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

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

2020
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
6118

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

NON-EXECUTIVE DIRECTOR
Madam Ji Lingling

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

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

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

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

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

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

COMPANY SECRETARY
Madam Chan Pui Shan, Bessie

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

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

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

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Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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New Territories
Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAWS

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

AUDITOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.austar.com.hk

FINANCIAL HIGHLIGHTS

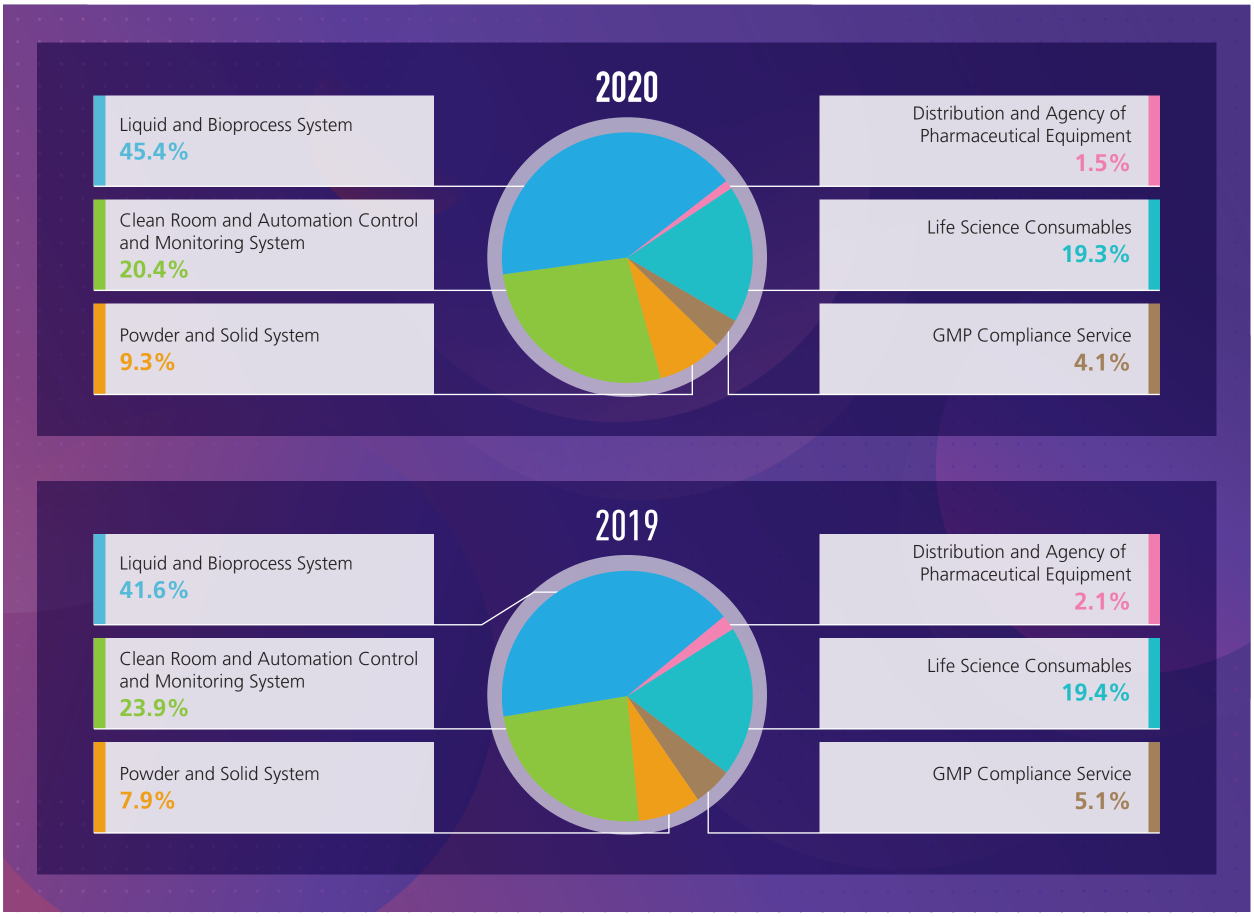
	For the year ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Key financials on Consolidated Income Statement			
Revenue	**1,295,980**	1,049,021	23.5%
Gross profit	**323,530**	284,244	13.8%
Gross profit margin	**25.0%**	27.1%	
Profit attributable to the owners of the Company	**33,100**	8,091	
Basic earnings per share (RMB) (Note)	**0.06**	0.02	
Diluted earnings per share (RMB) (Note)	**0.06**	0.02	

	As at 31 December 2020	As at 31 December 2019	Change
	RMB'000	RMB'000	
Key financials on Consolidated Balance Sheet			
Total assets	**1,378,844**	1,174,322	17.4%
Net assets	**524,574**	502,625	4.4%
Gearing ratio	**12.7%**	10.2%	

Note: The calculation of earnings per share is based on the profit attributable to the owners of the Company for each of the years ended 31 December 2020 and 2019 and the weighted average number of shares during that year. The Company had no dilutive ordinary shares for each of the years ended 31 December 2020 and 2019.

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December 2020 RMB'000	2020 %	2019 RMB'000	2019 %
Liquid and Bioprocess System	**588,488**	**45.4%**	435,980	41.6%
Clean Room and Automation Control and Monitoring System	**264,436**	**20.4%**	250,875	23.9%
Powder and Solid System	**120,525**	**9.3%**	82,963	7.9%
GMP Compliance Service	**52,729**	**4.1%**	53,641	5.1%
Life Science Consumables	**250,170**	**19.3%**	203,586	19.4%
Distribution and Agency of Pharmaceutical Equipment	**19,632**	**1.5%**	21,976	2.1%
Total	**1,295,980**	**100.0%**	1,049,021	100%



OUR PATH OF GROWTH

2003
Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd was established and commenced the manufacturing of purified water generators, the foundation of AUSTAR's Liquid and Bioprocess System business

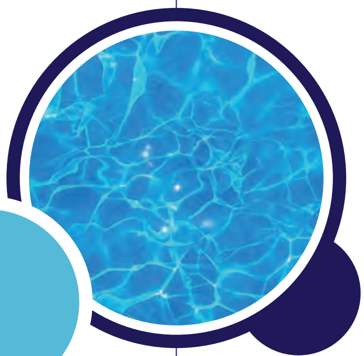
2004
Austar Shijiazhuang Technology Centre was established and commenced AUSTAR's Clean Room and Automation Control and Monitoring System business

2006
AUSTAR formed a joint venture with STERIS Corporation

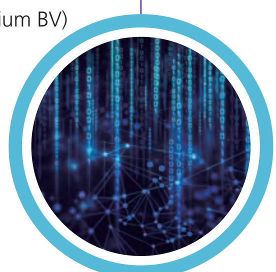
2007
Austar Clean Room System Equipment (Shanghai) Co., Ltd. was established in Songjiang District, Shanghai and commenced business and processing of clean room enclosure systems

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

2008
AUSTAR commenced its Liquid and Bioprocess System business



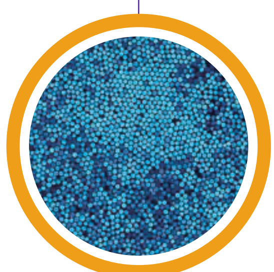
2011
AUSTAR was certified as Siemens AG Solution Partner



2012
AUSTAR was certified as Rockwell Automation, Inc. Recognized System Integrator

2013
AUSTAR was certified as Siemens Gold Solution Partner

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



2014
AUSTAR was appointed as an exclusive distributor in the PRC for Allentown Inc. on the supply of animal laboratory research products

Shares of AUSTAR listed on The Stock Exchange of Hong Kong Limited

OUR PATH OF GROWTH

2015

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

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

2016

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

2017

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

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

AUSTAR signed first contract of laboratory equipment packaged services in Ethiopia

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

2018

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

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

2019

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

Europe holding company structure with European Team was established in August 2019

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

2020

A subsidiary in UK was established in March 2020

New AUSTAR Logo was launched with branding activities in April 2020

Contributing to Key COVID-19 Vaccine Facilities with equipment, systems and consumables with fast delivery responses

Tianjin University established an Industry-University-Research Collaboration Base with AUSTAR

Endress+Hauser signed a strategic partnership agreement with AUSTAR at Shanghai

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board ("**Board**") of directors ("**Directors**") of Austar Lifesciences Limited ("**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively as the "**Group**" or "**AUSTAR**") for the year ended 31 December 2020 ("**Year**").

The year 2020 has been a challenging year for any individual, company and organization under the impact of the COVID-19 pandemic and its consequential policies. From a global perspective, the pandemic has not been slowing down even though China's pandemic conditions had become far stable and under extraordinary control. Under such conditions, the Group has been reacting, responding and acting during such extraordinary moments. Our colleagues could never have believed they were able to deliver our critical utilities and bioprocess systems to our COVID-19 vaccine manufacturer clients within 3 months from order to completion of installation and commissioning with construction sites working 24 hours a day non-stop together with our clients. With such fighting spirit and commitment to delivering vaccines more promptly to save more lives, through collaborations with our clients, new COVID-19 vaccine manufacturing facilities were completed with miraculous speed to produce vaccines delivered to various part of the world for clinical tests and usage applications. I am proud of what our colleagues have been contributing to society and people's heath at such difficult times when at the same time they still had to protect themselves from the virus infection at the working sites and travel routes.

