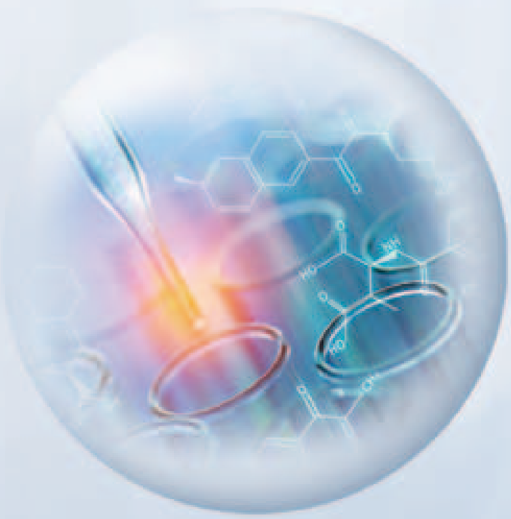
AUSTAR

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

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

2016
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. Raco Ivan Jordanov
(alias Racho Jordanov)

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

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

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

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

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

COMPANY SECRETARY
Madam Chan Pui Shan, Bessie

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

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

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISOR AS TO HONG KONG LAW

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

AUDITOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
(renamed as Conyers Trust Company (Cayman) Limited
with effect from 30 March 2017)
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

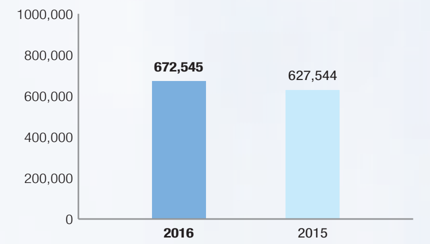
www.austar.com.hk

FINANCIAL HIGHLIGHTS

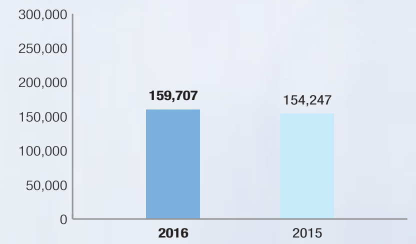
	For the year ended 31 December 2016 RMB'000	2015 RMB'000	Change
Key financials on Consolidated Income Statement			
Revenue	**672,545**	627,544	7.2%
Gross profit	**159,707**	154,247	3.5%
Gross profit margin	**23.7%**	24.6%	
(Loss)/profit attributable to the owners of the Company	**(18,670)**	6,384	-392.4%
Basic (loss)/earnings per share (RMB) (Note)	**(0.04)**	0.01	
Diluted (loss)/earnings per share (RMB)	**(0.04)**	0.01	
	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000	Change
Key financials on Consolidated Balance Sheet			
Total assets	**914,776**	960,985	-4.8%
Net assets	**546,115**	550,984	-0.9%
Gearing ratio	**3.7%**	6.4%	

Note: The calculation of (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company for each of the year ended 31 December 2016 and 2015 and the weighted average number of shares in issue during that year.

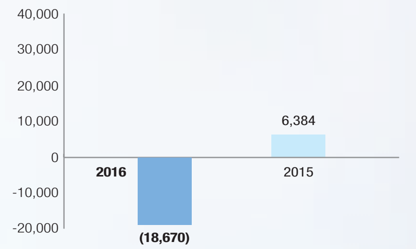
Revenue
RMB'000



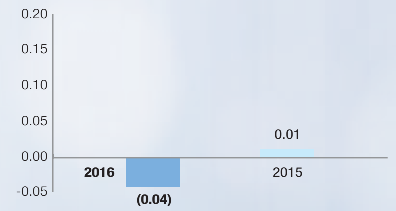
Gross profit
RMB'000



(Loss)/profit attributable to the owners of the Company
RMB'000

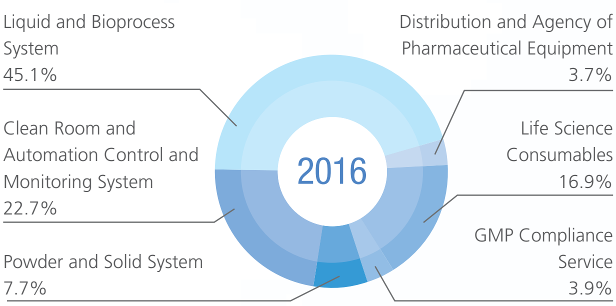


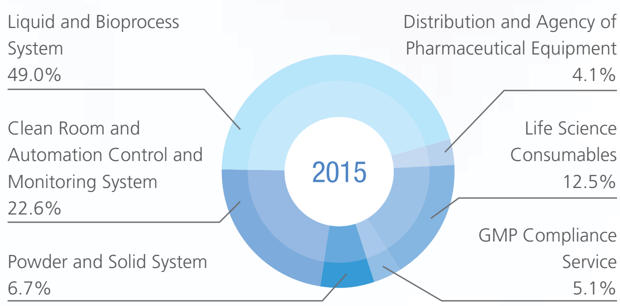
(Loss)/Earnings per share (Basic and diluted)
(RMB)



REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December 2016 RMB'000	2016 %	2015 RMB'000	2015 %
Liquid and Bioprocess System	**303,698**	**45.1%**	307,192	49.0%
Clean Room and Automation Control and Monitoring System	**152,344**	**22.7%**	141,899	22.6%
Powder and Solid System	**51,627**	**7.7%**	42,257	6.7%
GMP Compliance Service	**26,478**	**3.9%**	32,295	5.1%
Life Science Consumables	**113,505**	**16.9%**	78,465	12.5%
Distribution and Agency of Pharmaceutical Equipment	**24,893**	**3.7%**	25,436	4.1%
Total	**672,545**	**100.0%**	627,544	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

2015

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

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

Mar
Austar acquired one third shares of ROTA GmbH, a world famous liquid filing line provider

May
Single-use bioprocess automation platform system has been successfully developed and Austar secured orders for it in the same year

Oct
Austar launched 200L stainless steel bioreactor and integrated with single-use bioprocess products to form a hybrid system, becoming the unique company worldwide which could provide all core and auxiliary biopharma and liquid process system

Nov
Austar developed soft containment system which could replace rigid containment equipment or components with more flexible well-designed soft films and manufactured the first continuous liner

Dec
Austar finished establishment of a powder and solid technology research centre with the objective of developing innovative technologies and solutions to improve powder and solid characteristic and drug formulation, improve and develop drying, granulation, coating and mixing applications, improve Austar's equipment, and solve health and safety (EHS) issues in the pharmaceutical industry

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 2016 ("**Year**").

Year 2016 had been a year of consolidation and re-adjustment not only to the pharmaceutical industry in the People's Republic of China ("**PRC**" or "**China**") but also to the Group. Following the Group's consolidation of its project execution team, project execution by the Group in the second half of the Year had been faster than the first half, resulting in better revenue recognition in 2016 than 2015 and generated a single digit growth in revenue of the Group for the Year.

Despite a slight growth in the Group's revenue for the Year, the Group's reorganization and establishment of its Project Engineering Execution Centre, intended to improve operation efficiency and offer more cost-effective and better customer interface platform and better customer satisfaction benefits, had not generated revenue and results for the Year as originally expected. Meanwhile, the process change undertaken by establishment of project execution centre and enhancement of work process to enhance operation efficiency, had no immediate impact on the gross margin of the Group for the Year. Although our profit earnings in 2016 had been affected as a result of the above, the Group witnessed improvements in its earnings in the second half of 2016. With the AUSTAR brand being highly regarded by our customers, the Company believes that its financial results can be further improved with better and more appropriate corporate strategies.

One of our key challenges during the Year was that the introduction of new products took longer than originally expected meanwhile the gross margin of conventional products in our key product line segments had eroded significantly due to keener market competition. Nevertheless, the Company has not slowed down its product development and the Company believes that introducing and developing strong and rich pipelines of products are the basis for further growth in earnings.

During the Year, order-in-take amount was approximately 14.3% lower than that in 2015, mainly due to weaker order-in-take in the third quarter of 2016. Yet, in the last quarter of 2016, we could see stronger growth in orders picking up. We aspire to continue such trend in 2017.

PRODUCT AND TECHNOLOGICAL DEVELOPMENT

In the Year, the Group continued to focus on biological process knowledge and competence enhancement. With a stronger team consolidated for bioprocess equipment and our pressure vessel manufacturing capabilities enhanced, we were able to provide more comprehensive bioprocess equipment and related services to cover more biologics customers, including animal vaccines customers. The Group also had a breakthrough in the development of stainless steel and the integration of filling line and freeze dryers, following which the Group has become the unique company which could provide biopharmaceutical companies with the required research and development and manufacturing equipment, services and systems.

High-containment isolator with flexible containment concepts and high-occupational exposure bands (OEB) level oral solid dosage line catered for better labour safety and avoidance of cross contamination was developed and sold during the Year.

With the support from several European universities and partners, the Group has established two laboratories in Shijiazhuang, PRC to develop and improve solid dosage forms, formulations and process. These laboratories would make important contribution to the Company's oral solid dosage equipment improvement and development and the Company has already applied several technologies and services developed from the two laboratories. We believe the technologies developed from these laboratories would bring our equipment quality and technology content to a higher level.

Our integrated knowledge in disinfection, air-handling, automation controls and compliance contributed to an increase in customers' recognition which was reflected by the increase in orders for our heating, ventilation and air-conditioning (HVAC) technology solutions during the Year.

High-end consulting services including quality management system advisory services to assist companies to harmonize their group's quality management systems becomes one of our new growth elements.

MANAGEMENT IMPROVEMENTS

During the Year, more severe market competition, more sophisticated customer requirements and our effort to adjust our organization to adapt new knowledge and skills brought about both threats and opportunities to the Group. Since the Group's streamlining of its supply chain function with new leadership in the last quarter of 2015, such new leadership is expected to bring about the improvements in the coming years, resulting in better working capital control for the Group.

With continuous investment on the Group's management information system over the past few years, it is expected that improvements on operation processes would enhance the Company's efficiency and support its performance growth in the coming years.

In addition, it is expected that the consolidation of the Group's sales and marketing organization and improvement initiatives taken in the Year would allow the Group to achieve higher goals on sales and meet its order-in-take expectations in 2017 and the years to come.

CORPORATE STRATEGIES

The corporate strategies of the Group in the Year were as follows and they shall continue to be the basis of our strategies in 2017:

1. to continue to enhance the Group's technical competences of various product lines by partnerships with established technological companies and own innovative creation and invention of technologies without significant capital expenditure ("**CAPEX**") investment;

2. to focus on the pharmaceutical industry yet maintain steady expansion in the areas of medical device and laboratory animal research;

3. to maintain a sound cash position and to be ready for further expansion should any opportunity arise in the coming future;

4. to improve the core competences of system integration capacity and individual component technologies of biologics processes; and

5. to extend our competence to the emerging countries with more local presence for sales and services and to increase project execution capacity.

RESULTS

Due to slowdown of the growth of the pharmaceutical industry, keen market competition in domestic industry and the Group's initiative to abandon bidding in some projects with low gross profit margin in the business segment of Liquid and Bioprocess System, the total order-in-take for the Year amounted to approximately RMB701.3 million, representing a decrease of approximately 14.3% from approximately RMB818.5 million for the year ended 31 December 2015. Despite decrease in the total order-in-take for the Year, the Group has maintained a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in Beijing, Shanghai, and Jiangsu Province of the PRC. In the coming few years, there will be potential growth in the biopharmaceutical field, as compared to the conventional pharmaceutical chemical field.

For the Year, the Group's total revenue reached approximately 672.5 million, representing an increase of 7.2% over 2015 mainly due to the increase in revenue from the business segments of Life Science Consumable, Powder and solid system and Clean Room and Automation Control and Monitoring System. The Group's gross profit increased by approximately RMB5.5 million or 3.5% from approximately RMB154.2 million for the year ended 31 December 2015 to approximately RMB159.7 million for the Year.

The Group's net profit for the Year decreased by approximately RMB25.1 million to a loss of approximately RMB18.7 million for the Year from a net profit of approximately RMB6.4 million for the year ended 31 December 2015, which is mainly due to (i) increase of approximately RMB19.3 million in impairment provision of receivables and inventories mainly due to some long-aging receivables and some inventories at the lower cost of net realisable value; (ii) increase of approximately RMB5.1 million in research and development expenses which is mainly due to materials used for developing new components or testing equipment; and (iii) increase of approximately RMB2.0 million in promotion expenses.

At the end of the Year, the Group had cash and cash equivalents of approximately RMB286.4 million; term deposits of RMB35.3 million and backlog amount to RMB416.3 million. In 2017, more aggressive efforts will be allocated on project execution management. Stronger and tighter internal controls on pricing operation expense, account receivable and inventory will help improving financial result of the Group.

BUSINESS OVERVIEW

The Group adopts the business model as an integrated engineering solution provider for high-end customers in China and the emerging countries, focuses in pharmaceutical industry, and with consulting services to support our customers for compliance and operation excellence. The Group has been developing a strong pipeline of products across the whole drug product lifecycle with a long-term strategic perspective. With continuous product development efforts, our business segment of Life Science Consumables, being one of our product segments, achieved more than 40% growth in order-in-take amount for the Year. As drug quality expectations have become higher and compliance regulatory rules enforcement has been strengthening in China and the emerging countries, the strength of the Group's comprehensive products will bring about opportunities to the Group for stronger revenue growth with higher gross margin.

INDUSTRY UPDATES

With a rigorous industry upgradation during the entire Year caused by regulation revolution, and aggravated by intensive domestic economic adjustment and slow down, during the Year, pharmaceutical companies which focused on low tier market have been eliminated while pharmaceutical companies which focused on mid and high-tier markets also had to postpone execution of their new projects and to improve their quality and management system to meet the requirements of new regulations and the market. The China Food and Drug Administration ("**CFDA**") continued to release new regulations in 2016 mainly to make drug application process more concise and to increase the quality of medicines.

Although the CAPEX investment of pharmaceutical companies in manufacturing phase continued to decrease in 2016, the requirement in research and development phase generated from pharmaceutical companies has much increased since they have to improve the whole product and quality system. The Group has acquired a series of technologies and products during the Year which could help its customers to improve their research and development capabilities and quality control.

PROSPECTS

The basic tone of the pharmaceutical industry has not changed. It is believed that healthcare as a necessity and related policies imposed by the PRC authority are the fundamental elements for the Group's growth opportunities.

The opportunities brought by our reinforced strategic arrangement with local offices and more local partnerships in the emerging countries in the Year are expected to generate positive results in 2017 and the years to come.

The Group's continuous efforts during the Year to refine and improve our products and services, especially in the bioprocess, active pharmaceutical ingredients (API) and containment technology aspects, to adapt to the market needs are expected to contribute to build solid competitive edges for our products.

New testing and research laboratory for oral dosage formulation and containment established in Shijiazhuang, PRC, during the Year and further cooperation with universities and research institutes will create more customer-satisfied products and allow the Group to offer more competitive products.

APPRECIATION

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

Ho Kwok Keung, Mars
Chairman

28 March 2017

MANAGEMENT DISCUSSION **AND ANALYSIS**

MARKET REVIEW

In 2016, intensive domestic economic adjustment, continuous reform of the pharmaceutical system in the PRC and slowdown of pharmaceutical industry growth brought challenges to the pharmaceutical industry. The enforcement of the strengthened regulatory policies has, on the one hand, slowed down the pace of decisions for new CAPEX projects in the pharmaceutical industry but also on the other hand, created opportunities to healthier development and upgrade of the pharmaceutical industry, which in turn will be benefiting the Group.

Year 2016 was the first year of the "Thirteenth Five-Year Plan" by the Fifth Plenary Session of the Eighteenth Central Committee of the PRC government and the pharmaceutical industry continued to undertake structural changes and set up new targets so as to keep the growth of China's economy, transform economic development methods, adjust industry structure, improve people's livelihood and encourage innovations. China's macro economy was still undergoing a phase of structural adjustment and transformation in 2016, and it has just started a series of industry improvement and innovation for the next few years. Although it is expected that China's pharmaceutical industry will experience slower growth in the "Thirteenth Five-Year" than the previous five years, the market is still on the uptrend and China is expected to become the second largest pharmaceutical market globally.

Pharmaceutical industry reform measures such as the implementation of medical insurance premium requirements, new chemical drug registrations system and more stringent requirement on the consistency of evaluation for generic drugs regulations had adversely affected the basic operation and governance of pharmaceutical companies in general as well as the Group's customers. Pressure faced by pharmaceutical companies continued to rise due to the required improvement on medicine evaluation, the reform on quality consistency assessment and good manufacturing practice (GMP) or good supply practice (GSP) policies. However, the influence of these policies on the upgrade and improvement of the overall pharmaceutical industry is virtually positive, when small companies or companies with outdated technologies were eliminated or merged by industry-leading companies and resources could be more concentrated in companies who excel in technologies and management system.

On 4 March 2016, the CFDA officially issued the "Notice of reforming about registered classification of chemical drugs (No. 51 of 2016)"《關於發佈化學藥品註冊分類改革工作方案的公告(2016年第51號)》and it became effective on the same date. On 5 March 2016, the State Council put forward policy guidance for generics consistency evaluation in China to improve the quality of generic drugs and curative effect through consistency evaluation. On 26 May 2016, the State Council launched a three-year trial program to implement the market authorization holder (MAH) system《藥品上市許可持有人制度試點方案》for certain drug products in 10 selected provinces and cities where drug research and development (R&D) institutions and individuals would be qualified to apply for and hold drug product licences and be responsible for drug quality. CFDA intends to use these series of new regulations to eliminate low-efficacy approved drugs, improve the new drug application system, accelerate the manufacturing procedure of good curative effect drugs and improve the quality of Chinese medicines to reach international leading standards. It requires the whole pharmaceutical industry to improve its quality, data integrity and management system from drug research to manufacturing phases.

After decades of development, China has become a major producer of pharmaceutical equipment in the world. Since 2010, driven by the new GMP certification and other factors, while both the revenue and total profit of China's pharmaceutical equipment industry have increased significantly, such increase was restricted by the actual time required to process new GMP certification and market capacity, resulting in a slow down of the revenue growth of China's pharmaceutical equipment industry in 2016. The impact brought by the change in pharmaceutical regulations to pharmaceutical equipment and service providers would also be a great opportunity to the Group as it is expected that this change will eliminate some of the Group's low-end competitors with relatively low technologies, which gain their market shares mainly by way of offerings at low prices but may not be able to satisfy their customers with products which are in compliance with the new regulations.

BUSINESS REVIEW

The Group is a leading integrated engineering solutions provider targeting reputable pharmaceutical manufacturers and research institutes in the PRC and the emerging countries.

The Group designs, sources and sets up production facilities, builds cleanrooms and implements automation and monitoring systems for major pharmaceutical manufacturers in the PRC. From research and development, pilot production, product launching to commercial production, the Group's solutions and services cover the whole lifecycle of pharmaceutical products, and play an essential and critical role in the pharmaceutical production process. Together with its joint ventures, the Group also engages in the manufacturing, sale and distribution of various high-end pharmaceutical equipment and life science consumables.

