor's degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master's degree of business administration from 北京大學 (Peking University) in June 2014.

REPORT OF THE DIRECTORS

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

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

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

On 7 November 2014, ordinary shares of the Company ("**Shares**") were first listed on the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). The net proceeds received by the Company from the IPO amounted to approximately HK$411.8 million (after deducting underwriting commissions and all related expenses) ("**Net Proceeds**").

The Company has, and will continue to utilise the Net Proceeds for the purposes consistent with the section heeded "Future plans and use of proceeds" as set out in the prospectus of the Company dated 28 October 2014 ("**Prospectus**"). As at 31 December 2019, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	Proposed percentage of utilisation	Proposed utilisation amount		Utilised amount as at 31 December 2019		Unutilised amount as at 31 December 2019		Expected timeline for the unutilised Net Proceeds
		HK$ in million	RMB in million	HK$ in million	RMB in million	HK$ in million	RMB in million	
Establishment of the Shijiazhuang R&D and Production Centre	39.6%	163.1	126.7	55.7	32.6	107.4	94.1	Note 1
Development of the Songjiang Production Centre	14.2%	58.4	45.4	–	–	58.4	45.4	Note 2
Expansion of sales and marketing network	6.8%	28.0	21.8	28.0	21.8	–	–	N/A
Research and development activities	9.5%	39.1	30.4	39.1	30.4	–	–	N/A
Potential acquisition of interests in companies possessing critical product technologies in the pharmaceutical equipment, process system and service market	20%	82.4	64.0	43.9	29.6	38.5	34.4	Subject to any potential targets identified
Working capital and other general corporate purposes	9.9%	40.8	31.7	40.8	31.7	–	–	N/A
Total	**100.0%**	**411.8**	**320.0**	**207.5**	**146.1**	**204.3**	**173.9**	

Note:

1. Establishment of the Shijiazhuang R&D and Production Centre – The Company had planned to use approximately RMB126.7 million (equivalent to approximately HK$163.1 million) of the Net Proceeds for establishment of the Shijiazhuang R&D and Production Centre. As the process in the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Land**") by the Group is slower than expected and accordingly, the development plans of the Group's Shijiazhuang R&D and Production Centre on such land set out in the section headed "Business" in the Prospectus have been lagging behind schedule. On 18 September 2018, the Group by a successful bid won the public tender of the Land and administrative work to obtain the necessary approvals and land use right certificates are in process. It is expected that the unutilised Net Proceeds of approximately RMB94.1 million (equivalent to approximately HK$107.4 million) allocated for the establishment of the Shijiazhuang R&D and Production Centre will be utilised in accordance with the development plans as set out in the section headed "Business" in the Prospectus but subject to rescheduling due to the reasons above.

2. Development of the Songjiang Production Centre – The Company had planned to use approximately RMB45.4 million (equivalent to approximately HK$58.4 million) of the Net Proceeds for development of the Songjiang Production Centre. As at 31 December 2019, the Group is actively searching for suitable potential location for the development of the Songjiang Production Center. The schedule of development plan of the Songjiang Production Centre was delayed due to the local government is making a long-term plan of the whole Songjiang area development. It is expected that the unutilised Net Proceeds of approximately RMB45.4 million (equivalent to approximately HK$58.4 million) allocated for development of the Songjiang Production Centre will be utilised in accordance with the development plan as set out in the section headed "Business" in the Prospectus but subject to rescheduling due to the reasons above.

The Company intends to continue to apply the Net Proceeds in the manner consistent with that mentioned above. Nonetheless, the Directors will constantly evaluate the Group's business objectives and may change or modify the plans against changing market conditions to ascertain the business growth of the Group.

The utilised Net Proceeds brought forward from the previous year amounted to approximately HK$226.6 million. The unutilised Net Proceeds as at 31 December 2019 of approximately HK$204.3 million has been deposited into the banks.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's operations are substantially conducted through its subsidiaries in the PRC. The Group is principally engaged in providing integrated engineering solutions to pharmaceutical manufactures and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the PRC under six business segments: (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. Details of principal activities of the subsidiaries of the Company are set out in Note 35 to the Consolidated Financial Statements.

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

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

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

(c) the principal risks and uncertainties facing the Company – the paragraph headed "Risks and uncertainties" of this report of the Directors.

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

EVENT AFTER THE YEAR

Following the outbreak of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China, including an extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, imposing of certain restrictions and controls over travelling traffic arrangements, etc. These measures have delayed the resumption of business after the Chinese New Year holiday of the Group and of its joint ventures, and also some of the Group's customers and suppliers in China. As a result, the progress of certain engineering contracts, settlement by customers and order–in-take of the Group have been delayed and affected to some extent.

The majority of the Group's operation and its joint ventures' businesses which are mainly in China have been getting better in March 2020. The Group's associates in Germany started being affected to some extent since March 2020. As at the date of this report of Directors, the impacts on the macro-economic conditions as a whole by the COVID-19 outbreak are still uncertain, the Group is unable to quantify the related financial effects. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures.

RISKS AND UNCERTAINTIES

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

RISKS	MAJOR RELEVANT ALLEVIATING MEASURES
Business/Market risks	
The pharmaceutical equipment, process system and service market is competitive, when domestic and foreign competitors may develop and introduce new products sooner than the Group, or provide more attractively priced, enhanced, or better quality products and systems, than the Group does. In addition, competition may intensify if the pharmaceutical equipment, process system and service market expands as demand increases, and in such case, it may result in downward pressure on price which could negatively impact the Group's business, financial condition, result of operations, and prospects.	The Group continuously reviews its competitive edges in view of the industry and market trend, in order to formulate responsive marketing strategy and product developments. Through proactive communication with its customers and strong research teams, the Group is able to develop and improve its products and services to cater various needs of the market and to provide the tailor-made products and services to different clients for enhancing the price advantage of the Group. Such efforts are reflected not only in the Group's products, but also through seminars, publications and participations in international exhibitions, to develop the "AUSTAR" brand image and receive recognition and awareness among the Group's customers, industry experts and the market at large.
Customer relationship management is a series of strategies and processes that create new and mutual value for individual customers, builds preference for their organisations, improves business results over a lifetime of association with their customers, and in turn, creates loyalty and customer retention. Higher risk in customer relationship management may have negative impact on customer retention or result in loss of client information upon departure of our staff.	To manage the customer relationship management risk, all customer information (including potential clients) will be gathered and stored in a centralised electronic database of the Company, instead of being kept by individual sales staff. This can prevent the loss of customer information when sales staff leaves the Company.

RISKS	MAJOR RELEVANT ALLEVIATING MEASURES
Operational risks	
Cost management is critical in ensuring the Group's projects meet their budgeted profit margins. The risk of cost overrunning increases with the prolonged execution of projects, and possible increase in the price of materials and cost of labours.	The Group, through various means in particular the establishment of engineering project execution centre, strives to promote closer relationship and information sharing between the marketing team, project engineers and technical experts in budgeting and cost monitoring.
In addition, some of the projects could not be completed within the agreed contract period as a result of the ineffective communication across different departments.	The Group, through various means, to facilitate communication across departments, especially sales department and procurement department, to preserve timely completion of projects.
The Group's operations are highly dependent on its personnel, including both senior and mid-level management, engineers, skilled technical personnel and marketing and sales personnel. The Group may be materially and adversely affected if any of these key personnel leaves the Group and there being no adequate and timely replacement.	The engineering project execution centre also strengthens the Group's ability to monitor and coordinate its various projects, both in supply chain management and human resources allocation, in order to achieve an optimal use of the Group's resources and avoid its personnel being overworked. The Group also closely monitors its staffing and maintains close communication between the engineering project execution centre and the human resources department, so that any recruitment needs would be promptly responded. Allocating ample resources to staff training and development with the aim of sustaining a competent, professional and ethical staff force, and assisting the long-term career development of staff.
Compliance risks	
The Group's operations are subject to the environmental protection, safety and health laws and regulations in the PRC. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of the Group's licences or permits to conduct its business. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources in establishing efficient compliance and monitoring systems.	Through close monitoring of various legal and regulatory pronouncements from the government by its industry experts and legal and compliance personnel, the Group is able to keep itself updated with various regulatory requirements. Adequate and timely trainings are provided to operational staff, and monitoring and control measures are established to ensure efficient and effective compliance with the laws and regulations.

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

Relationships with key stakeholders

a) *Employees*

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

b) *Customers*

As disclosed in the paragraph headed "Major customers and suppliers" below, the five largest customers of the Group accounted for approximately 13.9% of the Group's total revenue for the Year. These major customers are chemical and biopharmaceutical manufacturers and the Group has maintained stable relationships with them for around 2 to 9 years. The credit period granted to these major customers are in line with those granted to the other customers. During the Year, settlement of trade receivables by these major customers in accordance with the credit terms granted had been satisfactory, with provisions of approximately RMB352,000 made for the Year.

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

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

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

c) Suppliers

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

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

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

Compliance with laws and regulations

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Financial Statements of this annual report.

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

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, 29 May 2020 ("**2020 AGM**").

For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 25 May 2020.

FINANCIAL SUMMARY

A summary of the published financial results and of the assets and liabilities of the Group for the Year, together with the financial results and of the assets and liabilities of the Group for the four years ended 31 December 2018 is set out in the section headed "Five-year Financial Summary" of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2019 are set out in Note 19 to the Consolidated Financial Statements.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity on pages 115 to 116 and in Note 34 to the Consolidated Financial Statements respectively.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the shareholders of the Company ("**Shareholders**") as at 31 December 2019 amounted to RMB450,324,000 (31 December 2018: RMB446,510,000).

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

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

Non-executive Director
Madam Ji Lingling

Independent Non-executive Directors
Mr. Cheung Lap Kei
Madam Chiu Hoi Shan
Mr. Leung Oi Kin

In accordance with Articles 84(1) and 84(2) of the Articles, Mr. Ho Kwok Keung, Mars, Madam Zhou Ning and Mr. Cheung Lap Kei will retire by rotation at the 2020 AGM and, being eligible, will offer themselves for re-election.

DIRECTORS' PROFILES

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has renewed his/her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2018, subject to certain early termination clauses of the letter.

The non-executive Director has renewed her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2019, subject to certain early termination clauses of the letter.

Each of the independent non-executive Directors has renewed his/her letter of appointment with the Company for a fixed term of one year commencing on 21 October 2019, subject to certain early termination clauses of the letter.

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NONEXECUTIVE DIRECTORS

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long position:

Name of Director	The Company/ Name of associated corporations	Capacity/Nature of interest	Number and class of shares held/interested in the Company/ associated corporations	Approximate percentage of interest
Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**")	The Company	Interest of a controlled corporation	335,929,000 Shares *(Note 1)*	65.54%
	The Company	Interest of spouse	3,750,000 Shares (Note 2)	0.73%
	Standard Fortune Holdings Limited ("**SFH**") *(Note 3)*	Beneficial owner	1 ordinary share of US$1	100%
Mr. Ho Kin Hung ("**Mr. KH Ho**")	The Company	Interest of a controlled corporation	37,271,000 Shares *(Note 4)*	7.27%

Notes:

(1) Such Shares were registered in the name of SFH, a company wholly owned by Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares held by SFH. Mr. Mars Ho is a director of SFH.

(2) Such Shares were registered in the name of Honour Choice Ventures Limited ("**HCV**"), a company wholly owned by Madam Gu Xun ("**Madam Gu**"), the spouse of Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Mr. Mars Ho is deemed to be interested in all the Shares in which Madam Gu is interested or deemed to be interested.

(3) As at 31 December 2019, SFH was the holding company of the Company and thus an associated corporation of the Company.

(4) Such Shares were registered in the name of True Worth Global Limited ("**TWG**"), a company wholly owned by Mr. KH Ho. By virtue of the provisions of Part XV of the SFO, Mr. KH Ho is deemed to be interested in all the Shares held by TWG.

Save as disclosed above, as at 31 December 2019, none of the Directors and/or chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

Changes in Directors' information since the date of the 2019 interim report of the Company are set out below:

– Mr. Cheung Lap Kei, independent non-executive Director, has been appointed as company secretary of Agile Group Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock code: 3383), since September 2019;

– Annual salary of Mr. Ho Kin Hung, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to HK$1,752,127 with effect from 1 January 2020;

– Annual salary of Mr. Chen Yuewu, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to RMB960,000 with effect from 1 January 2020;

– Annual salary of Madam Zhou Ning, executive Director, payable by her employment contract with a subsidiary of the Company has been revised to RMB639,324 with effect from 1 January 2020; and

– Annual Director's fee of Madam Ji Lingling, non-executive Director, has been revised to RMB438,456 with effect from 1 January 2020.

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS

During the Year, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Save for those transactions as disclosed in the paragraph headed "Non-exempt continuing connected transactions" of this report of the Directors, all other related party transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are disclosed in Note 31 to the Consolidated Financial Statements.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has carried out the following non-exempt continuing connected transactions that are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules:

1. Engineering Framework Agreement

On 3 July 2019, H+E GmbH ("**H+E**"), as contractor, and H+E Pharma, as client, entered into a framework agreement for the provision of the engineering and construction services and non-engineering services regarding the construction and development of apparatuses and plants for producing, storage and distribution of purified water and highly purified water by H+E to H+E Pharma ("**Engineering Framework Agreement**") for a fixed period from the date of the Engineering Framework Agreement and until 31 December 2021.

As at the date of the Engineering Framework Agreement, H+E Pharma is a wholly-owned subsidiary of H+E. Upon completion of the investment agreement entered into, among other parties, between Austar Biosciences GmbH, an indirect wholly-owned subsidiary of the Company, and H+E and dated 3 July 2019 in relation to the formation of H+E Pharma ("**Establishment of the Joint Venture**") on 23 July 2019, H+E Pharma has become an indirect non-wholly owned subsidiary of the Company and owned as to 51% by the Group and as to 49% by H+E. Accordingly, H+E has become a connected person of the Company by virtue of its 49% interest in H+E Pharma under the Listing Rules and the transactions contemplated under the Engineering Framework Agreement has also become continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

The pricing basis and the other terms of the transactions contemplated under the Engineering Framework Agreement shall be subject to the terms and conditions contained therein and determined in accordance with the internal control procedures of the Group, which, in principle, shall be no less favourable to the Group than those offered to the Group by independent third party contractors of the same period.

The annual cap in respect of the transactions contemplated under the Engineering Framework Agreement for the Year is Euro 600,000 (equivalent to approximately RMB4,689,000).

For the Year, the aggregate amount paid/payable by H+E Pharma to H+E under the Engineering Framework Agreement amounted to approximately Euro 156,000 (equivalent to approximately RMB1,205,000).

2. Pre-assembly and Assembly Framework Agreement

On 3 July 2019, H+E, as client and S-Tec GmbH ("**S-Tec**"), as contractor entered a framework agreement for the provision of the pre-assembly and assembly services regarding equipment and plants for the purification and treatment of water and other liquids for non-pharmaceutical applications by S-Tec to H+E ("**Pre-assembly and Assembly Framework Agreement**") for a fixed period from the date of the Pre-assembly and Assembly Framework Agreement and until 31 December 2021.