AUSTAR has been participating in the construction of a majority of all the newly constructed COVID-19 vaccine research and manufacture facilities in China. We believe that in 2021, with more successful clinical safety and efficacy data results being proven to be accepted by more health authorities of the emerging countries, the demand of China's COVID-19 vaccines will increase tremendously.

For the year 2020, the Group's business in general was severely and adversely affected in February and March due to travel restrictions and supply chain disruptions, but order-in-take and revenue recognition rapidly recovered since April. For the year 2020, we achieved a record-high increase in order-in-take of approximately 29.4% and an increase in revenue of approximately 23.5% as compared to the year of 2019 even though the Group was hit by the 2-month shortfalls in China and international business order-in-take shortfall as impacted by the pandemic. This significant increase in order-in-take was attributed to not only the surge in demand of new vaccine manufacture projects but also to more projects acquired in the conventional sectors such as pharmaceutical bulk chemicals and oral solid dosage formulations. Since the beginning of the second half of 2020, biotech sector projects such as monoclonal antibodies and cell therapy have been reactivated. Such momentum is believed to be continuing in the year of 2021.

Since our public listing, the Group has been struggling to find a proper balance between profitability and the extent of continuous investment on new business and talents, which is imperative for the Group to maintain its leading position in coming years amidst the dynamic environment of the life sciences industry in an era which has been calling for transformation both in technology and regulatory affairs. The Group must create a mid-long term corporate development and business development strategic plans to ensure such a balance would eventually benefit not only to the staff but also for the shareholders of the Company ("**Shareholders**") who have placed confidence on us in our upcoming successes. With such strategy, the Group has been maintaining a prudent approach on balance sheet finance control. The management believes that such prudent approach on finance control to ascertain corporate financial healthiness can support the aforesaid balance before exceptional profitability results can be achieved. Such belief is based on the fact that the Group's order-in-take grew at a CAGR of 29.0% from RMB1,116.5 million in 2018 to RMB1,857.9 million in 2020, and revenue grew at a CAGR of 26.0% from RMB816.6 million in 2018 to RMB1,296.0 million in 2020.

In 2020, one BSL-3 laboratory facility with turnkey project assignment was completed in an extremely short time schedule. Our recently launched Digitalization Planning consultancy was successfully delivered with full customer satisfaction. Our Pharma LeanTec consulting business, even though it is new, is proven to be successfully achieving the clients' expectations on operation excellence and such customer trust being built is bringing about more orders of process and utility systems. Engagement of new partners and brands like iRisk and new orders acquired for our partners like Werum and Merqmetrix in our digitalization REMOIIS platform in 2020 are motivating. The public concern on drug safety and efficacy on vaccine was an excellent public education on drug quality, bringing hardware, service and consulting opportunities to the Group. Awareness and concerns on occupational health issues in the pharmaceutical industry will encourage more investment in personal protection equipment and dust and powder contamination control, bringing more opportunities for the Group.

A strong demand for project enquiries, generated from extensions of business scope of both pharmaceutical bulk chemical manufacturers and formulated drug manufacturers in the upstream and downstream directions due to cost and production capacity pressure, have been giving the Group's Powder and Solid System business segment strong growth opportunities as higher expectations on mechanical automation and integration can only be provided by a handful of system integrators in the market today. Our conventional water systems business is continuing to grow at an extraordinary pace not only stimulated by the biologics industry demand but also encouraged by high technical expectations from the injectable chemical drug sectors.

The Group's Technology Application Team members across the globe have been continuing with their efforts to connect with clients via video conferencing means as travelling across countries for business development has becoming exceedingly difficult. We have not found any decline in quantity and quality of partnership negotiations and engagements with consultants even though face-to-face meetings were replaced by other possible communications tools.

The AUSTAR Transformation Initiative which was launched a year and a half ago with the mission of upgrading the corporate core competence elements in the dimensions of process and systems, culture and values as well as knowledge and competence, is believed to have gradually achieved certain beneficial results. The transformation model is based on building up the fundamental elements such as problem-solving leadership, risk and change management, simplification, and education. The ultimate goals of these transformation initiative actions will benefit not only the employees but also eventually the stakeholders of the Group, including the Shareholders, as reflected by its shared values. As the Group's biopharma clients have been asking for their own upgrades and renovations on management process and system by implementing information and digitalisation systems with utter eagerness, the Group has a vision to deliver more intelligent and digitalised engineering solutions to its clients and therefore in order to achieve such goals, the Group must undergo a digitalisation vitalisation plan.

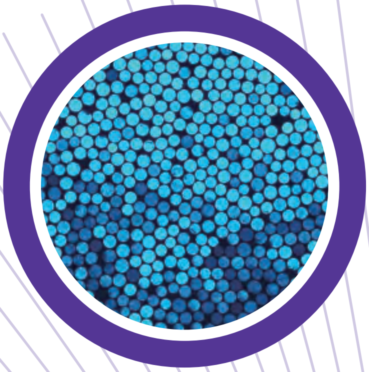
It is believed that in the aftermath of the pandemic, business would be different but there would be more opportunities for clients involved in life sciences, especially the vaccine and anti-infective drug business will definitely be vibrant for many years to come. The challenge to the Group, is how the Group can be able to capture such opportunities by offering its expertise in helping design and build more digitalised, intelligent and cost-effective facilities for facilitating the clients to produce highly safe and efficacy drugs, and provide fast-response and effective therapeutics. With the efforts invested by the Group in the past years, especially the knowledge and talent acquisition of technology applications and management process, I believe we are able to overcome such challenge to deliver excellent performances.

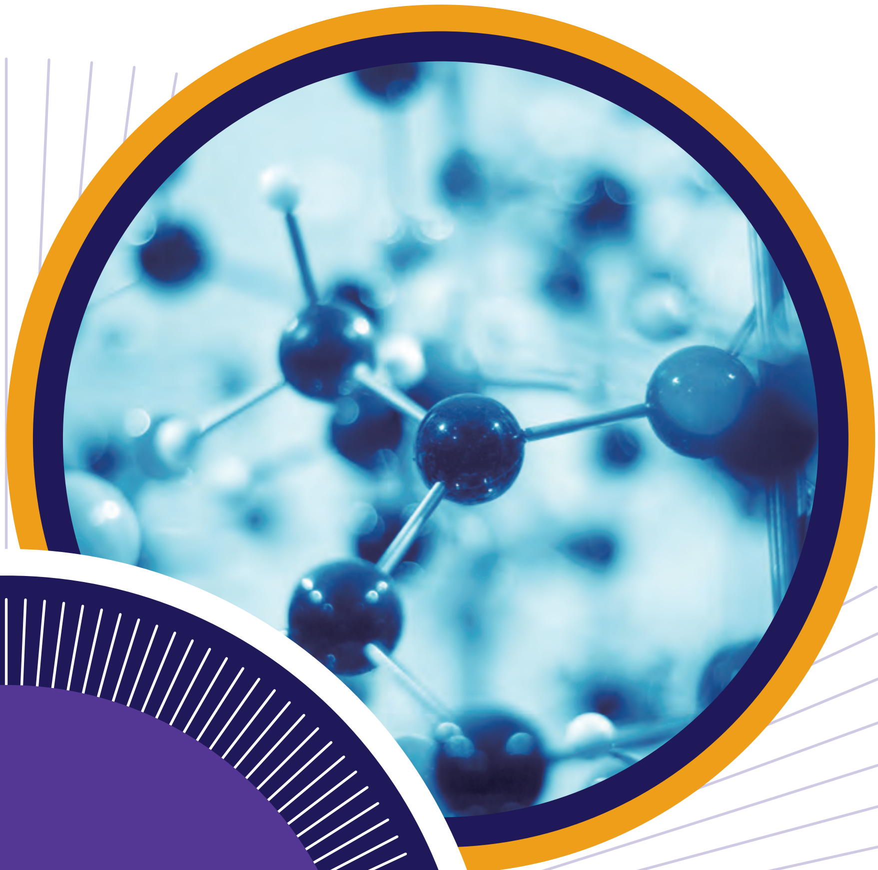
The Group has adopted the business model as an integrated engineering solution provider for high-end clients in China and the emerging countries focusing on the pharmaceutical industry, and with consulting services to support clients for compliance and operation excellence. The Group has been developing a strong pipeline of products across the whole drug product lifecycle empowered by strategic global expansion initiative and deepening the expansion of life science sectors with a long-term strategic perspective.

On the behalf of the Board, I would like to express my thanks to our front-line sales, business development, manufacturing and project execution team members, who have been sacrificing a lot for achieving our common goals under such difficult pandemic situation. Special thanks to our management team, staff, the Directors and clients for bringing our business a growth trend with healthier financial achievement and stronger foundation for growth with persistence and determination to support the Group during the last several years, and I would also like to thank the Shareholders for their continuous support.