With the Group's investigating technology and other potential acquisition opportunities, the Group continues to further investigate and develop new products and services following the policies and regulations recently issued by the CFDA, with the aim to maintain its leading position on regulatory interpretation and technical innovation.

The Group is still in the industry technology-leading position and the only supplier in the market who could provide the most comprehensive turnkey solutions to pharmaceutical manufacturers. The competence of the Group's turnkey solutions is under continuous improvement.

The Group's business can be categorized into six segments, namely, (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. The Group's ability to provide comprehensive services and products across these business segments enables the Group to provide one-stop solutions to its customers in different stages of the lifecycle of pharmaceutical products, and therefore, allows the Group to serve international and premium pharmaceutical brands.

More aggressive efforts have been allocated on product promotional activities during the Year as the potential of some business segments with very strong product pipeline has not been unleashed. Stronger and tighter internal controls on pricing can help improving the gross margin. A proactive and prudent growth approach has been adopted by the Company in order to cope with possible uncontrollable outcomes in the industry and other economic challenges. The Company believes that gradual improvements on profitability are foreseeable.

ORDER-IN-TAKE

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

	For the year ended 31 December				
	2016		2015		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**288,344**	**41.1%**	407,317	49.8%	(29.2%)
Clean Room and Automation Control and Monitoring System	**162,889**	**23.2%**	162,953	19.9%	0.0%
Powder and Solid System	**58,109**	**8.3%**	77,527	9.5%	(25.0%)
GMP Compliance Service	**34,071**	**4.9%**	30,726	3.8%	10.9%
Life Science Consumables	**141,496**	**20.2%**	98,718	12.0%	43.3%
Distribution and Agency of Pharmaceutical Equipment	**16,343**	**2.3%**	41,277	5.0%	(60.4%)
Total	**701,252**	**100.0%**	818,518	100.0%	(14.3%)

During the Year, the total order-in-take amounted to approximately RMB701.3 million, representing a decrease of approximately 14.3% from approximately RMB818.5 million for the year ended 31 December 2015, due to the decrease in order-in-take amount of the business segments of Liquid and Bioprocess System, Powder and Solid System and Distribution and Agency of Pharmaceutical Equipment, but partially offset by the increase in order-in-take amount of the business segments of Life Science Consumables and GMP Compliance Service. Due to market slowdown and keener competition in the Year, order-in-take of conventional products in the Group's key product line segments had eroded significantly. Nevertheless, the Company has not slowed down its investment in product and market development. The Company believes that introducing and developing strong and rich pipelines of products are the basis for further growth.

LIQUID AND BIOPROCESS SYSTEM

During the Year, due to keen market competition in the business segment of Liquid and Bioprocess System, the Group maintained a number of biopharmaceutical projects with reputable domestic pharmaceutical manufacturers in Beijing, Shanghai, and Jiangsu Province of the PRC, but lost some projects with low profit margins. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB288.3 million for the year ended 31 December 2016, representing a decrease of approximately RMB119.0 million or 29.2% from approximately RMB407.3 million for the year ended 31 December 2015. In the coming few years, there will be potential growth in the biopharmaceutical field, as compared to conventional pharmaceutical chemical field. The Group will endeavour to pursue developments in the biopharmaceutical projects and strive for the high-end market.

CLEAN ROOM AND AUTOMATION CONTROL AND MONITORING SYSTEM

During the Year, despite keen market competition on low margin clean room enclosure components and system, the Group successfully secured its market share and focused on acquiring more high value-added automation control and monitoring system projects. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System kept stable at approximately RMB162.9 million for the year ended 31 December 2016, as compared to approximately RMB163.0 million for the year ended 31 December 2015.

POWDER AND SOLID SYSTEM

During the Year, the Group also faced keen competition in the market of Powder and Solid System and focused on higher margin market, which led to a decrease in the order-in-take amount of this business segment by approximately RMB19.4 million or 25.0% from approximately RMB77.5 million for the year ended 31 December 2015 to approximately RMB58.1 million for the year ended 31 December 2016. Nevertheless, the Group successfully secured projects with higher gross margin in this business segment.

GMP COMPLIANCE SERVICE

The Group's GMP Compliance Services are executed by the Group's technical expertise, including conducting compliance testing and documentation of compliance report. For the past few years, the Group built its good reputation in GMP Compliance Services field through providing high quality service. The order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB3.4 million or 10.9% from approximately RMB30.7 million for the year ended 31 December 2015 to approximately RMB34.1 million for the year ended 31 December 2016.

LIFE SCIENCE CONSUMABLES

During the Year, the Group actively responded to changes in market demand, introduced new product types including the latest pharmaceutical instrument for quality assurance, control use and animal laboratory research products. The order-in-take amount of the business segment of Life Science Consumables increased by approximately RMB42.8 million or 43.3% from approximately RMB98.7 million for the year ended 31 December 2015 to approximately RMB141.5 million for the year ended 31 December 2016. The Group will continue to launch more diversified life science consumables and instruments with latest technology to its customers. This segment has a huge potential for the Group.

DISTRIBUTION AND AGENCY OF PHARMACEUTICAL EQUIPMENT

During the Year, the Group continued to focus on the business of integrated engineering solutions, resulting in a decrease in the order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment by approximately RMB25.0 million or 60.4% from approximately RMB41.3 million for the year ended 31 December 2015 to approximately RMB16.3 million for the year ended 31 December 2016.

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 2016:

	As at 31 December 2016			
Backlogs by business segment	Number of Contracts	%	RMB'000	%
Liquid and Bioprocess System	199	25.0%	174,923	42.0%
Clean Room and Automation Control and Monitoring System	287	36.1%	118,508	28.4%
Powder and Solid System	82	10.3%	44,397	10.7%
GMP Compliance Service	83	10.4%	37,396	9.0%
Distribution and Agency of Pharmaceutical Equipment	145	18.2%	41,137	9.9%
Total	796	100.0%	416,361	100.0%

PRODUCTION, EXECUTION AND ORGANIZATION

Under new leadership with strengthened management, the Group's manufacturing centre in Shijiazhuang, PRC introduced more new products such as clean room partitions and pressure vessel containers which can gradually bring improvement on both quality and costs. The new equipment installed in the Group's Shijiazhuang facility in early 2016 demonstrated further improvement on the quality of the Group's clean room system and its production capacities. Apart from the Group's pressure vessel manufacturing facility in Shanghai, PRC, this second pressure vessel manufacturing facility in Shijiazhuang can offer higher and back-up capacities to ascertain the Group's customers, especially its biologics customers, to obtain their process vessels with higher quality and shortest possible delivery time. The pressure vessel certification work according to internationally recognized ASME International has completed its inspection and qualification by the end of the Year for the Group's Shijiazhuang manufacturing centre and the same is scheduled to be completed in mid-2017 for the Group's Shanghai manufacturing centre.

The continuous liner manufacturing equipment of PALL-Austar Lifesciences Limited ("PALL-AUSTAR JV"), the Group's joint venture, was installed and test-run has commenced in the Year, offering more labour-safety concerned applications, and in return supporting sales growth by synergizing the hardware isolation equipment.

Organizational changes in the Group's human resources, supply chain management and sales and marketing were made in the Year with expectations to see an upcoming improvement in cost control and achieve further streamlining on efficiency and effectiveness, and improvements in sales order-in-take.

An Engineering Project Execution Centre was established at the end of 2015 by consolidating the Group's existing project management execution team, automation system team, validation execution team and powder and liquid system execution team, aiming at building up a strong harmonized team to cater for the Group's turnkey facility projects, but the results of the expected improvement have not yet been fully demonstrated in the Year. However, through further management improvement, training, on-site practices, and procedural streamlining, it is expected that such consolidation would allow the Group's staff to acquire more cross-functional skills, resulting in higher efficiency with better customer satisfaction, and at the same time offering a synergetic and standard-harmonized platform of project execution across the Group's business segments.

RESEARCH AND DEVELOPMENT

The Group has obtained more than 110 authorized patents by the end of year 2016. The Group obtained 23 authorized patents including 2 invention patents during the Year, and applications for 28 patents are currently in progress.

With the first stainless steel bioreactor successfully launched at the China International Pharmaceutical Machinery Exposition ("**CIPM**") trade show in May 2016, the Group acquired the capabilities to provide both stainless steel and single-use core bioprocess system. Following this integration, the Group has become the unique company which could provide all biopharmaceutical companies with the required R&D and manufacturing scale equipment, services and systems including core bioprocess equipment, auxiliary system such as process development service, mixing system, CIP/SIP, preparation system, filling lines, automation and validation services. The Group is also dedicated to improve the cost-effectiveness of the critical points in biologics products manufacturing process for its customers. During the Year, single-use bioprocess information platform system has been successfully developed and orders for it have been secured. This platform would significantly reduce the cost of manufacturing high-end bio products, control the risk of cross contamination and simplify manufacturing process.

In collaboration with the Group's joint venture, PALL-AUSTAR JV, the Group could design and provide hybrid system which includes both stainless steel and single use bioprocess system leveraging the advantages from the two systems. Hybrid bioprocess system is widely used in global leading biopharmaceutical companies and would be gradually applied by Chinese companies. Hybrid bioprocess system would become the mainstream system in China in the next few years. The Group also successfully applied single-use disposable concept to high-end chemical drug products with sterility and containment requirements. To amplify the Group's capabilities in the containment field, based on its existing single use bioprocess technologies and manufacturing capabilities, the Group has further developed soft containment system which could replace rigid containment equipment or components with more flexible well-designed soft films formed system and reduce CAPEX investment for its customers. The Group believes that, with its capabilities of both soft and rigid systems, it could provide the most comprehensive solution to biopharmaceutical companies and the chemical drug industries.

During the Year, the Group achieved collaboration on new projects with Bradford University in the United Kingdom which has strong powder and crystallization research capabilities and Pharmagel Engineering spa which is a world leading company of softgel technologies and owns technologies of drug formulation development. With the support from Bradford University and Pharmagel Engineering spa, the Group could transfer medicine technologies or products to pharmaceutical companies and improve the crystal or particles of chemicals, traditional Chinese medicines and bio products.

During the Year, the Group successfully developed wet granulation line with its experience accumulated in the past 10 years in related field and it could provide a solution of wet granulation line from loading to packaging which includes system design, process design and improvement, wet granulation equipment manufacture and system implementing. This marked a breakthrough for the Group in the oral solid dosage (OSD) and High Potency Active Pharmaceutical Ingredients (HPAPI) field and, together with its powder handling system, the Group could provide high containment wet granulation line for oncology and high-potent drugs.

Active Pharmaceutical Ingredients (API) modular automated laboratory/pilot process system unit was developed during the Year and its prototype would be demonstrated in the 2017 CIPM Autumn show, setting the Group's milestone of offering means for process development for pharmaceutical companies which are required to fulfill the new regulatory requirements by proper data integrity. A successful launch of this unit to the market could create opportunities for the Group's API process system engineering business.

The Group established a powder technology research centre with the objective of developing innovative technologies to solve environment, health and safety (EHS) and cost-effectiveness issues in the pharmaceutical industry. It is expected that the initiative project of research and development in this research centre will receive support from the Hebei provincial government in the PRC.

The Group's freeze-drying process technology team has been working on a new publication on Freeze-Drying, tackling key technical problems of biological protein drug freeze-drying process. This new publication is scheduled to be published in 2017.

The Group's management information systems consulting team, through serious effort on study and research, also launched a new publication of Management Execution System in autumn 2016.

SALES AND MARKETING

The Group primarily sells and markets its products in the PRC and exports its products outside of the PRC to overseas, especially the emerging countries. The Group's services and products are mainly sold directly to its customers in the PRC. Overseas sales are conducted through a mixture of direct, agency and distribution sales models. The Group's sales administration has been further strengthened by its self-developed customer relationship management system. Streamlining and further recruitment of sales talents are undergoing as continuous improvement process in sales organization competences.

The number of staff of the Group's sales and marketing team in the Year remains the same level as in 2015.

During the Year, the Group's marketing and communications function has been strengthened with some new recruits and with some new media channels and more marketing tools.

Given the limited quantity of new products launch and the prolonged selling time of newly launched products, it is considered that more aggressive marketing might help improve business performance.

PROSPECTS

Increase the market share in the PRC and the emerging countries

The strategies of developing emerging countries are on-going and for the Group's tactical regions like South East Asia, South Asia, East Asia and Middle East, specifically Indonesia, India and the Middle East, the Group has been planning to establish and register companies and joint ventures in order to capture turnkey projects opportunities with local execution capacities and local service capacities based on the foundation grounded by previously well-trained Indonesian, Indian and Arabic staffs recruited in the last few years. In the last months, enquiries on overseas turnkey projects with significant scale have been increasing. Capturing these opportunities might turn around the present revenue stagnation status.

Biologics is the main theme for the Group's market opportunities, especially in the PRC. Decrease in the number of enquiries in some other industrial segments, such as API and OSD has been compensated by the growth of that in biologics segments. The Group believes that its overall competence in biological process automation and integration knowledge is leading in China and it can rely on this biologics sector leveraged by its strength to obtain business growth.

The sales force is still under growth and consolidation with an aim for stronger synergies and more specific product and industrial segment focus.

There are still sufficient number of projects in the sales pipelines. The challenge for the Group is to gain orders out of keen competition as a result of western and local low-end competitors getting into the Group's market segment due to shrinkage in their own markets.

Facing these challenges, the Group has been organizing more sophisticated sales and marketing tools for its sales team, staff e-learning system with more educational programs, supporting sales team and management with a more effective customer-relationship-management software and restructuring the sales team with more collaboration and synergy among sales staff.

Improve services and product offerings

In 2016, a review study on service business was conducted and revealed that services offered by different segments can actually be integrated and leveraged by the Company to form a better package of services for the Group's clients. New service offerings in 2016, such as space and equipment disinfection services provided by the Group's joint venture partner, STERIS Corporations's Vaporized Hydrogen Peroxide (VHP) services, high-end quality management consulting services offered to pharmaceutical groups to facilitate harmonization and upgrading of their group subsidiaries and facility design consulting services provided to emerging countries, are some of the growing service items with good prospects for revenue and earnings growth, which are required to be addressed with higher management attention in the coming years.

Liquid and Bioprocess System

The single-use technologies originally only apply to biological process but the Company has discovered containment-required oncology toxic drug substance preparation process, a new process application, through its research and development efforts in the Year followed with completion of successful application. This new application will be aggressively promoted in 2017.

The product launch of 50 litre stainless steel bioreactor in autumn 2016 together with the previously developed 200 litre bioreactor is a part of the Company's R&D initiative for completing the development of its core bioprocess equipment, which would enhance the competitive edge of the Group's bioprocess systems.

The single use bioprocess information system platform under continuous research and development is an important tool for system integration. With appropriate promotion effort, it is expected that the Group's sales orders for bioprocess systems will increase.

Clean Room and Automation and Monitoring System

The drug consistency evaluation policies initiated by the CFDA in the pharmaceutical industry in China created opportunities for the pharmaceutical service providers with the requirement of data integrity from pharmaceutical manufacturers. To support customers to reduce data manipulation risks in the drug development phase, Austar is developing a Laboratory Information Management System (LIMS) with its partners. LIMS is a software-based laboratory and information management system with features that support a modern laboratory's operations. With this system the whole drug development procedure and instruments which create data could be managed in a more efficient way and data manipulation possibilities could be eliminated. With strengthened regulation and the willingness of pharmaceutical companies to improve new drug development capabilities, the Group believes LIMS will have a better potential and be a new element of the Group's automation solution.

Applications of advanced automation design and configuration to the API sector, resulting in satisfactory data-integrity expectations from generic drug manufacturers, would be one of the key growth elements for this segment in the coming years.

The Group's dominating knowledge in manufacturing execution system (MES) is expected to be further accumulated and reserved for the hidden demand in the coming years as it remains conceptual whether the current knowledge and experience of pharmaceutical manufacturers on information systems could reach the standard of "Industry 4.0".

The Group has set up a design team at the end of 2015, with the merging of innovative space sterilization technology VHP product line, integration of automation building management system/environment monitoring system (BMS/EMS) and heating ventilation and air conditioning (HVAC) technologies, the Group caters for the demand of sophisticated concept design, basic design, detail design and integration solutions combining the sterilization VHP technologies, BMS/EMS automation, dehumidifying technologies, precise temperature and air-flow control technologies. This team has successfully secured orders in the Year and keeps a technology leading position among other competitors.

Powder and Solid System

The Standardized Measurement of Equipment Particulate Airborne Concentration (SMEPAC) guides the assessment of particulate containment performance of pharmaceutical equipment and is widely used as a containment standard worldwide. During the Year, the Group has acquired the capabilities and all documents of performing SMEPAC test with the support from experienced partners and consultants in Europe and the United States. The Group now uses this test to prove and improve its equipment which could bring the containment level of its equipment and system to the highest and most standardized position in the whole industry. This good practice guide provides invaluable insight into the main factors that affect the test results for specific contained solids handling systems, including material handling, room environment, air quality, ventilation, and operator technique.

A cross-business segment API process application team with strong automation and crystal research capabilities was established by the Group in the Year to help its customers to improve their API characteristic and manufacturing process so that customers could upgrade their products and manufacturing process. Under the recently enforced stringent regulations the API producers have realized the only way to sustain and develop themselves is to improve their products quality and manufacturing process in compliance with such new regulatory environment. With the technical solution of API the Group could bring market growth together with its customers.

With more capabilities integrated in the Group, the Group could leverage its technical and R&D platform established in 2016 to assist the Group's customers in developing formulation process in OSD and develop more verified technologies and implement them into the solutions the Group could give to its customers. The Group is considering building more laboratories in more specific fields in the coming years to optimize the products and services the Group could provide.

GMP Compliance Service

Conventional compliance services are still contributing good margins and reputation for the Group. With continuous efforts of seeking more customer-preferred services, during the Year, the Group introduced more new services such as Lean Production, Quality Management System group advisory, Quality by Design, together with the proactive process of recruiting more world-class consultants. Underperformed services such as good engineering practice (GEP) were revamped and launched again in the Year. This service can help customers acquire project management skills to manage new construction project in a professional cost-time-quality and pharmaceutical-regulatory-compliance manner.

Facility design service with support from European partners is a supporting service business for the Group's turnkey project acquisition opportunities. More western partners of facility design are being negotiated to join the team.

Life Science Consumables

The business segment of Life Science Consumables has extended to cater for the laboratory and research sector in drug product lifecycle. This business segment is taking the lead within the Group to explore biosafety industry and laboratory animal research. With increasing biosafety concerns, it is expected more conventional products can be injected to the package to be sold to this specific industry. The laboratory instrument package sales model with successful case concluded in the Year can be elaborated to further increase order-in-take.

Strengthen research and development, product design and development capabilities

A containment equipment test laboratory was established in the Year and a new laboratory for pharmaceutical soft capsule formulation development and OSD research is under final stage of completion. This initiative would help boost up the sales order-in-take of the business segment of Powder and Solid System.