As at the date of the Pre-assembly and Assembly Framework Agreement, S-Tec and H+E are fellow subsidiaries under common control by Aquarion AG, a stock corporation established under the laws of Switzerland. Upon completion of the Establishment of the Joint Venture on 23 July 2019, S-Tec has become a wholly-owned subsidiary of H+E Pharma and hence an indirect non-wholly owned subsidiary of the Company. Since H+E has become a connected person of the Company by virtue of its 49% interest in H+E Pharma under the Listing Rules on 23 July 2019, the transactions contemplated under the Pre-assembly and Assembly Framework Agreement has become continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

The pricing basis and the other terms of the transactions contemplated under the Pre-assembly and Assembly Framework Agreement shall be subject to the terms and conditions contained therein and determined in accordance with the internal control procedures of the Group, which, in principle, shall be no less favourable comparing with the accepting order offered by the Group to independent third party clients of the same period.

The annual cap in respect of the transactions contemplated under the Pre-assembly and Assembly Framework Agreement for the year ended 31 December 2019 is Euro 3,000,000 (equivalent to approximately RMB23,447,000).

For the Year, the aggregate amount received receivable from H+E to S-Tec under the Pre-assembly and Assembly Framework Agreement amounted to approximately Euro 661,000 (equivalent to approximately RMB5,107,000).

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the continuing connected transactions were entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Board would like to confirm that the continuing connected transactions carried out during the Year and as disclosed in this report of the Directors have complied with the requirements in Chapter 14A of the Listing Rules.

The Company has engaged the auditor of the Company to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter to the Board containing its conclusions in respect of the continuing connected transactions disclosed by the Group in this report in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the auditor's letter to the Stock Exchange as required under Rule 14A.57 of the Listing Rules.

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

DIRECTORS' EMOLUMENTS

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

PERMITTED INDEMNITY PROVISION

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

RETIREMENT SCHEMES

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2019, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executives of the Company), who had interests in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

Long position:

Name of Shareholder	Capacity/Nature of interest	Number of shares held/Interested in	Approximate percentage of Interest
Madam Gu	Interest of a controlled corporation	3,750,000 *(Note 1)*	0.73%
	Interest of spouse	335,929,000 *(Note 2)*	65.54%
SFH	Beneficial owner	335,929,000 *(Note 3)*	65.54%
Lei Wujun	Beneficial owner	30,980,000	6.04%
Madam Cheung Chau Ping ("**Madam Cheung**")	Interest of spouse	37,271,000 *(Note 4)*	7.27%
TWG	Beneficial owner	37,271,000	7.27%

Notes:

(1) Such Shares were registered in the name of HCV, a company wholly owned by Madam Gu. By virtue of the provisions in Part XV of the SFO, Madam Gu is deemed to be interested in all the Shares in which HCV is interested or deemed to be interested.

(2) Such Shares were registered in the name of SFH, a company wholly owned by Mr. Mars Ho. Madam Gu is the spouse of Mr. Mars Ho. By virtue of the provisions of Part XV of the SFO, Madam Gu is deemed to be interested in all the Shares in which Mr. Mars Ho is interested or deemed to be interested.

(3) SHF is wholly owned by Mr. Mars Ho.

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

Save as disclosed above, as at 31 December 2019, the Directors and the senior management of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the largest customer and the largest supplier of the Group accounted for approximately 5.1% and 11.9% of the Group's total revenue and total purchases respectively, and the five largest customers and the five largest suppliers of the Group accounted for approximately 13.9% and 28.2% of the Group's total revenue and total purchases respectively.

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

AUDIT COMMITTEE

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

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

AUDITOR

The Consolidated Financial Statements for the Year have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment at the 2020 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2020 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

27 March 2020

CORPORATE GOVERNANCE REPORT

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

Save for the deviation stated in relation to the chairman of the Board and chief executive officer of the Company being the same individual as described below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the Year and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

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

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

BOARD OF DIRECTORS

Function of the Board

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

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

Board Composition

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

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

Executive Directors	
Mr. Ho Kwok Keung, Mars	Chairman of the Board Chief executive officer of the Company Chairman of the Nomination Committee Member of the Corporate Governance Committee
Mr. Ho Kin Hung	
Mr. Chen Yuewu	Member of the Risk Management Committee
Madam Zhou Ning	Chairlady of the Corporate Governance Committee and the Risk Management Committee Member of the Remuneration Committee
Non-executive Director	
Madam Ji Lingling	Member of the Audit Committee and the Risk Management Committee
Independent non-executive Directors	
Mr. Cheung Lap Kei	Chairman of the Audit Committee Member of the Remuneration Committee and the Nomination Committee
Madam Chiu Hoi Shan	Chairlady of the Remuneration Committee Member of the Audit Committee, the Nomination Committee and the Corporate Governance Committee
Mr. Leung Oi Kin	

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Corporate Governance Code requires the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual. The chairman of the Board is responsible for the overall leadership of the Company and for strategies and planning of the Group. The chief executive officer of the Company is responsible for the day-to-day management of the Group's business and operations.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

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

– reviewed the Group's annual financial statements for the year ended 31 December 2018 and interim financial statements for the six months ended 30 June 2019 and the related result announcements, documents and other matters or issues raised by external auditor of the Company;

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

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

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

– reviewed the terms of reference of the Audit Committee.

Remuneration Committee

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

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

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

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

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

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

– reviewed and recommended to the Board the proposal for salary adjustments for executive Directors and senior management of the Company and adjustment of director's fee of the non-executive director.

Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– made recommendation to the Board on the re-election of retiring Directors at the 2019 AGM (as defined below); and

– reviewed the terms of reference of the Nomination Committee.

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

Corporate Governance Committee

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

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

During the Year, the Corporate Governance Committee held one meeting, at which the members of the Corporate Governance Committee principally reviewed the Company's compliance with the Corporate Governance Code for the year ended 31 December 2018 and reviewed and monitored the training and continuous professional development of the Directors.

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

Risk Management Committee

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

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

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

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

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

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

BOARD MEETINGS AND GENERAL MEETING

During the Year, a general meeting, being the 2019 annual general meeting held on 27 May 2019 ("**2019 AGM**"), and four Board meetings were held.

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

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

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

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

	Attendance/Number of Meetings Eligible to Attend						
Name of Director	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Risk Management Committee meeting	2019 AGM
Executive Directors:							
Mr. Ho Kwok Keung, Mars	4/4	N/A	1/1	N/A	1/1	N/A	1/1
Mr. Ho Kin Hung	4/4	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Chen Yuewu	4/4	N/A	N/A	N/A	N/A	2/2	1/1
Madam Zhou Ning	4/4	N/A	N/A	1/1	1/1	2/2	1/1
Non-executive Director:							
Madam Ji Lingling	4/4	2/2	N/A	N/A	N/A	2/2	1/1
Independent non-executive Directors:							
Mr. Cheung Lap Kei	3/4	2/2	1/1	1/1	N/A	N/A	1/1
Madam Chiu Hoi Shan	4/4	2/2	1/1	1/1	1/1	N/A	1/1
Mr. Leung Oi Kin	4/4	N/A	N/A	N/A	N/A	N/A	1/1

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

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

Emoluments Band	For the year ended 31 December 2019
HK$1,000,000 and below	4
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	2
HK$2,000,001 and above	1
	10

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

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

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

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

COMPANY SECRETARY

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

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

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

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

ACCOUNTABILITY AND AUDIT

Responsibilities in respect of the Consolidated Financial Statements

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

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the Consolidated Financial Statements for the Year is set out in the section headed "Independent Auditor's Report" on pages 105 to 110 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The main responsibilities of each party are described as follows:

Board	–	Set up goals for risk management strategy, assess and determine the nature and degree of risk acceptable to achieve the strategic goals
	–	Establish and maintain a proper and effective risk management and internal control systems
	–	Review the effectiveness of the risk management and internal control systems
	–	Review the effectiveness of the Group's processes for financial reporting and Listing Rules compliance

Audit Committee	–	Review the Company's financial controls and internal control system at least annually, and such review should cover all material controls, including financial, operational and compliance controls
	–	Ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions
	–	Discuss the internal control system with the Management to ensure that the Management has performed its duty to have an effective internal control system. The discussion covers adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions
	–	Consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the Management's response to these findings
	–	Consider the major findings of internal investigations and the Management's response
Risk Management Committee	–	Oversee and review the adequacy and effectiveness of risk management procedures that are already in place
	–	Review the effectiveness of the Group's risk management system at least annually
	–	Review the compliance reports and risk assessment reports that need to be reviewed by the Board, and to make recommendations on improvement of the Company's compliance and risk management
	–	Review and provide comment on the overall target and basic policy of compliance and risk management
	–	Allocate resources for the internal control and risk management systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives
The Management	–	Design and implement the risk management and internal control systems
	–	Monitor the status of remediation of internal control weaknesses
	–	Analyse the probability and impact of the risks and assess the existing risk management procedures
	–	Monitor the on-going risk and develop necessary responsive measures according to risk management procedures
	–	Provide confirmation to the Board and the Board Committees on the effectiveness of the risk management and internal control systems

In addition, the Company has engaged external consultant to conduct annual review of the effectiveness of the risk management and internal control systems for the Year, to follow up on the internal control weaknesses identified in 2018 and certain remedial actions, to report to the Board and the Board Committees and to develop risk assessment for the Year and 3-year internal audit plans.

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

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

Main Features of the Risk Management and Internal Control Systems

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

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

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

Control Environment	–	the foundation for the other components of internal control and provides discipline and structure
Risk Assessment	–	a dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed
Control Activities	–	actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out
Information and Communication	–	internal and external communication to provide the Group with the information needed to carry out day-to-day controls
Monitoring	–	ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning

Process used to identify, evaluate and manage significant risks

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

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

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

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

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

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

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

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

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

Whistleblowing Policy

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

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

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

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

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

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

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

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

Internal audit function

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

INSURANCE ON DIRECTOR'S AND OFFICER'S LIABILITIES

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

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

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

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

REMUNERATION TO THE COMPANY'S AUDITOR

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

Services Rendered	For the year ended 31 December 2019 RMB'000
Statutory audit	**3,450**
Non-audit services	**9**
Total	**3,459**

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

SHAREHOLDERS' RIGHTS

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

Save for the procedures for Shareholders to convene a general meeting as set out above, there are no provisions allowing Shareholders to put forward proposals at the general meeting under the Articles or under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition. The written requisition must state the objects of the meeting, and must be signed by the relevant shareholder(s) and deposited to the company secretary of the Company at the Company's principal place of business in Hong Kong, Workshop 6 on 1/F., New Trade Plaza, No. 6 On Ping Street, Shatin, New Territories, Hong Kong.

DIVIDEND POLICY

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

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

CONSTITUTIONAL DOCUMENTS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

27 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The Environmental, Social and Governance ("**ESG**") Report ("**Report**") of Austar Lifesciences Limited ("**Company**", together with its subsidiaries, "**Austar**" or the "**Group**") has made reference to the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKEx Appendix 27 ESG Reporting Guide**"), and compile the report content in accordance with the principles of materiality, quantitative, balance and consistency.

The scope of this report is based on the Company and its major subsidiaries, Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar SJZ**"), Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**"), Austar Pharmaceutical Process System (Shijiazhuang) Co. Ltd. ("**APTS SJZ**") and Austar Hansen Lifesciences (Shanghai) Ltd ("**Austar Hansen**") and Austar Pharmaceutical Technology Equipment (Nanjing) Ltd. ("**Austar Nanjing**") in the People's Republic of China ("**PRC**" or "**China**"), unless specifically stated otherwise. There were no significant changes observed in the Group's operating locations, the suppliers' location and supply chain structure in the financial year ended 31 December 2019 ("**year**" or "**reporting period**").

REPORTING PERIOD AND SCOPE

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

Reporting period: 1 January 2019 to 31 December 2019, the financial period of our Annual Report 2019.

Organisations covered: Company and its subsidiaries.

REFERENCE GUIDELINES

HKEx Appendix 27 ESG Reporting Guide

CONTACT

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

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

CHAIRMAN'S MESSAGE

Looking back to our published ESG reports over the past two years, apart from the good results achieved in our principal business, Austar has spent tremendous effort in environmental and social responsibility and has become an important partner that customers can trust.

This year, the Group has redesigned the assessment of the materiality of the company. In order to understand the issues that our stakeholders are interested in relation to the Group's materiality, we have increased the amount of interviews conducted for our assessment this year. In addition, we are aware that several changes will be made to the ESG reporting guidelines next year, in which more stringent disclosure requirements are required for listed companies. Therefore, we will also make adequate preparations for the report in the coming year.

In the foreseeable future, other than striving for better results in business, Austar will also invest more resources to resolve the issues that our stakeholders are concerned, such as employee training and product safety. We believe that resources invested in the ESG can bring long-term value to the Company, and the intrinsic value of our products will shine positively.

I would also like to take this opportunity to express my appreciation to our staff for their contributions to the Company in the past year which made us achieve outstanding business performance.

Ho Kwok Keung, Mars
Chairman

27 March 2020

OVERVIEW

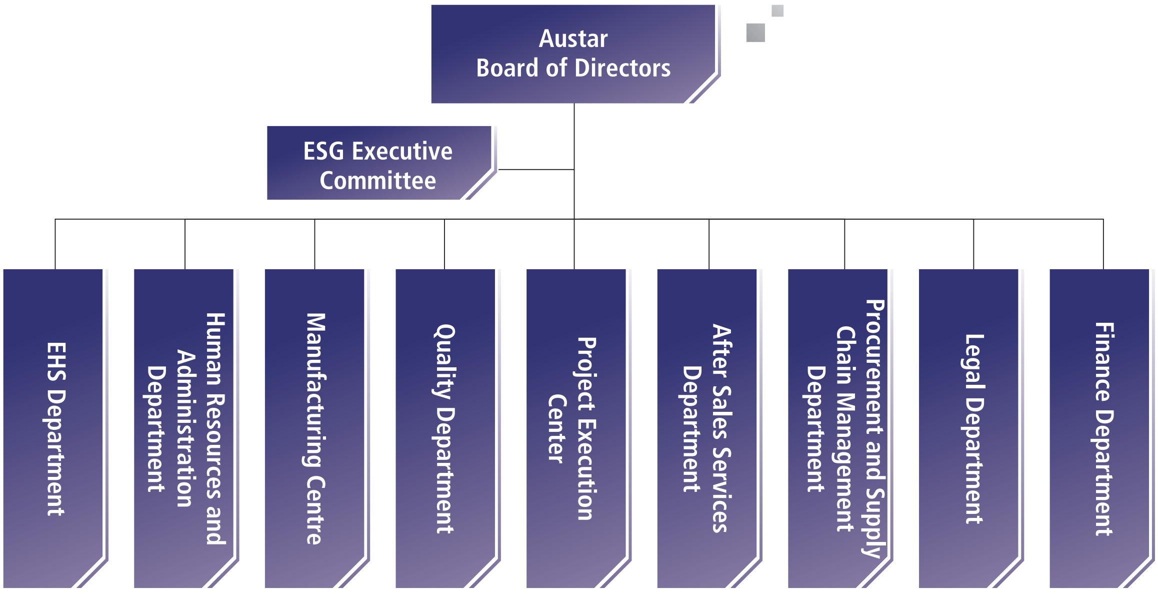
Being a leading company in the pharmaceutical equipment industry and provider of integrated engineering solutions to pharmaceutical manufactures and research institutes in China, Austar has been providing customers with high-end, integrated services and product integration engineering solutions, and the Group has been widely recognised in the pharmaceutical equipment industry and obtained a number of related industrial certifications. In addition, we have leveraged our professional experience to provide assistance to customers, create production facilities and undergo facility construction through adopting both hardware and software engineering and technology to provide advice to customers. The Group has established important long-term business relationships with customers by providing a diversified product portfolio and services.