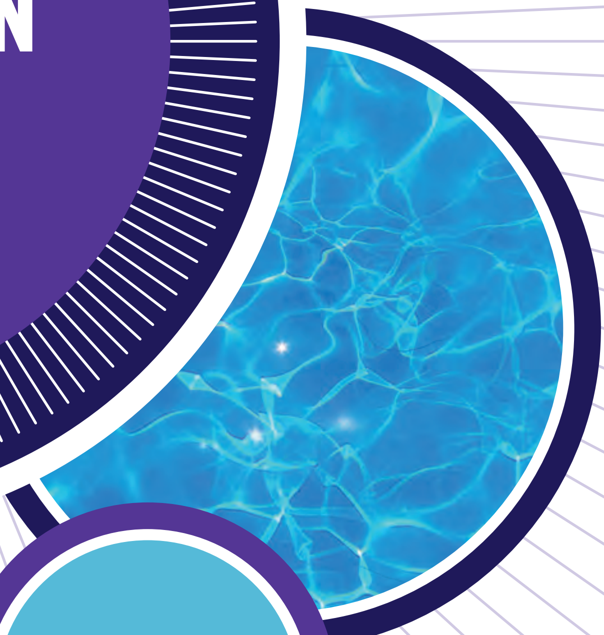
Ho Kwok Keung, Mars
Chairman

26 March 2021





MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the aftermath of the Coronavirus Disease 2019 (COVID-19) outbreak, the urgent demand for the discovery, development and manufacturing of COVID-19 vaccines is driving all key health institutions of a few key and developed countries to allocate resources in a quest to be the earliest launcher of such vaccine. The requests on projects, products and services in various countries were clearly seen in 2020 and could be expected to grow in 2021. It is believed that much more significant investment in the life sciences and biopharmaceutical sectors due to increased health concerns and awareness not only from the public but also from the government and private sectors.

Some countries have been asking for more independence in biopharmaceuticals and therapeutics, especially on supply chain, thus creating a demand for more equipment and systems to be installed and more facilities to be built. It will become new driving forces for growth in the pharmaceutical industry in the coming few years.

Under such circumstances, the importance of the global supply chain is highlighted. The pharmaceutical industry is at the front line of the global supply chain, and has to cope with intensive regulatory policies, innovations, investment trend and industry upgrading. As an opportunity, it is expected that the global technology transfer such as license-in/license-out will be booming as well.

In order to implement the "Drug Administration Law" and the "Vaccine Administration Law", the National Medical Products Administration (NMPA) has issued a number of regulatory guidance documents in 2020, involving Marketing Authorization Holder (MAH), Change Management, Pharmacovigilance and other compliance contents. The implementation of the MAH system, clarifying the responsibilities of the authorization holder and the authorized party, has changed the rule of drug marketing licencing and production licencing.

Review and approval of product registration have been optimised in the aspects of application review, approval, and verification. It is designed to speed up the commercialisation of the product to the market from its development phase. With those new mechanisms, it brings opportunities for services such as Good Engineering Practice (GEP), Commissioning, Qualification and Validation (CQV) and Technology Transfer Management (TTM).

Under the recent medicinal product centralised procurement practice in China, pharmaceutical companies have sought internal resources relocation and optimisation to reduce the cost of production. One of the approaches is that the corporate headquarters will act as the centralised MAH and their subsidiaries will act as Contract Manufacture Organization (CMO) (i.e. the authorised party for the product(s)). These new industry developments have given the Group consulting service opportunities for Pharmaceutical Quality System (PQS) and TTM . The most recent price negotiations for Chinese drug products, especially the innovative drugs like PD-1, was discouraging as the drug prices were too low to compensate the investment and efforts made by biotech companies. Innovative drug research and manufacturers, including their Contract Development and Manufacture Organization (CDMO) partners, must look for new ways to survive; cost savings and operation excellence would be their imminent concerns. The Group can definitely help by offering our lean digitalisation consulting and offering more cost-effective and fully automatic integrated solution.

The Center for Food and Drug Inspection (CFDI) of NMPA issued the "Medicinal Product Manufacturing Site Management Guideline (Trial)" for public opinion. The appendix to the guideline listed the varieties with high toxicity, high potency and high sensitivity in the production sites respectively in the appendix so that the regulatory agency is able to put more efforts on regulatory monitoring and supervision, which provides the business opportunities of containment technology, which our Powder & Solid Business Segment is good at.

In the global pandemic, the demands of vaccines are expected to grow rapidly. Especially, a surge of COVID-19 vaccine investment projects have been witnessed by the increase of project enquiries and contracts since early 2020. At the same time, the market growth of Class II vaccines related to contagious diseases (i.e. influenza) will continue to prevail.

Arrangements for the CMO, CDMO and Contract Research Organization (CRO) are gradually winning the favor of multinational corporations in outsourced activities. This phenomena fueled by China's MAH regulatory policy implementation is creating strong demand from consulting, instrument, equipment and systems to facility turnkey projects.

In 2020, there were a total of 12 biotech companies listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") and total of more than 10 biotech companies listed on the Shanghai Stock Exchange STAR Market. Such momentum is expected to continue and there are no indicators and signals for any decline in this direction in the coming years. A significant part of the use of proceeds from most of these initial public offerings would be allocated for capital expenditure (CAPEX) for new research and manufacturing facilities, which will help generating more project opportunities for the Group.

BUSINESS REVIEW

The year 2020 has been tough due to the outbreak of COVID-19. For the first half of the Year, the related travel restrictions and communication barriers caused delays in bidding, order contract negotiation and project execution for 1.5 to 2 months. Our sales and project execution team made great contributions to the Company as they have been able to capture orders of several COVID-19 vaccine research and manufacturing facilities and deliver our products and execute projects under such virus-threatening inconvenient working conditions. During the Year, the Company still achieved growth of approximately 29.4% in order-in-take and approximately 23.5% in revenue as compared to 2019.

In the post-COVID-19 era, it is believed that more CAPEX investment, whether in the public sector or the private sector, would be deployed to the life sciences industry. Vaccine drug development and manufacturing are expected to boom.

The skill and knowledge sets developed by the Group for building BSL-3 vaccine research and manufacture facility and related equipment and systems in the last few years will benefit the Group's competence elements of biosafety-related and vaccine industry. The project execution experience accumulated and developed in the period during the outbreak of COVID-19 to complete COVID-19 vaccine projects in an extremely tight schedule under such tough environment would be an asset to our project execution team, and project profit margin is expected to gradually improve.

The Company is positioning as a technology-based pharmaceutical solution provider with system integration capability to offer in life science industry focusing in pharmaceutical, biologics, pharmaceutical bulk chemical sectors and expanding to medical device, research laboratory animal, animal health sectors with products and services from consulting services, consumables, instruments, equipment, process systems, utility systems to turnkey solutions. Constant review on the product lines and finding new technical solutions by combining various product lines together to offer the most cost-effective integrated solutions will bring about competence improvement and enable the Group to be more resilient under global investment environment and pharmaceutical industry challenges.

To secure the driving elements of growth momentum for the coming years, the Group has identified some key initiatives for change and improvement, namely Global Expansion Strategies, AUSTAR Transformation Initiatives, Technology-Application Focus Branding, Knowledge Acquisition Enhancement and Core-Product Manufacturing. All these initiatives for growth will consume additional resources and expenses. However, it is expected that favourable results from long-term performance will come out from such initiatives.

ORDER-IN-TAKE

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

	For the year ended 31 December				
	2020		2019		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**878,656**	**47.3%**	607,398	42.3%	44.7%
Clean Room and Automation Control and Monitoring System	**435,866**	**23.5%**	330,727	23.0%	31.8%
Powder and Solid System	**152,409**	**8.2%**	118,418	8.3%	28.7%
GMP Compliance Service	**46,818**	**2.5%**	89,284	6.2%	(47.6%)
Life Science Consumables	**323,153**	**17.4%**	267,527	18.6%	20.8%
Distribution and Agency of Pharmaceutical Equipment	**20,964**	**1.1%**	22,512	1.6%	(6.9%)
Total	**1,857,866**	**100.0%**	1,435,866	100.0%	29.4%

During the Year, the total order-in-take amounted to approximately RMB1,857.9 million, representing an increase of approximately 29.4% from approximately RMB1,435.9 million for the year ended 31 December 2019, mainly attributable to the increase in order-in-take amount of the business segments of Liquid and Bioprocess System, Clean Room and Automation Control and Monitoring System, Powder and Solid System and Life Science Consumables, but partially offset by the decrease in order-in-take amount of the business segments of GMP Compliance Service and Distribution and Agency of Pharmaceutical Equipment. In 2020, although the Group's business in February and March in general was severely affected due to travel restrictions, the Group captured business opportunities not only in new vaccine manufacture projects, but also more projects in the conventional sectors, and finally achieved a three-year continuous significant increase in the overall order-in-take volume, mainly attributable to precise business positioning as a leading technology-based pharmaceutical engineering solution provider, supported by persistent marketing efforts, the talented sales teams' efforts, and the dedication from the project execution team and manufacture center together, and covering customers' various demands of different products through providing a strong and rich pipeline of products with high quality. More business opportunities are to be obtained, especially in the vaccine and anti-infective drug business. The Group will keep on its investment in market, product development across the whole drug product lifecycle, and key initiatives for further continuous excellent growth, such as Global Expansion Strategies, AUSTAR Transformation Initiatives and etc., as well as further recruiting talents in the sales teams both in domestic and overseas, technology application team, and industry expertise, to strengthen the comprehensive competitiveness.