The Group is still on the development of further partnerships with research institutes and universities and vendors or suppliers with more advanced technologies to improve its integrated solutions.

It is believed that the cross-business segment research and development platform created in the Year to support the R&D projects of all business units will speed up the pace of R&D and new product introduction.

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

In the first half of 2016, the Group has completed the acquisition of 33.33% interest in ROTA Verpackungstechnik GmbH & Co. KG and ROTA Verpackungstechnik Verwaltungsgesellschaft mbH (collectively, "**ROTA**") respectively. The Group's recently developed freeze-dryer equipment can be integrated with ROTA's vial filling line to offer to the market a complete system of vial liquid filling and freeze-dryer plus loading and unloading unit with isolator.

Though some other acquisition deal negotiations conducted in the Year were not able to be concluded, the Group still determines to put efforts in seeking opportunities to acquire world-class specific technology leading companies with a view to bring additional brand value and specific high-end technology value to the Group and to complete its product lines and as well as to provide more comprehensive solutions to its customers throughout the PRC and emerging countries.

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 RMB672.5 million, representing an increase of approximately 7.2% over 2015, primarily due to the increase in revenue from the business segments of Life Science Consumables, Powder and Solid System and Clean Room and Automation Control and Monitoring System which had partially offset the decrease in revenue from the business segments of GMP Compliance Service, Liquid and Bioprocess System and Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth, for the years ended 31 December 2016 and 2015, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2016		2015		Change
Revenue by business segment	RMB'000	%	RMB'000	%	%
Liquid and Bioprocess System	303,698	45.1%	307,192	49.0%	(1.1%)
Clean Room and Automation Control and Monitoring System	152,344	22.7%	141,899	22.6%	7.4%
Powder and Solid System	51,627	7.7%	42,257	6.7%	22.2%
GMP Compliance Service	26,478	3.9%	32,295	5.1%	(18.0%)
Life Science Consumables	113,505	16.9%	78,465	12.5%	44.7%
Distribution and Agency of Pharmaceutical Equipment	24,893	3.7%	25,436	4.1%	(2.1%)
Total	672,545	100.0%	627,544	100.0%	7.2%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System decreased by approximately RMB3.5 million or 1.1% from approximately RMB307.2 million for the year ended 31 December 2015 to approximately RMB303.7 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in acceptance of liquid and bioprocess projects with lower profit margin in the Year.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB10.4 million or 7.4% from approximately RMB141.9 million for the year ended 31 December 2015 to approximately RMB152.3 million for the year ended 31 December 2016. The increase was mainly attributable to the Group's sustained improvement on project execution efficiency.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB9.3 million or 22.2% from approximately RMB42.3 million for the year ended 31 December 2015 to approximately RMB51.6 million for the year ended 31 December 2016. The increase in revenue was primarily resulted from (i) increase in the amount of backlog in the business segment of Powder and Solid System at the year end of 2015; and (ii) improvement in project execution efficiency; and (iii) the Group has successfully completed its OSD product line in 2015 and strengthened its capabilities to provide total-solution concept in the OSD field.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service decreased by approximately RMB5.8 million or 18.0% from approximately RMB32.3 million for the year ended 31 December 2015 to approximately RMB26.5 million for the year ended 31 December 2016, which was due to (i) decrease in the amount of backlog in the business segment of GMP Compliance Service at the year end of 2015; and (ii) certain amount of order-in-take in the business segment of GMP Compliance Service in 2016 not yet recognized as revenue for the Year.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB35.0 million or 44.7% from approximately RMB78.5 million for the year ended 31 December 2015 to approximately RMB113.5 million for the year ended 31 December 2016, which was primarily attributable to (i) the Group's excellent integrated service of providing diversified life science consumables with latest technology to its customers; and (ii) the launch of new pharmaceutical instruments which have a wider scope of use in research institutes.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB0.5 million or 2.1% from approximately RMB25.4 million for the year ended 31 December 2015 to approximately RMB24.9 million for the year ended 31 December 2016, which was mainly due to the Group's decrease in order-in-take in the business segment of Distribution and Agency of Pharmaceutical Equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years ended 31 December 2016 and 2015:

	For the year ended 31 December				
	2016		2015		Change
Revenue	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**596,629**	**88.7%**	581,111	92.6%	2.7%
Other locations	**75,916**	**11.3%**	46,433	7.4%	63.5%
Total	**672,545**	**100.0%**	627,544	100.0%	7.2%

The Group derived its revenue mainly from the business operations in the Mainland China, which accounted for approximately 88.7% of the total revenue for the year ended 31 December 2016 (2015: approximately 92.6%).

Cost of sales

The Group's cost of sales increased by approximately RMB39.5 million or 8.4% from approximately RMB473.3 million for the year ended 31 December 2015 to approximately RMB512.8 million for the year ended 31 December 2016. Such increase was mainly due to increase in costs of raw materials and on-site subcontract expense.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB5.5 million or 3.5% from approximately RMB154.2 million for the year ended 31 December 2015 to approximately RMB159.7 million for the year ended 31 December 2016. The gross profit margin decreased from approximately 24.6% for the year ended 31 December 2015 to approximately 23.7% for the year ended 31 December 2016, which was mainly resulted from the decrease in gross profit margin from the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Life Science Consumables and Distribution and Agency of Pharmaceutical Equipment.

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

	For the year ended 31 December					
	2016			2015		
Gross profit and gross profit margin by business segment	**RMB'000**	**%**	**Gross profit margin %**	RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**43,558**	**27.3%**	**14.3%**	47,489	30.8%	15.5%
Clean Room and Automation Control and Monitoring System	**36,110**	**22.6%**	**23.7%**	36,365	23.6%	25.6%
Powder and Solid System	**15,794**	**9.9%**	**30.6%**	11,750	7.6%	27.8%
GMP Compliance Service	**12,309**	**7.7%**	**46.5%**	15,103	9.8%	46.8%
Life Science Consumables	**45,097**	**28.2%**	**39.7%**	34,034	22.1%	43.4%
Distribution and Agency of Pharmaceutical Equipment	**6,839**	**4.3%**	**27.5%**	9,506	6.1%	37.4%
Total	**159,707**	**100.0%**	**23.7%**	154,247	100.0%	24.6%

Liquid and Bioprocess System

The Group's gross profit from the business segment of Liquid and Bioprocess System decreased by approximately RMB3.9 million or 8.3% from approximately RMB47.5 million for the year ended 31 December 2015 to approximately RMB43.6 million for the year ended 31 December 2016. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 15.5% for year ended 31 December 2015 to approximately 14.3% for the year ended 31 December 2016, which was mainly resulted from (i) certain projects undertaken during the Year carried a relatively lower gross profit margin for the purpose of penetrating into the bioprocess market and retaining long term customers; and (ii) prolonged execution time for certain projects undertaken by the Group resulting in an increase in budgeted costs due to subsequent modification of users requirements for liquid and bioprocess projects undertaken by the Group.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System decreased by approximately RMB0.3 million or 0.7% from approximately RMB36.4 million for the year ended 31 December 2015 to approximately RMB36.1 million for the year ended 31 December 2016. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 25.6% for the year ended 31 December 2015 to approximately 23.7% for the year ended 31 December 2016, which was mainly attributable to prolonged execution time for certain projects due to subsequent modification of users requirements for certain projects undertaken by the Group.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB4.0 million or 34.4% from approximately RMB11.8 million for the year ended 31 December 2015 to approximately RMB15.8 million for the year ended 31 December 2016. The gross profit margin from the business segment of Powder and Solid System increased from approximately 27.8% for the year ended 31 December 2015 to approximately 30.6% for the year ended 31 December 2016, which was mainly resulted from improvement in project execution efficiency and the Group has successfully completed its OSD product line in 2015.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service decreased by approximately RMB2.8 million or 18.5% from approximately RMB15.1 million for the year ended 31 December 2015 to approximately RMB12.3 million for the year ended 31 December 2016. The gross profit margin from the business segment of GMP Compliance Service remained relatively stable at approximately 46.5% for the year ended 31 December 2016 as compared with approximately 46.8% for the year ended 31 December 2015.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB11.1 million or 32.5% from approximately RMB34.0 million for the year ended 31 December 2015 to approximately RMB45.1 million for the year ended 31 December 2016. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 43.4% for the year ended 31 December 2015 to approximately 39.7% for the year ended 31 December 2016, which was mainly due to increase in sales of new pharmaceutical instruments which had a lower gross profit margin as compared to consumables.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB2.7 million or 28.1% from approximately RMB9.5 million for the year ended 31 December 2015 to approximately RMB6.8 million for the year ended 31 December 2016. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 37.4% for the year ended 31 December 2015 to approximately 27.5% for the year ended 31 December 2016, which was mainly due to the decrease in amount of agency service provided for pharmaceutical equipment which had higher gross profit margin.

Other income

Other income decreased by approximately RMB0.8 million or 26.5% to approximately RMB2.1 million for the year ended 31 December 2016 from approximately RMB2.9 million for the year ended 31 December 2015, mainly attributable to the decrease in the subsidies granted by local government authorities of the PRC in the Year.

Other (losses)/gain

Other losses increased by approximately RMB2.4 million to losses of approximately RMB2.1 million for the year ended 31 December 2016 from gains of approximately RMB0.3 million for the year ended 31 December 2015, mainly attributable to (i) the transfer of the whole Shanghai clean room production facility to the Shijiazhuang production centre and disposal of some equipment with low economic value in relation to the transfer; and (ii) the Group not having derivatives financial assets at fair value through profit or loss for the year ended 31 December 2016 which had about RMB1.3 million gains in 2015.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB11.7 million or 16.5% to approximately RMB82.7 million for the year ended 31 December 2016 from approximately RMB71.0 million for the year ended 31 December 2015. The increase was primarily due to the increase in the staff costs and market promotion expenses.

Administrative expenses

Administrative expenses increased by approximately RMB11.9 million or 21.2% to approximately RMB68.1 million for the year ended 31 December 2016 from approximately RMB56.2 million for the year ended 31 December 2015. The increase was primarily due to increase in impairment provision of receivables and inventories of approximately RMB19.3 million resulting from some long-aging receivables and some inventories at the lower cost of net realisable value, but such increase was partially offset by the decrease in staff costs.

Research and development expenses

As at 31 December 2016, the Group had 25 research and development personnel which accounted for approximately 3.0% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses increased by approximately RMB5.1 million or 19.1% to approximately RMB32.0 million for the year ended 31 December 2016, compared to approximately RMB26.9 million for the year ended 31 December 2015, mainly due to the Group's continuous efforts to enhance research and development activities.

Finance income/(expenses) – net

Finance income/(expenses) – net changed from net finance expenses of approximately RMB0.9 million for the year ended 31 December 2015 to net finance income of approximately RMB2.2 million for the year ended 31 December 2016, which was mainly due to (i) the decrease in exchange losses by approximately RMB1.5 million due to devaluation of the RMB and EUR and the decrease in interest expenses by approximately RMB1.0 million which was resulted from the decrease in average bank borrowings for the year ended 31 December 2016; and (ii) the increase in interest income of approximately RMB0.6 million.

Share of profit of investments accounted for using the equity method

The Group's share of profit of investments accounted for using equity method decreased by approximately RMB1.9 million, from approximately RMB5.3 million for the year ended 31 December 2015 to approximately RMB3.4 million for the year ended 31 December 2016, which was primarily due to the decrease in profit contribution from STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited, a joint venture of the Group owned as to 49%, by approximately RMB1.7 million.

(Loss)/profit before income tax

The Group's profit before income tax decreased by approximately RMB25.1 million from a profit of approximately RMB7.6 million for the year ended 31 December 2015 to a loss of approximately RMB17.5 million for the year ended 31 December 2016 which was primarily due to the factors as described above in this section.

Income tax expense

Income tax expense decreased by approximately RMB0.04 million to approximately RMB1.17 million for the year ended 31 December 2016 from approximately RMB1.21 million for the year ended 31 December 2015, mainly due to the decrease in profit before income tax.

(Loss)/profit for the year

The Group's profit for the year decreased by approximately RMB25.1 million to a loss of approximately RMB18.7 million for the year ended 31 December 2016 from a profit of approximately RMB6.4 million for the year ended 31 December 2015 which was primarily due to the factors as described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(30,462)**	61,526
Net cash used in investing activities	**(59,696)**	(24,956)
Net cash used in financing activities	**(16,081)**	(22,284)
Net (decrease)/increase in cash and cash equivalents	**(106,239)**	14,286

For the year ended 31 December 2016, the Group had net cash used in operating activities of approximately RMB30.5 million mainly attributable to:

i. the loss before income tax of approximately RMB17.5 million;

ii. the increase in trade and other payables of approximately RMB16.4 million;

iii. the decrease in the trade and other receivables of approximately RMB22.2 million; and

iv. the decrease in amounts due to customers for contract work of approximately RMB38.8 million and the increase in amounts due from customers for contract work of approximately RMB22.8 million mainly resulted from prolonged project execution undertaken by the Group for the Year.

For the year ended 31 December 2016, the Group had net cash used in investing activities of approximately RMB59.7 million, which was mainly attributable to:

i. increase in term deposits with initial terms of over three months of approximately RMB35.3 million;

ii. purchase of property, plant and equipment of approximately RMB11.0 million which consisted of machinery and equipment purchased for various business segments; and

iii. investment in an associate of approximately RMB35 million and proceeds from borrowing of RMB20 million.

For the year ended 31 December 2016, the Group had net cash used in financing activities of approximately RMB16.1 million mainly as a result of repayment of bank loan of RMB35.0 million and proceeds from borrowings of RMB20.0 million.

As at 31 December 2016 and 31 December 2015, the Group had cash and cash equivalents of approximately RMB286.4 million and RMB393.4 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB9.9 million and RMB21.4 million respectively.

Net current assets

The Group's net current assets as at 31 December 2016 had decreased by approximately RMB32.9 million, from approximately RMB473.9 million as at 31 December 2015 to approximately RMB441.0 million as at 31 December 2016.

As at 31 December 2016, the Group's total current assets amounted to approximately RMB794.5 million, which was a decrease of approximately RMB72.6 million as compared with approximately RMB867.1 million as at 31 December 2015. The decrease was primarily due to:

i. the decrease in cash and cash equivalents of approximately RMB107.0 million during the Year;

ii. the increase in contract work-in-progress of approximately RMB22.8 million primarily resulted from prolonged project execution undertaken for the Year; and

iii. the increase in term deposit with initial terms of over three months of approximately RMB35.3 million during the Year but such increase was partially offset by the decrease in pledged bank deposits of approximately RMB11.6 million.

As at 31 December 2016, the Group's total current liabilities amounted to approximately RMB353.5 million, which was a decrease of approximately RMB39.8 million as compared with approximately RMB393.3 million as at 31 December 2015. The decrease was primarily due to the decrease in amounts due to customers for contract work in the amount of approximately RMB38.8 million.

Borrowings and gearing ratio

As at 31 December 2016, the total interest-bearing borrowings amounted to approximately RMB20.0 million, which has decreased by approximately RMB15.0 million from approximately 35.0 million as at 31 December 2015, bearing interest rates of 4.35% per annum (31 December 2015: 5.62% to 6.16%).

The Group's gearing ratio was approximately 3.7% as at 31 December 2016 (31 December 2015: 6.4%). The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2016, in addition to pledged bank deposits of approximately RMB9.9 million, the Group had buildings and land use rights having a total carrying amount of approximately RMB8.6 million and approximately RMB5.8 million (31 December 2015: approximately RMB9.3 million and approximately RMB6.0 million respectively) which are pledged as security for short-term bank borrowings with carrying value of approximately RMB20.0 million (31 December 2015: approximately RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2016 (31 December 2015: Nil).

HUMAN RESOURCE

As at 31 December 2016, the Group had 833 full-time employees for, inter alia, research and development, sales and marketing, administration, project management and execution and manufacturing, remaining stable as compared to the number of employees as at 31 December 2015. The employee costs (including the Directors' remuneration) were approximately RMB127.3 million, which was a decrease of approximately 8.4% as compared with approximately RMB139.0 million for the year ended 31 December 2015.

Employee costs of the Group decreased mainly due to reduction in the number of on-site engineers and workers to improve project execution efficiency and flexibility.

The Group will regularly review its remuneration policies and employee benefits with reference to market practices and performance of individual employees. The remuneration of the employees and the Directors are determined by reference to their 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.

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 2016 amounted to approximately RMB2.4 million.

FOREIGN EXCHANGE RISK

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

EVENT AFTER THE YEAR

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2016 and up to the date of this annual report.

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	54	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	59	Executive Director
Mr. Chen Yuewu	50	Executive Director
Madam Zhou Ning	44	Executive Director
Non-executive Director		
Madam Ji Lingling	34	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	45	Independent non-executive Director
Madam Chiu Hoi Shan	40	Independent non-executive Director
Mr. Raco Ivan Jordanov (alias Racho Jordanov)	69	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("Mr. Mars Ho") (何國強), aged 54, 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 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 ("**Nomination Committee**") and a member of the corporate governance committee ("**Corporate Governance Committee**") of the Board, and a director of certain subsidiaries of the Company. He is responsible for overseeing the business, corporate strategy, 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 propose

In recognition of Mr. Mars Ho's dedication and achievements in the pharmaceutical industry, he was selected and awarded the honor of pharmaceutical 中國醫藥「60年60人」("60 Elites of 60 years" in China Pharmaceutical) in November 2009, which is a recognition of his effort in influencing and contributing to the pharmaceutical industry in China. He served as the chairman of China Affiliate of International Society of Pharmaceutical Engineering (ISPE) from 2011 to 2012, which is an organisation established with the mission of connecting the world of pharmaceutical industry professionals. He has been a member of the ISPE China Board of directors and executive council since 2013. 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 Hong Kong in November 1985. Mr. Mars Ho is a director of Standard Fortune Holdings Limited, which is interested in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**") (Cap. 571 of the Laws of Hong Kong).

Mr. Ho Kin Hung ("Mr. Ho") (何建紅), aged 59, joined the Group on 20 August 2003. He was appointed as a director of the Company on 9 January 2014 and became an executive Director with effect from 20 June 2014. Mr. Ho is also a director of a subsidiary of the Company. He is responsible for overall management of operations and sales of the Group. He has approximately 35 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in china trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987. Mr. Ho is a director of True Worth Global Limited, which is interested in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Chen Yuewu ("Mr. Chen") (陳躍武), aged 50, 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 ("**Risk Management Committee**") of the Board and a director of a subsidiary of the Company. Mr. Chen is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has over 26 years of experience in the pharmaceutical industry. Prior to joining the Group, he worked as a production manager at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) from September 1990 to March 2000 where he was responsible for managing the engineering department and the production department. 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) was engaged in pharmaceutical production. Mr. Chen has been a technical services manager in a company controlled by Mr. Mars Ho, the chairman of the Board, the chief executive officer and one of the controlling shareholders (as defined under the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**")) 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 44, 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 Risk Management Committee and a member of the remuneration committee (“**Remuneration Committee**”) of the Board. 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 it is 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, 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 34, 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 (“**Audit Committee**”) and Risk Management Committee of the Board. 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, 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 chairman 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.