CORE VALUES/MANAGEMENT PRINCIPLES

Austar understands thoroughly that developing its own business with a sustainable development approach can achieve greater and longer-term returns. Therefore, the concept of triple bottom line (TBL) has been integrated into our corporate culture in order to balance between economic development, environmental protection and social contribution while providing our best effort to contribute to society. Apart from our own production lines, we also emphasise great importance to the quality of goods provided by upstream suppliers and their compliance. We cherish our cooperative relationship with each supplier. We hope that our suppliers can cooperate with our sustainable development philosophies while providing higher quality products and create social responsibility value together.

MANAGEMENT STRUCTURE

The ESG Executive Committee established by the Group is the same as in previous years with its purpose to effectively implement policies related to sustainable development with a comprehensive management structure. The ESG Executive Committee also conducts periodic review of ESG-related plans, principles, policies, and conducts work supervision to ensure that the Group can contribute to the environment and society and enhance its ability to perform corporate social responsibility.



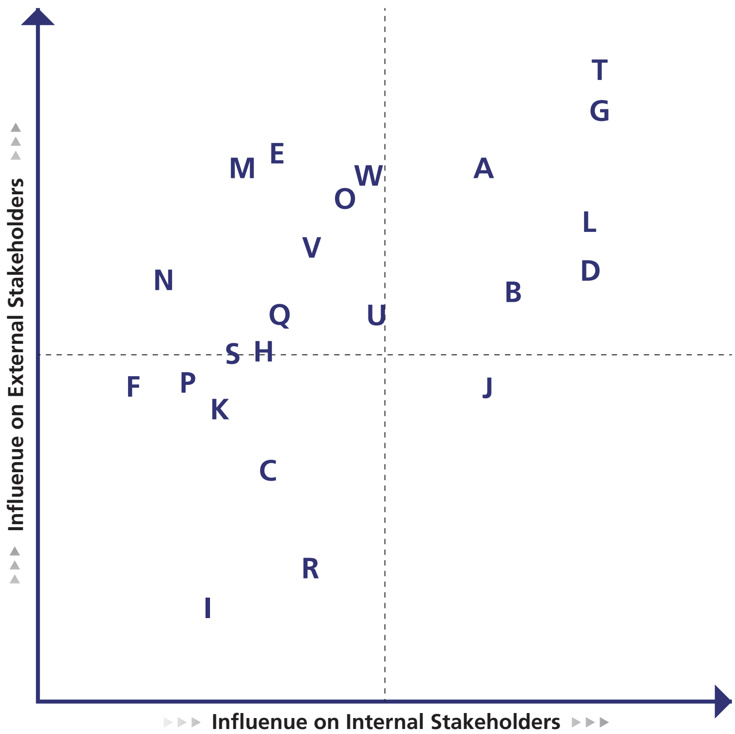
STAKEHOLDER IDENTIFICATION AND COMMUNICATION

Austar is convinced that inviting all stakeholders to provide their opinions on ESG measures this year can significantly improve the Group's sustainable development efforts and is one of the key activities to understand their respective concerns. Therefore, the Group has invited our suppliers, employees, customers and other stakeholders to comment on our approach to various issues, and ways to further improve the internal control system, corporate governance structure and formulate longer-term policies. The following table sets forth the key methods for communicating with internal and external stakeholders at Austar:

	Types of stakeholders	Key issues	Major communication method
Internal stakeholders	Directors	Risk management	Consultation via phone calls and emails Direct communication Company conferences Suggestion box
Internal stakeholders	Employees	Vocational training and development Salaries and benefits Health and safety	Consultation via phone calls and emails Direct communication Company conferences Suggestion box
External stakeholders	Shareholders/ investors	Stable return on investment Transparency of information disclosure	Annual general meeting Consultation via phone calls and emails
External stakeholders	Suppliers/customers	Performance of contract Standardised supply chain management system and procurement process Establishment of complaint system	Annual report Meetings
External stakeholders	Distributors	Well-established information exchange system Steady and stable supply of products	After-sales opinion box Consultation via phone calls and emails Meetings
External stakeholders	Government	Business operation in compliance with relevant laws and regulations	Annual report Meetings
External stakeholders	Community/ academic institutions	Contributions to community development	Annual report Community service

MATERIALITY ASSESSMENT

In order to include the feedback from various stakeholders on sustainable development issues in this year's ESG report, and to understand the major issues of ESG work, Austar consulted the major stakeholders to evaluate the importance of relevant issues. Based on their evaluation of Austar, the impact of the business is assessed externally and internally, and key issues are summarised below. The Group has identified the main concerns of the stakeholders: the Group's environmental management policies and related measures, use of water resources and pollution control, occupational health and safety, product safety and quality management, and employee education and training. Austar will continue to keep in touch with various stakeholders to improve and respond to the issues concerned.



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

ENVIRONMENTAL PERFORMANCE

Austar's main products are pharmaceutical equipment and consumables. The main energy consumption in the production process is electricity, and the production process will generate a small amount of hazardous waste, including waste oil and emulsifiers for lubricating machineries, and development/fixing solutions. Confronting with various environmental emissions, Austar has been using its own environmental data collection and environmental management system to continuously monitor its performance and review whether the measures adopted during this year were effective.

In the management process, the Group strictly complies with the PRC national laws and regulations, and duly implements environmental protection management policies of local governments at all levels, the Group's system management document requirements, and actively fulfils the Group's environmental protection social responsibility. For example, *the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on Prevention and Control of Pollution From Environmental Noise, the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste and Law of the PRC on Environmental Impact Assessment.*

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

During the reporting period, no material changes have been made to Austar's major business and the Group has complied with the latest environmental regulations.

1. Emissions

Austar, which manufactures and supplies high-end pharmaceutical equipment, does not directly involve in the production of a large amount of emissions; instead, the major emissions are generated from electricity consumption. The Group has been strictly complying with relevant national and local laws and regulations and continuously improve its emissions management. In addition, the Group will systematically implement "waste water, exhaust gas and noise regulations", to ensure that all production processes comply with all relevant regulations and industry guidelines.

All vehicles of the Group have fulfilled the requirements of the latest emission standards, which optimises fuel burn efficiency and reduce exhaust gas emission. The Group has also installed exhaust gas purifying equipment in diesel vehicles in order to reduce the emissions of carbon monoxide and nitrogen oxides. Moreover, the Group has also introduced guidelines for the use of vehicles, such as encouraging carpooling and reduce driving frequencies.

Austar has also established different management documents to deal with various environmental matters in different aspects in order to ensure all emissions produced by Austar have complied with laws and regulations. The Group also reviews its agreements and management measures by referring to the Environmental Management System (ISO14001) annually, so as to improve the entire management system and achieve the Group's environmental management goals.

Overview of the management documents related to emission:

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

1.1. Gas Emission

The production units in Austar adopt enclosed production workshop and are equipped with organic exhaust gas treatment facilities. The exhaust gas generated during the production process within the workshop will be filtered and purified through this treatment facility where it can reduce the emission of gas pollutants and maintain the safety level of indoor air. The Group also regularly invites third-party verification parties to measure and inspect the indoor air quality and obtain certification from them. These measures accredit Austar's effective management in gaseous emissions. Besides, Shanghai Austar and Austar Hansen have also received ISO 14001 Environmental Management System certification.

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

- All departments to manage their power consumption of air-conditioners, and to monitor departmental staff to switch off all electrical equipment and production facilities during breaks and after work;
- The Human Resources and Administration Department ("**HR Department**") reviews the performances of each department;
- Regularly maintain electrical equipment and circuits to reduce energy consumption;
- Set up ventilation and air-conditioning system and maintain at 25 degrees Celsius; and
- Promote "paper-free" office and encourage staff to reduce printing demands.

The Group adopts a paperless office policy and endeavours to reduce the use of resources, therefore, during the reporting period, the Group generated only a small amount of waste paper and house refuse, which left no apparent environmental impact, and such non-hazardous wastes were treated by local property management and civic departments at refuse depots for processing.

Major Gas Emission Indicators

Vehicular Emissions	Unit	Consumption in 2018	Consumption in 2019
Carbon Dioxide (CO_2)	kg	23,541.8	25,062.4
Methane (CH_4)	kg	2.34	2.50
Nitrous Oxide (N_2O)	kg	10.2	10.8
Nitrogen Oxides (NO_x)	kg	7.2	7.3
Sulphur Oxides (SO_x)	kg	0.15	0.16
Particulate Matter (PM)	kg	0.53	0.54

Total Greenhouse Gas Emissions	Unit	Consumption in 2018	Consumption in 2019
Direct emission from vehicles	t-CO_2 eq.	26.7	28.5
Indirect emission from electricity consumption	t-CO_2 eq.	868.6	1,262.5

Other Indirect Emissions	Unit	Consumption in 2018	Consumption in 2019
Emissions from processing scrap paper	Tonnes	5.0	4.1
Emissions from flights	Tonnes	208.7	2,258.1

Emission Intensity (per employee)	Unit	Consumption in 2018	Consumption in 2019
Direct emission from vehicles	t-CO_2 eq.	0.0236	0.0225
Indirect emission from electricity consumption	t-CO_2 eq.	0.7694	0.9988
Emissions from processing scrap paper	Tonnes	0.0044	0.0033
Emissions from flights	Tonnes	0.1849	1.7864

1.2 Waste Management

Austar has established its waste management system to effectively and properly handle different types of hazardous and non-hazardous wastes. For non-hazardous waste, such as used office documents, employees will endeavour to recycle and reuse such materials to reduce emissions under the Group's paperless office policy.

In terms of hazardous wastes, Austar only produces waste oil and emulsifier for mechanical lubrication and development solutions. Austar strictly complies with national regulations and guidelines to deal with hazardous waste and to ensure the safety of the surrounding environment. We store all identified hazardous wastes at designated locations within our production base, we use secondary containers to store oil drums and we carry out regular inspections and maintenances to prevent potential leakage. The hazardous wastes of Austar are collected and disposed by nationally-recognised waste disposal collectors and they will provide corresponding statistics to local environmental protection authorities. Austar strictly complies with the policies and regulations regarding waste disposal. The Group also fully introduces "Lean production" to ensure the effective use of resources to reduce waste generation.

Major Waste Generation Indicator

Waste Types	Unit	Consumption in 2018	Consumption in 2019
Hazardous Waste	Tonnes	0.5	1.825
Non-Hazardous Waste	Tonnes	57.8	64.01

Waste Intensity (per employee)	Unit	Consumption in 2018	Consumption in 2019
Hazardous Waste	Tonnes	0.0004	0.0014
Non-Hazardous Waste	Tonnes	0.05	0.05

1.3 Water Discharge

As stated in the previous environmental impact assessment reports and other relevant documents, the production process of Austar will not result in any water and soil pollution and all drainage facilities at the production sites have been complying with local requirements. Austar has separated rainwater channel and sewage channels to prevent contamination of rainwater and sewage water which prevents polluting water bodies and soil around production sites. Sewage is also processed in a septic tank at production sites before discharging to the municipal sewerage system.

Major Wastewater Indicator

Water Type	Unit	Consumption in 2018	Consumption in 2019
Sewage water	Tonnes	6,717.0	8,960.8

Sewage Water Intensity (per employee)	Unit	Consumption in 2018	Consumption in 2019
Sewage water	Tonnes	6.0	7.1

2. Use of Resources

With limited resources, Austar understands proper usage of resources can not only protect the environment from overexploitation but also reduce operations costs. "Lean production" can help Austar to reduce unnecessary waste during production process and enhance and optimise usage of resources. Austar only uses water supplies from municipal pipelines and we regularly maintain and inspect the water pipelines in the factories. If any irregularities spotted during inspection, related personnel will be assigned to have follow-up inspection, in order to reduce water wastage. Furthermore, the monthly water usage will also be recorded in our environmental data collection system and the relevant statistics help us understand any abnormalities in water usage. During the reporting period, no material issues were observed by the Group in seeking water resources.

Resource Consumption	Unit	Consumption in 2018	Consumption in 2019
Electricity	Kilowatt Per Hour	1,038,166.0	1,400,163.0
Gasoline	Litre	9,200	9,800
Diesel	Litre	700	740
Water	Tonnes	6,717	8,961
Packaging materials – Woods	Tonnes	24	26
Packaging materials – Papers	Tonnes	5	5

Resource Consumption Intensity (per employee)	Unit	Consumption in 2018	Consumption in 2019
Electricity	Kilowatt Per Hour	919.5	1107.72
Gasoline	Litre	8.1	7.8
Diesel	Litre	0.62	0.59
Water	Tonnes	5.9	7.1
Packaging materials – Woods	Tonnes	0.021	0.021
Packaging materials – Papers	Tonnes	0.004	0.004

3. THE ENVIRONMENT AND NATURAL RESOURCES

Environmental risks have always been one of the factors that we take into account in any business development of the Group and in accordance with relevant regulations, we conduct environmental impact assessments before official construction. Austar also arranges specific employees to conduct comprehensive supervision during the development of the project to ensure that all environmental protection measures have been implemented and comply with all environmental-related regulations. The Group also conducts regular inspections and, where feasible, incorporate any feasible emission reduction measures to reduce any impact on the environment in our on-going business.

Austar also implements "Procedures for Identifying and Evaluating Environmental Factors", "Control Procedures on EHS-Related Parties" and "EHS Operation Control Procedures" to manage exhaust gas, noises and other wastes control measures. Moreover, the Group implements the concepts of ISO14001 Environmental Management System and reviews the current measures regularly for continuous improvement and invites independent third-party authority to review the Group's management system.

Austar also implements a number of measures, such as installing sound insulation and sound absorption devices to prevent nuisance to the surrounding areas of the factories, using oil guide tanks for collection and analysis of oil dripping to manage facilities that may potentially bring significant impact to the environment and affect occupation health and safety. The Group has also strengthened other implemented measures, such as using non-toxic materials and reduce consumption from planning, packaging, storage and transportation.