Liquid and Bioprocess System

Through several years of persistent endeavours, accumulation of continuous experience gained by project execution, and strongly supported by experienced key account managers and good product with high quality and customised technology application, the Group gained market recognition, and the business segment of Liquid and Bioprocess System has grown to be regional champion business. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB878.7 million for the Year, representing an outstanding increase of approximately RMB271.3 million or 44.7% from approximately RMB607.4 million for the year ended 31 December 2019. In the coming years, based on experience and reputation acquired in participation in the construction in most of the emergent COVID-19 vaccine design and construction projects in China, and complete the construction ahead of schedule with good quality, the Group has the strong competence to acquire the business opportunities of vaccine projects, which has a huge growth potential. The Group will also endeavour to bring the presently regional champion business unit onto the highest global level, supported by core competitiveness through integration, rich process automation experience and technical competence accumulation in biopharmaceutical projects, and business expansion in overseas market.

Clean Room and Automation Control and Monitoring System

The clean room engineering business has been extended to many life science sectors, integrating new technology, continuously-improved automation control system and its partner's latest equipment and software, introducing digital and lean consultant service to the customers and bringing the customer cost-effective solutions, and the Group has successfully achieved a high growth in the business segment of Clean Room and Automation Control and Monitoring System. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System amounted to approximately RMB435.9 million for the Year, representing an excellent increase of approximately RMB105.1 million or 31.8% from approximately RMB330.7 million for the year ended 31 December 2019. The Group will devote to develop Pharma IT business as a system integrator to offer comprehensive automation and digitalisation systems and has the vision to become an industry leader in the intelligent pharmaceutical research and manufacturing operation information system in Asia.

Powder and Solid System

Through several years of continuous improvement in the core values of product and knowledge accumulation in containment application technology, material handling technology etc., the Group gained a market recognition for its good quality, and experienced a high-speed growth. The order-in-take amount of the business segment of Powder and Solid System increased strongly by approximately RMB34.0 million or 28.7% from approximately RMB118.4 million for the year ended 31 December 2019 to approximately RMB152.4 million for the Year. Supported by knowledge accumulation, leveraging all kinds of internal resources and the establishment of UK facility in 2020, the Group will continuously enhance its competitiveness and seek more opportunities both in domestic and overseas markets in this business segment.

GMP Compliance Service

For the past few years, the Group has built up a good reputation in the GMP Compliance Service field through providing high quality service. However, international GMP inspection activities have been hindered by the COVID-19 pandemic, and the market competition is keen in the high-end market in the People's Republic of China ("**PRC**"). The order-in-take amount of the business segment of GMP Compliance Service decreased by approximately RMB42.5 million or 47.6% from approximately RMB89.3 million for the year ended 31 December 2019 to approximately RMB46.8 million for the Year. Accompanied by the trend of stricter regulations and standards in GMP on-site inspection, there is huge potential of increased opportunities in this business segment.

Life Science Consumables

After several years' effort on the integration of various products and services, the Group has built unique competence by offering a complete solution of Washing, Disinfection and Sterilization. This competence made the business segment of Life Science Consumables to keep a stable increase in the order-in-take amount by approximately RMB55.6 million or 20.8% from approximately RMB267.5 million for the year ended 31 December 2019 to approximately RMB323.2 million for the Year. The Group will continue to launch more diversified life science consumables and services with the latest technology to its customers. This segment maintained continuous strong growth in the past three years, and still has a huge potential growth.

Distribution and Agency of Pharmaceutical Equipment

During the Year, the business segment of Distribution and Agency of Pharmaceutical Equipment was hindered by the COVID-19 pandemic. The order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment experienced a slight decrease by approximately RMB1.5 million or 6.9% from approximately RMB22.5 million for the year ended 31 December 2019 to approximately RMB21.0 million for the Year. The Group will continue to engage in the distribution of various types of high-end pharmaceutical equipments together with its joint ventures and overseas business partners.

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 2020:

	As at 31 December 2020			
Backlogs by business segment	**Number of Contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	**383**	**36.8%**	**619,552**	**49.9%**
Clean Room and Automation Control and Monitoring System	**238**	**22.9%**	**399,672**	**32.2%**
Powder and Solid System	**103**	**9.9%**	**102,986**	**8.3%**
GMP Compliance Service	**108**	**10.4%**	**63,556**	**5.1%**
Distribution and Agency of Pharmaceutical Equipment	**208**	**20.0%**	**56,284**	**4.5%**
Total	**1,040**	**100.0%**	**1,242,050**	**100.0%**

PRODUCTION, EXECUTION AND ORGANISATION

The Company is building up a global organisation structure. In Europe, an organisation structure framework is being set to hold the Group's subsidiaries in Luxembourg, Germany, and Italy for a more aggressive approach on Europe manufacturing and engineering execution capacity expansion.

AUSTAR UK Limited was established in early 2020 with manufacturing and equipment design experts joining the organisation with one facility located in Huddersfield, West Yorkshire, UK, which has been accredited by ISO9001 authority in February 2021. Even though the progress was affected by the coronavirus pandemic, a successful factory acceptance test of one sterility test isolator was able to complete by remote communications with project client at this new UK facility.

Due to the unprecedented situation of COVID-19, the business of the Group's non-wholly owned subsidiary H+E Pharma GmbH ("**H+E Pharma**") and its self-owned assembly plant S-Tec GmbH in Dresden, Germany, were slower than expected in the second half of the Year. However, during such period it has allowed for the organisation to improve its commercial and technical competence to be well prepared for its revamping of process and systems, and knowledge and skills in sales and manufacturing. More talents were recruited for sales and service. The present strong pipeline of project enquiries will ensure potential for successful results in 2021.

A new manufacturing facility in Shanghai, PRC of an aggregate gross area of approximately 31,200 square-metres is under construction and expected to become operational in the first quarter of 2022. This new manufacturing facility will be 7 times larger than the Group's existing one in Shanghai. This expansion strategy is in line with our expected growth in equipment and system sales and it is believed to be able to meet the growth demand in the coming 5 years. Overall upgrading of manufacturing conditions will provide more space for new product manufacturing, and offer opportunities for change, including the production management process and production quality management; and can be further improved through enhancing the digital management level and optimising key production process in the new facility.

A new manufacturing centre located at Nanjing, PRC focusing on design and manufacturing of freeze-drying equipment integrated with pharmaceutical vial loading systems and sterile containment isolators, has become operational since the last quarter of 2020. The relocation of the Nanjing manufacturing centre has expanded our production capacity, improved equipment manufacturing capability, and will enable the Group to implement better production quality control.

A new production site building located at Shijiazhuang, PRC is under construction with the aim of improving production capacity and quality, and ultimately improving customer satisfaction. At the existing facility in Shijiazhuang, under the LEAN manufacturing guidance, AUSTAR Production System (APS) has been established with some key initiatives such as work instructions, short interval production, manufacturing time definition, operator flexibility etc., having been carried out through conducting gap analysis and establishing individual development plans to improve employee skills and acquire corresponding knowledge for the purpose of developing more multi-skilled workers.

Due to the outbreak of COVID-19, some projects planned have been postponed which resulted delay in project execution during the first half of the Year. With the strong dedication of the team and strict pandemic protection plans and control measures, by year-end, the Group's Project Execution Centre executed a total of 639 contracts with zero people infection, 344 of which have been completed, and the total revenue recognised by the Project Execution Centre recorded an increase of 35% as compared to the same period of 2019.

The Group's Project Execution Centre participated in most of the emergent COVID-19 vaccine design and construction projects in China and successfully involved and support clients to complete the construction of 10 COVID-19 vaccine facilities ahead of schedule, while ensuring the project quality, schedule and safety, passing the acceptance inspection by the National Institute for Construction and Research and NMPA and being highly appraised by our clients. At the same time, our team developed innovative technologies such as the interlock-safety protection control logics, novel categorisation and cascade control algorithm, independent process deactivation technologies for BSL-3 areas, dedicated containment technologies for enclosure structures, and innovative technologies as testing methods for biosafety CNAS certification. Through executing these vaccine projects and learning the requirements on BSL-3 labs, our team accumulated experience in the installation, commissioning, and validation activities.

The Building Information Modeling (BIM) software was successfully applied to projects in 2020, which increased working efficiency for project execution, reduced errors and improved the visualisation effects. Through continuous software application standardisation and optimisation of design process, the standard working hour for commissioning has been reduced by more than 10 per cent. A whole process simulation Factory Acceptance Test (FAT) was conducted, and system bugs could be found and fixed at an early stage, which helped time-saving during on-site installation and commissioning.

SALES AND MARKETING

A dedicated team in Europe for sales, marketing and business development is being established to cope with the project enquires in the region of Europe, the Middle East and North Africa. The China sales team is focusing on China market with more key account managers to support the business growth, and Specific Matter Experts and technology application team are supporting territory sales for technical support and proposal preparation and presentation.