** For identification purpose.*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("Mr. Cheung") (張立基), aged 45, was appointed as an independent non-executive Director with effect from 21 October 2014. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Cheung is an associate member of the Hong Kong Institute of Certified Public Accountants since October 1998 and a member of Certified Public Accountants of Australia since March 1998. He has over 20 years of experience in auditing and accounting field. Mr. Cheung worked as an audit assistant for George Yau & Co, a certified public accountants' firm from May 1994 to February 1996. From December 1996 to December 1998, he worked as a staff accountant for Ernst & Young. He worked for KPMG from October 1999 to January 2005. By the time he left KPMG, he was a manager. Both Ernst & Young and KPMG are certified public accountants' practice offering a variety of professional services including audit and assurance, consultancy, corporate finance and tax. Mr. Cheung served as the group financial controller, qualified accountant, authorised representative and company secretary of China Ruifeng Renewable Energy Holdings Limited (Stock code: 527), from February 2005 to January 2008. He served as the chief financial officer, qualified accountant, authorised representative and company secretary of United Photovoltaics Group Limited (Stock code: 686), from July 2008 to January 2009. He served as chief financial officer, company secretary and authorised representative of China Zhongwang Holdings Limited (Stock code: 1333), from December 2008 to June 2016, the shares of all of which are listed on the Main Board of the Stock Exchange. He served as chief financial officer of China Everbright Water Limited, which is listed on the Mainboard of Singapore Exchange Limited (SGX: U9E), from July 2016 to early January 2017. Mr. Cheung received a bachelor's degree in commerce from Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006. Mr. Cheung currently serves as executive director, chief financial officer, company secretary and authorized representative of Wan Kei Group Holdings Limited (Stock code: 1718), shares of which are listed on the Main Board of the Stock Exchange, since January 2017.

Madam Chiu Hoi Shan ("Madam Chiu") (趙凱珊), aged 40, was appointed as an independent non-executive director of the Company with effect from 21 October 2014. She is also the chairlady of the Remuneration Committee and a member of each of the Audit Committee, Nomination Committee and Corporate Governance Committee of the Board. 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 practising as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. She is currently a partner at S.H. Leung & Co. which is a solicitor's firm in Hong Kong engaged in the provision of various legal services. Madam Chiu is also the company secretary of Chongqing Machinery & Electric Co., Ltd., a company whose shares are listed on the Main Board of the Stock Exchange (Stock code: 2722).

Mr. Raco Ivan Jordanov (alias Racho Jordanov) ("Mr. Jordanov"), aged 69, was appointed as an independent non-executive Director on 21 October 2014. Mr. Jordanov has over 32 years of experience in building and leading manufacturing operations in development-stage and multi-national biopharmaceutical companies. He spent approximately 20 years in Genentech Inc. as senior director in Singapore Operations, where he established outsourcing capabilities for pharmaceutical product substance and products, medical devices and developed manufacturing facilities. Genentech Inc. is a company which engages in the research, discovery, development, manufacture and marketing of biotechnology products. Mr. Jordanov also served as management in various companies such as Telios Pharmaceuticals and Serono S.A. before he established his own company JHL Biotech in 2012 which provides process development and manufacturing services to emerging and established biopharmaceutical companies seeking to commercialise high-quality, affordable medicine. He obtained his bachelor's degree in science in biology at the University of California, U.S.A in 1975, bachelor's degree in mechanical engineering at the Sofia Institute of Technology, Bulgaria in June 1969 and a master degree in business administration at the National University, San Diego, U.S.A in 1980.

SENIOR MANAGEMENT

Name	Age	Position
Madam Wang Wei, Lena	43	Vice-president
Madam Tang Xiangdi	39	Financial controller

Madam Wang Wei, Lena ("Madam Wang") (王瑋), aged 43, 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 join the Group, Madam Wang worked for NCPC Genetec Biotechnology Co. Limited as quality assurance supervisor from 2000 to 2003 and served as leader of Strain Breeding Group, Hebei Welcome Pharmaceutical Co., Ltd. from 1995 to 1999. Madam Wang obtained a bachelor degree from Hebei University of Science and Technology on 5 January 2010.

Madam Tang Xiangdi (“Madam Tang”) (唐湘娣), aged 39, was appointed as our Group’s financial controller from 1 November 2013 and she is primarily responsible for the financial management of our Group. Madam Tang joined our Group in January 2013. She has over 12 years of experience in financial reporting and treasury management. From July 2000 to May 2002, she worked as an accountant at 北京匯金科技有限責任公司 (Beijing Nasoft Co. Ltd*), a company engaged in the research and development of software and information systems and she was responsible for preparing the accounting documents, and tax returns. She worked as a finance manager in 樂金電子(中國)有限公司(北京營業部) (LG Electronics (China) Co., Ltd (Beijing Sales office*)), a company engaged in the manufacturing, sales, and the research and development of various electronic products, and home appliances, from May 2002 to June 2007 and she was responsible for reviewing the daily, monthly and annual financial reports. From June 2007 to April 2009 she worked as a finance manager responsible for reviewing, examining and monitoring the revenue and expenses in the daily operations, audit reports and inventory level at 北京同樂寒舍國際餐飲有限責任公司 (My Humble House in Beijing (Restaurant) Company Limited*), a company engaged in catering business. She has been a finance manager since April 2009 in a company controlled by Mr. Mars Ho, the chairman of the Board, chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, prior to joining our Group. Madam Tang obtained a bachelor’s degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master’s degree of business administration from 北京大學 (Peking University) in June 2014.

** For identification purpose*

REPORT OF THE DIRECTORS

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

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

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

On 7 November 2014, the shares of the Company ("**Shares**") were first listed on the Main Board of the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). As at 31 December 2016, out of the aggregated net proceeds from the IPO of approximately HK$411.8 million, (i) as to approximately RMB20.6 million (equivalent to approximately HK$24.7 million) had been utilized for general research and development; (ii) as to approximately RMB5.9 million (equivalent to approximately HK$7.2 million) had been utilized for sales and marketing; (iii) as to approximately RMB31.5 million (equivalent to approximately HK$39.5 million) had been applied for as general working capital of the Group; (iv) as to approximately RMB16.3 million (equivalent to approximately HK$20.5 million) had been applied for prepayment of premium in connection with acquisition of land use right as explained below; (v) as to approximately RMB15.9 million (equivalent to approximately HK$18.6 million) had been utilized for merger and acquisition; and (vi) the remaining of approximately RMB229.8 million (equivalent to approximately HK$301.3 million) has been deposited into the banks and has not yet been utilised. Such proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 28 October 2014 ("**Prospectus**").

As at 31 December 2016, premium of approximately RMB16.3 million (including approximately RMB12.5 million paid in June 2015 and approximately RMB3.8 million paid in July 2015) ("**Premium**") had been prepaid to the Shijiazhuang Government in connection with the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone ("**Zone**"). The Company was given to understand that the Premium advanced to the Shijiazhuang Government was for the purpose of facilitating the land expropriation process and the process of the land being tendered by the Shijiazhuang Government. Subject to the signing of any legally binding agreement between the Shijiazhuang Government and the Company, the Premium prepaid by the Company shall be applied as part payment of the consideration for the acquisition of the land use rights of a piece of land in the Zone.

In addition to the Premium paid, as at the date hereof, the Group has expended approximately RMB12.2 million (equivalent to approximately HK$14.3 million) on certain assets and equipment out of its internal resources in preparation for the operation of the Group's Shijiazhuang R&D and Production Centre to be constructed. Notwithstanding the aforesaid, based on information currently available to the Company, the timetable of the land being listed for tender and transferred by the Shijiazhuang Government is uncertain. Given the process of acquiring the land by the Group is slower than expected and the development plans of the Group's Shijiazhuang R&D and Production Centre on such land as set out in the section headed "Business" in the Prospectus have been lagging behind schedule, the Company is considering changing part of its net proceeds from the IPO originally allocated for establishment of the Shijiazhuang R&D and Production Centre to potential mergers and acquisitions ("**Possible Change of Use of Proceeds**") in order to better utilize the resources of the Group.

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's operations are substantially conducted through its subsidiaries in the PRC. The Group is principally engaged in providing integrated engineering solutions to pharmaceutical manufactures and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the PRC under six business segments: (1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. Details of principal activities of the subsidiaries of the Company are set out in Note 33 to the Consolidated Financial Statements of this annual report.

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

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

RISKS

Business/Market risks

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

Furthermore, the success of the Group is highly dependent on market recognition of its brand. If the Group fails to promote its brand or to maintain or enhance the brand recognition and awareness amongst its customers, or there exists serious failure in its projects and products, the Group's reputation may be adversely affected, and consequently, its financial performance and financial position may also be adversely affected.

MAJOR RELEVANT ALLEVIATING MEASURES

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

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

Furthermore, the Group provides its employees, in particular marketing personnel, on-site project engineers and technical experts with regular trainings that would develop their sense and awareness of the Group's corporate culture and brand image, and to incorporate these elements in their everyday works with customers.

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 project execution centre, strives to promote closer relationship and information sharing between the marketing team, project engineers and technical experts in budgeting and cost monitoring.
The Group's operations are highly dependent on its personnel, including both senior and mid-level management, engineers, skilled technical personnel and marketing and sales personnel. The Group may be materially and adversely affected if any of these key personnel leaves the Group and there being no adequate and timely replacement.	The 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 uses of the Group's resources and avoid its personnel being overworked. The Group also closely monitors its staffing and maintains close communication between the project execution centre and the human resources department, so that any recruitment needs would be promptly handled.
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 licenses 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 of this annual report for the financial risk management objectives and policies of the Group.

Relationships with stakeholders

a) *Employees*

Human resources are one of the greatest assets of the Group and the Group ensures all staff are reasonable 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. The annual 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 21.3% of the Group's total revenue for the Year. These major customers are chemical and biopharmaceutical manufacturers and the Group has maintained stable relationship with them for around 2 to 7 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 an amount of approximately RMB278,000 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.

In the Year, the Group has organized more than 59 public training and seminars in 29 cities nationwide with attendees of more than 5,000 people 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 of research and development with an aim to offer more comprehensive solutions for 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 will discuss with major suppliers about price deduction, payment terms improvement and enter into master procurement agreements. Every year the Group will also conduct annual appraisal on key suppliers and new suppliers so as to ensure materials produced by those suppliers are in line with the Group's quality requirement.

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

Further discussion on the relationships with key stakeholders are also contained in the section headed "Environmental, Social and Governance Report" on pages 73 to 89 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 PRC laws and applicable laws in the jurisdictions where it has operations. During the year ended 31 December 2016 and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in the PRC and Hong Kong.

Further discussion on the Group's compliance with laws and regulations is contained in the section headed "Environmental, Social and Governance Report"on pages 73 to 89 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Financial Statements on pages 96 to 101 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, 23 June 2017 ("**2017 AGM**").

For determining the entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Monday, 19 June 2017 to Friday, 23 June 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfer of Shares accompanied by the relevant Shares certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 16 June 2017.

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 2015 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 of this annual report.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2016 are set out in Note 19 to the Consolidated Financial Statements of this annual report.

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 of this annual report.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity on page 100 and in Note 32 to the Consolidated Financial Statements of this annual report.

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 2016 amounted to RMB452,395,000 (31 December 2015: RMB429,385,000).

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 of the Company 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. Raco Ivan Jordanov (alias Racho Jordanov)

In accordance with Article 84(1) of the Articles and pursuant to the code provision A.4.2 of Appendix 14 to the Listing Rules, Mr. Ho Kwok Keung, Mars, Mr. Ho Kin Hung and Mr. Chen Yuewu will retire by rotation at the 2017 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 2016, subject to certain early termination clauses of the letter.

The non-executive Director has renewed her letter of appointment with the Company for a fixed term of one year commencing on 20 June 2016, 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 2016, subject to certain early termination clauses of the letter.

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long position:

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

Notes:

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

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

(3) As at 31 December 2016, 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 2016, 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 2016 interim report of the Company are set out below:

– Mr. Cheung Lap Kei, an independent non-executive Director, resigned as the chief financial officer of China Everbright Water Limited, which is listed on the Mainboard of Singapore Exchange Limited (SGX: U9E), in early January 2017. He has been appointed as an executive director, chief financial officer, company secretary and authorized representative of Wan Kei Group Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1718), since January 2017.

– The annual Director's fee of Madam Ji Lingling, a non-executive Director, has been revised to RMB311,220 with effect from 1 January 2017.

Save as disclosed above, as at the date of this annual report, 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 of the Company (as defined under the Listing Rules) nor their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to rule 8.10 of the Listing Rules during the Year and up to the date of this annual report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

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

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No transaction, arrangements 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 of this annual report. The Directors' remunerations, bonuses and other compensation are determined or recommended by the Remuneration Committee with reference to the Directors' duties, responsibilities and the Group's performance and results.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The Articles provide that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Save for the above, at no time during the year ended 31 December 2016 and up to the date of this annual report, there was or is, any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

RETIREMENT SCHEMES

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

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 2016, 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 Division 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	50,872,000	9.92%
Madam Cheung Chau Ping ("**Madam Cheung**")	Interest of spouse	38,100,000 (Note 4)	7.43%
TWG	Beneficial owner	38,100,000	7.43%

Notes:

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

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

(3) 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 2016, 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 6.4% and 9.0% 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 21.3% and 31.2% 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.

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to RMB10,000 (2015: Nil).

AUDIT COMMITTEE

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

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

AUDITOR

The Consolidated Financial Statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for reappointment at the 2017 AGM. A resolution for the reappointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2017 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

28 March 2017

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

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

Board Composition

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

The Directors of the Company 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. Raco Ivan Jordanov (alias Racho Jordanov)	

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The Company has received an annual confirmation of independence from Mr. Cheung Lap Kei, Madam Chiu Hoi Shan and Mr. Raco Ivan Jordanov, 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 one year, 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. Details of the terms of reference of the Audit Committee are set out on the Company's website and the website of the Stock Exchange.

The primary duties of the Audit Committee are to review 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 2015 and interim financial statements for the six months ended 30 June 2016 and the related result announcements, documents and other matters or issues raised by external auditor of the Company;

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

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

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

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. Details of the terms of reference of the Remuneration Committee are set out on the Company's website and the website of the Stock Exchange.

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

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

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

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

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

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

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

Nomination Committee

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

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

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

During the Year, the Nomination Committee held one meeting, at which the members of the Nomination Committee 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. 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.

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. Details of the terms of reference of the Corporate Governance Committee are set out 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 2015 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. Details of the terms of reference of the Risk Management Committee are set out on the Company's website and the website of the Stock Exchange.

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

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

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

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

Subsequent to the Listing, as a risk management policy, the Company had 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 2016 annual general meeting held on 3 June 2016 ("**2016 AGM**"), and five Board meetings were held.

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

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

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

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

Name of Director	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Risk Management Committee meeting	2016 AGM
	Attendance/Number of meetings eligible to attend						
Executive Directors:							
Mr. Ho Kwok Keung, Mars	5/5	N/A	1/1	N/A	1/1	N/A	1/1
Mr. Ho Kin Hung	5/5	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Chen Yuewu	5/5	N/A	N/A	N/A	N/A	2/2	1/1
Madam Zhou Ning	5/5	N/A	N/A	1/1	1/1	2/2	1/1
Non-executive Director:							
Madam Ji Lingling	5/5	2/2	N/A	N/A	N/A	2/2	1/1
Independent non-executive Directors:							
Mr. Cheung Lap Kei	5/5	2/2	1/1	1/1	N/A	N/A	1/1
Madam Chiu Hoi Shan	5/5	2/2	1/1	1/1	1/1	N/A	1/1
Mr. Raco Ivan Jordanov (alias Racho Jordanov)	5/5	N/A	N/A	N/A	N/A	N/A	1/1

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

For the Year, the emoluments of the Directors and members of the senior management within the following bands were as follows:

Emoluments band	For the year ended 31 December 2016
HK$1,000,000 and below	8
HK$1,000,000 to HK$1,500,000	0
HK$1,500,001 to HK$2,000,000	2
	10

Pursuant to Appendix 16 to the Listing Rules, the emoluments of the employees who are Directors and who are amongst the five highest paid individuals are set out in Note 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. Raco Ivan Jordanov, 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 page 90 to page 95 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 recognizes that no cost effective internal control and risk management systems will preclude all errors and irregularities, as such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Management has provided a confirmation to the Audit Committee and the Risk Management Committee on the effectiveness of these systems for the year ended 31 December 2016. 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 control framework and looks for opportunities to make improvements and add appropriate resources when necessary.

Main features of the risk management and internal control systems

The main responsibilities of each party are described as follows:

The 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, internal control and risk management systems 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. This discussion should include the 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
The Risk Management Committee	–	Oversee and review the adequacy and effectiveness of risk management procedures that have been 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 the compliance and risk management
	–	allocate resources for an internal control and risk management system 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
	–	Analyze 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 ended 31 December 2016, to follow up on the internal control weaknesses identified in the last year and certain remedial actions, to report to the Board and the Board Committees and to develop risk assessment and internal audit plans for the next year.

Internal control

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 ended 31 December 2016. The external consultant has followed up on the findings on the internal control weakness in the last year and the remedial actions taken during the Year.

The internal control assessment procedures conducted by the external consultant include 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.

Methods used to assess the internal control of the Group include (i) assess and discuss the entities and processes to be included in the scope of assessment; (ii) review of standard operating policies and procedures; (iii) perform walkthrough procedures on selected operating cycles for selected entities; (iv) enquire process owners of the key controls (including financial, operational and compliance controls) of the selected scope and entities; and (v) discuss with the Management and key process owners on internal control weakness and remediation plan.

Risk management

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 centralized 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 centralized risk management function and specified risk responsible departments. Risk Management Department, as centralized risk management function, is responsible for organizing 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 of overseeing the effectiveness of the risk assessment framework and risk management functions. The Management is also subject to report to the Audit Committee and Risk Management Committee as regards to 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, 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 analyze 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 analyze 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) analyze 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 senior management.

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

The Board, through the Audit Committee and 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 ended 31 December 2016, 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 victimization, 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 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 DIRECTORS' AND OFFICERS' 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 engaged 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 2016 RMB'000
Statutory audit	3,814
Non-audit services (Note)	947
	4,761

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

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 Board to Madam Chan Pui Shan, Bessie, the Company Secretary, by post at Workshop 6 on 1/F. New Trade Plaza, No. 6 On Ping Street, Shatin, New Territories, Hong Kong, by facsimile or via email at the contact information as provided on the website of the Company.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman
28 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This is the *Environmental, Social and Governance (ESG) Report* of Austar Lifesciences Limited ("**Austar**") for the year ended 31 December 2016. This report is about the ESG performance of Austar and its major subsidiaries, including Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar SJZ**"), Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd ("**Shanghai Austar**") and Austar Hansen Lifesciences (Shanghai) Ltd ("**Austar Hansen**") in their major business operation area (i.e. the mainland of the People's Republic of China). The above-mentioned four enterprises are referred to as the "**Group**" in this *ESG Report*.

