AUSTAR

**Austar Lifesciences Limited**

**奧星生命科技有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6118)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Revenue | **672,545** | 627,544 |
| Gross profit | **159,707** | 154,247 |
| (Loss)/profit before income tax | **(17,501)** | 7,590 |
| (Loss)/profit attributable to the owners of the Company | **(18,670)** | 6,384 |
| Total assets | **914,776** | 960,985 |
| Net assets | **546,115** | 550,984 |
| Gross profit margin | **23.7%** | 24.6% |
| Net (loss)/profit margin | **-2.8%** | 1.0% |
| Current ratio | **2.2** | 2.2 |
| Gearing ratio | **3.7%** | 6.4% |
| Net debt to equity ratio | **Net Cash** | Net Cash |
| Basic (loss)/earnings per share *(Note)* | **RMB(0.04)** | RMB0.01 |
| Diluted (loss)/earnings per share | **RMB(0.04)** | RMB0.01 |

*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 during that year.

## ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of Austar Lifesciences Limited (the "**Company**" or "**Austar**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016 (the "**Year**"), together with the comparative figures for the year ended 31 December 2015 as follows:

## CONSOLIDATED INCOME STATEMENT

| | *Note* | **For the year ended 31 December 2016** ***RMB'000*** | For the year ended 31 December 2015 *RMB'000* |
|---|---|---|---|
| **Revenue** | *3* | **672,545** | 627,544 |
| Cost of sales | *6* | **(512,838)** | (473,297) |
| **Gross profit** | | **159,707** | 154,247 |
| Selling and marketing expenses | *6* | **(82,687)** | (71,002) |
| Administrative expenses | *6* | **(68,103)** | (56,213) |
| Research and development expenses | *6* | **(32,041)** | (26,908) |
| Other income | | **2,103** | 2,860 |
| Other (losses)/gains | *5* | **(2,083)** | 278 |
| **Operating (loss)/profit** | | **(23,104)** | 3,262 |
| Interest income | *4* | **4,053** | 3,433 |
| Finance expenses | *4* | **(1,845)** | (4,361) |
| **Finance income/(expenses) – net** | | **2,208** | (928) |
| Share of profit of investments accounted for using the equity method | | **3,395** | 5,256 |
| **(Loss)/profit before income tax** | | **(17,501)** | 7,590 |
| Income tax expense | *8* | **(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) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | **For the year ended 31 December 2016** *RMB'000* | For the 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 (loss)/income for the year** | | **(4,869)** | 22,183 |
| **Total comprehensive (loss)/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)*** | *9* | **(0.04)** | 0.01 |

## 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 | | **42,222** | 43,557 |
| Land use rights | | **5,800** | 5,950 |
| Intangible assets | | **4,612** | 2,116 |
| Investments accounted for using the equity method | | **34,586** | 18,180 |
| Available-for-sale financial assets | | **60** | 60 |
| Deferred income tax assets | | **7,887** | 7,706 |
| Prepayments and other receivables | | **8,810** | – |
| Other non-current assets | | **16,295** | 16,295 |
| **Total non-current assets** | | **120,272** | 93,864 |
| **Current assets** | | | |
| Inventories | | **90,623** | 74,920 |
| Trade and notes receivables | *12* | **184,291** | 193,707 |
| Prepayments and other receivables | | **32,524** | 51,025 |
| Amounts due from customers for contract work | *11* | **155,496** | 132,663 |
| Pledged bank deposits | | **9,871** | 21,423 |
| Term deposits with initial terms of over three months | | **35,347** | – |
| Cash and cash equivalents | | **286,352** | 393,383 |
| **Total current assets** | | **794,504** | 867,121 |
| **Total assets** | | **914,776** | 960,985 |
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | | **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 |

**CONSOLIDATED BALANCE SHEET *(continued)***

| | Note | **As at 31 December 2016** *RMB'000* | As at 31 December 2015 *RMB'000* |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income | | **600** | – |
| Deferred income tax liabilities | | **14,571** | 16,737 |
| **Total non-current liabilities** | | **15,171** | 16,737 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **289,822** | 274,003 |
| Amounts due to customers for contract work | *11* | **42,491** | 81,282 |
| Short-term borrowings | *14* | **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 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016*

### 1. GENERAL INFORMATION

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 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.