Following the establishment of the AUSTAR Commercial Competence Platform in March 2020, six professional function roles, namely Brand Strategy, Event Organisation, Marketing Collaterals, Communications, Business Development and Knowledge Management, carried out various marketing activities in a professional manner.

Based on the Group's business positioning more precisely as a leading technology-based pharmaceutical engineering solution provider, in the second quarter of 2020, the Group formally released a new corporate image and website which started a new era of marketing and business development, and the whole package of marketing materials of the Group are being updated under this new visual identity.

Due to the COVID-19 outbreak, most of the face-to-face events were cancelled or postponed in the first half of 2020. With the improved situation in China, off-line activities gradually recovered from September 2020. The Group participated in several major events and exhibitions such as CIPM (China International Pharmaceutical Machinery Exposition), Medtec China, and Analytica China trade fair, focusing on the promotion of the AUSTAR 12 technology application capability, core products and services. The Group also attended the Asia Pharma Expo 2020 in Bangladesh in February 2020 and the Arab Pharma Manufacturers Expo in October 2020, the later of which was a virtual exhibition and presentations were made on Clean Room Engineering and Water systems.

To tackle with the communication challenges brought on by the COVID-19 pandemic, the Group has increased the use of online communication tools. During the Year, 115 professional online webinars were held covering topics across 12 technology applications, sharing information and knowledge with clients from different countries and regions. Digital marketing would be a long-term approach for business promotion.

Three workshops with design institutes were organised to allow professional architects and design firms to understand AUSTAR's process and automation capabilities. Several key government authority visits were conducted in the second half of the Year to share our knowledge in compliance and process technologies. These activities will help increase the awareness of AUSTAR's pharmaceutical technology capability and create opportunities for business cooperation.

The Group's accounts in Facebook, Twitter, Instagram, LinkedIn were established in early 2020 to share business information, and released company news in related platforms, to increase AUSTAR brand awareness in the global market. The Group's official WeChat accounts with various technology application themes to share views and knowledge in the industry have been working efficiently which provided information covering topics of project news, technology knowledge, and business development information.

An online material sharing platform "Resource Center" was formally launched and is accessible from the Group's corporate website in November 2020 with the purpose of facilitating the spread of technology and product materials and reducing the volume of paper printing; global AUSTAR viewers could now read online and apply for downloading materials after a simple online application.

The Group has also established an operational company in Malaysia with new leadership and objectives to obtain sales, service and project execution resources including talents for the Asia market other than China and East Asia. The Group also has a plan to establish a company and organisation in Taiwan as more orders have been coming from Taiwan, requiring more local resources to support sales, service, and project execution in coming years.

RESEARCH AND DEVELOPMENT

As at 31 December 2020, the Group has obtained 269 patents. During the Year, the Group obtained 44 registered patents, and applications for 99 patents are currently in progress.

The Group has been developing its own supporting software for pharmaceutical manufacturing after years of experience accumulated in the biopharmaceutical industry with the vision and strategies to facilitate the cooperation of our existing information systems partners like Werum, Siemens and Rockwell to offer more flexible and cost-effective manufacturing information and integration system.

A new Industrial Internet of Things (IIoT) solution for utility automation – "AUSTAR Smart Interconnection" has been established, where the system could meet the remote monitoring needs of clients via mobile devices through Short Message Service (SMS) and WeChat warning etc.

Cooperation with Thermo Fisher was agreed to jointly promote the pharmaceutical laboratory information system which aims to improve laboratory efficiency and data integrity while meeting laboratory compliance.

Research & Manufacturing Operation Information Integrated System (REMOIIS), an intelligent information control platform was established under the mission of providing digital factory solutions and services for various types of pharmaceutical companies, helping customers to set up a world-class pharmaceutical plant through digital transformation.

Technological breakthroughs have been made in sterile containment isolators and oral solid dosage (OSD) equipment and systems. With more industry experts joining the team including AUSTAR UK Limited, significant progress in product development has been achieved in product and technology optimisation.

In the field of Active Pharmaceutical Ingredient (API) equipment, new model of AusMill series particle-sizing milling equipment was developed; automatic sealing machines for API bulk packaging were optimised and its performance were qualified and verified by multiple projects. Performance and technical improvements have been made to equipment and systems product of wet granulation, fluidised bed, containment isolator, glove integrity testing, and Process Analysis Technology (PAT) integration technology. A vacuum filter dryer was developed through a partnership program with an European expert. Related research and development has been done in terms of BSL-3 isolator, which was applied in COVID-19 projects.

One set of co-axial mixing equipment has been developed with a wide application potential in high viscous and high shear force applications. Stainless steel bioreactor series has completed in a more extensive range from laboratory to pilot plant in 2020 and its target for the next year would be to extend more models in the range from pilot plant to industrial units.

Research cooperation with Tianjin University on "Indoor Air Quality Control" was established to carry out the "Digital Simulation Evaluation of Ventilation and Negative Pressure Isolation" – CFD simulation study in BSL-3 laboratory, which will greatly enhance the Group's technical solution capability in BSL-3 workshop/laboratory area.

The development of vial filling equipment with isolator for bioprocess single-use applications is in its final phase and is expected to be able to launch out for sales in 2021. Through the rapid development of high-end sterile chemical injectable drugs and biologics drugs, demand for laboratory and pilot production freeze dryers for clinical trials is increasing, the Group's newly developed lab and pilot-scale freeze dryers could meet its increasing high-end market demand.

Following the completion of the research and development (R&D) project of clean room garment validation in the first half of 2020, autoclavable clean room garments by AUSTAR's own-brand was completed and launched by the end of the Year. At the same time, a clean room garment information management system and the clean room garment validation service were established to form a complete clean room protection gear solution for delivery to customers.

PROSPECTS

The Group has been developing 12 technology applications in our competence and knowledge model and individual specific technology application teams are being gradually established in the following 2 to 3 years. By the end of 2020, 8 technology application teams have been developed, namely Pharmaceutical Automation and Digitalization, Cleaning, Sterilization and Disinfection, Clean Utilities, Biopharma Process and Technology, Containment Technology, Cleanroom/ Heating Ventilation and Air Conditioning (HVAC)/Environmental Monitoring System (EMS)/Building Management System (BMS), Filling, Freeze-drying and Inspection, and Biosafety Technology and Facilities, regular workshops were held for the purpose of better unification of technology capability of individual product lines into comprehensive technology solutions. It is believed that, with these professional technical application teams, more up-to-date technology solutions can be provided to the clients.

Liquid and Bioprocess System

Following the impact of COVID-19 and the eagerness for vaccine, the order-in-take increased to a historic level; the extremely short expected delivery times of these project pushed the Company to be more flexible in the management process and to evolve accordingly to adapt the Group to deal with such emergency occasions. It is believed that, the vaccine industry will continue to be a hot topic and a strong pipeline of the COVID-19 vaccine and other vaccine projects is foreseeable. With the new manufacturing facility in Shanghai expected to be operational in the first quarter of 2022, production and delivery efficiency will be much improved to better cope with market needs.

The Company has obtained orders for bioprocess preparation systems for COVID-19 vaccine projects in China. Through the Group's Bioprocess System Engineering business unit, the business' mid-long-term objectives are to bring our presently regional champion business unit onto the highest global level. Our goal is to become a global top-tier bioprocess equipment and system supplier. With more and more experience gained by project execution, we believe the business is able to develop more solid technical competence and the offerings would become more specific and more adaptable to specific needs, and as a result, more market opportunities and competence upgrade are foreseeable.

Powder and Solid System

The civil health concept has been promoted due to the COVID-19 pandemic in 2020 in China and worldwide, which would accelerate the revolution of healthcare and life sciences industries, and bring opportunities to this business segment. Under the influence of national concentrated procurement policy in China, most qualified and capable successful bidders, local enterprises in China have increased their investment in new drugs R&D, which will bring more opportunities to laboratory-scale equipment and imported production equipment. The business extension from formulations to API manufacturing, and the business extension from existing API to formulations manufacturing was still one of the key trends of pharmaceutical industry development in China in 2020.

The business extension from CRO to CDMO, from CMO to CDMO, and from conventional pharmaceutical companies to CDMO will continue to develop following the development trend of the previous year. The demand for projects seeking profit margin improvement from automation upgrading, continuous manufacturing and streamlined production system have been growing rapidly. Development of innovative drugs will bring about more CAPEX investment. The pharmaceutical market will be further optimised with more sophisticated and advanced APIs and OSD facilities to be built.

The demand for high toxic/potent drugs is still increasing, and hormones manufacturers have started to pull together of upper/lower stream process to enhance the competitiveness which is a competitive edge for AUSTAR. The success of the Powder and Solid System business segment is heavily dependent on its knowledge-set of containment application technology, material handling technology and formulation process system engineering and supported by fundamental knowledge of occupational safety compliance, pharmaceutical quality compliance and automation control engineering.

The successful installation of a wet milling preparation system embedded with a German partner's equipment is an important milestone for this business segment to demonstrate its capacity to offer particle-sizing system to drug formulation development companies and generic companies.

During the Year, one BSL-3 isolator was manufactured and delivered and tested successfully at a COVID-19 facility. We have been getting new orders of such BSL-3 isolator on this COVID-19 facility since the first one was installed. The Group's knowledge in sterility and containment leads us to differentiate from our competitors.