As a provider of integrated engineering solutions with high-end and comprehensive services and products to reputable pharmaceutical manufacturers and research institutes, Austar, on the one hand, abides by laws and regulations at national and local levels; and on the other hand, deeply understands the crucial importance of ESG on its future development, and that its own operation mode exerts influence on both the environment and the society. Through this report, Austar discloses information on its ESG work and achievements to all stakeholders. With continuous business development, Austar will follow the leading international standards to enhance its ESG management.

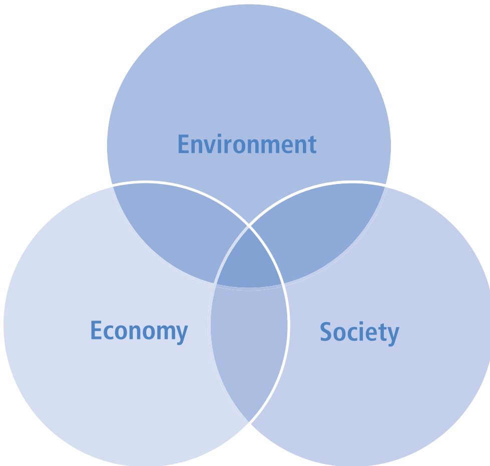
The information of this report is mainly guided by the "Environmental, Social and Governance Reporting Guide" (the "**Guide**") as contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. For the purpose of preparing its first ESG Report, Austar consulted its major stakeholders to understand their concerns to related ESG topics, and analyzed and evaluated the applicability and materiality of the topics in the Guide. According to the evaluation result, Austar discloses the "comply or explain" provisions set out in the Guide.

The data in this report mainly comes from statistics report of the Group. An index is included at the end of the final section to help readers to identify topics of the Guide in this report.

ESG SYSTEM

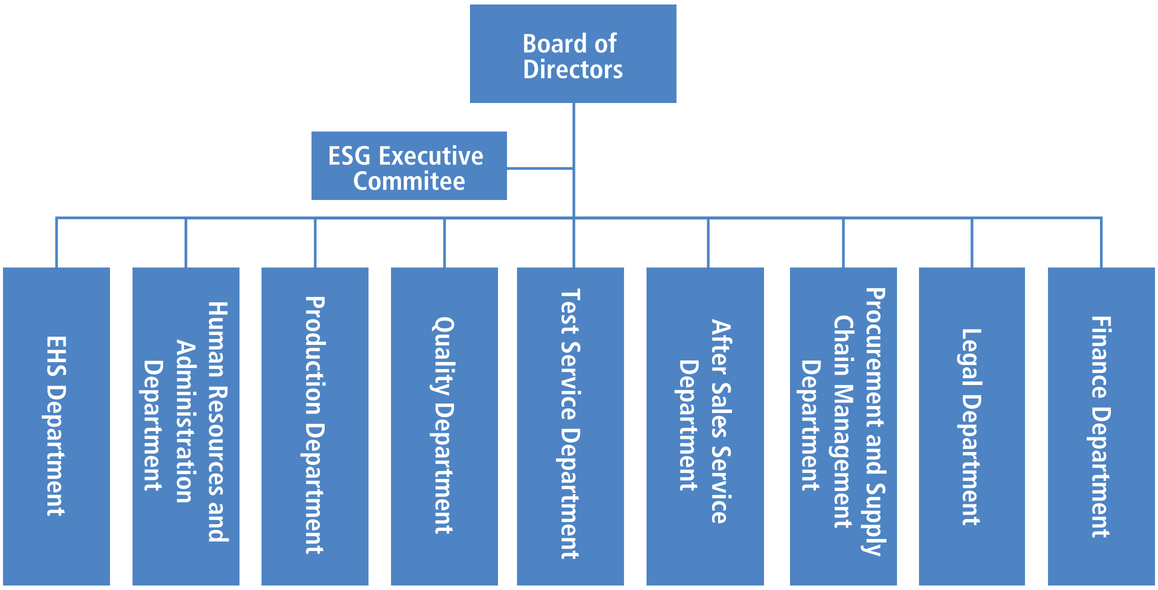
1. ESG Management Principle

Austar takes sustainable development as its guiding principle for better ESG management, and gradually integrates it into its corporate culture. As a result, Austar attaches great importance to the balance of economic, environmental and social development in its strategic planning, and actively identifies environmental and social risks, so as to make effective decisions for prevention and improvement. In addition, Austar seeks sustainable development and cooperation with its suppliers. It concerns not only product quality and compliance management from its suppliers, but also actively influences them, so as to integrate the concept of sustainable development into cooperation. Through promoting sustainable development, Austar would like to create value in social responsibility for its stakeholders.



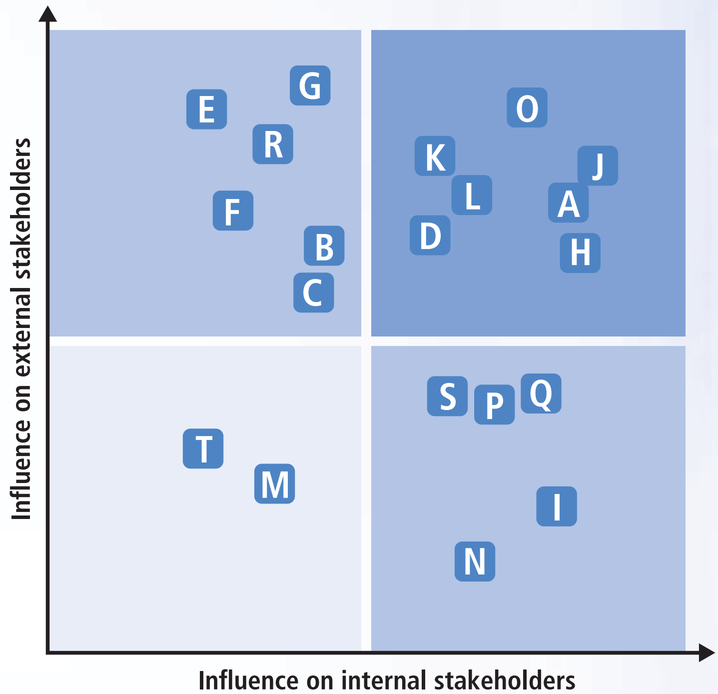
2. ESG Management Structure

In order to carry out the concept of sustainable development effectively, Austar has established the ESG Executive Committee, constituting the ESG management team for ESG strategic planning, plan design, plan implementation, performance review and progressive improvement. Austar constantly explores practical ways to promote sustainable development to enhance its ability to fulfill corporate social responsibility.



3. Stakeholder Engagement

In promoting ESG work, Austar attaches great importance to stakeholders' engagement, and incorporated stakeholders' feedback on ESG issues in this year's ESG report. Through consulting its major stakeholders, Austar identified that their concerns are mainly on areas such as policy implementation and legal compliance in the aspects of emissions, use of resources, employment, health and safety, and product quality. Austar will continue to maintain effective communication with its major stakeholders, respond to stakeholders' expectations and continue to improve its ESG performance in order to conform to its overall social responsibility strategy.



A. Compliance with laws and regulations on emissions
B. Emissions data
C. Measures to reduce emissions and achievements
D. Resource management
E. Data of use of resources
F. Measures to manage resources and achievements
G. Management of huge environmental impact and measures
H. Employment strategy and law compliance
I. Data of staff management
J. Management on employees' health and safety and law compliance
K. Development and training management
L. Prevention of child labour and forced labour and law compliance
M. Management of supply chain's environmental and social risks
N. Distribution of suppliers
O. Product safety, label and quality assurance management and law compliance
P. Product recall management and customer complaint handling
Q. Information confidentiality and intellectual property management
R. Business ethics and law compliance
S. Community investment and public welfare strategy
T. Data of public welfare activities such as donations

Internal stakeholders	Key ways of communication with internal stakeholders	External stakeholders	Key ways of communication with external stakeholders
Board of directors	Phone calls, emails, meetings, face-to-face communication and suggestion box	Shareholders	Annual reports, phone calls, and emails
		Government and regulators	Meetings, phone calls, and emails
Employees	Phone calls, emails, meetings, face-to-face communication and suggestion box	Suppliers and clients	Face-to-face communication, phone calls and annual reports
		Colleges and communities	Face-to-face communication, phone calls and annual reports

ENVIRONMENTAL PERFORMANCE

Austar complies with national and local laws and regulations as well as industrial standards in relation to its manufacturing activities, such as the *Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution, and Environmental Impact Assessment Law of the People's Republic of China.*

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

Austar has to deal with energy consumption, greenhouse gas emissions and waste management every day. While pursuing economic benefits, the Group also regards environmental management as an important part of business operation. Austar has formulated related environmental management system for collecting data in environmental management in order to monitor its performance continuously and to assess the improvements of its own development and environmental protection measures.

1. Emissions

Austar attaches great importance to the management of emissions from its production activities. It has established the "Management Rules on Waste Water, Waste Gases and Noises", to ensure its production activities meet the requirements of local environmental laws and regulations and relevant industrial standards, and also to reduce the adverse impacts on the environment and employees' health. Austar SJZ and Shanghai Austar's manufacturing centres carry out annual inspection of waste water, exhaust gas and noises, and the results show that the emissions conform to relevant national standards. As for greenhouse gas emissions, Austar's "Management Rules on Energy Conservation and Consumption Reduction" clearly sets out the goals for office electricity utilization per capita and electricity utilization per unit production, and lists out a series of measures to help reducing energy management cost and greenhouse gas emissions. In terms of waste management, Austar has established the "Management Rules on Waste" to classify wastes from production and to specify how to collect, store and dispose wastes. Currently, Shanghai Austar and Austar Hansen have obtained certification on the environmental system (ISO14001). The Group considers that careful analysis of collected data and its business operation can assist the Group to continually improve its environmental protection works.

The Group has identified relevant national and local laws and regulations that have a significant impact on the Group regarding the management of emissions, waste water and solid wastes, as well as energy conservation and emissions reduction, and abides by these requirements and provisions.

1.1 Management on Waste Gases and Greenhouse Gas Emissions

Austar strives to minimize emissions through energy conservation and emissions reduction. For this purpose, Austar has established a management system and implemented various measures. To control emissions, Austar adopts enclosed production workshops equipped with purification equipment and ventilation equipment, so as to minimize the pollution to atmospheric environment. Austar carries out daily inspection and maintenance on its purification equipment and ventilation equipment to identify and remediate malfunction in a timely manner. Through these measures, according to the exhaust gas detection reports of Austar SJZ and Shanghai Austar's manufacturing centres, both centres strictly met the requirements of relevant national emission standards.

As for greenhouse gas emissions, the Group implements the "Management Rules on Energy Conservation and Consumption Reduction" to reduce carbon dioxide emissions. The major measures mainly require:

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

1.2 Management of Non-hazardous Waste and Hazardous Waste

For non-hazardous waste produced from operation, such as household garbage and waste packing materials, Austar, guided by the principle of sustainable development, assigns staff in each department to collect recyclable materials for further use. Other recyclable solid waste is disposed of by special recycling companies, whereas non-recyclable solid waste and household garbage are disposed of by municipal sanitation department. Through the above measures, Austar reduces the creation of non-hazardous waste to a certain extent.

In terms of handling hazardous waste, such as waste emulsion, waste oily rags and waste hydraulic oil, Austar abides by the legal requirements on hazardous waste management. At the production sites, Austar identifies the category of hazardous waste, and stores the hazardous waste in a special warehouse before they are collected by qualified hazardous waste treatment companies engaged by Austar. The policy on transfer of hazardous waste and the amount transferred are filed with and recorded in local environmental protection bureaus. Austar's EHS Department handles the hazardous waste according to the policy and legal requirements.

1.3 Management of Discharges into Water and Land

According to the environmental impact assessment reports and approval documents, the activities of Austar's major operating companies, including Austar SJZ and Shanghai Austar, do not create water and soil pollutions. During production process, Austar follows the requirements set out in the approval documents to adopt diversion of rain and sewage water, so as to ensure that the water and soil at the production sites would not be polluted accidentally due to any management oversight.

2. Use of Resources

To promote energy efficiency and conservation, and to avoid waste and reduce costs, Austar has established the "Management Rules on Energy Conservation and Consumption Reduction", which includes the Group's requirements on water, electricity and paper usages. It also corresponds to the Group's targets for energy conservation and consumption reduction, and specifies delegation to departments to be in charge of the work.

2.1 Managing Energy and Water Resources

The major energy that Austar uses is electricity. In order to achieve the goal of energy conservation and emissions reduction, Austar sets out specific management requirements on electricity use under its "Management Rules on Energy Conservation and Consumption Reduction" and requires all departments to record their monthly electricity consumption for review and improvement. Through the implementation of these measures, Austar has achieved an effective control on power consumption.

In terms of use of water, Austar relies on municipal water supply. The "Management Rules on Energy Conservation and Consumption Reduction" also sets out requirements on the use of water, including monthly inspection of water use in all areas to prevent waste of water in a timely manner; reporting immediately to the Production Department in case of any pipe rupture or leakage; saving water and avoiding waste; turning off or turning down the water valves whenever possible to save water. Through these measures, Austar effectively controls the Group's water consumption.

3. Environment and Natural Resources

Austar adheres to an attitude of being friendly to the environment and natural resources in its business development. Before the commencement of all projects, the Group performs environmental impact assessment, and strictly implements the "simultaneity of three steps" requirement, which means that the design and construction of the projects shall be planned while taking into account operation of pollution prevention equipment. Before an Austar project comes into operation, the Group makes sure that environmental protection equipment construction has been completed and the examination has been passed. In line with the environmental impact assessment reports and approval documents, Austar has assessed the project's influence on the environment and natural resources, and has set up management rules on exhaust gases, noises and solid wastes, such as the "Procedures for Identifying and Evaluating Environmental Factors", "Control Procedures on EHS-Related Parties" and "EHS Operation Control Procedures". These rules were created to effectively control the Group's business activities related to significant environmental factors and risks, so as to conform to its environmental safety principle and meet its target. At the same time, these rules provide ways to correctly and effectively identify, evaluate and update environmental factors that Austar is able to control and influence, so as to facilitate formation of suitable and feasible environmental target, indicators and management plans.

Management on Environmental Impact

Austar's EHS Department has taken management measures for equipment that may cause huge environmental impact and occupational safety impact, such as sound insulation and sound absorption measures to prevent emission of excessive noises in violation of the regulatory standard and to reduce environmental pollution; and to collect leakage of oil through a groove. In addition, in improving its technology, the Group promotes non-toxic technology, simplifies technological process, and reduces the use of toxic materials. In process improvement, material consumption per capita has been taken into consideration in the aspects of planning, supply, technological process, packaging, storage and transportation, so as to gradually reduce material production per unit production. Through these measures, the Group effectively controls its impact on the environment and the natural resources.

SOCIAL PERFORMANCE

1. Improving Staff Management

As a listed company, Austar offers equal and fair employment opportunity to people from all walks of life. Also, Austar carefully observes policies and regulations on the protection of employees' rights and interests, constantly improves employees' benefits, and attaches great importance to employees' growth and development by providing a good platform for employees to realize their career goals. The Group strictly complies with relevant laws and regulations, such as the *Labour Law of the People's Republic of China,* and the *Labour Contract Law of the People's Republic of China*. In addition, Austar has established a series of management system and framework, including the "Staff Handbook", "Training and Development Control Procedures", "Personnel Files and Documents Management Control Procedures", "Attendance and Leave Management Control Procedures" and "Employee Benefits Control Procedures", covering management measures and requirements on compensation and benefits, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, staff training, attendance and performance, and contributing to Austar's complete system of human resources management.

As set out in the "Staff Handbook" and other human resources provisions, the number of daily working hours is set at 8 hours, and staff are entitled to various leave benefits including annual leave, marriage leave, and maternity leave. The Group also tries its best to provide comprehensive benefits to its staff in addition to basic salary, such as supplementary medical insurance, medical reimbursement, monetary gift for maternity and birthday, and allowances for housing, travelling, communication and food.

Based on the operation status and actual recruitment requirement, the HR Department will plan and be responsible for staff recruitment and training, whereas other departments will coordinate with the HR Department in the process. Meanwhile, Austar is committed to offering equal opportunities to all employees in staff promotion with reference to their performance assessment. The HR Department will review and report on staff attendance and performance, make recommendations to the management on promotion and communicate with the departments in charge on any unusual staff conditions for their further follow up. Austar believes that all employees are equal, irrespective of ethnic origin, gender, age, religion, and birthplace and no discriminatory behaviour is tolerated.

The human resources management policy aims at increasing employees' identity with the corporate culture, so as to realize enterprise's value and fulfill social responsibility.

2. Caring for Employees' Health and Safety

Austar strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and other relevant laws and regulations, and pays close attention to the protection of employees' occupational health and safety by creating a safe and harmonious working environment. Austar Henson and Shanghai Austar have obtained certification on Occupational Health and Safety Assessment Series (OHSAS18001). Moreover, the Group has developed the "Management System on Occupational Health" to effectively control poisonous and harmful factors during production process (such as noise and dust) that may cause occupational injuries to employees so as to prevent employees' from suffering occupational diseases (such as deaf and pneumoconiosis). When entering into labour contracts, the HR Department informs and explains to the employees of the potential harm, consequences and protective measures of possible occupational diseases. Also, information cards are put up at eye-catching places to alert workers of the factors, consequences, prevention and emergent treatment measures of occupational hazards. The EHS Department carries out daily workplace inspection to establish occupational-disease-inductive factors test files. Qualified occupational health technical service institutions are engaged to supervise the inspections. Employees exposed to occupational-disease-inductive factors are provided with pre-job, on-the-job, off-post and occasional occupational health examinations, and their occupational health files are prepared and kept for follow-up where necessary.

Austar also maintains a work-related injury management system, such as formation of the "Control Procedures on Incident Investigation, Treatment and Report", which specifies the nature and responsibility of work-related injuries as well as the treatment process.

3. Focusing on Employees' Training and Development

Austar strives for employees' recognition of its corporate culture, and hopes to become an employer appealing to its employees. Through its "Staff Handbook", Austar conveys to its employees its dedication to create an open and positive environment for employees to acquire knowledge, improve skills and enrich experience, so as to continuously improve their overall quality and strength for career development. This also lays a solid foundation for the Group's sustainable development.

Austar 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", Austar divides training into orientation, overseas training, management training, professional skills training and corporate culture training. Every year, Austar prepares internal and external training plans. Training programs under approved plans will be implemented accordingly. The Group offers internal training courses according to the actual demands of departments, mainly covering basic knowledge of technology and equipment, control program, safe operation, business development, emotion management and quality management. Employees will also attend training courses at external institutions, mainly on English, pharmaceutical engineering project management, qualification examination, and special equipment operation; or external experts are invited to Austar to provide trainings on areas such as suppliers, finance and human resources.