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

SOCIAL PERFORMANCE

1. Employment

To align with the Group's business expansion, Austar has employed more than 100 employees as compared with last year and we raised our requirements in human resources to maintain the Group's market competitiveness and service capabilities. At the same time, we have been complying with national regulations, such as *the Labour Law of the PRC, the Labour Contract Law of the PRC, the Employment Promotion Law of the PRC, the Labour Dispute Mediation and Arbitration Law of the PRC, the Regulation on the Annual Leave of Employees* and local labour laws and regulations, and we use such laws and regulations to formulate the Group's policies and work codes. This can ensure that Austar can effectively manage and protect our employees' compensation and benefits, recruitment and promotion, working hours, rest periods, entitled leaves, equal opportunity, diversity, anti-discrimination, staff training, attendance and performance.

Austar values the working environment and the overall quality of employees. To enable employees to achieve a work-life balance, the Group has clearly stated in its "Staff Handbook"that the Group adopts an eight-hour working system, and employees may only work overtime upon approval from supervisors. In addition, the Group offers different benefits such as annual leave, marriage leave and maternity leave, medical insurance, medical reimbursement, maternity subsidies, birthday gifts and birthday parties, housing allowances, transportation allowances and meal allowances for our employees.

In terms of the recruitment system, all compensation and benefits, recruitment and promotion, working hours, breaks, anti-discrimination policies, employee training, attendances and performance management measures are clearly listed in the "Staff Handbook" and "Personnel Files and Documents Management Control Procedures" to ensure that employees receive fair and transparent employment opportunities. The Group also cooperates with different organisations via different platforms, such as professional human resources institutions, colleges and universities for campus recruitment, social recruitment and internal referrals to attract high-attribute talents. Austar insists on the principle of equality for all and treats every employee equally. During the recruitment process, the HR Department strictly abides by the Group's recruitment policy system and has zero tolerance in any discrimination, including gender, disability, pregnancy, family status, age, race, sexual orientation, nationality, ethnicity, and religion as stated in local laws and regulations. We do not tolerate any discrimination or harassment behaviour in the workplace, and any findings will be dealt with according to corresponding procedures.

Austar also values talent retention as we believe that the long-term growth and progress of employees with is of paramount importance to the Group. We have set out our employees' career development opportunities in the "Training and Development Control Procedures" so that our employees can understand their position and career development at Austar. Therefore, employees can understand Austar's development goals, increase their sense of belongings, desire to grow in Austar, share our corporate value and fulfill social responsibility.

2. Health and Safety

Austar has always strictly complied with *the Labour Law of the PRC, the Prevention and Control of Occupational Diseases of the PRC, Fire Control Law of the PRC, Measures for the Determination of Work-related Injuries* and relevant local laws and regulations, and is committed to providing a safe and comfortable working environment. The Group has always stressed great importance of employees working environment and daily health, and we formulate our policies based on preventative principles. Each workplace is evaluated regularly and the Group has developed a comprehensive emergency response plan to deal with different emergency situations.

Austar regularly evaluates each workplace to ensure that every employee works safely. The Group's Occupational Health and Safety Audit and Certification (OHSAS 18001) standard certifications are subject to annual audits by third-party agencies to ensure that the system operates effectively in the Group's workplace. The Group will also review and improve the Group's standardised production safety system annually to ensure that Austar's production procedures can fulfil the requirements of relevant laws, regulations and standards.

Every year, Austar engages a third-party professional organisation to tailor a pre-employment training plan for the Group and to provide relevant training programs to our employees, such as potential occupational hazards, a brief introduction to the sequelae and their respective preventive measures. Additionally, to ensure all employees are working properly to prevent accidents, the Group also provides on-the-job and post-employment medical examinations, and regularly conducts health checks for employees. During the reporting period, Austar conducted inspections and physical examinations on the occupational disease and occupational health of employees and has obtained qualified results.

If there is an accident, the Group will investigate the situation and condition of the accident according to the "Control Procedures on Incident Investigation, Treatment and Report" and industrial accident management system formulated by Austar. The management system clearly outlines the response plans, responsibilities, and treatment processes under different situations and types of accidents to minimise injuries and casualties. The Group also conducts regular occupational health and safety training to reduce the work-related risks of our employees.

3. Development and Training

Austar values our employees' skills and knowledge. Therefore, the Group has established "Training and Development Control Procedures" and "Training Implementation Management Control Procedures" to effectively prepare respective training courses for our employees. For newly recruited staff, the Group will also provide induction trainings, such as Austar's corporate culture, product knowledge, and the working processes of relevant different departments of the Group. Pre-employment training is divided into three levels: company level, department level and position level. Austar believes such division of trainings can help new employees to integrate into the working environment and system of Austar while providing sufficient knowledge and skills for them to cope with new businesses and improve their working abilities.

To improve our employees' working ability and the overall operating efficiency of Austar, the Group has arranged different overseas training, management training, professional skills training and occupational health training to suitable colleagues every year. On the other hand, when necessary, the Group will also organise corresponding training under special requests, such as the introduction of new equipment and new technologies, to allow employees to better adapt to the equipment and technologies. We also encourage employees to participate in training courses organised by other organisations, such as English courses, pharmaceutical engineering project management courses.

Furthermore, the Group also regularly organises some cross-departmental meetings and invites experts to share their knowledge on topics such as supply chain management, finance and human resources for employees. In the reporting period, we conducted two authorised "The 7 Habits of Highly Effective People" training for middle and senior management, two sales skills training session for sales personnel, "Training the Trainer to Train" training for internal lecturers and English training programs.

4. Labour Standards

Austar strictly complies with *the Labour Law of the PRC, the Labour Contract Law of PRC, Provisions on Prohibition of Using Child Labour, the Law of the PRC on the Protection of Minors* and other related labour laws and regulations to prevent any child labour and forced labour. As stipulated in the "Staff Handbook", all applicants are required to present valid identity documents during recruitment processes. If the applicants are found in providing any false information, the Group possesses the rights to terminate the terms of employment with immediate effect.

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

5. Supply Chain Management

Austar has always been in close contact with major suppliers. The performance of the Group's suppliers, such as the stability and quality of raw material supply, will affect the Group's services quality. To ensure the performance of suppliers, the Group has established a series of management documents such as "Control Procedures on Evaluating and Managing Suppliers", "Procurement Control Procedures", and "Procurement Manual" which enables staff from Sales, the Purchasing Department, the Quality Control Department and the Production Department to establish an evaluation mechanism to evaluate the performance of suppliers. The Group also reviews the management system annually to ensure the compliance with the latest industry standards and the system is updated annually to improve potential deficiencies.

The Group has distributed a "Environmental, Social and Governance Self-Assessment Form" to potential suppliers to evaluate their performances in the ESG aspects during the reporting period. For existing suppliers, the Group has also conducted annual performance review and listed certain suppliers with potential risks in environmental and social aspects in the "List of Related Parties in Special Need of Influence". For new suppliers who are manufacturers, they must fulfil our EHS requirement before they can pass the whole supply chain assessment. Pickling passivation subcontractors are required to possess related qualifications in order to become our business partners.

6. Product Responsibility

As the Group's products are directly used in the pharmaceutical production process, as a leading company in the pharmaceutical equipment industry and provider of integrated engineering solutions in the PRC, Austar fully understands that its products must be manufactured in a high-precision and hygienic environment. Therefore, the Group will never mislead the public with any false data for any promotional and labelling purposes and strictly comply with national laws and regulations related to product safety and advertising such as *the Pharmaceutical Administration Law of the PRC, the Good Supply Practice for Pharmaceutical Products, the Advertisement Law of the PRC*, and their respective Implementation Rules. Furthermore, Austar has also obtained ISO 9001 Quality Management System certification, which proves that our product quality has achieved international standards and we are committed to improve our product quality to a higher standard.

Management of Customer Complaints

Customers' feedbacks to our products are crucial to Austar. The Group strictly follows *the Law of the PRC on the Protection of Consumer Rights and Interests*. In response to customer complaints, Austar has established "Management Procedures on Customer Requirements and Complaints" and details are listed below:

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

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

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

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

Protecting Intellectual Property

Austar owns and values different types of intellectual properties such as patents and copyrights. All software installed in our office are genuine products In order to standardise the application procedures of patents, utility models and inventions, and the publicity and registration of copyright, and also protect the Group's intellectual property rights, the Group had established the "Patent Management" and "Management Rules on the Group's Copyrights of Austar Pharmaceutical Equipment and Process System".

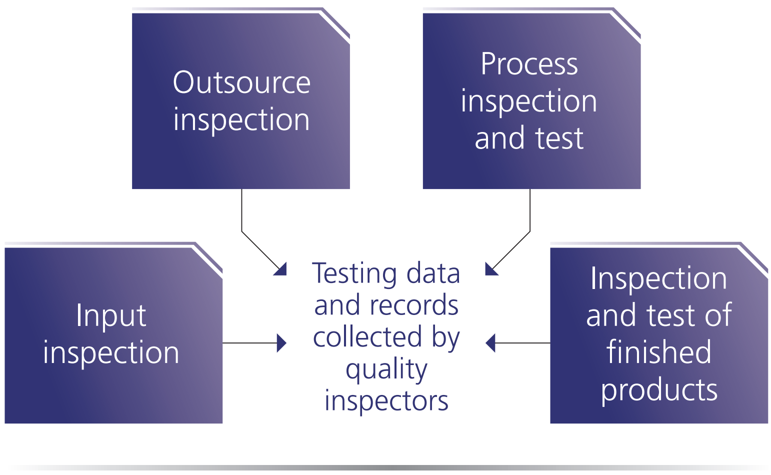
During the reporting period, the Group possessed the following intellectual properties:

Types of intellectual properties	Number
Copyrights	62
Patents	228

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

Strict Quality Assurance

In relation to quality control, Austar has established the "Management Procedures on Inspection and Test" and classified the product quality assurance into three main categories, which includes input inspection, process inspection and test, and final inspection. During the production process, the Group will conduct three inspection phases: self-inspection, mutual inspection and special inspection. After the completion of the entire product processing process, the quality department will notify the customer for acceptance upon completion of inspection. After confirming the product quality, it will be delivered to the customer's site for installation and debug process. Since the entire production process requires customers' participation, we can ensure that customers are satisfied with Austar products and there shall be no recalling procedures involved. The quality inspection procedures include:



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

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

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

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

The inspection data and records of each process are collected and sorted by the quality inspectors and are uniformly managed by the Quality Department. Only products that have passed all quality inspections can be delivered out of the factory.

Since Austar's products are customised and cannot be recycled, no related procedures for product repurchase have been established.

Protecting Customer Information

Austar values the importance on customer privacy. During our operation, Test Service Department may obtain clients' sensitive information and the Group implements strict mechanisms to prevent any leakage of customer's information. Austar also ensures employees will not disclose customer information by signing confidential agreements with clients and its IT information management, and contracts archiving systems. During the reporting period, Austar is not aware of any leakage of clients' information.

7. Anti-Corruption

Austar upholds a zero-tolerance attitude towards corruption in any form of bribery, extortion, fraud, money laundering, etc. The Group promotes honesty, integrity and responsibility as its corporate culture and code of conduct. For example, employees and agents are prohibited from:

- Offering or receiving money, gifts, loans or other benefits that may benefit business decisions or interfere with independent judgment; or
- Offering or receiving kickbacks, remuneration or secret commissions to solicit business for Austar and its subsidiaries; or
- Bribing government officials or facilitating bribing to obtain favorable terms or conditions; or
- Insider dealings, etc.

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

Austar has two channels to report illegal or suspicious behaviours:

(A) Report on commercial bribery and fraud:

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

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

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

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

8. Community Investment

Austar always values the development of surrounding communities. Apart from the establishment of a harmonious and win-win relationship with community stakeholders, the Group also encourages its employees to participate in different community activities and fully understand the needs of community to ensure that the Group fully considers the interests of the community while developing the Group's business.

During the reporting period, Austar organised a trade union in Shijiazhuang and participated in different activities organised by the trade union and developed education, academic and publicity activities for employees.

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ESG Reporting Guidelines Aspects		Description	Pages/Remarks
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ESG Reporting Guidelines Aspects		Description	Pages/Remarks
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General Disclosure	B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	99-100
KPI	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	99-100
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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AUSTAR LIFESCIENCES LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Austar Lifesciences Limited (the "Company") and its subsidiaries (the "Group") set out on pages 111 to 209, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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羅兵咸永道

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

Independence

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

KEY AUDIT MATTERS

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables and contract assets Refer to note 13 and note 12 to the consolidated financial statements. As of 31 December 2019, the gross amounts of trade receivables and contract assets totalling approximately RMB227 million and RMB187 million where impairment provisions totalling RMB27 million was made for trade receivables and contract assets.	In addressing this matter, we had performed the following procedures: 1. We understood, evaluated, and tested key controls related to assessment of the expected credit losses of trade receivables and contract assets performed by management. 2. For expected credit losses specifically provided against individual customers, we discussed with management to understand the detailed circumstances and basis of provision on specific customers, such as credit related information, and historical repayment record. We obtained management's assessments and reviewed the evidence available to us, including background information of customers, past transaction history and historical repayment record.

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

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

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

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**55,005**	50,569
Right-of-use assets	7	**90,426**	—
Land use rights		**—**	54,212
Intangible assets	8	**26,253**	9,012
Deferred income tax assets	10	**6,558**	7,264
Investments accounted for using the equity method	9	**57,509**	47,728
Prepayments and other receivables	14	**10,399**	9,724
Total non-current assets		**246,150**	178,509
Current assets			
Inventories	11	**163,517**	131,885
Contract assets and other assets	12	**185,747**	126,235
Trade and notes receivables	13	**251,091**	286,133
Prepayments and other receivables	14	**47,746**	55,127
Pledged bank deposits	15	**88,778**	96,816
Term deposits with initial terms of over three months	15	**209**	206
Cash and cash equivalents	15	**191,084**	196,459
Total current assets		**928,172**	892,861
Total assets		**1,174,322**	1,071,370

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
EQUITY			
Equity attribute to the owners of the Company			
Share capital	17	**4,071**	4,071
Reserves		**389,560**	384,078
Retained earnings		**100,906**	92,815
		494,537	480,964
Non-controlling interests		**8,088**	1,959
Total equity		**502,625**	482,923
LIABILITIES			
Non-current liabilities			
Lease liabilities	7	**24,988**	—
Deferred income	18	**1,972**	3,511
Deferred income tax liabilities	10	**10,950**	8,009
Total non-current liabilities		**37,910**	11,520
Current liabilities			
Trade and other payables	20	**378,708**	356,077
Contract liabilities	12	**222,276**	193,977
Current income tax liabilities		**907**	985
Short-term borrowings	19	**20,000**	25,888
Lease liabilities	7	**11,896**	—
Total current liabilities		**633,787**	576,927
Total liabilities		**671,697**	588,447
Total equity and liabilities		**1,174,322**	1,071,370

The accompanying notes on pages 118 to 209 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 111 to 209 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf.