One OSD manufacture system and material management turnkey project consisting of the whole material receiving, transferring, crushing, screening, distribution, granulation, tablet compressing, and coating equipment and material management system would be delivered to a CDMO platform in 2021. The fully automated and unmanned production and operation mode will give full play to AUSTAR's technology capability in terms of production system automation and information system implementation according to international standards.

Clean Room and Automation and Monitoring System

In January 2020, the Group's clean room engineering business and Net-Pharma Group in Spain reached a strategic cooperation agreement in engineering design and project execution, and together with the support by the Group's European team, will largely improve the response speed and project cost advantages to projects in some territories in our global market.

The clean room engineering business has extended to more life-sciences sectors such as animal laboratory research laboratories, medical device facilities, OSD workshops and soft capsule workshops. Through the integration of technical competence of HVAC and decontamination technology, automation controls, and informatisation management, the Group aims to be a turnkey solution provider integrating engineering design, equipment and systems, site installation and GEP project management.

Based on the continuous accumulation of experiences relating to technical process, regulations, lean manufacturing, excellent operation and validation, and through working with industry leading partners, AUSTAR could provide pharmaceutical companies with full life cycle digital solutions from digitalisation strategy consulting to digitalisation application implementation and after-sales service, which cover various aspects from warehouse to manufacturing, quality and equipment maintenance etc., to help clients shorten the time to market, improve production efficiency, quality and safety to realise production costs saving and productivity improvements.

During the Year, the Group increased investment in digital and lean consulting business and establishing a digital and lean consulting team. It is believed that through the successful implementation of some consulting projects and experience accumulation, more cost-effective solutions can be provided to our clients in the future.

A REMOIIS platform to offer unique, flexible, and versatile solutions to clients was established in early 2020. This platform can allow the Group to integrate automation control and informatisation capabilities to facilitate pharmaceutical companies to build and become world-class informatised research and manufacturing enterprises with multifunctional, multi-products and modular design concept. Based on the "intelligent factory software and hardware integration" solution, with the industrial internet cloud platform as the core carrier and linking world-leading technical partners to form a new manufacturing ecology of "smart manufacturing + cloud", the Clean Room and Automation and Monitoring System business segment has a vision to become an industry leader in the intelligent pharmaceutical research and manufacturing operation information system in Asia.

GMP Compliance Service

With the promulgation of the PRC "Drug Administration Law" and the related regulatory science being gradually accepted by the leading provincial authorities, a higher compliance level will be required by the pharmaceutical industry. Furthermore, Good Manufacturing Practice (GMP) is not only implemented as a necessity to survival of a pharmaceutical company, but it also closely relates to competitiveness such as quality culture.

As the biopharmaceutical such as vaccine products and Advanced Therapy Medicinal Products (AMTPs) sectors are booming in the recent years, many CROs have acquired new business/function as CDMOs such that a 'GMP-like' manufacturing environment during clinical trial phase I and II, or a full GMP manufacturing environment, have to be implemented. One of the challenges for CRO developing from a research-based team to be an organisation of CDMO or CMO is the lack of qualified experts for manufacturing with GMP knowledge. Thus, the GMP consulting service has becoming ever needed by the market. To create a complete solution to the customer, the GMP Compliance Service business segment has developed a new service portfolio including CQV, PQS, GEP and TTM. With the above service portfolio, the customer is able to receive a quality service for a green field project with consultation of CQV, PQS and TTM as early as the conceptual design phase, the GEP service during the construction period, and the CQV execution as the verification to ensure the project is closed with minimum non-compliance risks.

With professional expertise and resources, the GMP Compliance Service business segment has developed Risk Management Consulting and MAH supporting services of PQS to cope with the current trend of the industry. Those services focus on particular quality practices. It demonstrates the capability of the business segment being able to provide both high level consultancy and operational supporting services respectively to support a quality system. Not only relying on internal resource, the business segment has worked with a AUSTAR partner to combine a digital solution, iRisk, to its risk management consulting services.

Even though the COVID-19 pandemic is a global challenge to all countries, it rang the alarm for many emerging countries to consider to acquire their own reliable supply of vaccines. As China holds multiple COVID-19 vaccines (both approved to the market or under clinical trials), many South-East Asian countries have already encouraged their local pharmaceutical companies to collaborate with Chinese vaccine manufacturers. The GMP Compliance Service business segment has provided one or multiple compliance services including but not limited to CQV consultancy and execution, PQS consultancy, biosafety review, design review, or GEP consultancy to eight COVID-19 vaccine manufacturers.

Life Science Consumables

The COVID-19 outbreak has brought about the awareness of biosafety. One key element for biosafety measures is to ensure that the facility are designed and maintained with proper decontamination concept, design, consumable, equipment and process installed. The core-competence of the Life Science Consumables business segment is decontamination in Washing, Disinfection and Sterilization.

During the Year, the Life Science Consumables business segment completed several successful cases of package orders through the integration of cleaning process development, cleaning validation and GMP washer integrated solutions, achieving a high share of GMP washer in the high-end market. The cleanroom garment OEM project has been completed, which is expected to offer more choices including our own brand products in line with customers' diversified demands. The service business concept based on contamination control strategy is helping this business segment on the application of Washing, Disinfection and Sterilization, opening a page of opportunities for further growth by offering gap analysis services and supporting services for overall decontamination of facilities.

RESULTS OF OPERATIONS

Revenue

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

For the Year, the Group's total revenue amounted to approximately RMB1,296.0 million, representing an increase of approximately 23.5% over 2019, primarily attributable to the increase in revenue from the business segments of Liquid and Bioprocess System, Life Science Consumables, Powder and Solid System, and Clean Room and Automation Control and Monitoring System, and which was slightly offset by the decrease in revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment and GMP Compliance Service.

The following table sets forth, for the years ended 31 December 2020 and 2019, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2020		2019		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**588,488**	**45.4%**	435,980	41.6%	35.0%
Clean Room and Automation Control and Monitoring System	**264,436**	**20.4%**	250,875	23.9%	5.4%
Powder and Solid System	**120,525**	**9.3%**	82,963	7.9%	45.3%
GMP Compliance Service	**52,729**	**4.1%**	53,641	5.1%	(1.7%)
Life Science Consumables	**250,170**	**19.3%**	203,586	19.4%	22.9%
Distribution and Agency of Pharmaceutical Equipment	**19,632**	**1.5%**	21,976	2.1%	(10.7%)
Total	**1,295,980**	**100.0%**	1,049,021	100.0%	23.5%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased significantly by approximately RMB152.5 million or 35.0% from approximately RMB436.0 million for the year ended 31 December 2019 to approximately RMB588.5 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2019 and the increase in the order-in-take in the business segment of Liquid and Bioprocess System for the Year, the new contribution of revenue from the non-wholly owned subsidiary H+E Pharma, and high project execution efficiency with good quality in the COVID-19 vaccine projects.

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 RMB13.6 million or 5.4% from approximately RMB250.9 million for the year ended 31 December 2019 to approximately RMB264.4 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2019 and the increase in the order-in-take in the business segment of Clean Room and Automation Control and Monitoring System for the Year, a part of which was recognised as revenue.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System had a substantial increase by approximately RMB37.6 million or 45.3% from approximately RMB83.0 million for the year ended 31 December 2019 to approximately RMB120.5 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2019 and the increase in the order-in-take in the business segment of Powder and Solid System for the Year, a part of which was recognised as revenue.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service decreased slightly by approximately RMB0.9 million or 1.7% from approximately RMB53.6 million for the year ended 31 December 2019 to approximately RMB52.7 million for the Year. The decrease was mainly due to the decrease in the order-in-take in the business segment of GMP Compliance Service for the Year caused by promotional activities hindered by the COVID-19 pandemic, and the keen competition in the high-end market in the PRC.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB46.6 million or 22.9% from approximately RMB203.6 million for the year ended 31 December 2019 to approximately RMB250.2 million for the Year, which was primarily attributable to the core competence by offering a complete solution of Washing, Disinfection and Sterilization, and continuous launching of more diversified life science consumables and services with the latest technology.

Distribution and Agency of Pharmaceutical Equipment

Hindered by the COVID-19 pandemic, the Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB2.3 million or 10.7% from approximately RMB22.0 million for the year ended 31 December 2019 to approximately RMB19.6 million for the Year. The Group will continue to explore and distribute various types of high-end pharmaceutical equipment.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years ended 31 December 2020 and 2019:

	For the year ended 31 December				
	2020		2019		Change
Revenue	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**1,219,015**	**94.1%**	964,135	91.9%	26.4%
Other locations	**76,965**	**5.9%**	84,886	8.1%	(9.3%)
Total	**1,295,980**	**100.0%**	1,049,021	100.0%	23.5%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 94.1% of the total revenue for the Year (2019: approximately 91.9%).