4. Preventing Child Labour and Forced Labour

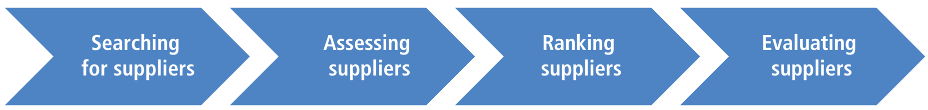
Austar's "Staff Handbook" and the "Attendance and Leave Management Procedures" set out provisions on work attendance, labour intensity and overtime working. If an employee needs to work overtime, he/she has to submit an "Overtime Application Form" to his/her department head. It is only after the department head and the HR Department having approved the application that the employee's work shall be recognized as overtime work. As a rule, employees are entitled to working days off equivalent to the time spent on working overtime.

During the recruitment process, Austar complies with relevant laws and regulations such as the *Law of the People's Republic of China on the Protection of Minors* and *Provisions on the Prohibition of Using Child Labour*. The "Staff Handbook" also requires that new employees should provide supporting documents, such as identity card and proof of academic qualifications, which is a way to avoid employment of child labour. During the reporting period, Austar has not discovered any use of child labour.

5. Managing Suppliers' Environmental and Social Risks

Austar has established a series of provisions on supply management, such as the "Control Procedures on Evaluating and Managing Suppliers", "Procurement Control Procedures", and "Procurement Manual", to standardize the processes of the identification, selection and evaluation of suppliers.

In its supply chain management system, Austar makes specific rules on the selection, assessment, rank and evaluation of suppliers:



During the process of selecting suppliers, in terms of technology, Austar gives priority to suppliers with new environment-friendly technologies, so that Austar's technology and suppliers' technology would meet the latest requirement of environmental protection; as to suppliers' qualifications, Austar favours suppliers with complete qualifications and good service and those who meet EHS requirements. In the "Control Procedures on EHS-Related Parties", Austar sets up requirements on suppliers' environmental and social risks management, and the Procurement and Supply Chain Management Department conveys to suppliers the Group's principles and management requirements on environmental protection and occupational health and safety. Where possible, suppliers shall obtain certifications of ISO14001 and OHSAS18001. The Procurement and Supply Chain Management Department carries out controls on suppliers. In December every year, suppliers with huge environmental and safety risks are selected to be included in the "List of Related Parties in Special Need of Influence".

6. Strict Control on Product Quality

Adhering to the principle of serving its clients with honesty, Austar forbids promotion with false information, provides excellent customer experience, and ensures that its products are safe, easy to use and environmentally friendly. Austar complies with laws and regulations relating to health and safety, advertisement and privacy protection. At the same time, in order to ensure product quality, Austar has established the "Management Procedures on Inspection and Testing", which requires that quality control personnel should strictly adhere to the management procedures to carry out product inspection, so as to maintain the brand image of Austar and to safeguard clients' rights and interests.

Management of Customer Complaints

Austar earnestly abides the *Law of the People's Republic of China on the Protection of Customer Rights and Interests*. When providing services, to better and respond timely to customer requirements, Austar has established the "Management Procedures on Customer Requirements and Complaints", which standardizes the analysis and handling of customer requirements and complaints. Meanwhile, Austar strictly abides relevant laws and regulations such as the *Trademark Law of the People's Republic of China* and the *Patent Law of the People's Republic of China*, to protect its own legitimate rights and interests, and also to actively fulfill its duties on products and services to the public.

- Austar receives customer complaints mainly through customers' inquiry, visit and phone call, internal staff's feedback, engineers' reports and customer satisfaction survey.

- Upon receiving a complaint, customer service staff and corresponding department staff will analyze the causes of the complaint, by reviewing the intentions, requirements or specifications of customers, and going through the design and construction of the product or service and the raw materials used during the process.

- Austar came up with different measures to handle complaints caused by different factors. When handling the complaints, responsible departments will follow up the case and give timely feedback to the Customer Service Department. Thereafter, customer service specialists will record the latest results in the "Record of Customer Requirements and Complaints", which will be used to record the total complaints throughout the year.

- After the Customer Service Department is being informed that a complaint has been handled and dealt with by the responsible departments, customer service specialists will contact the customer to verify customer's satisfaction on resolution of the issues complained about. Every half year, the Customer Service Department makes statistical analysis on customer requirements and complaints, which provides information for management's review and improvement.

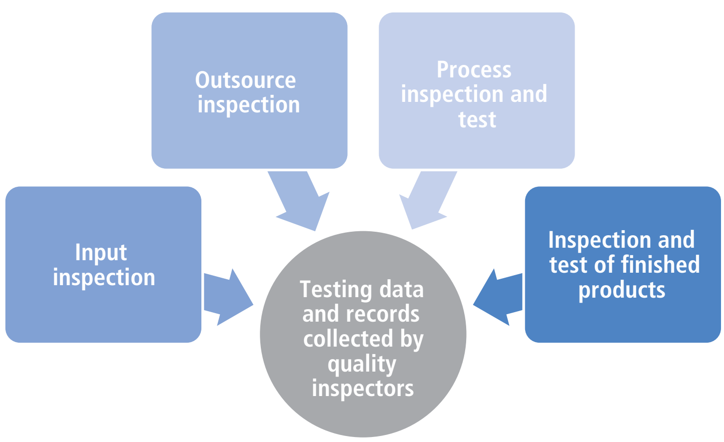
Protecting intellectual property

Austar's existing intellectual properties mainly comprise of patents, copyright, utility models, and inventions. Austar has established the "Patent Management" and "Management Rules on the Group's Copyrights of Austar Pharmaceutical Equipment and Process System", which standardize the application of patents, utility models and inventions, and the publicity and registration of copyright, so as to better protect the Group's intellectual property rights.

The "Staff Handbook" stipulates that, when joining the Group, employees shall enter into agreements with the Group on intellectual property rights and confidentiality. All Austar staff share responsibility in intellectual property and confidentiality protection. Depending on the circumstances, Austar will resort to mediation or litigation in case of violation of intellectual property right.

Strict quality assurance

Based on its "Management Procedures on Inspection and Test", Austar has different quality testing of products during different stages:



- Input inspection: Inspectors take samples from the materials from the List of Goods, and carry out inspection in accordance with the Guidance to Input Inspection; following which the inspectors give feedback on the inspection records and conclusions to the procurement engineers or inventory keepers. The quality engineer records the inspection results in the Record of Material Inspection.

- Outsource inspection: Inspectors inspect products from outsource 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: Operators of all procedures shall inspect their own products and each other's products, and send their products for further inspection as required by the process. Only products that are qualified and verified with quality inspectors' signature can be delivered to the next stage or to the storage.

- Inspection and test of finished products: Verification through indicators is conducted to meet customer requirements on areas such as products' characteristics and delivery.

- Data and records of inspection throughout the whole process are collected by quality inspectors and managed by the Quality Department. Only products that have passed all quality inspections can be delivered out of factory.

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

Protecting Customer Information

Austar mainly provides integrated solutions to biopharmaceutical manufacturers, and Austar strives to protect clients' information security during the service process. The Test Service Department obtains clients' key information in order to advise clients. Austar undertakes to its clients to prevent any information leakage through signing confidentiality agreements with clients and its IT information management, and contracts archiving systems are designed to prevent information leakage. During the reporting period, the management was not aware of any leakage of clients' information.

7. Business Ethics

The "Staff Handbook" sets out requirements on anti-bribery, fraud and money laundering. In particular, no gifts shall be offered, asked or accepted. The requirements also apply to employees of, and agents of or third parties representing Austar. All employees and agents are prohibited from offering or receiving money, gifts, loans or other benefits that may affect business decisions or interfere with independent judgment; 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 favourable terms or conditions. Insider dealings by employees of Austar are strictly forbidden. At the same time, the Group conscientiously abides by relevant laws and regulations such as the *Law of the People's Republic of China against Unfair Competition*, and has established good business ethics and brand image.

During the reporting period, Austar was not involved in any corruption-related lawsuit.

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 behaviours that violate the employees' "Code of Conduct"

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

If the Group believes that any behaviour violating the "Code of Conduct" has occurred, serious, immediate and fair actions will be taken. Austar will report to the government authorities in accordance with law. Employees who are in breach of the "Code of Conduct" will receive reprimand and punishment, and in serious situation, demotion or even removal from office may be resulted.

8. Contributing to a Harmonious Community

In recent years, Austar has been involved in community investment and public welfare undertakings. When understanding the needs of communities, Austar actively participates in community investment and public welfare activities, to ensure that Austar's activities takes into consideration of local communities' interests, and to promote public welfare and contribute to the society.

During the reporting period, the Trade Union of Austar SJZ actively took part in local community activities, such as visiting to elderly living alone co-organized by the Chang'an District Government and Qianyuan Street Sub-district Office. Every year, Austar SJZ also participates in fundraising activity organized by the Heibei Federation of Trade Unions to provide financial assistance to people who suffered from poverty due to serious diseases and accidents.

Appendix: Index to HKEx ESG Guide

Topics			Page Number
Aspect A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	76
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	77
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	78
Aspect A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	79
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	79
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	79
Aspect A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	79
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	80

Topics			Page Number
Aspect B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	80
Aspect B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	81
Aspect B3: Development and Training	General Disclosure	Policies on improving employee's knowledge and skills for discharging duties at work. Description of training activities.	81
Aspect B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	82
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	82
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	82

Topics			Page Number
Aspect B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	82
Aspect B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	83
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	84
	KPI B6.4	Description of quality assurance process and recall procedures.	84
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	85
Aspect B7: Anti-corruption	General Disclosure	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.	85
Aspect B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	86
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	86

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Austar Lifesciences Limited (the "Company") and its subsidiaries (the "Group") set out on pages 96 to 171, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- The recoverability of trade receivables and amounts due from customers for contract work.

Key Audit Matter	How our audit addressed the Key Audit Matter
The recoverability of trade receivables and amounts due from customers for contract work Refer to note 14 and note 15 to the consolidated financial statements. As of 31 December 2016, the carrying amounts of trade receivables and amounts due from customers for contract work amounted to RMB170 million and RMB155 million, representing 19% and 17% of total assets respectively. It is industry practice to bill work in progress to customers long after the construction work has been carried out. Due to slow payment cycles experienced in this industry and the declining economic conditions, it normally takes an even longer period of time for receivable balances to be settled. The recoverability of outstanding trade receivables and amounts due from customers for contract work balances could be of question.	In addressing this matter, we had performed following procedures: • We understood the Group's monitoring controls on analysing recoverability of trade receivables and billing of amounts due from customers for contract work. • We enquired management the basis and reasons of provisions made against the trade receivable and amounts due from customers for contract work, if any. • We performed procedures on the balances (i) For trade receivables, we requested and received direct confirmations on a sample basis, or performed appropriate alternative procedures and checked the reconciliation, if any; and (ii) For amounts due from customers for contract works, we checked the calculations and agreed the information used for the calculations to accounting records, estimated total contract costs, contract sum and progress billings.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Because of the magnitude of the trade receivables balance and amounts due from customers for contract work as at 31 December 2016, together with the use of significant judgements and various assumptions in estimating the recoverability of such balances, we had identified this matter as a key audit matter.	• For trade receivables, we enquired management on the level of provision made, taking into consideration of various factors, including explanations from management, aging profile, subsequent settlement status, historical settlement pattern as well as specific circumstance of individual customers. • For amounts due from customers for contract work balances, we enquired management on the level of provision made, taking into consideration of enquiry to management on contracts progress, terms of billing as set out in the contracts, and recoverability of outstanding receivable balances of same customers, where applicable. Based upon our work, we found the assessment of the recoverability of trade receivables and amounts due from customers for contract work determined by management is supported by available evidence.

OTHER INFORMATION

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

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

羅兵咸永道

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

羅兵咸永道

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

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

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**42,222**	43,557
Land use rights	7	**5,800**	5,950
Intangible assets	8	**4,612**	2,116
Investments accounted for using the equity method	9	**34,586**	18,180
Available-for-sale financial assets		**60**	60
Deferred income tax assets	10	**7,887**	7,706
Prepayments and other receivables	15	**8,810**	–
Other non-current assets	11	**16,295**	16,295
Total non-current assets		**120,272**	93,864
Current assets			
Inventories	12	**90,623**	74,920
Trade and notes receivables	14	**184,291**	193,707
Prepayments and other receivables	15	**32,524**	51,025
Amounts due from customers for contract work	13	**155,496**	132,663
Pledged bank deposits	16	**9,871**	21,423
Term deposits with initial terms of over three months	16	**35,347**	-
Cash and cash equivalents	16	**286,352**	393,383
Total current assets		**794,504**	867,121
Total assets		**914,776**	960,985

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
EQUITY			
Equity attribute to the owners of the Company			
Share capital	17	**4,071**	4,071
Reserves		**389,245**	375,444
Retained earnings		**152,798**	171,468
		546,114	550,983
Non-controlling interests		**1**	1
Total equity		**546,115**	550,984
LIABILITIES			
Non-current liabilities			
Deferred income	18	**600**	-
Deferred income tax liabilities	10	**14,571**	16,737
Total non-current liabilities		**15,171**	16,737
Current liabilities			
Trade and other payables	20	**289,822**	274,003
Amounts due to customers for contract work	13	**42,491**	81,282
Short-term borrowings	19	**20,000**	35,000
Current income tax liabilities		**1,177**	2,979
Total current liabilities		**353,490**	393,264
Total liabilities		**368,661**	410,001
Total equity and liabilities		**914,776**	960,985

The notes on pages 102 to 171 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 96 to 171 were approved by the Board of Directors on 28 March 2017 and were signed on its behalf.

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Revenue	5	**672,545**	627,544
Cost of sales	21	**(512,838)**	(473,297)
Gross profit		**159,707**	154,247
Selling and marketing expenses	21	**(82,687)**	(71,002)
Administrative expenses	21	**(68,103)**	(56,213)
Research and development expenses	21	**(32,041)**	(26,908)
Other income	22	**2,103**	2,860
Other (losses)/gains	23	**(2,083)**	278
Operating (loss)/profit		**(23,104)**	3,262
Interest income	25	**4,053**	3,433
Finance expenses	25	**(1,845)**	(4,361)
Finance income/(expenses) – net		**2,208**	(928)
Share of profit of investments accounted for using the equity method	9	**3,395**	5,256
(Loss)/profit before income tax		**(17,501)**	7,590
Income tax expense	26	**(1,169)**	(1,207)
(Loss)/profit for the year		**(18,670)**	6,383
(Loss)/profit attributable to:			
The owners of the Company		**(18,670)**	6,384
Non-controlling interests		**–**	(1)

The notes on pages 102 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
(Loss)/profit for the year		**(18,670)**	6,383
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**14,575**	16,384
Share of other comprehensive income of investments accounted for using the equity method		**(774)**	(584)
Other comprehensive income for the year, net of tax		**13,801**	15,800
Total comprehensive income for the year		**(4,869)**	22,183
Total comprehensive income attributable to:			
The owners of the Company		**(4,869)**	22,183
		(4,869)	22,183
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company – basic and diluted (RMB)	27	**(0.04)**	0.01

The notes on pages 102 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company								
	Note	Share capital RMB'000	Capital surplus RMB'000	Share premium RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		4,071	30,150	314,009	185,339	15,486	549,055	1	549,056
Comprehensive income									
Profit for the period		–	–	–	6,384	–	6,384	(1)	6,383
Other comprehensive income									
Currency translation differences		–	–	–	–	16,383	16,383	1	16,384
Share of other comprehensive income of investments accounted for using the equity method	9	–	–	–	–	(584)	(584)	–	(584)
Total comprehensive income		–	–	–	6,384	15,799	22,183	–	22,183
Transaction with owners									
Dividends to shareholders		–	–	–	(20,255)	–	(20,255)	–	(20,255)
Total transaction with owners, recognised directly in equity		–	–	–	(20,255)	–	(20,255)	–	(20,255)
Balance at 31 December 2015		4,071	30,150	314,009	171,468	31,285	550,983	1	550,984
Balance at 1 January 2016		**4,071**	**30,150**	**314,009**	**171,468**	**31,285**	**550,983**	**1**	**550,984**
Comprehensive income									
Loss for the period		**–**	**–**	**–**	**(18,670)**	**–**	**(18,670)**	**–**	**(18,670)**
Other comprehensive income									
Currency translation differences		**–**	**–**	**–**	**–**	**14,575**	**14,575**	**–**	**14,575**
Share of other comprehensive income of investments accounted for using the equity method	9	**–**	**–**	**–**	**–**	**(774)**	**(774)**	**–**	**(774)**
Total comprehensive income		**–**	**–**	**–**	**(18,670)**	**13,801**	**(4,869)**	**–**	**(4,869)**
Balance at 31 December 2016		**4,071**	**30,150**	**314,009**	**152,798**	**45,086**	**546,114**	**1**	**546,115**

The notes on pages 102 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	29	(28,195)	65,665
Income tax paid		(5,773)	(7,185)
Interest received		3,506	3,046
Net cash (used in)/generated from operating activities		(30,462)	61,526
Cash flows from investing activities			
Increase in term deposits with initial terms of over three months	16	(35,347)	–
Investment in an associate	9	(15,874)	–
Dividend received from joint ventures	9	2,089	4,513
Purchases of property, plant and equipment		(11,014)	(14,174)
Purchases of intangible assets		(1,520)	(354)
Prepayment to government authority		–	(16,295)
Proceeds from disposal of property, plant and equipment		653	16
Proceeds of derivative financial assets at fair value through profit or loss		–	1,338
Interest received from the loan to a joint venture		717	–
Cash received from government grants	18	600	–
Net cash used in investing activities		(59,696)	(24,956)
Cash flows from financing activities			
Interest paid		(1,081)	(2,029)
Proceeds from borrowings	19	20,000	55,000
Repayments of borrowings	19	(35,000)	(55,000)
Dividends paid to company's shareholder		–	(20,255)
Net cash used in financing activities		(16,081)	(22,284)
Net (decrease)/increase in cash and cash equivalents		(106,239)	14,286
Cash and cash equivalents at beginning of year	16	393,383	382,624
Exchange losses on cash and cash equivalents		(792)	(3,527)
Cash and cash equivalents at end of year	16	286,352	393,383

The notes on pages 102 to 171 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"), an executive Director and the chief executive officer of the Company (the "Chief Executive Officer").

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

The consolidated financial statements are presented in thousands of Renminbi Yuan (the "RMB"), unless otherwise stated, and is approved for issue by the Board of Directors on 28 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation – Amendments to International Accounting Standard ("IAS") 16 and IAS 38
- Annual improvements to IFRS 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1

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

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model for managing the debt instruments and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value. However, management can make irrevocable selection to present changes in fair value in OCI provided the instrument is not held for trading. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

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

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted The Group is in the process of making an assessment of IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is in the process of making an assessment of IFRS 15's full impact.