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2018 RMB'000
Revenue	5	**1,049,021**	816,585
Cost of sales	5,21	**(764,777)**	(612,191)
Gross profit		**284,244**	204,394
Selling and marketing expenses	21	**(137,077)**	(105,635)
Administrative expenses	21	**(108,731)**	(77,450)
Net impairment losses on financial and contract assets	3	**(5,109)**	(4,066)
Research and development expenses	21	**(42,577)**	(30,308)
Other income	22	**9,153**	3,148
Other gains/(losses) — net	23	**146**	(1,667)
Operating profit/(loss)		**49**	(11,584)
Finance income	25	**5,703**	5,073
Finance costs	25	**(3,736)**	(1,653)
Finance income — net		**1,967**	3,420
Share of net profit of investments accounted for using the equity method	9	**10,192**	11,662
Profit before income tax		**12,208**	3,498
Income tax expense	26	**(4,744)**	(3,378)
Profit for the year		**7,464**	120
Profit/(loss) attributable to:			
The owners of the Company		**8,091**	107
Non-controlling interests		**(627)**	13
Earnings per share for profit attributable to the owners of the Company — basic and diluted (RMB)	27	**0.02**	0.00

The accompanying notes on pages 118 to 209 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2018 RMB'000
Profit for the year		**7,464**	120
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**5,713**	8,774
Changes in fair value of financial assets at fair value through other comprehensive income		**55**	(129)
Share of other comprehensive income of investments accounted for using the equity method		**(213)**	(277)
Other comprehensive income for the year, net of tax		**5,555**	8,368
Total comprehensive income for the year		**13,019**	8,488
Total comprehensive income attributable to:			
The owners of the Company		**13,573**	8,475
Non-controlling interests		**(554)**	13
		13,019	8,488

The accompanying notes on pages 118 to 209 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

The accompanying notes on pages 118 to 209 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to the owners of the Company								
		Share capital RMB'000	Capital surplus RMB'000	Share premium RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Other reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2018		4,071	30,150	314,009	92,815	40,048	(129)	480,964	1,959	482,923
Comprehensive income										
Profit for the year		—	—	—	8,091	—	—	8,091	(627)	7,464
Other comprehensive income										
Currency translation differences		—	—	—	—	5,640	—	5,640	73	5,713
Changes in fair value of financial assets at fair value through other comprehensive income		—	—	—	—	—	55	55	—	55
Share of other comprehensive income of investments accounted for using the equity method	9	—	—	—	—	(213)	—	(213)	—	(213)
Total comprehensive income		—	—	—	8,091	5,427	55	13,573	(554)	13,019
Transactions with owners in their capacity as owners										
Acquisition of a subsidiary	33	—	—	—	—	—	—	—	6,683	6,683
Balance at 31 December 2019		4,071	30,150	314,009	100,906	45,475	(74)	494,537	8,088	502,625

The accompanying notes on pages 118 to 209 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	29	**35,545**	(79,199)
Income taxes paid		**(2,946)**	(2,973)
Interest received	25	**5,194**	4,574
Net cash generated from/(used in) in operating activities		**37,793**	(77,598)
Cash flows from investing activities			
Increase in term deposits with initial terms of over three months	15	**(3)**	(3)
Dividend received from a joint venture	9	**—**	1,688
Acquisition of a subsidiary, net of cash acquired	33	**(7,451)**	—
Payment for property, plant and equipment		**(13,725)**	(5,186)
Proceeds from disposal of property, plant and equipment		**26**	22
Payment for land use right		**—**	(32,219)
Payment for investment in an associate	9	**—**	(31)
Payment for intangible assets		**(934)**	(3,766)
Net cash used in from investing activities		**(22,087)**	(39,495)
Cash flows from financing activities			
Interest paid		**(3,350)**	(1,448)
Proceeds from borrowings	29(c)	**25,000**	25,888
Repayments of borrowings	29(c)	**(30,888)**	(20,000)
Repayment of loan from a non-controlling shareholder of a subsidiary		**(1,406)**	—
Principal elements of lease payments	29(c)	**(10,050)**	—
Net cash (used in)/generated from financing activities		**(20,694)**	4,440
Net decrease in cash and cash equivalents		**(4,988)**	(112,653)
Cash and cash equivalents at beginning of year	15	**196,459**	309,320
Exchange losses on cash and cash equivalents	25	**(387)**	(208)
Cash and cash equivalents at end of year	15	**191,084**	196,459

The accompanying notes on pages 118 to 209 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in thousands of Renminbi Yuan (the "**RMB**"), unless otherwise stated, and is approved for issue by the Board of Directors on 27 March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The Group has applied the following standard for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases

The Group had changed its accounting policies and make adjustments following the adoption of IFRS 16. The other amendments and interpretations to existing standards that are effective for the financial year from 1 January 2019 did not have material impact or are not relevant to the Group.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies and disclosures

This note explains the impact of the adoption of IFRS 16 Leases on the Group's consolidated financial statements.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.30.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.73%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) *Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) Measurement of lease liabilities

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	16,105
Discounted using the lessee's incremental borrowing rate of at the date of initial application	14,571
Add: adjustments as a result of a different treatment of enforceability beyond the written contracts	21,111
Lease liability recognised as at 1 January 2019	35,682
Of which are:	
Current lease liabilities	13,322
Non-current lease liabilities	22,360
	35,682

(c) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(d) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets — increase by RMB 91,911,000
- prepayments and other receivables — decrease by RMB 2,017,000
- lease liabilities — increase by RMB 35,682,000
- land use rights — decrease by RMB 54,212,000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(e) *Lessor accounting*

The group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

2.3 Principles of consolidation and equity accounting

(a) *Subsidiaries*

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

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

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

(b) *Associates*

Associates are entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost (see (d) below). Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(c) *Joint arrangements*

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

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

(d) *Equity accounting*

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.12.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(e) Changes in ownership interests

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

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

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

2.4 Business combinations

(a) Business combinations under common control

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (Continued)

(b) Business combinations not under common control

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Separate financial statements

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

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

2.6 Segment reporting

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

2.7 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

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

(c) Group companies

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

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

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

2.8 Property, plant and equipment

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

Construction-in-progress is stated at cost, including the costs of construction, machinery and other expenditures for the purpose of preparing the construction-in-progress for its intended use and borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until the asset is completed and ready for its intended use.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment (Continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

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

2.9 Land use rights

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

2.10 Intangible assets

Intangible assets mainly represent computer software, goodwill, trademarks and know-how.

(a) Computer software

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

(b) Goodwill

Goodwill is measured as described in note 2.4(b). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Intangible assets (Continued)

(c) Trademarks and Know-How

Trademarks and know-how acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and know-how are amortized over their estimated useful lives of 10 years using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

When determining the length of useful life of Trademarks and know-how, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

2.11 Research and development

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Financial assets

2.13.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortised cost.

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

2.13.2 Recognition and derecognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial assets (Continued)

2.13.3 Measurement

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

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

Debt instruments

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial assets (Continued)

2.13.3 Measurement (Continued)

Equity instruments

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

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

2.13.4 Impairment

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

For trade receivables, the Group applies the simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance to be recognised from initial recognition of all trade receivables, see note 13 for further details.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial guarantee contracts

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

- the amount determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments* ("**IFRS 9**") and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

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

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

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the moving average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Trade receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 13 for further information about the Group's accounting for trade receivables and note 3.1 for a description of the Group's impairment policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that they are readily convertible to know amounts of cash and which are subject to an insignificant risk of changes in value.

2.19 Share capital

Ordinary shares are classified as equity.

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

2.20 Trade and other payables

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

2.21 Borrowings

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Borrowing costs

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

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

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

2.23 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

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

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(c) Offsetting

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

2.24 Employee benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Employee benefits (Continued)

Pension and social obligations

A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administrated pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised and allocated to related cost of assets and expenses based on different beneficiaries.

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

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

2.25 Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition

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

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

(a) Revenue from system engineering contract

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

(b) Revenue from sale of goods

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

(c) Revenue from Services rendered

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Government grants

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

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

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

2.28 Interest income

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

2.29 Dividend income

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

2.30 Leases

As explained in note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principle and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Leases (Continued)

Right-of-use assets, include land use rights, are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term (note 22). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk

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

As at 31 December 2019, if Hong Kong dollar had weakened/strengthened by 1% against the US dollar with all other variables held constant, profit before income tax for the years would have been RMB347,000 (as at 31 December 2018: RMB271,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash and cash equivalents, term deposits with initial terms of over three months, pledged bank deposit, receivables and payables held by the Group entities.

As at 31 December 2019, if Hong Kong dollar had weakened/strengthened by 5% against the EUR with all other variables held constant, profit before income tax for the years would have been RMB2,136,000 (as at 31 December 2018: RMB1,271,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of EUR denominated cash and cash equivalents, term deposits with initial terms of over three months, pledged bank deposit, receivables and payables held by the Group entities.

(b) Credit risk

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Risk management

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

(ii) Impairment of financial assets

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group considers the following indicator in forward looking estimates, such as changes in macroeconomic conditions, time value, industry trends and accordingly adjusts the historical loss rates based on expected changes in these factors.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for both trade receivables and contract assets.

31 December 2019	**With in 6 months**	**6 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected loss rate	**0.63%**	**3.29%**	**14.28%**	**31.17%**	**60.39%**	
Gross carrying amount — trade receivables	**142,953**	**17,536**	**28,630**	**26,453**	**5,589**	**221,161**
Gross carrying amount — contract assets	**172,628**	**8,159**	**6,034**	**1,126**	**931**	**188,878**
Loss allowance	**1,989**	**845**	**4,950**	**8,596**	**3,937**	**20,317**

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

As at 31 December 2019, specific provisions of RMB6,330,000 (2018:RMB9,667,000) have been provided against trade receivables and contract assets of RMB6,330,000 (2018:RMB13,044,000) for customers with known financial difficulties.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

The loss allowances for trade receivables and contract assets as at 31 December reconciles to the opening loss allowances as follows:

	2019 RMB'000	2018 RMB'000
Opening loss allowance at 1 January	**26,878**	23,240
Increase in loss allowance recognised in profit or loss during the year	**6,392**	3,919
Reversal of previous impairment loss	**(1,252)**	—
Receivables written off during the year as uncollectible	**(5,371)**	(281)
Closing loss allowance at 31 December	**26,647**	26,878

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(ii) *Impairment of financial assets* (Continued)

Other financial assets at amortised cost

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

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

The loss allowance for other financial assets at amortised cost as at 31 December reconciles to the opening as follows:

	2019 **RMB'000**	2018 RMB'000
Opening loss allowance at 1 January	**147**	—
(Decrease)/increase in loss allowance recognised in profit or loss during the year	**(31)**	147
Closing loss allowance at 31 December	**116**	147

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(ii) *Impairment of financial assets* (Continued)

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

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

	2019 **RMB'000**	2018 RMB'000
Impairment losses for trade receivables and contract assets	**5,140**	3,919
(Reversal of)/provision for impairment on other financial assets at amortised cost	**(31)**	147
Net impairment losses on financial and contract assets	**5,109**	4,066

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The liquidity risk of the Group is mainly controlled by maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1-5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2019					
Trade payables	**236,504**	**—**	**—**	**236,504**	**236,504**
Notes payables	**25,244**	**—**	**—**	**25,244**	**25,244**
Other payables	**65,175**	**—**	**—**	**65,175**	**65,175**
Short-term borrowings	**20,258**	**—**	**—**	**20,258**	**20,000**
Lease liabilities (Note 7)	**13,918**	**20,710**	**6,515**	**41,143**	**36,884**
Financial guarantee contracts (Note 36)	**9,175**	**—**	**—**	**9,175**	**—**
	370,274	**20,710**	**6,515**	**397,499**	**383,807**

	Less than 1 year RMB'000	Between 1-5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018					
Trade payables	215,007	—	—	215,007	215,007
Notes payables	25,934	—	—	25,934	25,934
Other payables	31,416	—	—	31,416	31,416
Short-term borrowings	26,064	—	—	26,064	26,064
Financial guarantee contracts	6,960	—	—	6,960	—
	305,381	—	—	305,381	298,421

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

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

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

The gearing ratio as at 31 December 2019 and 2018 are as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Total debt (Note 29(c))	**56,884**	25,888
Total equity	**502,625**	482,923
Total capital	**559,509**	508,811
Gearing ratio	**10%**	5%

The gearing ratio increased from 5% to 10% following the adoption of IFRS 16 Leases. Both total debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019. See note 2.2 for further information.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Financial assets

(i) *Fair value hierarchy*

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

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
At 31 December 2019			
Financial assets			
FVOCI			
— Notes receivable	**—**	**11,397**	**—**
Total financial assets	**—**	**11,397**	**—**

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Financial assets (Continued)

(i) Fair value hierarchy (Continued)

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

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of trade receivables and contract assets

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

(b) Revenue recognised over time

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

(c) Impairment of inventories

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

(d) Income taxes and deferred income taxation

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

5. SEGMENT INFORMATION

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

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

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.