Cost of sales

The Group's cost of sales increased by approximately RMB207.7 million or 27.2% from approximately RMB764.8 million for the year ended 31 December 2019 to approximately RMB972.5 million for the Year. Such increase was in line with the increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB39.3 million or 13.8% from approximately RMB284.2 million for the year ended 31 December 2019 to approximately RMB323.5 million for the Year, which was mainly attributable to the increase in gross profit from the business segment of Liquid and Bioprocess System, Life Science Consumables, and Powder and Solid System, but partially offset by the decrease from the business segment of GMP Compliance Service, Clean Room and Automation Control and Monitoring System, and Distribution and Agency of Pharmaceutical Equipment. The gross profit margin decreased from approximately 27.1% for the year ended 31 December 2019 to approximately 25.0% for the Year, which was due to the decrease in gross profit margin from the five business segments, except Life Science Consumables.

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

Gross profit margin by business segment	For the year ended 31 December 2020 RMB'000	%	Gross profit margin %	2019 RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**90,251**	**27.9%**	**15.3%**	74,633	26.3%	17.1%
Clean Room and Automation Control and Monitoring System	**57,197**	**17.7%**	**21.6%**	58,895	20.7%	23.5%
Powder and Solid System	**34,111**	**10.5%**	**28.3%**	27,915	9.8%	33.6%
GMP Compliance Service	**25,975**	**8.0%**	**49.3%**	28,116	9.9%	52.4%
Life Science Consumables	**109,351**	**33.8%**	**43.7%**	86,645	30.5%	42.6%
Distribution and Agency of Pharmaceutical Equipment	**6,645**	**2.1%**	**33.8%**	8,040	2.8%	36.6%
Total	**323,530**	**100.0%**	**25.0%**	284,244	100.0%	27.1%

Notes:

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

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

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System increased by approximately RMB15.6 million or 20.9% from approximately RMB74.6 million for the year ended 31 December 2019 to approximately RMB90.3 million for the Year. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 17.1% for the year ended 31 December 2019 to approximately 15.3% for the Year, which was mainly due to prolonged execution time for certain projects undertaken by the Group during the Year, which were affected by the COVID-19 pandemic, resulting an increase in budgeted costs. The Group will continuously focus on project execution management and cost control measures, supported by introducing new management software to reduce errors throughout the project execution process, and accumulation of continuous experience gained by project execution.

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 slightly by approximately RMB1.7 million or 2.9% from approximately RMB58.9 million for the year ended 31 December 2019 to approximately RMB57.2 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 23.5% for the year ended 31 December 2019 to approximately 21.6% for the Year, which was primarily due to the keen market competition in the product lines of Clean Room and Automation Control and Monitoring System, and the Group undertook several projects with lower gross profit margin for the Year. The Group will continuously make better control over cost management through implementing LEAN-based manufacturing management.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB6.2 million or 22.2% from approximately RMB27.9 million for the year ended 31 December 2019 to approximately RMB34.1 million for the Year. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 33.6% for the year ended 31 December 2019 to approximately 28.3% for the Year, primarily due to several projects undertaken during the Year which provided new products and carried a relatively lower gross profit margin for the purpose of promoting our new products and penetrating into the market.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service decreased by approximately RMB2.1 million or 7.6% from approximately RMB28.1 million for the year ended 31 December 2019 to approximately RMB26.0 million for the Year. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 52.4% for the year ended 31 December 2019 to approximately 49.3% for the Year, which was mainly due to prolonged execution time for certain projects undertaken by the Group during the Year, which was affected by the COVID-19 pandemic, and the undertaking of projects with a relatively lower gross profit in light of the keen market competition for the Year. The Group will keep on providing high quality service and improving cost control management.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased substantially by approximately RMB22.7 million or 26.2% from approximately RMB86.6 million for the year ended 31 December 2019 to approximately RMB109.4 million for the Year. The gross profit margin from the business segment of Life Science Consumables increased from approximately 42.6% for the year ended 31 December 2019 to approximately 43.7% for the Year, which was mainly attributable to the continuously-improved cost control.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased by approximately RMB1.4 million or 17.4% from approximately RMB8.0 million for the year ended 31 December 2019 to approximately RMB6.6 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 36.6% for the year ended 31 December 2019 to approximately 33.8% for the Year, which was mainly due to the block to the international business caused by the COVID-19 pandemic. The Group, together with its joint ventures and overseas business partners, will keep on engaging in the distribution of various types of high-end pharmaceutical equipment.

Other income

Other income decreased by approximately RMB1.1 million or 12.2% to approximately RMB8.0 million for the Year from approximately RMB9.2 million for the year ended 31 December 2019, mainly due to the decrease in the subsidies granted by local government authorities of the PRC in the Year.

Other gains – net

Other gains – net increased by approximately RMB6.8 million to approximately RMB7.0 million for the Year from approximately RMB0.1 million for the year ended 31 December 2019, mainly attributable to a record of currency exchange gains of approximately RMB4.4 million for the Year as compared to currency exchange losses of approximately RMB2.4 million for the year ended 31 December 2019, arising from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB11.6 million or 8.5% to approximately RMB148.7 million for the Year from approximately RMB137.1 million for the year ended 31 December 2019. The increase was mainly due to the increase in the staff costs by approximately RMB28.2 million and warranty provision by approximately RMB2.1 million but partially offset by the decrease in the promotion expenses by approximately RMB9.4 million and travel expenses by approximately RMB9.6 million.

Administrative expenses

Administrative expenses decreased by approximately RMB10.0 million or 9.2% to approximately RMB98.7 million for the Year from approximately RMB108.7 million for the year ended 31 December 2019. The decrease was primarily attributable to the decrease in the impairment of inventories by approximately RMB13.1 million, but partially offset by the recognisation of the impairment of goodwill by approximately RMB3.1 million. The goodwill is attributable to acquisition of the Group's non-wholly owned subsidiary H+E Pharma, and the impairment for the Year is mainly due to the descending prospective income by the consideration of COVID-19.

Research and development expenses

As at 31 December 2020, the Group had 47 research and development personnel which accounted for approximately 3.3% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses increased by approximately RMB5.7 million or 13.4% to approximately RMB48.3 million for the Year from approximately RMB42.6 million for the year ended 31 December 2019, mainly due to the increase of materials utilised in more research projects by approximately RMB4.9 million. The Group will make continuous efforts to enhance research and development activities.

Finance income – net

Finance income – net decreased from approximately RMB2.0 million for the year ended 31 December 2019 to approximately RMB0.3 million for the Year, which was mainly due to the decrease of the interest income of approximately RMB2.6 million, but partially offset by the decrease of finance cost of approximately RMB0.9 million.

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

The Group's share of net profit of investments accounted for using equity method increased by approximately RMB0.3 million, from approximately RMB10.2 million for the year ended 31 December 2019 to approximately RMB10.5 million for the Year, primarily due to the increase in profit contribution from the joint venture, STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited ("**STERIS-AUSTAR JV**") and the associates, ROTA, by approximately RMB2.3 million and RMB0.3 million respectively, but partially offset by the decrease in profit from the joint venture, PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**"), by approximately RMB2.4 million, due to the increase in impairment by approximately RMB5.5 million for PALL-AUSTAR JV which was recognised as the impairment for the manufacture facility in connection with its relocation.

Profit before income tax

Profit before income tax increased substantially by approximately RMB29.3 million to approximately RMB41.5 million for the Year from approximately RMB12.2 million for the year ended 31 December 2019, which was primarily due to the factors as described above in this section.

Income tax expense

Income tax expense increased by approximately RMB5.1 million, from approximately RMB4.7 million for the year ended 31 December 2019 to approximately RMB9.9 million for the Year, which was mainly due to the increase of profit before income tax of approximately RMB29.3 million.

Profit for the year

Profit for the year increased substantially by approximately RMB24.1 million to approximately RMB31.6 million for the Year from approximately RMB7.5 million for the year ended 31 December 2019, which was primarily attributable to the factors as described above in this section.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net cash generated from operating activities	**52,224**	37,793
Net cash used in investing activities	**(59,806)**	(22,087)
Net cash used in financing activities	**(5,513)**	(20,694)
Net decrease in cash and cash equivalents	**(13,095)**	(4,988)

For the Year, the Group had net cash generated from operating activities of approximately RMB52.2 million mainly attributable to:

i. the profit before income tax for the Year of approximately RMB41.5 million, plus the depreciation of property, plant, and equipment of approximately RMB12.0 million, the depreciation of right-of-use assets of approximately RMB16.4 million, net impairment losses on financial assets and contract assets of approximately RMB12.1 million, the amortisation of intangible assets of approximately RMB3.5 million, and the impairment of goodwill of approximately RMB3.1 million, and minus share of net profit of investments accounted for using the equity method of approximately RMB10.5 million, and deferred income of approximately RMB1.8 million;

ii. plus the increase in contract liabilities of approximately RMB99.9 million, and the decrease in trade and other receivables of approximately RMB61.0 million; and

iii. partially offset by the increase in pledged bank deposits of approximately RMB39.1 million, contract assets of approximately RMB54.4 million, inventories of approximately RMB47.3 million, and the decrease in trade and other payables of approximately RMB41.7 million.

For the Year, the Group had net cash used in investing activities of approximately RMB59.8 million, which was mainly attributable to:

i. payment for land use right of approximately RMB39.3 million;

ii. purchase of property, plant, equipment and intangible assets of approximately RMB27.9 million; and

iii. partially offset by dividend received from the joint venture, STERIS-AUSTAR JV, of approximately RMB7.1 million.