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The Group is in the process of making an assessment of IFRS 16's full impact.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations under common control

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

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

(b) Business combinations not under common control

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

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

Acquisition-related costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

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

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

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

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

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

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

(d) Disposal of subsidiaries

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 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.

2.3 Associates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

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

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

2.4 Joint arrangement

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

2.5 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

(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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(c) Group companies (Continued)

(iv) Disposal of foreign operation and partial disposal

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

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

2.7 Property, plant and equipment

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 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 2.11).

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

2.8 Land use rights

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

2.9 Intangible assets

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

2.10 Research and development

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

(i) it is technically feasible to complete the intangible 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Research and development (Continued)

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

2.11 Impairment of non-financial assets

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

2.12 Financial assets

2.12.1 Classification

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other gains when the Group's right to receive payments is established.

2.13 Offsetting financial instruments

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

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Impairment of financial assets (Continued)

(a) *Assets carried at amortised cost* (Continued)

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

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

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Inventories

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

2.16 Trade and other receivables

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

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

2.17 Cash and cash equivalents

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

2.18 Share capital

Ordinary shares are classified as equity.

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

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Borrowings

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

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

2.21 Borrowing costs

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

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

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

2.22 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

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

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

Outside basis differences

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

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

(c) *Offsetting*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits

Pension and social obligations

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

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

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

2.24 Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Construction contracts

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition

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

(a) Construction contracts

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

(b) Sales of goods

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

(c) Rendering of services

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

2.27 Government grants

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

Government grants related to costs are deferred and recognised in the consolidated statements of comprehensive income 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Interest income

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

2.29 Dividend income

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

2.30 Lease

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

As at 31 December 2016, if Hong Kong dollar had weakened/strengthened by 1% against the US Dollar with all other variables held constant, (loss)/profit before income tax for the years would have been RMB264,000 (as at 31 December 2015: RMB192,000) lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated cash and cash equivalents, term deposits with initial terms of over three months, receivables and payable held by the Group entities.

As at 31 December 2016, if Hong Kong dollar had weakened/strengthened by 5% against the Euro ("EUR") with all other variables held constant, (loss)/profit before income tax for the years would have been RMB1,187,000 (as at 31 December 2015: RMB22,000) lower/higher, respectively, mainly as a result of foreign exchange gains/losses on translation of EUR denominated cash and cash equivalents, term deposits with initial terms of over three months, receivables and payable held by the Group entities.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk*

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

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

(c) *Liquidity risk*

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

	Less than 1 year RMB'000
As at 31 December 2015	
Trade payables	158,193
Notes payables	29,180
Other payables	23,039
Short-term borrowings	35,629
	246,041

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

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

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

The gearing ratio as at 31 December 2016 and 2015 are as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Total debt	**20,000**	35,000
Total equity	**546,115**	550,984
Total capital	**566,115**	585,984
Gearing ratio	**4%**	6%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of trade and other receivables

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

(b) Construction contracts

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

(c) Impairment of inventories

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

(d) Income taxes and deferred tax

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

5. SEGMENT INFORMATION

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

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

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

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

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

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2015 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	312,937	163,858	48,218	32,059	78,654	25,658	661,384
Inter-segment revenue	(5,745)	(21,959)	(5,961)	236	(189)	(222)	(33,840)
Revenue	307,192	141,899	42,257	32,295	78,465	25,436	627,544
Cost of sales	(259,703)	(105,534)	(30,507)	(17,192)	(44,431)	(15,930)	(473,297)
Segment results							
Gross profit	47,489	36,365	11,750	15,103	34,034	9,506	154,247
Other segment items							
Amortisation	400	45	12	11	–	6	474
Depreciation	4,122	3,264	847	748	262	447	9,690
(Reversal)/provision for trade and notes receivables	(1,294)	1,135	230	202	(396)	127	4
Impairment provision for inventories	40	127	41	36	202	21	467
Share of profit of investments accounted for using the equity method	3,088	–	–	–	2,168	–	5,256

5. SEGMENT INFORMATION (Continued)

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Liquid and Bioprocess System	**43,558**	47,489
Clean Room and Automation Control and Monitoring System	**36,110**	36,365
Powder and Solid System	**15,794**	11,750
GMP Compliance Service	**12,309**	15,103
Life Science Consumables	**45,097**	34,034
Distribution and Agency of Pharmaceutical Equipment	**6,839**	9,506
Total gross profit for reportable segments	**159,707**	154,247
Selling and marketing expenses	**(82,687)**	(71,002)
Administrative expenses	**(68,103)**	(56,213)
Research and development expenses	**(32,041)**	(26,908)
Other income	**2,103**	2,860
Other (losses)/gains	**(2,083)**	278
Finance income/(expenses) – net	**2,208**	(928)
Share of profit of investments accounted for using equity method	**3,395**	5,256
(Loss)/profit before income tax	**(17,501)**	7,590

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2016 and 2015 are as follows:

	As at 31 December 2016		As at 31 December 2015	
	Total assets RMB'000	Investments accounted for using equity method RMB'000	Total assets RMB'000	Investments accounted for using equity method RMB'000
Liquid and Bioprocess System	297,057	12,745	380,869	13,427
Clean Room and Automation Control and Monitoring System	126,351	15,617	86,001	–
Powder and Solid System	36,801	–	30,282	–
GMP Compliance Service	22,494	–	31,354	–
Life Science Consumables	60,900	6,224	51,528	4,753
Distribution and Agency of Pharmaceutical Equipment	9,580	–	8,349	–
Total segment assets	553,183	34,586	588,383	18,180
Unallocated				
Deferred income tax assets	7,887		7,706	
Headquarter assets	353,706		364,896	
Total assets	914,776		960,985	

5. SEGMENT INFORMATION (Continued)

Geographical information

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Revenue		
Mainland China	596,629	581,111
Other locations	75,916	46,433
	672,545	627,544

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Non-current assets other than financial instruments and deferred tax assets		
Mainland China	68,730	67,726
Other locations	43,595	18,372
	112,325	86,098

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2015					
Opening net book value	10,051	15,668	1,468	11,358	38,545
Additions	–	8,123	1,397	6,225	15,745
Depreciation charge	(742)	(2,303)	(615)	(6,290)	(9,950)
Disposal	–	(490)	(31)	(262)	(783)
Closing net book value	9,309	20,998	2,219	11,031	43,557
As at 31 December 2015					
Cost	16,443	32,322	4,301	24,320	77,386
Accumulated depreciation	(7,134)	(11,324)	(2,082)	(13,289)	(33,829)
Net book value	9,309	20,998	2,219	11,031	43,557
Year ended 31 December 2016					
Opening net book value	**9,309**	**20,998**	**2,219**	**11,031**	**43,557**
Additions	**–**	**5,507**	**–**	**6,843**	**12,350**
Depreciation charge	**(740)**	**(2,617)**	**(576)**	**(6,943)**	**(10,876)**
Disposal	**–**	**(1,903)**	**(56)**	**(850)**	**(2,809)**
Closing net book value	**8,569**	**21,985**	**1,587**	**10,081**	**42,222**
As at 31 December 2016					
Cost	**16,443**	**35,034**	**3,770**	**30,252**	**85,499**
Accumulated depreciation	**(7,874)**	**(13,049)**	**(2,183)**	**(20,171)**	**(43,277)**
Net book value	**8,569**	**21,985**	**1,587**	**10,081**	**42,222**

As at 31 December 2016 and 2015, the Group's buildings were pledged as security for short-term borrowings (Note 19).

7. LAND USE RIGHTS

	RMB'000
Year ended 31 December 2015	
Opening net book value	6,100
Amortisation charge	(150)
Closing net book value	5,950
As at 31 December 2015	
Cost	7,500
Accumulated amortisation	(1,550)
Net book value	5,950
Year ended 31 December 2016	
Opening net book value	**5,950**
Amortisation charge	**(150)**
Closing net book value	**5,800**
As at 31 December 2016	
Cost	**7,500**
Accumulated amortisation	**(1,700)**
Net book value	**5,800**

The Group's interests in land use rights represent prepaid operating lease payments. All of the Group's land use rights are located in the PRC and with remaining lease period of 39 years. As at 31 December 2016 and 2015, the Group's land use rights were pledged as security for short-term borrowings (Note 19).

8. INTANGIBLE ASSETS

	Software and others RMB'000
Year ended 31 December 2015	
Opening net book value	1,638
Additions	972
Amortisation charge	(494)
Closing net book value	2,116
As at 31 December 2015	
Cost	3,865
Accumulated amortisation	(1,749)
Net book value	2,116
Year ended 31 December 2016	
Opening net book value	**2,116**
Additions	**3,089**
Amortisation charge	**(593)**
Closing net book value	**4,612**
As at 31 December 2016	
Cost	**6,954**
Accumulated amortisation	**(2,342)**
Net book value	**4,612**

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Associates *(Note (a))*	**15,617**	–
Joint ventures *(Note (b))*	**18,969**	18,180
At 31 December	**34,586**	18,180

The amounts recognised in the statement of comprehensive income are as follows:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Associates *(Note (a))*	**(114)**	–
Joint ventures *(Note (b))*	**3,509**	5,256
For the year ended 31 December	**3,395**	5,256

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

(a) Investments in Associates

	Year ended 31 December 2016 RMB'000
At 1 January	–
Addition	15,874
Share of loss	(114)
Share of other comprehensive income	(143)
At 31 December	**15,617**

On 31 March 2016, the Group acquired 33.33% equity interest in ROTA Verpackungstechnik GmbH & Co. KG ("ROTA KG") and 33.33% interest in ROTA Verpackungstechnik Verwaltungsgesellschaft mbH ("ROTA GmbH", together with ROTA KG, collectively "ROTA") from an independent third party. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investments in associates as at 31 December 2016

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
ROTA KG	Germany	33.33%	*Note (a)*	Equity
ROTA GmbH	Germany	33.33%	*Note (b)*	Equity

Note:

(a) ROTA KG is a strategic partnership to the Group, which develops and produces pharmaceutical equipment in Germany.

(b) ROTA GmbH, the general partner of ROTA KG, is an investment holding company.

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

(a) Investments in Associates (Continued)

ROTA KG and ROTA GmbH are private companies and there are no quoted market price available for their shares.

Details of net assets acquired and goodwill arising from the acquisition of ROTA KG and ROTA GmbH are as follows:

	As at 31 March 2016 (date of acquisition) RMB'000
Purchase consideration:	
– Cash paid	15,874
Less: share of fair value of net assets acquired (see below)	(7,114)
Goodwill	8,760

The goodwill is primarily attributable to ROTA KG's strong research technique, which cannot be separately recognised as an intangible asset.

Fair value of net assets acquired:

	As at 31 March 2016 (date of acquisition) RMB'000
Fixed assets	21,628
Intangible assets	5,475
Backlog	1,811
Know-how	12,538
Inventories	39,602
Other assets	25,122
Pension provisions	(5,960)
Other liabilities	(78,873)
Net assets	21,343
Ownership interest acquired	33.33%
Share of fair value of net assets acquired	7,114

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

(a) Investments in Associates (Continued)

Summarised financial information for associate

Summarised balance sheet of ROTA KG

	As at 31 December 2016 RMB'000	As at 31 March 2016 RMB'000
Current		
Cash and cash equivalents	2,988	2,463
Other current assets	67,661	62,260
Total current assets	70,649	64,723
Financial liabilities (excluding trade payables)	(14,942)	(15,030)
Other current liabilities (including trade payables)	(49,979)	(55,718)
Total current liabilities	(64,921)	(70,748)
Non-current		
Assets	36,486	41,453
Financial liabilities	(2,009)	(2,463)
Other liabilities	(19,633)	(11,622)
Net assets	20,572	21,343

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

(a) Investments in Associates (Continued)

Summarised financial information for associate (Continued)

Summarised statement of comprehensive income of ROTA KG

	ROTA KG For the 9 months ended 31 December 2016 RMB'000
Revenue	80,283
Depreciation and amortisation	(3,468)
Interest expense	(938)
Loss before income tax	(79)
Income tax expense	(262)
Loss for the 9 months ended 31 December 2016	(341)
Other comprehensive income	(430)
Total comprehensive income	(771)

Summarised financial information

	ROTA KG As at 31 December 2016 RMB'000
Opening net assets 31 March	21,343
Loss for the 9 months ended 31 December 2016	(341)
Other comprehensive income	(430)
Closing net assets	20,572
Interest in an associate at 33.33%	6,857
Goodwill	8,760
Carrying value	15,617

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

(b) Investments in joint ventures

	2016 RMB'000	2015 RMB'000
At 1 January	**18,180**	17,971
Share of profit	**3,509**	5,256
Share of other comprehensive income	**(631)**	(584)
Dividend received	**(2,089)**	(4,463)
At 31 December	**18,969**	18,180

The joint ventures listed below have share capital consisting solely of ordinary shares.

Nature of investment in joint ventures 2016 and 2015

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited ("STERIS-AUSTAR JV")	Hong Kong	49%	*Note (a)*	Equity
PALL-AUSTAR Lifescience Limited ("PALL-AUSTAR JV")	Hong Kong	60%	*Note (b)*	Equity

Note:

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

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

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

(b) Investments in joint ventures (Continued)

Summarised financial information for joint ventures

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

Summarised balance sheets of joint ventures

	STERIS-AUSTAR JV		PALL-AUSTAR JV		Total	
	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000	**As at 31 December 2016 RMB'000**	As at 31 December 2015 RMB'000	**As at 31 December 2016 RMB'000**	As at 31 December 2015 RMB'000
Current						
Cash and cash equivalents	**14,038**	18,016	**8,337**	7,760	**22,375**	25,776
Other current assets	**18,223**	20,457	**13,820**	9,971	**32,043**	30,428
Total current assets	**32,261**	38,473	**22,157**	17,731	**54,418**	56,204
Financial liabilities (excluding trade payables)	**(2,981)**	(7,381)	**(5,195)**	(4,576)	**(8,176)**	(11,957)
Other current liabilities (including trade payables)	**(4,884)**	(5,863)	**(3,563)**	(2,607)	**(8,447)**	(8,470)
Total current liabilities	**(7,865)**	(13,244)	**(8,758)**	(7,183)	**(16,623)**	(20,427)
Non-current						
Assets	**2,137**	2,175	**15,144**	14,722	**17,281**	16,897
Financial liabilities	**–**	–	**(17,238)**	(17,112)	**(17,238)**	(17,112)
Other liabilities	**(522)**	–	**(932)**	(237)	**(1,454)**	(237)
Net assets	**26,011**	27,404	**10,373**	7,921	**36,384**	35,325

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

(b) Investments in joint ventures (Continued)

Summarised financial information for joint ventures (Continued)

Summarised statements of comprehensive income

	STERIS-AUSTAR JV		PALL-AUSTAR JV		Total	
	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Revenue	31,424	43,296	24,798	21,401	56,222	64,697
Depreciation and amortisation	(213)	(297)	(1,658)	(1,544)	(1,871)	(1,841)
Interest income	(138)	(205)	(13)	(7)	(151)	(212)
Interest expense	–	–	128	738	128	738
Profit before income tax	4,673	8,776	4,778	4,231	9,451	13,007
Income tax expense	(1,829)	(2,471)	(1,252)	(620)	(3,081)	(3,091)
Profit for the year	2,844	6,305	3,526	3,611	6,370	9,916
Other comprehensive income	26	(47)	(1,074)	(936)	(1,048)	(983)
Total comprehensive income	2,870	6,258	2,452	2,675	5,322	8,933
Dividends received from joint ventures	2,089	4,463	–	–	2,089	4,463

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

(b) Investments in joint ventures (Continued)

Summarised financial information for joint ventures (Continued)

Summarised financial information

	STERIS-AUSTAR JV		PALL-AUSTAR JV		Total	
	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Opening net assets 1 January	27,404	30,252	7,921	5,246	35,325	35,498
Profit for the year	2,844	6,305	3,526	3,611	6,370	9,916
Dividends	(4,263)	(9,106)	–	–	(4,263)	(9,106)
Other comprehensive income	26	(47)	(1,074)	(936)	(1,048)	(983)
Closing net assets	26,011	27,404	10,373	7,921	36,384	35,325
Interest in joint ventures	12,745	13,427	6,224	4,753	18,969	18,180
Carrying value	12,745	13,427	6,224	4,753	18,969	18,180

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) adjusted for differences in accounting policies between the Group and the associates and joint ventures.

10. DEFERRED INCOME TAX

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	5,097	2,040
– to be recovered after more than 12 months	2,790	5,666
	7,887	7,706
Deferred income tax liabilities		
– to be recovered after more than 12 months	(14,571)	(16,737)
	(6,684)	(9,031)

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 2016 RMB'000	Year ended 31 December 2015 RMB'000
Beginning of the year	(9,031)	(10,003)
Credited to the consolidated statement of comprehensive income (Note 26)	2,347	972
End of the year	(6,684)	(9,031)

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 2014	71	1,775	3,822	5,668
Credited/(charged) to the consolidated statement of comprehensive income	3,918	(98)	(1,782)	2,038
As at 31 December 2015	3,989	1,677	2,040	7,706
(Charged)/credited to the consolidated statement of comprehensive income	(1,289)	2,380	(910)	181
As at 31 December 2016	**2,700**	**4,057**	**1,130**	**7,887**

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 2016, the Group did not recognise deferred income tax assets of RMB7,628,000 (2015: RMB1,424,000) in respect of losses amounting to RMB46,592,000 (2015: RMB6,575,000) that can be carried forward against future taxable income.

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000
As at 31 December 2014	(15,671)
(Charged) to the consolidated statement of comprehensive income	(1,066)
As at 31 December 2015	(16,737)
Credited to the consolidated statement of comprehensive income	2,166
As at 31 December 2016	**(14,571)**

11. OTHER NON-CURRENT ASSETS

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Payment to government authority	**16,295**	16,295

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

12. INVENTORIES

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Raw materials	**50,723**	39,746
Work-in-progress	**28,071**	21,354
Finished goods	**24,464**	15,439
	103,258	76,539
Less: provision for inventories	**(12,635)**	(1,619)
	90,623	74,920

Movements of provision for inventories are analysed as follows:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Beginning of the year	**(1,619)**	(1,152)
Addition	**(11,263)**	(467)
Reverse	**247**	–
End of the year	**(12,635)**	(1,619)

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

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Contract cost incurred plus recognised profit less foreseeable loss	584,826	525,554
Less: Progress billings	(471,821)	(474,173)
Contract work in progress	113,005	51,381
Representing:		
Amounts due from customers for contract work	155,496	132,663
Amounts due to customers for contract work	(42,491)	(81,282)
	113,005	51,381

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Construction contract revenue	444,634	413,377

14. TRADE AND NOTES RECEIVABLES

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Trade receivables *(Note (b))*	185,604	180,069
Notes receivable *(Note (a))*	14,662	23,427
	200,266	203,496
Less: provision for impairment	(15,975)	(9,789)
	184,291	193,707

(a) Notes receivable are all bank acceptance with maturity dates within six months (2015: within six months).