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2019 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	482,816	300,934	87,175	54,685	204,303	24,056	1,153,969
Inter-segment revenue	(46,836)	(50,059)	(4,212)	(1,044)	(717)	(2,080)	(104,948)
Revenue	435,980	250,875	82,963	53,641	203,586	21,976	1,049,021
Recognised at a point in time	82,829	55,871	31,572	8,468	203,586	21,976	404,302
Recognised over time	353,151	195,004	51,391	45,173	—	—	644,719
Cost of sales	(361,347)	(191,980)	(55,048)	(25,525)	(116,941)	(13,936)	(764,777)
Segment results							
Gross profit	74,633	58,895	27,915	28,116	86,645	8,040	284,244
Other segment items							
Amortisation	1,536	632	58	33	—	15	2,274
Depreciation	13,434	6,338	1,119	698	2,141	293	24,023
Provision for/(Reversal of) impairment losses on financial and contract assets	4,872	(263)	(191)	(79)	819	(49)	5,109
Impairment of inventories	11,902	1,018	165	104	344	43	13,576
Share of net profit/(loss) of investments accounted for using the equity method	5,222	(208)	—	—	5,178	—	10,192

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2018 are as follows:

	Liquid and Bioprocess System RMB'000	Clean Room and Automation Control and Monitoring System RMB'000	Powder and Solid System RMB'000	GMP Compliance Service RMB'000	Life Science Consumables RMB'000	Distribution and Agency of Pharmaceutical Equipment RMB'000	Total RMB'000
Segment revenue and results							
Segment revenue	350,953	207,397	93,001	38,968	191,309	21,534	903,162
Inter-segment revenue	(30,112)	(42,685)	(1,649)	(2,088)	(4,135)	(5,908)	(86,577)
Revenue	320,841	164,712	91,352	36,880	187,174	15,626	816,585
Recognised at a point in time	67,157	31,609	26,005	2,283	187,174	15,626	329,854
Recognised over time	253,684	133,103	65,347	34,597	—	—	486,731
Cost of sales	(280,270)	(128,989)	(61,794)	(17,948)	(113,192)	(9,998)	(612,191)
Segment results							
Gross profit	40,571	35,723	29,558	18,932	73,982	5,628	204,394
Other segment items							
Amortisation	1,142	728	90	36	14	13	2,023
Depreciation	4,559	1,692	548	219	475	80	7,573
Net impairment losses on financial and contract assets	1,146	1,275	880	353	347	65	4,066
Impairment of inventories	5,328	293	140	58	1,026	23	6,868
Share of net profit of investments accounted for using the equity method	3,418	4,180	—	—	4,064	—	11,662

5. SEGMENT INFORMATION (Continued)

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Liquid and Bioprocess System	**74,633**	40,571
Clean Room and Automation Control and Monitoring System	**58,895**	35,723
Powder and Solid System	**27,915**	29,558
GMP Compliance Service	**28,116**	18,932
Life Science Consumables	**86,645**	73,982
Distribution and Agency of Pharmaceutical Equipment	**8,040**	5,628
Total gross profit for reportable segments	**284,244**	204,394
Selling and marketing expenses	**(137,077)**	(105,635)
Administrative expenses	**(108,731)**	(77,450)
Net impairment losses on financial and contract assets	**(5,109)**	(4,066)
Research and development expenses	**(42,577)**	(30,308)
Other income	**9,153**	3,148
Other gains/(losses) — net	**146**	(1,667)
Finance income — net	**1,967**	3,420
Share of net profit of investments accounted for using the equity method	**10,192**	11,662
Profit before income tax	**12,208**	3,498

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2019 and 2018 are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Total assets RMB'000	**Investments accounted for using the equity method RMB'000**	Total assets RMB'000	Investments accounted for using the equity method RMB'000
Liquid and Bioprocess System	**354,973**	**17,369**	306,283	12,164
Clean Room and Automation Control and Monitoring System	**255,540**	**21,517**	185,321	21,923
Powder and Solid System	**70,490**	**—**	65,426	—
GMP Compliance Service	**32,586**	**—**	24,256	—
Life Science Consumables	**136,658**	**18,623**	87,610	13,641
Distribution and Agency of Pharmaceutical Equipment	**28,085**	**—**	11,673	—
Total segment assets	**878,332**	**57,509**	680,569	47,728
Unallocated				
Deferred income tax assets	**6,558**		7,264	
Headquarter assets	**289,432**		383,537	
Total assets	**1,174,322**		1,071,370	

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

5. SEGMENT INFORMATION (Continued)

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

	As at 31 December 2019 Total liabilities RMB'000	As at 31 December 2018 Total liabilities RMB'000
Liquid and Bioprocess System	**292,155**	278,316
Clean Room and Automation Control and Monitoring System	**118,086**	86,483
Powder and Solid System	**39,594**	36,538
GMP Compliance Service	**19,725**	12,015
Life Science Consumables	**84,617**	56,289
Distribution and Agency of Pharmaceutical Equipment	**10,276**	9,175
Total segment liabilities	**564,453**	478,816
Unallocated		
Deferred income tax liabilities	**10,950**	8,009
Short term borrowings	**20,000**	25,888
Headquarter liabilities	**76,294**	75,734
Total liabilities	**671,697**	588,447

Geographical information

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Revenue		
Mainland China	**964,135**	766,057
Other locations	**84,886**	50,528
	1,049,021	816,585

5. SEGMENT INFORMATION (Continued)

Geographical information (Continued)

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Non-current assets other than financial assets and deferred tax assets		
Mainland China	**152,502**	113,669
Other locations	**76,691**	47,852
	229,193	161,521

The adoption of the new leasing standard described in note 2.1(a) had the following impact on the segment disclosures in the current year.

		Increase	
	Depreciation	**Segment assets**	**Segment liabilities**
Liquid and Bioprocess System	5,605	24,261	17,651
Clean Room and Automation Control and Monitoring System	4,170	53,689	6,789
Powder and Solid System	693	1,373	1,392
GMP Compliance Service	447	1,087	1,096
Life Science Consumables	1,751	9,656	9,591
Distribution and Agency of Pharmaceutical Equipment	181	360	365
	12,847	90,426	36,884

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year.

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2018					
Opening net book value	7,829	20,885	1,857	11,297	41,868
Additions	—	12,486	42	4,093	16,621
Depreciation charge (Note 21)	(740)	(2,569)	(497)	(3,767)	(7,573)
Disposal	—	(7)	—	(340)	(347)
Closing net book value	7,089	30,795	1,402	11,283	50,569
As at 31 December 2018					
Cost	16,443	47,719	4,635	29,289	98,086
Accumulated depreciation	(9,354)	(16,924)	(3,233)	(18,006)	(47,517)
Net book value	7,089	30,795	1,402	11,283	50,569
Year ended 31 December 2019					
Opening net book value	**7,089**	**30,795**	**1,402**	**11,283**	**50,569**
Additions	**—**	**7,446**	**111**	**9,021**	**16,578**
Transfer upon completion of construction	**—**	**1,021**	**—**	**(1,021)**	**—**
Acquisition of a subsidiary (Note 33)	**—**	**624**	**—**	**112**	**736**
Depreciation charge (Note 21)	**(738)**	**(6,536)**	**(443)**	**(3,459)**	**(11,176)**
Disposal	**—**	**(416)**	**(1)**	**(1,285)**	**(1,702)**
Closing net book value	**6,351**	**32,934**	**1,069**	**14,651**	**55,005**
As at 31 December 2019					
Cost	**16,443**	**58,047**	**4,753**	**35,124**	**114,367**
Accumulated depreciation	**(10,092)**	**(25,113)**	**(3,684)**	**(20,473)**	**(59,362)**
Net book value	**6,351**	**32,934**	**1,069**	**14,651**	**55,005**

As at 31 December 2019 and 2018, the Group's buildings were pledged as security for short-term borrowings (Note 19).

7. LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000
Right-of-use assets		
Land use right	53,082	54,212
Buildings	37,344	37,699
	90,426	91,911
Lease liabilities		
Current	11,896	13,322
Non-current	24,988	22,360
	36,884	35,682

Additions to the right-of-use assets during the 2019 financial year were RMB11,252,000.

7. LEASES (Continued)

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

		Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Depreciation charge of right-of use assets	Note 21		
Land use right		**1,131**	—
Buildings		**11,716**	—
		12,847	—
Interest expense (included in finance costs)	Note 25	**1,610**	—

The total cash outflow for leases in 2019 was RMB11,660,000. The details are as follows:

- Payment for principle elements of leases — RMB 10,050,000
- Payment for interest elements of leases — RMB 1,610,000

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, plants and pieces of land. Rental contracts are typically made for fixed periods of 1 to 50 years as stated below but may have enforceability beyond the written contracts as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

	Lease terms
Buildings	1-6 years
Land use right	50 years

7. LEASES (Continued)

(d) Enforceability beyond the written contracts

Enforceability beyond the written contracts are included in a number of offices, warehouses and plants leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

8. INTANGIBLE ASSETS

	Software and others RMB'000	Trademarks RMB'000	Know-how RMB'000	Goodwill RMB'000	Total RMB'000
Year ended 31 December 2018					
Opening net book value	6,469	—	—	—	6,469
Additions	4,089	—	—	—	4,089
Amortisation charge (Note 21)	(1,546)	—	—	—	(1,546)
Closing net book value	9,012	—	—	—	9,012
As at 31 December 2018					
Cost	13,695	—	—	—	13,695
Accumulated amortisation	(4,683)	—	—	—	(4,683)
Net book value	9,012	—	—	—	9,012
Year ended 31 December 2019					
Opening net book value	**9,012**	**—**	**—**	**—**	**9,012**
Additions	**965**	**—**	**—**	**—**	**965**
Acquisition of a subsidiary (Note 33)	**—**	**3,379**	**10,292**	**4,565**	**18,236**
Exchange differences	**—**	**58**	**176**	**80**	**314**
Amortisation charge (Note 21)	**(1,701)**	**(142)**	**(431)**	**—**	**(2,274)**
Closing net book value	**8,276**	**3,295**	**10,037**	**4,645**	**26,253**
As at 31 December 2019					
Cost	**14,660**	**3,437**	**10,468**	**4,645**	**33,210**
Accumulated amortisation	**(6,384)**	**(142)**	**(431)**	**—**	**(6,957)**
Net book value	**8,276**	**3,295**	**10,037**	**4,645**	**26,253**

8. INTANGIBLE ASSETS (Continued)

Note:

(a) Amortisation expenses are included in cost of sales RMB80,000 (2018: RMB43,000), selling and marketing expenses RMB100,000 (2018: RMB186,000), and administrative expenses RMB2,094,000 (2018: RMB1,317,000).

(b) The carrying amount of goodwill at the end of the reporting period is attributable to acquisition of a subsidiary (Note 33), which is identified as a cash generating unit ("**CGU**").

The recoverable amount of the above CGU is determined based on value in use calculation. The calculation uses cash flow projections based on the financial budget of five years approved by management and a pre-tax discount rate of 17%. Cash flows beyond the five-year period are maintained constant. Key assumptions in preparing the cash flow projection are gross margin and annual growth rates in revenue which are determined based on past performance and management's expectation on the future trend of service orders in the following 5 years. Management believes that any reasonably possible change in the assumption would not cause the carrying amount of the subsidiary to exceed its recoverable amount.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	2019 **RMB'000**	2018 RMB'000
Opening balance at 1 January	**47,728**	39,608
Changes in accounting policies-IFRS 15	**—**	(1,608)
Additions	**—**	31
Share of net profit	**10,192**	11,662
Share of other comprehensive income	**(213)**	(277)
Exchange differences	**(198)**	—
Dividend received	**—**	(1,688)
Closing balance at 31 December	**57,509**	47,728

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

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

Note:

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

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

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

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

Summarised balance sheet

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

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG*	
	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000
Current						
Cash and cash equivalents	**29,240**	18,010	**20,160**	21,109	**5,903**	8,455
Other current assets	**42,418**	29,500	**31,981**	19,474	**107,332**	99,756
Total current assets	**71,658**	47,510	**52,141**	40,583	**113,235**	108,211
Financial liabilities (excluding trade payables)	**(5,353)**	(4,634)	**(3,977)**	(3,154)	**(3,682)**	(9,673)
Other current liabilities (including trade payables)	**(32,246)**	(19,177)	**(10,536)**	(6,173)	**(99,306)**	(78,802)
Total current liabilities	**(37,599)**	(23,811)	**(14,513)**	(9,327)	**(102,988)**	(88,475)
Non-current						
Assets	**2,877**	2,167	**25,963**	12,351	**54,588**	39,205
Financial liabilities	**—**	—	**(20,008)**	(18,705)	**(20,172)**	(10,460)
Other liabilities	**(1,490)**	(1,041)	**(12,543)**	(2,167)	**(6,392)**	(8,993)
Net assets	**35,446**	24,825	**31,040**	22,735	**38,271**	39,488

* The financial information includes its respective subsidiary.

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

Summarised comprehensive income statement

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG*	
	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000	**Year ended 31 December 2019 RMB'000**	Year ended 31 December 2018 RMB'000	**Year ended 31 December 2019 RMB'000**	Year ended 31 December 2018 RMB'000
Revenue	**70,268**	51,763	**43,353**	33,007	**125,891**	130,902
Depreciation and amortisation	**(303)**	(213)	**(1,392)**	(2,019)	**(3,271)**	(2,989)
Interest income	**175**	137	**52**	12	**—**	—
Interest expense	**(3)**	(10)	**(1,065)**	(928)	**(2,069)**	(2,252)
Profit before income tax	**15,042**	9,677	**11,154**	8,804	**(711)**	15,965
Income tax expense	**(4,385)**	(2,534)	**(2,524)**	(2,031)	**87**	(3,424)
Profit for the year	**10,657**	7,143	**8,630**	6,773	**(624)**	12,541
Other comprehensive income	**(36)**	(49)	**(325)**	(720)	**(593)**	381
Total comprehensive income	**10,621**	7,094	**8,305**	6,053	**(1,217)**	12,922
Dividends received from joint ventures	**—**	1,688	**—**	—	**—**	—

* The financial information includes its respective subsidiary.

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

Summarised financial information

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG*	
	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000
Opening net assets as at 1 January	**24,825**	24,458	**22,735**	16,682	**39,488**	26,566
Changes in accounting policies-IFRS 15	**—**	(3,282)	**—**	—	**—**	—
Profit for the year	**10,657**	7,143	**8,632**	6,773	**(624)**	12,541
Dividends	**—**	(3,445)	**—**	—	**—**	—
Other comprehensive income	**(36)**	(49)	**(327)**	(720)	**(593)**	381
Closing net assets	**35,446**	24,825	**31,040**	22,735	**38,271**	39,488
Interest	**17,369**	12,164	**18,623**	13,641	**12,757**	13,163
Goodwill	**—**	—	**—**	—	**8,760**	8,760
Carrying value	**17,369**	12,164	**18,623**	13,641	**21,517**	21,923

* The financial information includes its respective subsidiary.

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

10. DEFERRED INCOME TAX

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Deferred income tax assets		
— to be recovered within 12 months	**6,436**	5,810
— to be recovered after more than 12 months	**122**	1,454
	6,558	7,264
Deferred income tax liabilities		
— to be recovered within 12 months	**(180)**	—
— to be recovered after more than 12 months	**(10,770)**	(8,009)
	(10,950)	(8,009)
	(4,392)	(745)

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

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
As at 31 December 2018	**(745)**	(706)
Changes in accounting policies-IFRS 15	**—**	303
As at 1 January 2019	**(745)**	(403)
Acquisition of a subsidiary (Note 33)	**(1,775)**	—
Charged directly to equity	**(31)**	—
Charged to the consolidated income statement (Note 26)	**(1,841)**	(342)
As at 31 December 2019	**(4,392)**	(745)

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax assets is as follows:

	Tax losses RMB'000	Impairment provision of receivables and inventories RMB'000	Warranty provisions and others RMB'000	Total RMB'000
As at 31 December 2017	1,454	6,086	717	8,257
Charged to the consolidated income statement	(192)	(580)	(221)	(993)
As at 31 December 2018	1,262	5,506	496	7,264
(Charged)/credited to the consolidated income statement	(900)	(491)	685	(706)
As at 31 December 2019	**362**	**5,015**	**1,181**	**6,558**

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

For the year ended 31 December 2019, the Group did not recognise deferred income tax assets of RMB31,071,000 (2018:RMB28,101,000) in respect of losses amounting to RMB197,188,000 (2018: RMB179,507,000) as utilisation of such tax losses before expiry is uncertain.

For the year ended 31 December 2019, the Group did not recognise deferred income tax assets of RMB763,000 (2018: nil) in respect of deductible temporary differences amounting to RMB5,087,000 (2018: nil) as utilisation of such deductible temporary differences in the foreseeable future is uncertain.