***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:

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

The Group is in the process of making an assessment of these new standards' 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.

## 3. SEGMENT INFORMATION

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

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

The 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<br>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 for 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 |

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 joint ventures | 3,088 | – | – | – | 2,168 | – | 5,256 |

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

| | **For the year ended 31 December 2016** | For the year ended 31 December 2015 |
|---|---|---|
| | ***RMB'000*** | *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/(expense) – 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 |

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** | **Investments accounted for using equity method** | Total assets | Investments accounted for using equity method |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *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 | |

**Geographical information**

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

| | **For the year ended 31 December 2016** | For the year ended 31 December 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Mainland China | **596,629** | 581,111 |
| Other locations | **75,916** | 46,433 |
| | **672,545** | 627,544 |

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| | ***RMB'000*** | *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 |

## 4. FINANCE INCOME/(EXPENSES) – NET

| | For the year ended 31 December 2016 *RMB'000* | For the 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 Lifesciences Limited ("**PALL-AUSTAR JV**") | **443** | 387 |
| | **4,053** | 3,433 |
| | **2,208** | (928) |

## 5. OTHER (LOSSES)/GAINS

| | For the year ended 31 December 2016 *RMB'000* | For the 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 |

## 6. EXPENSES BY NATURE

| | **For the year ended 31 December 2016** *RMB'000* | For the year ended 31 December 2015 *RMB'000* |
|---|---|---|
| Raw materials | **395,026** | 347,659 |
| Staff costs, including directors' emoluments *(note 7)* | **127,289** | 138,997 |
| Depreciation | **10,876** | 9,950 |
| Amortisation | **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** | — |
| Auditors' remuneration | **3,814** | 3,814 |
| Professional fees | **7,924** | 5,883 |
| 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 |

## 7. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

| | **For the year ended 31 December 2016** *RMB'000* | For the 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 |

## 8. INCOME TAX EXPENSE

| | **For the year ended 31 December 2016** | For the year ended 31 December 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current income tax expense | **(3,516)** | (2,179) |
| Deferred income tax credit | **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 Group's subsidiaries incorporated in the BVI under the International Business Companies Acts of the BVI are exempted from local income tax.

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

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) Co., 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" qualifications for another three years.

## 9. (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.

| | **For the year ended 31 December 2016** | For the 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 year 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.

## 10. DIVIDENDS

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

## 11. 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 recognized profit less foreseeable losses | **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 |

## 12. 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 |

*Notes:*

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

(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 the sales contracts, except for retention money which would normally become due one year after the completion of the sales.

## 13. 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.

## 14. SHORT-TERM BORROWINGS

| | As at 31 December 2016 *RMB'000* | As at 31 December 2015 *RMB'000* |
|---|---|---|
| Bank borrowings | | |
| – secured | **20,000** | 20,000 |
| – guaranteed | **–** | 15,000 |
| | **20,000** | 35,000 |

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

## 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 capital expenditure ("**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 Penary 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 China Food and Drug Administration ("**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 Group's joint venture, PALL-AUSTAR JV's continuous-liner flexible containment production equipment 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 is 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 applies 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) was 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 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 has 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 did not have 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 RMB19.4 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 RMB15.9 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 RMB15.0 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, save for 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.

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

On 7 November 2014, the Shares were first listed on the Stock Exchange following the completion of the Company's initial public offering ("**IPO**"). As at 31 December 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 increasing the lands available for tender in the Zone by the Shijiazhuang Government. Subject to the signing of any legally binding agreement between the Shijiazhuang Government and the 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

## EVENT AFTER THE YEAR

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

## FINAL DIVIDEND

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

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 23 June 2017 ("**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.

## CORPORATE GOVERNANCE PRACTICE

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

Save for the deviation from code provision A.2.1 of the Corporate Governance Code as described below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the Year and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

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

## COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

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

Changes in Directors' information since the date of the 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 has been revised to RMB311,220 with effect from 1 January 2017.

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

## AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the audited consolidated financial statements of the Company for the year ended 31 December 2016.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.austar.com.hk). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

## APPRECIATION

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

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

Hong Kong, 28 March 2017

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