14. TRADE AND NOTES RECEIVABLES (Continued)

(b) Ageing analysis of gross trade receivables is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Within 3 months	**86,333**	96,264
3 to 6 months	**16,904**	24,481
6 months to 1 year	**29,211**	26,067
1 to 2 years	**32,311**	25,062
2 to 3 years	**13,963**	4,162
Over 3 years	**6,882**	4,033
	185,604	180,069

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

As at 31 December 2016, there are retention money receivables of RMB41,424,000 (31 December 2015: RMB45,876,000).

As at 31 December 2016 and 2015, the past due but not impaired trade receivables due from external customers relate to customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Within 3 months	**52,480**	53,718
3 to 6 months	**11,497**	12,638
6 months to 1 year	**22,327**	16,064
1 to 2 years	**17,729**	17,456
2 to 3 years	**4,380**	1,301
Over 3 years	**484**	656
	108,897	101,833

14. TRADE AND NOTES RECEIVABLES (Continued)

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Beginning of the year	**(9,789)**	(10,227)
Addition	**(11,378)**	(5,133)
Reversal	**3,805**	5,129
Write-off	**1,387**	442
End of the year	**(15,975)**	(9,789)

As at 31 December 2016 and 2015, the carrying amounts of trade and notes receivables approximated their fair values.

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

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
RMB	**172,291**	191,329
US$	**12,000**	2,378
	184,291	193,707

15. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Current:		
Prepayments to suppliers	**17,062**	25,855
Staff advances	**2,592**	2,671
Deposits as guarantee for tender	**6,717**	11,063
Loan and interest to PALL-AUSTAR JV (Note (d), Note 31 (c)(i))	**–**	8,485
Others	**7,241**	3,158
	33,612	51,232
Less: provision for impairment	**(1,088)**	(207)
	32,524	51,025
Non-current:		
Loan and interest to PALL-AUSTAR JV (Note (d), Note 31 (c)(i))	**8,810**	–

(a) As at 31 December 2016 and 2015, the carrying amounts of other receivables approximated their fair values.

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Beginning of the year	**(207)**	(207)
Addition	**(1,279)**	–
Reversal	**49**	–
Write-off	**349**	
End of the year	**(1,088)**	(207)

15. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

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

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
RMB	13,305	16,042
US$	8,831	8,486
HK$	95	265
	22,231	24,793

(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 2016, the effective interest rate ranged from 5.62% to 6.59% (2015: 5.54% to 6.04%) per annum. This loan is extended for another 3 years in 2016, and the maturity of this loan is more than one year.

16. CASH AND BANK BALANCES

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Pledged bank deposits *(Note (a))*	9,871	21,423
Term deposits with initial terms of over three months	35,347	–
Cash and cash equivalents		
– Cash on hand	54	51
– Deposits in bank	286,298	393,332
	286,352	393,383
	331,570	414,806

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

16. CASH AND BANK BALANCES (Continued)

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

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
RMB	119,937	204,138
HK$	190,024	200,119
US$	13,893	10,095
EUR	7,716	454
	331,570	414,806

17. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2015 and 2016	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 2015 and 2016	512,582	5,126	4,071

18. DEFERRED INCOME

As at 31 December 2016, deferred income is the government grant obtained relating to purchase of plant, property and equipment.

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
At beginning of the year	**–**	–
Addition	**600**	–
At end of the year	**600**	–

19. SHORT-TERM BORROWINGS

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Bank borrowings		
– Secured (Note 6, Note 7)	**20,000**	20,000
– Guaranteed	**–**	15,000
	20,000	35,000

Secured loans are denominated in RMB, bear interest at 4.35% per annum (2015: 5.62% to 6.16%) and are repayable within in one year from respective drawdown dates.

20. TRADE AND OTHER PAYABLES

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Trade payables	**167,929**	158,193
Notes payables	**25,390**	29,180
Advances from customers	**38,340**	35,260
Payroll and welfare payable	**17,418**	14,417
Taxes other than income taxes payable	**6,078**	8,263
Warranty provision	**4,109**	5,651
Others	**30,558**	23,039
	289,822	274,003

(a) The ageing analysis of trade payables is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Within 6 months	**146,452**	135,966
6 months to 1 year	**12,208**	15,613
1 to 2 years	**6,350**	4,945
2 to 3 years	**2,233**	1,150
Over 3 years	**686**	519
	167,929	158,193

(b) As at 31 December 2016 and 2015, the carrying amounts of trade and other payables approximated their fair values.

20. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December 2016 RMB' 000	As at 31 December 2015 RMB' 000
RMB	**239,555**	225,111
HK$	**7,434**	6,199
US$	**3,476**	7,023
EUR	**1,017**	410
	251,482	238,743

21. EXPENSE BY NATURE

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Raw materials	**395,026**	347,659
Staff costs, including directors' emoluments (Note 24)	**127,289**	138,997
Depreciation (Note 6)	**10,876**	9,950
Amortisation (Note 7, 8)	**743**	644
Sales tax and surcharges	**5,609**	6,099
Office expenses	**6,700**	6,780
Travel expenses	**29,995**	36,008
Freight and port charges	**10,815**	8,753
Promotion expenses	**11,570**	9,531
Warranty provision	**4,732**	3,809
Provision for trade and notes receivables	**7,573**	4
Impairment provision for inventories	**11,016**	467
Provision for prepayments and other receivables	**1,230**	–
Professional fees	**7,924**	5,883
Auditor's remuneration	**3,814**	3,814
Rental expenses		
– Madam Gu Xun	**935**	935
– Austar Limited	**82**	74
– others	**10,010**	10,995
On-site subcontract fee	**18,869**	8,281
Other operating expenses	**30,861**	28,737
	695,669	627,420

22. OTHER INCOME

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Government subsidies	**1,689**	2,341
Rental income and others	**414**	519
	2,103	2,860

23. OTHER (LOSSES)/GAINS

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Loss on disposal of property, plant and equipment	**(1,509)**	(83)
Exchange losses	**(1,062)**	(1,189)
Gain on derivatives financial assets at fair value through profit or loss	**–**	1,338
Others	**488**	212
	(2,083)	278

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Salaries and bonuses	**96,509**	107,467
Pension and social obligations	**30,780**	31,530
	127,289	138,997

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 2016	Year ended 31 December 2015
Directors	4	3
Non-director individuals	1	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 2016 RMB'000	Year ended 31 December 2015 RMB'000
Basic salaries and allowances	409	1,252
Discretionary bonuses	361	266
Other benefits including pension	36	190
	806	1,708

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December 2016	Year ended 31 December 2015
Emolument bands		
HK$1,000,000 and below	1	1
HK$1,000,001~HK$1,500,000	–	1
	1	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 2016 (RMB'000):

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

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

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

For the year ended 31 December 2015 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	–	1,261	–	–	–	–	–	–	280	1,541
Ho Kin Hung	–	1,529	378	–	–	–	–	–	14	1,921
Chen Yuewu	–	841	–	16	–	–	–	–	25	882
Zhou Ning	–	504	–	26	–	–	–	–	72	602
Non-Executive Directors										
Enzo Barazetti	63	24	–	–	–	–	–	–	–	87
Ji Lingling	157	–	–	–	–	–	–	–	–	157
Raco Ivan Jordanov	96	–	–	–	–	–	–	–	–	96
Chiu Hoi Shan	96	–	–	–	–	–	–	–	–	96
Cheung Lap Kei	96	–	–	–	–	–	–	–	–	96

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

(c) Directors' retirement benefits

During the year, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his/her services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2015: nil).

(d) Directors' termination benefits

During the year, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2015: nil).

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

During the year, no consideration was provided to or receivable by third parties for making available director's services (2015: 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 (2015: 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 (2015: nil).

25. FINANCE INCOME/(EXPENSES) – NET

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Interest expenses from short-term bank loan	(1,053)	(2,022)
Exchange losses	(792)	(2,339)
Finance expenses	(1,845)	(4,361)
Interest income		
– bank deposits	3,610	3,046
– loan to PALL-AUSTAR JV (Note 31 (b) (v))	443	387
	4,053	3,433
	2,208	(928)

26. INCOME TAX EXPENSE

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Current income tax expense	(3,516)	(2,179)
Deferred income tax credit (Note 10)	2,347	972
	(1,169)	(1,207)

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

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the year (2015: 16.5%).

The taxation of the Group's subsidiary in Germany is calculated at 15.0% of the estimated assessable profit for the year (2015: Nil).

26. INCOME TAX EXPENSE (Continued)

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd ("Shanghai Austar"), Austar Hansen Lifesciences (Shanghai) Ltd. ("Austar Hansen") and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("Austar SJZ") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2014 and renewed its "High and New Technology Enterprise" qualification for another three years in 2015. During the year ended 31 December 2016, Shanghai Austar and Austar Hensen renewed their "High and New Technology Enterprise" qualification for another three years.

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
(Loss)/profit before income tax	**(17,501)**	7,590
Tax expense calculated at applicable statutory tax rate	**3,232**	(1,164)
Impact of loss that not recognise deferred income tax	**(7,628)**	(1,424)
Expenses not deductible for taxation purposes	**(987)**	(379)
Withholding tax	**2,166**	(1,066)
Non-taxable income	**381**	–
Additional tax deduction of research and development expenses	**1,678**	1,746
Others	**(11)**	1,080
Income tax expense	**(1,169)**	(1,207)

27. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/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 2016	Year ended 31 December 2015
(Loss)/profit attributable to the owners of the Company (RMB'000)	**(18,670)**	6,384
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic (loss)/earnings per share (RMB)	**(0.04)**	0.01

(b) Diluted

As the Company had no dilutive ordinary shares for each of the years ended 31 December 2016 and 2015, dilutive (loss)/earnings per share for the years ended 31 December 2016 and 2015 are the same as basic (loss)/earnings per share.

28. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2016 (2015: Nil).

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
(Loss)/profit before income tax	(17,501)	7,590
Adjustments for:		
Depreciation	10,876	9,950
Amortisation	743	644
Losses on disposals on property, plant and equipment	1,509	83
Proceeds for derivative financial assets at fair value through profit or loss	–	(1,338)
Provision for trade and other receivables	7,573	4
Provision for prepayments and other receivables	1,230	–
Impairment provision for inventories	11,016	467
Share of profit of investments accounted for using the equity method	(3,395)	(5,256)
Finance (income)/expenses	(2,208)	928
Changes in working capital:		
Decrease/(increase) in restricted cash	11,552	(17,254)
Increase in inventories	(26,514)	(6,274)
Decrease in trade and other receivables	22,180	28,360
Increase in trade and other payables	16,368	72,091
(Decrease)/increase in amounts due to customers for contract work	(38,791)	21,205
Increase in amounts due from customers for contract work	(22,833)	(45,535)
Cash (used in)/generated from operations	(28,195)	65,665

30. COMMITMENTS

(a) Capital commitments

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

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Property, plant and equipment	2,179	3,766
Intangible assets	206	149
	2,385	3,915

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet dates but not recognised as liabilities are as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Within 1 year	5,131	5,110
Between 1 to 5 years	2,679	3,714
	7,810	8,824

31. RELATED PARTY TRANSACTIONS

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

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2016 and 2015:

Names of the related parties	**Nature of relationship**
PALL-Austar Packaging Technology (Beijing) Co., Ltd. ("PALL-AUSTAR WFOE")	Subsidiary of PALL-AUSTAR JV
Austar Limited	Under common control of the Controlling Shareholder
Steris Austar Pharmaceutical Equipment (Shanghai) Co., Ltd. ("STERIS-AUSTAR WFOE")	Subsidiary of STERIS-AUSTAR JV
Madam Gu Xun	Close family member of the Controlling Shareholder

(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 2016 RMB'000	Year ended 31 December 2015 RMB'000
STERIS-AUSTAR WFOE	**28,159**	41,559
PALL-AUSTAR WFOE	**18,142**	14,977
	46,301	56,536

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(ii) *Sales of goods and services*

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
STERIS-AUSTAR WFOE	5,164	7,553
PALL-AUSTAR WFOE	1,558	854
	6,722	8,407

(iii) *Rental fee expenses*

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Madam Gu Xun	935	935
Austar Limited	82	74
	1,017	1,009

(iv) *Rental fee and miscellaneous income*

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
STERIS-AUSTAR WFOE	414	462

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

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

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
PALL-AUSTAR JV		
Interest income	443	387

(c) Balances with related parties

(i) Receivable due from/prepayments to related parties

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Receivable due from:		
STERIS-AUSTAR WFOE	2,655	8,196
Madam Gu Xun	468	468
PALL-AUSTAR JV (Note 15)	8,810	8,485
PALL-AUSTAR WFOE	541	414
Austar Limited	14	13
Prepayments to:		
ROTA KG	406	–
	12,894	17,576

(ii) Payable due to related parties

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
STERIS-AUSTAR WFOE	11,183	11,831
PALL-AUSTAR WFOE	5,074	3,986
Austar Limited	15	–
	16,272	15,817

31. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Salaries and bonuses	5,961	6,253
Pension and others	318	584
	6,279	6,837

32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	110,285	97,871
	110,285	97,871
Current assets		
Prepayments and other receivables	160,028	102,953
Cash and cash equivalents	189,658	236,044
Total assets	459,971	436,868
Equity and liabilities		
Equity attributable to the owners of the company		
Share capital	4,071	4,071
Capital surplus (a)	411,879	411,879
Currency translation differences (a)	52,056	17,466
Retained earnings (a)	(11,540)	40
Total equity	456,466	433,456
Liabilities		
Non-current liabilities		
Trade and other payables	3,505	3,412
Total liabilities	3,505	3,412
Total equity and liabilities	459,971	436,868

The balance sheet of the Company was approved by the Board of Directors on 28 March 2017 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

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

(a) Reserve movement of the Company

	Capital surplus RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000
At 1 January 2015	411,879	(2,263)	26,088
Loss for the year	–	–	(5,793)
Dividends paid	–	–	(20,255)
Currency translation differences	–	19,729	–
At 31 December 2015	411,879	17,466	40
At 1 January 2016	411,879	17,466	40
Loss for the year	–	–	(11,580)
Currency translation differences	–	34,590	–
At 31 December 2016	411,879	52,056	(11,540)

33. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2016:

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		BVI/25 January 2005	US$100	100%	Investment holding/BVI
Indirectly owned:					
Shanghai Austar	Limited liability company	Shanghai, the PRC/ 20 August 2003	US$ 19,605,724	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/ the PRC
Austar SJZ	Limited liability company	Shijiazhuang, the PRC/ 9 July 2004	RMB 20,060,000	100%	Provision of integrated engineering solutions pharmaceutical equipment manufacturing, maintenance, GMP compliance service/the PRC
Austar Hansen	Limited liability company	Shanghai, the PRC/ 29 March 2001	RMB 1,660,000	100%	Distribution and agency/the PRC
Austar Clean Equipment (Shanghai) Co., Ltd. (奧星潔淨設備(上海)有限公司)	Limited liability company	Shanghai, the PRC/ 12 November 2007	RMB 2,155,446	100%	Provision of integrated solution of clean room enclosure system/the PRC
APPS	Limited liability company	Hong Kong/20 April 2012	HK$ 55,812,404	100%	Distribution and agency/Hong Kong
Austar Europe S.r.l		Italy/27 July 2012	EUR 20,000	99%	Provision of consulting service/Italy
APTS SJZ	Limited liability company	Shijiazhuang, the PRC/ 6 May 2014	RMB 25,000,000	100% PRC	Provision of integrated solution of clean room enclosure system/the
Austar Pharmaceutical Technology (SJZ) Ltd. (奧星製藥科技(石家庄) 有限公司)	Limited liability company	Hong Kong/27 January 2015	HK$ 100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Equipment (NJ) Ltd. (奧星製藥設備(南京) 有限公司)	Limited liability company	Hong Kong/27 January 2015	HK$ 100	100%	Investment holding/Hong Kong

33. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiaries as at 31 December 2016:

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
Austar Pharmaceutical Technology Equipment (NJ) Ltd. (奥星制藥技朮設備(南京)有限公司)	Limited liability company	Nanjing/18 May 2015	RMB 500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/ the PRC
Austar Biosciences Investment Ltd. (奥星生物科技投資有限公司)		BVI/1 April 2015	US$ 100	100%	Investment holding/BVI
Austar Biosciences Ltd.	Limited liability company	Hong Kong/20 April 2015	HK$ 100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Investment (SJZ) Ltd. (奥星製藥科技投資(石家莊)有限公司)		BVI/12 January 2015	US$ 12,048,383	100%	Investment holding/BVI
Austar Pharmaceutical Equipment Investment (NJ) Ltd. (奥星製藥設備投資(南京)有限公司)		BVI/12 January 2015	US$ 209,717	100%	Investment holding/BVI
Austar Biosciences GmbH		Germany/29 January 2016	EUR 25,000	100%	Investment holding/Germany
Shanghai Austar Biotechnology Co., Ltd. (上海奥星生命科技有限公司)	Limited liability company	Shanghai, the PRC/20 May 2015	–	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/ the PRC

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.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2016 **RMB'000**	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**672,545**	627,544	679,750	705,153	420,753
Cost of sales	**(512,838)**	(473,297)	(451,143)	(490,187)	(284,304)
Gross profit	**159,707**	154,247	228,607	214,966	136,449
Selling and marketing expenses	**(82,687)**	(71,002)	(65,134)	(72,104)	(36,760)
Administrative expenses	**(68,103)**	(56,213)	(57,278)	(47,849)	(35,383)
Research and development expenses	**(32,041)**	(26,908)	(23,594)	(23,897)	(16,076)
Other income	**2,103**	2,860	2,097	1,130	418
Other (losses)/gains, net	**(2,083)**	278	(288)	(46)	(163)
Operating profit	**(23,104)**	3,262	84,410	72,200	48,485
Finance income/(expenses) – net	**2,208**	(928)	(809)	(42)	(1,301)
Share of profit of joint ventures	**3,395**	5,256	4,224	4,495	4,102
(Loss)/profit before income tax	**(17,501)**	7,590	87,825	76,653	51,286
Income tax expense	**(1,169)**	(1,207)	(22,632)	(23,082)	(15,777)
(Loss)/profit for the year	**(18,670)**	6,383	65,193	53,571	35,509
(Loss)/profit attributable to:					
The owners of the Company	**(18,670)**	6,384	65,193	53,571	35,476
Non-controlling interests	**–**	(1)	–	–	33
(Loss)/profit for the year	**(18,670)**	6,383	65,193	53,571	35,509

ASSETS AND LIABILITIES

	2016 **RMB'000**	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	**914,776**	960,985	869,390	606,853	437,053
Total liabilities	**368,661**	410,001	320,334	478,478	764,464
Total asset less current liabilities	**561,286**	567,721	564,727	140,654	79,607
Total equity attributable to the owners of the Company	**546,114**	550,983	549,055	128,374	72,587