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000	Fair value adjustments RMB'000	Total RMB'000
As at 31 December 2017	(8,963)	—	(8,963)
Changes in accounting policies-IFRS 15	303	—	303
As at 1 January 2018	(8,660)	—	(8,660)
Credited to the consolidated income statement	651	—	651
As at 31 December 2018	(8,009)	—	(8,009)
Acquisition of a subsidiary (Note 33)	—	(1,775)	(1,775)
(Charged)/credited to the consolidated income statement	(1,210)	75	(1,135)
Charged directly to equity	—	(31)	(31)
As at 31 December 2019	**(9,219)**	**(1,731)**	**(10,950)**

11. INVENTORIES

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Raw materials	**62,269**	57,882
Work-in-progress	**75,461**	52,825
Finished goods	**40,399**	28,712
	178,129	139,419
Less: provision for inventories	**(14,612)**	(7,534)
	163,517	131,885

11. INVENTORIES (Continued)

Movements of provision for inventories are analysed as follows:

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Beginning of the year	**(7,534)**	(17,641)
Addition	**(13,576)**	(7,622)
Reversal	**—**	754
Write-off	**6,498**	16,975
End of the year	**(14,612)**	(7,534)

12. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

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

	Notes	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000
Contract assets	(i)	**186,523**	128,547
Loss allowance of contract assets		**(3,659)**	(5,674)
		182,864	122,873
Costs incurred to obtain contracts	(iii)	**2,883**	3,362
Total contract assets and other assets		**185,747**	126,235
Contract liabilities	(i)	**(222,276)**	(193,977)

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

(i) Revenue recognised in relation to contract liabilities

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**152,764**	106,761

(ii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts.

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	**882,937**	682,889

As of 31 December 2019, the aggregate amount of the transaction price allocated to the remaining performance obligation ("**backlog**") is RMB882.9 million and management expects that the Group will recognise this revenue as the contracts are completed, most of which is expected to occur over the next 24 months.

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

(iii) Costs incurred to obtain contracts

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Assets recognised from costs incurred to obtain contracts at 31 December	**2,883**	3,362
Amortisation recognised as cost of satisfying performance obligations during the year	**4,334**	1,945

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

13. TRADE AND NOTES RECEIVABLES

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Trade receivables (Note (b))	**226,963**	227,222
Notes receivable (Note (a))	**47,116**	80,115
	274,079	307,337
Less: loss allowance	**(22,988)**	(21,204)
	251,091	286,133

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2018: within six months).

13. TRADE AND NOTES RECEIVABLES (Continued)

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Within 6 months	**143,827**	141,334
6 months to 1 year	**17,536**	20,817
1 to 2 years	**29,576**	43,624
2 to 3 years	**26,767**	8,581
Over 3 years	**9,257**	12,866
	226,963	227,222

Most of the trade receivables are due within 90 days in accordance with sales contracts.

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
RMB	**238,611**	280,706
US$	**6,582**	5,195
HK$	**46**	56
EUR	**5,852**	168
CHF	**—**	8
	251,091	286,133

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Current:		
Non-financial assets		
— Prepayments to suppliers	**28,332**	32,200
— Staff advance	**2,299**	3,325
— Others	**6,393**	8,165
	37,024	43,690
Less: provision for impairment (Note (b))	**(650)**	(1,111)
	36,374	42,579
Financial assets at amortised cost		
— Deposits as guarantee for tender	**11,488**	12,695
Less: loss allowance (Note 3.1(b))	**(116)**	(147)
	11,372	12,548
	47,746	55,127
Non-current:		
Loan and interest to PALL-AUSTAR JV (Note (d), Note 31(c)(i))	**10,399**	9,724
	10,399	9,724

(a) As at 31 December 2019 and 2018, the carrying amounts of other receivables approximated their fair values.

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Beginning of the year	**(1,111)**	(1,010)
Addition	**(35)**	(101)
Write-off	**496**	—
End of the year	**(650)**	(1,111)

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
RMB	**19,202**	22,380
US$	**58**	146
HK$	**382**	611
	19,642	23,137

(d) This loan to PALL-AUSTAR JV is provided by its shareholder Austar Pharmaceutical Process Systems Limited ("**APPS**"), a subsidiary of the Group. This loan is unsecured and bearing interest rate at LIBOR plus an interest rate variable as prescribed in the loan agreement. For the year ended 31 December 2019, the effective interest rate ranged from 6.01% to 6.96% (2018: 6.02% to 6.95%) per annum. This loan will be expired in 2023.

15. CASH AND BANK BALANCES

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Cash and cash equivalents		
— Cash on hand	**111**	79
— Deposits in bank	**190,973**	196,380
	191,084	196,459
Pledged bank deposits (Note (a))	**88,778**	96,816
Term deposits with initial terms of over three months	**209**	206
	280,071	293,481

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

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
HK$	**122,223**	155,107
RMB	**118,132**	108,989
US$	**31,853**	23,663
EUR	**7,842**	5,708
Others	**21**	14
	280,071	293,481

16. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Financial assets		
Financial assets at amortised cost		
— Loan and interest to PALL-AUSTAR JV (Note 14)	**10,399**	9,724
— Trade receivables (Note 13)	**226,963**	227,222
— Notes receivables (Note 13)	**35,719**	69,710
— Deposits as guarantee for bidding (Note 14)	**11,488**	12,695
— Pledged bank deposits (Note 15)	**88,778**	96,816
— Term deposits with initial terms of over three months (Note 15)	**209**	206
— Cash and cash equivalents (Note 15)	**191,084**	196,459
Financial assets at fair value through other comprehensive income (FVOCI)		
— Notes receivables (Note 13)	**11,397**	10,405
Total	**576,037**	623,237
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and other payables (Note 3.1(c))	**326,923**	272,357
— Borrowings (Note 19)	**20,000**	25,888
Lease liabilities (Note 7)	**36,884**	—
Total	**383,807**	298,245

17. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2018 and 2019	10,000,000	100,000

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000
Issued and fully paid, HK$0.01 each:			
At 31 December 2018 and 2019	512,582	5,126	4,071

18. DEFERRED INCOME

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
At beginning of the year	**3,511**	555
Additions of government grant obtained	**801**	3,822
Credited to consolidated income statement	**(2,340)**	(866)
At end of the year	**1,972**	3,511

19. SHORT-TERM BORROWINGS

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Bank borrowings, secured (Note)	**20,000**	20,000
Notes discounted with recourse	**—**	5,888
	20,000	25,888

Note: As at 31 December 2019, secured short-term bank borrowings are denominated in RMB and secured by the Group's buildings (Note 6) and right-of-use assets (Note 7). For the year ended 31 December 2019, the short-term bank borrowings bear interest rate of 4.57%(2018: 4.35% to 4.79%) per annum and are repayable within one year.

20. TRADE AND OTHER PAYABLES

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Trade payables	**236,504**	215,007
Notes payables	**25,244**	25,934
Payroll and welfare payable	**37,856**	37,622
Taxes other than income taxes payable	**3,510**	12,845
Warranty provision	**12,422**	6,250
Accrued expenses	**29,883**	18,923
Employee payable	**5,533**	7,552
Loan from a non-controlling shareholder of a subsidiary (a)	**1,563**	—
Others	**26,193**	31,944
	378,708	356,077

(a) As at 31 December 2019, the loan from a non-controlling shareholder of a subsidiary is unsecured, bears interest at 5% per annum and repayable on demand.

20. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Within 6 months	**206,632**	194,042
6 months to 1 year	**14,597**	9,231
1 to 2 years	**7,550**	5,127
2 to 3 years	**2,735**	2,143
Over 3 years	**4,990**	4,464
	236,504	215,007

(c) As at 31 December 2019 and 2018, the carrying amounts of trade and other payables approximated their fair values.

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
RMB	**349,664**	335,017
US$	**13,628**	13,902
HK$	**4,063**	4,322
EUR	**10,546**	2,601
GBP	**644**	179
CHF	**58**	56
INR	**105**	—
	378,708	356,077

(e) As at 31 December 2019, payments for trade payables RMB35,778,000 (31 December 2018: RMB56,341,000) with notes receivable were not derecognised.

21. EXPENSES BY NATURE

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Raw materials	**570,889**	485,646
Staff costs, including directors' emoluments (Note 24)	**225,741**	162,787
On-site subcontract fee	**59,659**	24,671
Travel expenses	**43,136**	38,211
Promotion expenses	**22,176**	16,453
Freight and port charges	**21,973**	14,012
Impairment of inventories (Note 11)	**13,576**	6,868
Professional fees	**13,310**	8,281
Depreciation		
— Property, plant and equipment (Note 6)	**11,176**	7,573
— Right-of-use assets (Note 7)	**12,847**	—
Rental expenses		
— Madam Gu Xun	**—**	935
— Austar Limited	**—**	91
— others	**—**	8,913
Office expenses	**10,524**	11,032
Warranty provision	**6,548**	4,279
Sales tax and surcharges	**4,988**	3,553
Auditor's remuneration		
— Audit service		
— PricewaterhouseCoopers	**3,450**	3,000
— Other auditors	**538**	194
— Non-audit service	**9**	1,270
Amortisation (Note 8)	**2,274**	2,023
Communication expenses	**1,997**	1,773
Other operating expenses	**28,351**	24,019
	1,053,162	825,584

22. OTHER INCOME

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Government grants (Note)	**8,733**	2,728
Rental income (Note 31(b)(iv))	**420**	420
	9,153	3,148

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

23. OTHER GAINS/(LOSSES) — NET

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Losses on disposal of property, plant and equipment	**(218)**	(175)
Exchange losses	**(2,415)**	(1,328)
Others	**2,779**	(164)
	146	(1,667)

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Salaries and bonuses	**177,499**	126,857
Pension and social obligations	**48,242**	35,930
	225,741	162,787

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

(a) Five highest paid individuals

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

	Year ended 31 December 2019	Year ended 31 December 2018
Directors	**2**	3
Non-director individuals	**3**	2
	5	5

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Basic salaries and allowances	**2,190**	1,104
Discretionary bonuses	**1,287**	919
Other benefits including pension	**260**	175
	3,737	2,198

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December 2019	Year ended 31 December 2018
Emolument bands		
HK$1,000,001~HK$1,500,000	**2**	1
HK$1,500,001~HK$2,000,000	**1**	1
	3	2

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

(b) Directors' and chief executive's emoluments

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

For the year ended 31 December 2019 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	–	902	–	–	–	–	–	–	16	918
Ho Kin Hung	–	1,655	251	–	–	–	–	–	16	1,922
Chen Yuewu	–	842	524	–	–	–	–	–	61	1,427
Zhou Ning	–	600	239	–	–	–	–	–	126	965
Non-Executive Directors										
Ji Lingling	494	–	–	–	–	–	–	–	–	494
Chiu Hoi Shan	137	–	–	–	–	–	–	–	–	137
Cheung Lap Kei	137	–	–	–	–	–	–	–	–	137
Leung Oi Kin	137	–	–	–	–	–	–	–	–	137

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

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

For the year ended 31 December 2018 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	—	865	—	—	—	—	—	—	15	880
Ho Kin Hung	—	1,337	—	—	—	—	—	—	15	1,352
Chen Yuewu	—	801	—	—	—	—	—	—	56	857
Zhou Ning	—	522	—	—	—	—	—	—	125	647
Non-Executive Directors										
Ji Lingling	358	—	—	—	—	—	—	—	—	358
Chiu Hoi Shan	132	—	—	—	—	—	—	—	—	132
Cheung Lap Kei	132	—	—	—	—	—	—	—	—	132
Leung Oi Kin	132	—	—	—	—	—	—	—	—	132

(c) Directors' retirement benefits

During the year ended 31 December 2019, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his/her services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2018: nil).

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

(d) Directors' termination benefits

During the year ended 31 December 2019, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2018: nil).

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

During the year ended 31 December 2019, no consideration was provided to or receivable by third parties for making available director's services (2018: nil).

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

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2018: nil).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: nil).

25. FINANCE INCOME — NET

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Interest expense		
— short term bank borrowings	(1,739)	(1,445)
— lease liabilities	(1,610)	—
Exchange losses	(387)	(208)
Finance costs	(3,736)	(1,653)
Finance income		
— bank deposits	5,194	4,582
— loan to PALL-AUSTAR JV (Note 14, Note 31(b)(v))	509	491
	5,703	5,073
	1,967	3,420

26. INCOME TAX EXPENSE

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Current income tax expense	2,903	3,036
Deferred income tax expense (Note 10)	1,841	342
	4,744	3,378

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

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

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the year (2018: 16.5%).

26. INCOME TAX EXPENSE (Continued)

The taxation of the Group's subsidiary in Germany is calculated at 30% of the estimated assessable profit for the year (2018: 30%).

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 2018. 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 2019. During the year ended 31 December 2019, Hebei Aunity Engineering Consulting Limited ("**Hebei Aunity**") met the criteria for Micro and Small Enterprises and was entitled to preferential income tax rate of 20%, and was eligible to have income tax calculated based on 50 percent of taxable income.

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Profit before income tax	**(12,208)**	(3,498)
Tax expense calculated at applicable statutory tax rate	**4,172**	767
Impact of preferential corporate income tax rates	**(1,832)**	—
Impact of losses not recognised as deferred income tax assets	**2,970**	6,124
Other deductible temporary differences not recognised as deferred income tax assets	**763**	—
Expenses not deductible for taxation purposes	**1,591**	739
Withholding tax	**1,210**	(651)
Non-taxable income	**(823)**	(1,297)
Additional tax deduction of research and development expenses	**(3,307)**	(2,275)
Others	**—**	(29)
Income tax expense	**(4,744)**	3,378

27. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit attributable to the owners of the Company (RMB'000)	**8,091**	107
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic earnings per share (RMB)	**0.02**	0.00

(b) Diluted

As the Company had no dilutive ordinary shares for each of the years ended 31 December 2019 and 2018, dilutive earnings per share for the years ended 31 December 2019 and 2018 are the same as basic earnings per share.

28. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2019 (2018: nil).

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	**12,208**	3,498
Adjustments for:		
Depreciation		
— property, plant and equipment (Note 6)	**11,176**	7,573
— Right-of-use assets (Note 7)	**12,847**	—
Amortisation (Note 8)	**2,274**	2,023
Net impairment losses on financial assets and contract assets	**5,109**	4,066
Losses on disposals on property, plant and equipment	**218**	175
(Reversal of)/provision for impairment of prepayments and other receivables	**35**	101
Impairment of inventories	**13,576**	6,868
Share of net profit of investments accounted for using the equity method	**(10,192)**	(11,662)
Finance income — net (Note 25)	**(1,967)**	(3,420)
Deferred income (Note 18)	**(2,340)**	(866)
Changes in working capital:		
Decrease/(Increase) in restricted cash	**8,038**	(88,946)
Increase in inventories	**(43,895)**	(54,606)
Decrease/(Increase) in trade and other receivables	**42,869**	(77,408)
Increase in trade and other payables	**15,596**	86,426
Increase in contract liabilities	**28,332**	55,394
Increase in contract assets	**(59,140)**	(12,237)
Increase in deferred income	**801**	3,822
Cash generated/(used in) in operations	**35,545**	(79,199)

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

(b) Non-cash investing and financing activities

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Acquisition of property, plant and equipment transferred from inventories	—	11,214

Non-cash investing and financing activities disclosed in Note 7 are related to acquisition of right-of-use assets.

(c) Net debt reconciliation

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Cash and cash equivalents (Note 15)	191,084	196,459
Lease liabilities (Note 7)	(36,884)	—
Borrowings — repayable within one year (Note 19)	(20,000)	(25,888)
Net debt	134,200	170,571
Cash and liquid investments (Note 15)	191,084	196,459
Gross debt	(56,884)	(25,888)
Net debt (Note)	134,200	170,571

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

(c) Net debt reconciliation (Continued)

Note:

The positive value means that the Group has net cash.

	Liabilities from financing activities			Other assets	
	Borrowing due within 1 year RMB'000	Leases RMB'000	Sub-total RMB'000	Cash RMB'000	Total RMB'000
Net debt as at 1 January 2019	(25,888)	—	(25,888)	196,459	170,571
Recognised on adoption of IFRS 16 (Note 2.2)	—	(35,682)	(35,682)	—	(35,682)
Cash flows	5,888	10,050	15,938	(4,988)	10,950
Foreign exchange adjustments	—	—	—	(387)	(387)
Other non-cash movements	—	(11,252)	(11,252)	—	(11,252)
Net debt as at 31 December 2019	(20,000)	(36,884)	(56,884)	191,084	134,200

30. COMMITMENTS

(a) Capital commitments

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Capital expenditure contracted for but not yet incurred:		
Property, plant and equipment	**1,631**	1,688
Intangible assets	**611**	537
	2,242	2,225

30. COMMITMENTS (Continued)

(b) Operating lease commitments

The Group leases various offices, plants and warehouses under non-cancellable operating lease agreements. From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 2.2 and note 7 for further information. The future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet dates but not recognised as liabilities are as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Within 1 year	—	5,361
Between 1 to 5 years	—	9,023
Above 5 years	—	1,721
	—	16,105

31. RELATED PARTY TRANSACTIONS

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

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2019 and 2018:

Names of the related parties	**Nature of relationship**
PALL-AUSTAR JV	Joint venture of the Group
PALL-AUSTAR WFOE	Subsidiary of PALL-AUSTAR JV
STERIS-AUSTAR WFOE	Joint venture of the Group
Austar Limited	Under common control of the Controlling Shareholder
Madam Gu Xun	Close family member of the Controlling Shareholder
ROTA KG	An associate of the Group
H+E GmbH	Non-controlling shareholder of a subsidiary of the Group
Aquarion AG	Ultimate holding company of non-controlling shareholder of a subsidiary of the Group

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

During the year, the Group has the following significant transactions with related parties:

(i) Purchase of goods and services

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
PALL-AUSTAR WFOE	**40,131**	28,473
STERIS-AUSTAR WFOE	**70,903**	55,988
ROTA KG	**1,459**	481
H+E GmbH		
— engineering and non-engineering services	**1,205**	—
— other services	**458**	—
	114,046	84,942

(ii) Sales of goods and services

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
STERIS-AUSTAR WFOE	**16,968**	15,416
H+E GmbH		
— pre-assembly and assembly services	**5,107**	—
— other services	**2,512**	—
PALL-AUSTAR WFOE	**3,127**	1,473
Austar Limited	**—**	47
	27,714	16,936

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iii) *Rental fee expenses*

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Madam Gu Xun	**935**	935
Austar Limited	**100**	91
	1,035	1,026

(iv) *Rental fee and miscellaneous income*

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
STERIS-AUSTAR WFOE	**420**	420

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
PALL-AUSTAR JV		
Interest income	**509**	491

31. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) Receivable due from/prepayments to related parties

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Receivable due from:		
PALL-AUSTAR JV (Note 14)	**10,399**	9,724
STERIS-AUSTAR WFOE	**9,936**	9,588
H+E GmbH	**3,154**	—
Madam Gu Xun	**468**	468
PALL-AUSTAR WFOE	**52**	254
Austar Limited	**—**	16
Prepayments to:		
STERIS-AUSTAR WFOE	**10,028**	16
ROTA KG	**264**	442
Madam Gu Xun	**234**	234
Austar Limited	**16**	—
	34,551	20,742

(ii) Payable due to related parties

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
STERIS-AUSTAR WFOE	**28,950**	7,378
PALL-AUSTAR WFOE	**9,681**	5,960
Aquarion AG	**1,563**	—
ROTA KG	**163**	10
	40,357	13,348

31. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Salaries and bonuses	**8,208**	6,072
Pension and others	**404**	385
	8,612	6,457

32. ASSETS PLEDGED AS SECURITY

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Property plant and equipment	**6,351**	7,089
Right-of-use assets		
— Land use right	**5,350**	5,500
Total assets pledged as security	**11,701**	12,589

33. BUSINESS COMBINATION

(a) Summary of acquisition

In order to develop the Group's business globally, on 3 July 2019, the Group entered into an investment agreement with H+E GmbH, H+E Holding GmbH and Aquarion AG, pursuant to which 51% equity interest in H+E Pharma GmbH was transferred to the Group for a consideration of EUR1,500,000. The acquisition date of this transaction is 31 July, 2019. When the control was obtained, H+E Pharma GmbH is principally engaged in development, engineering, production, sale of systems and part for systems, maintenance and other services for purified water and highly purified water equipment.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration (refer to (b) below):	
Cash paid	11,520

The assets and liabilities recognised as a result of the acquisition at the date of the acquisition are as follows:

	Fair value RMB'000
Cash and cash equivalents	4,069
Trade receivables	1,987
Prepayments and other receivables	290
Inventories	2,814
Property, plant and equipment	736
Intangible assets	13,671
Trade and other payables	(8,154)
Deferred income tax liabilities (Note 10)	(1,775)
Net identifiable assets acquired	13,638
Less: non-controlling interests	(6,683)
Add: goodwill	4,565
Net assets acquired	11,520

The goodwill is attributable to good prospects and workforce of the acquired business. It will not be deductible for tax purposes.

33. BUSINESS COMBINATION (Continued)

(b) Purchase consideration — cash outflow

	RMB'000
Outflow of cash to acquire a subsidiary, net of cash acquired	
Cash consideration	11,520
Less: Balance acquired	
Cash and cash equivalents	4,069
Net outflow of cash-investing activities	7,451

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**110,443**	108,029
	110,443	108,029
Current assets		
Prepayments and other receivables	**344,621**	232,001
Cash and cash equivalents	**783**	112,594
Total assets	**455,847**	452,624
Equity and liabilities		
Equity attributable to the owners of the company		
Share capital	**4,071**	4,071
Capital surplus	**411,879**	411,879
Currency translation differences	**52,545**	42,582
Retained earnings	**(14,100)**	(7,951)
Total equity	**454,395**	450,581
Liabilities		
Non-current liabilities		
Trade and other payables	**1,452**	2,043
Total liabilities	**1,452**	2,043
Total equity and liabilities	**455,847**	452,624

The balance sheet of the Company was approved by the Board of Directors on 27 March 2020 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

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

Reserve movement of the Company

	Capital surplus RMB'000	Currency translation differences RMB'000	Accumulated losses RMB'000
At 1 January 2018	411,879	21,793	(809)
Loss for the year	—	—	(7,142)
Currency translation differences	—	20,789	—
At 31 December 2018	411,879	42,582	(7,951)
At 1 January 2019	411,879	42,582	(7,951)
Loss for the year	—	—	(6,149)
Currency translation differences	—	9,963	—
At 31 December 2019	**411,879**	**52,545**	**(14,100)**

35. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2019:

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Directly owned:					
Austar Equipment Limited (奧星設備有限公司)	Limited liability company	BVI/25 January 2005	US$100	100%	Investment holding/BVI
Indirectly owned:					
Shanghai Austar	Limited liability company	Shanghai, the PRC/ 20 August 2003	US$20,638,528	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar SJZ	Limited liability company	Shijiazhuang, the PRC/ 9 July 2004	RMB20,060,000	100%	Provision of integrated engineering solutions pharmaceutical equipment manufacturing, maintenance, GMP compliance service/ the PRC
Austar Hansen	Limited liability company	Shanghai, the PRC/ 29 March 2001	RMB6,660,000	100%	Distribution and agency/the PRC
Austar Clean Equipment (Shanghai) Co., Ltd. (奧星潔淨設備(上海)有限公司)	Limited liability company	Shanghai, the PRC/ 12 November 2007	RMB2,155,446	100%	Provision of integrated solution of clean room enclosure system/ the PRC
APPS	Limited liability company	Hong Kong/20 April 2012	HK$55,812,404	100%	Investment holdings, distribution and agency/Hong Kong
Austar Europe S.r.l	Limited liability company	Italy/27 July 2012	EUR20,000	100%	Provision of consulting service/Italy
APTS SJZ	Limited liability company	Shijiazhuang, the PRC/ 6 May 2014	RMB43,000,000	100%	Provision of integrated solution of clean room enclosure system/the PRC

35. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar Pharmaceutical Technology (SJZ) Limited (奧星製藥科技(石家莊)有限公司)	Limited liability company	Hong Kong/27 January 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Equipment (NJ) Limited (奧星製藥設備(南京) 有限公司)	Limited liability company	Hong Kong/27 January 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Equipment (Nanjing) Ltd. (奧星製藥技術設備(南京)有限公司)	Limited liability company	Nanjing, the PRC/18 May 2015	RMB500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar Biosciences Investment Limited (奧星生物科技投資有限公司)	Limited liability company	BVI/1 April 2015	US$100	100%	Investment holding/BVI
Austar Biosciences Limited (奧星生物科技有限公司)	Limited liability company	Hong Kong/20 April 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Investment (SJZ) Limited (奧星製藥科技投資（石家莊）有限公司)	Limited liability company	BVI/12 January 2015	US$12,048,383	100%	Investment holding/BVI
Austar Pharmaceutical Equipment Investment (NJ) Limited (奧星製藥設備投資（南京）有限公司)	Limited liability company	BVI/12 January 2015	US$209,717	100%	Investment holding/BVI
Austar Biosciences GmbH	Limited liability company	Germany/29 January 2016	EUR25,000	100%	Investment holding/Germany
Shanghai Austar Biotechnology Co., Ltd. (上海奧星生物科技有限公司)	Limited liability company	Shanghai, the PRC/20 May 2015	—	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC

35. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar India Investment Ltd. （奧星印度投資有限公司） (now known as Austar Asia Investment Ltd. (奧星亞洲投資有限公司))	Limited liability company	BVI/19 July 2017	US$1	100%	Investment holding/BVI
Shanghai Austar Pharmaceutical Science and Technology Limited (上海奧星醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/ 7 August 2017	RMB2,150,000	100%	Investment holding/the PRC
Shanghai Aunity Pharmaceutical Science and Technology Limited (上海奧恒醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/ 24 October 2017	RMB4,200,000	51%	Investment holding/the PRC
Hebei Aunity	Limited liability company	Hebei, the PRC/ 2 November 2017	RMB3,822,000	100%	Provision of pharmaceutical engineering design/the PRC
Austarunion India Process Systems Private Limited	Limited liability company	India/29 November 2018	Rupees100,000	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/India
Austar Malaysia Ltd	Limited liability company	Malaysia/13 November 2019	US$100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
AUSTARUNION Malaysia Sdn Bhd	Limited liability company	Malaysia/5 December 2019	RM100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
H+E Pharma GmbH	Limited liability company	Germany/26 September 2018	EUR51,020	51%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/Germany

35. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
S-Tec GmbH	Limited liability company	Germany/14 August 2013	EUR100,000	51%	Assembly and pre-assembly service/Germany
Austar Luxembourg Sarl	Limited liability company	Luxembourg/21 August 2019	EUR12,000	100%	Investment holding/Luxembourg

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

36. CONTINGENT LIABILITIES

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

As at 31 December 2019, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR1,174,000 approximated at RMB9,175,000. It sets forth the maximum exposure of these guarantees to the Group.

37. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Following the outbreak of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China, including an extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, imposing of certain restrictions and controls over travelling traffic arrangements, etc. These measures have delayed the resumption of business after the Chinese New Year holiday of the Group and of its joint ventures, and also some of the Group's customers and suppliers in China. As a result, the progress of certain engineering contracts, settlement by customers and order-in-take of the Group have been delayed and affected to some extent.

The majority of the Group's operation and its joint ventures' businesses which are mainly in China have been getting better in March 2020. The Group's associates in Germany started being affected to some extent since March 2020. As at the date on which this set of financial statements were authorised for issue, the impacts on the macro-economic conditions as a whole by the COVID-19 outbreak are still uncertain, the Group is unable to quantify the related financial effects. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**1,049,021**	816,585	546,933	672,545	627,544
Cost of sales	**(764,777)**	(612,191)	(425,401)	(512,838)	(473,297)
Gross profit	**284,244**	204,394	121,532	159,707	154,247
Selling and marketing expenses	**(137,077)**	(105,635)	(100,473)	(82,687)	(71,002)
Administrative expenses	**(108,731)**	(77,450)	(70,946)	(68,103)	(56,213)
Net impairment losses on financial and contract assets	**(5,109)**	(4,066)	–	–	–
Research and development expenses	**(42,577)**	(30,308)	(26,062)	(32,041)	(26,908)
Other income	**9,153**	3,148	7,438	2,103	2,860
Other gains/(losses) – net	**146**	(1,667)	1,001	(2,083)	278
Operating profit/(loss)	**49**	(11,584)	(67,510)	(23,104)	3,262
Finance income/(expenses) – net	**1,967**	3,420	3,909	2,208	(928)
Share of net profit of investments accounted for using the equity method	**10,192**	11,662	5,181	3,395	5,256
Profit/(loss) before income tax	**12,208**	3,498	(58,420)	(17,501)	7,590
Income tax (expense)/credit	**(4,744)**	(3,378)	4,223	(1,169)	(1,207)
Profit/(loss) for the year	**7,464**	120	(54,197)	(18,670)	6,383
Profit/(loss) attributable to:					
The owners of the Company	**8,091**	107	(54,085)	(18,670)	6,384
Non-controlling interests	**(627)**	13	(112)	–	(1)
Profit/(loss) for the year	**7,464**	120	(54,197)	(18,670)	6,383

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	**1,174,322**	1,071,370	881,567	914,776	960,985
Total liabilities	**671,697**	588,447	401,180	368,661	410,001
Total assets less current liabilities	**540,535**	494,443	489,905	561,286	567,721
Total equity attributable to the owners of the Company	**494,537**	480,964	478,441	546,114	550,983