For the Year, the Group had net cash used in financing activities of approximately RMB5.5 million mainly due to repayments of borrowings of approximately RMB35.0 million, principal elements of lease payments of approximately RMB12.6 million, interest paid of approximately RMB2.8 million, but partially offset by the proceeds from borrowings of approximately RMB45.0 million.

As at 31 December 2020 and 31 December 2019, the Group had cash and cash equivalents of approximately RMB177.9 million and RMB191.1 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB127.9 million and RMB88.8 million respectively.

Net current assets

The Group's net current assets as at 31 December 2020 had decreased by approximately RMB10.8 million, from approximately RMB294.4 million as at 31 December 2019 to approximately RMB283.6 million as at 31 December 2020.

As at 31 December 2020, the Group's total current assets amounted to approximately RMB1,089.3 million, which was an increase of approximately RMB161.1 million as compared with approximately RMB928.2 million as at 31 December 2019. The increase was primarily attributable to:

i. the increase in contract assets and other assets of approximately RMB52.4 million, inventories of approximately RMB45.7 million, pledged bank deposits of approximately RMB39.1 million, trade and notes receivables of approximately RMB28.3 million, and prepayments and other receivables of approximately RMB8.7 million, which was mainly attributable to the fast business expansion during the Year; and

ii. partially offset by the decrease in cash and cash equivalents of approximately RMB13.1 million.

As at 31 December 2020, the Group's total current liabilities amounted to approximately RMB805.7 million, which was an increase of approximately RMB171.9 million as compared with approximately RMB633.8 million as at 31 December 2019. The increase was primarily due to the increase in contract liabilities of approximately RMB99.9 million, trade and other payables of approximately RMB61.2 million, short-term borrowings of approximately RMB10.0 million and lease liabilities of approximately RMB0.8 million, but partially offset by the decrease in current income tax liabilities of approximately RMB0.1 million.

Borrowings and gearing ratio

As at 31 December 2020, the total interest-bearing borrowings amounted to approximately RMB30.0 million, represented an increase of approximately RMB10.0 million. The secured short-term bank borrowings amounted to RMB20.0 million and bear interest rate of 4.57% (2019: 4.57%), the guaranteed short-term bank borrowings amounted to RMB10.0 million and bear interest rate of 3.65% (2019: Nil).

The Group's gearing ratio is approximately 12.7% as at 31 December 2020 (31 December 2019: 10.2%). The ratio is calculated based on the total debts as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2020, in addition to pledged bank deposits of approximately RMB127.9 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB5.6 million and approximately RMB5.2 million respectively (31 December 2019: approximately RMB6.4 million and approximately RMB5.4 million respectively) which are pledged as security for short-term bank borrowings with carrying amount of approximately RMB20.0 million (31 December 2019: approximately RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2020 (31 December 2019: Nil).

HUMAN RESOURCES

As at 31 December 2020, the Group had 1,404 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 92 employees as compared to the number of employees as at 31 December 2019. The employee costs (including the Directors' remuneration) were approximately RMB308.8 million for the Year, which was an increase of approximately 36.8% as compared with approximately RMB225.7 million for the year ended 31 December 2019.

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

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

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

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

CAPITAL COMMITMENT

Capital expenditure of property, plant and equipment and intangible assets which have been contracted for but not yet incurred as of 31 December 2020 amounted to approximately RMB105.0 million, which was mainly occurred by the construction contracts of the new facility in Shanghai, signed and executed partially.

FOREIGN EXCHANGE RISK

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Position
Executive Directors		
Mr. Ho Kwok Keung, Mars	58	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	63	Executive Director
Mr. Chen Yuewu	54	Executive Director
Madam Zhou Ning	48	Executive Director
Non-executive Director		
Madam Ji Lingling	38	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	49	Independent non-executive Director
Madam Chiu Hoi Shan	44	Independent non-executive Director
Mr. Leung Oi Kin	46	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**") (**何國強**), aged 58, is the founder of the Group and was appointed as a Director on 9 January 2014 and became an executive Director with effect from 20 June 2014. He is the chairman of the Board and the chief executive officer of the Company. Mr. Mars Ho is also the chairman of the nomination committee of the Board ("**Nomination Committee**") and a member of the corporate governance committee of the Board ("**Corporate Governance Committee**"), and a director of certain subsidiaries of the Company. He is responsible for overseeing the business, corporate strategy and long-term planning all-round development of the Group. Mr. Mars Ho has over 35 years of experience in the pharmaceutical industry. Prior to founding the Group, Mr. Mars Ho worked as an assistant manager in the Pharmaceutical Equipment Department of Sun Hung Kai (China) Limited* from June 1985 to April 1988, where he was responsible for marketing of pharmaceutical equipment. Sun Hung Kai (China) Limited* was primarily engaged in a number of businesses, including property development, hotels, infrastructures, telecommunications and property management. From May 1988 to October 1990, he worked as a sales manager of Pharmaceutical and Chemical Industry for Leybold Limited (Hong Kong), where he was primarily responsible for the sales and marketing of products in the pharmaceutical, chemical and vacuum coating industries. Leybold Limited (Hong Kong) was primarily engaged in vacuum technology, vacuum process engineering, measuring and analytical technology. Mr. Mars Ho also worked as a sales manager for China Fen Hin Industrial Co., Ltd from November 1990 to April 1991 where he was responsible for managing and supervising the sales department and designing marketing plans. China Fen Hin Industrial Co., Ltd was engaged in the export and wholesale of Chinese medicine and health products. Since 1991, Mr. Mars Ho started his own business of an equipment agent company. Through co-operating with various reputable companies and by founding various pharmaceutical related companies, Mr. Mars Ho has been exposed in different aspects of the pharmaceutical industry. Mr. Mars Ho has also been serving some of the multinational pharmaceutical companies clients and pharmaceutical research institutes and manufacturers in the PRC. His technical knowledge has been acquired from his execution of projects and business with various partners over the past decades.

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

Mr. Ho Kin Hung ("**Mr. Ho**") (**何建紅**), aged 63, joined the Group on 20 August 2003. He was appointed as a Director on 9 January 2014 and became an executive Director with effect from 20 June 2014. Mr. Ho is also a director of two subsidiaries of the Company. He is responsible for overall management of operations and sales of the Group. Mr. Ho has over 35 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in china trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987. Mr. Ho is a director of True Worth Global Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Chen Yuewu ("**Mr. Chen**") (**陳躍武**), aged 54, joined the Group on 1 August 2005 and was appointed as an executive Director with effect from 20 June 2014. He is also a member of the risk management committee of the Board ("**Risk Management Committee**") and a director of a subsidiary of the Company. Mr. Chen is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has over 30 years of experience in the pharmaceutical industry. Prior to joining the Group, he worked as a production manager at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) from September 1990 to March 2000 where he was responsible for managing the engineering department and the production department. 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) was engaged in pharmaceutical production. Mr. Chen has been a technical services manager in a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company prior to joining the Group. Mr. Chen obtained a bachelor's degree of electrical engineering in industrial electrical and automated production in July 1990 from 河北工學院 (Hebei Institute of Technology*) in China. He further completed a one-year course in economics and management strategy at 北京大學 (Peking University*) in October 2012. In December 2020, Mr. Chen obtained the qualification as Senior Engineer in Food and Drug Engineering from the Title Reform Leading Group Office of Hebei Province.

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Madam Zhou Ning ("**Madam Zhou**") (**周寧**), aged 48, joined the Group on 10 April 2014 and was appointed as an executive Director with effect from 20 June 2014. She is also the chairlady of each of the Corporate Governance Committee and the Risk Management Committee and a member of the Remuneration Committee. Madam Zhou is also a director of certain subsidiaries of the Company. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 15 years of experience in the pharmaceutical industry. Prior to joining the Group, Madam Zhou worked as project manager at 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) from July 1995 to December 1999, where she was responsible for the operations of international exhibitions. 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) is a subsidiary of 北京市貿促會 (China Council for the Promotion of International Trade Beijing Sub-council*), which was engaged in the promotion of international trade and exchange of technology between different countries and the PRC, and a sub-council of 中國國際貿易促進委員會 (China Council for the Promotion of International Trade*). Before joining the Group in April 2014, from November 2005 to February 2014, Madam Zhou had been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting the coordination and communication of different business segments, and as the chief financial officer, where she was responsible for procurement and financial matters. Madam Zhou graduated with a bachelor's degree of arts from 北京師範大學 (Beijing Normal University*) in China in June 1995 and a master's degree in business administration from 北京大學 (Peking University*) in China in January 2006.

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling ("**Madam Ji**") (**季玲玲**), aged 38, was appointed as a non-executive Director with effect from 20 June 2014, on which she joined the Group. She is also a member of each of the audit committee of the Board ("**Audit Committee**") and the Risk Management Committee. Madam Ji is a qualified lawyer in the PRC and has over 15 years' experience in legal compliance. Prior to becoming the chairman's assistant in 2005, she worked as a sales assistant in 北京啟迪世紀通訊技術有限公司 (Beijing Unismobile Communication Technology Co*) which is a company engaged in the research and development of communication and computer products from May 2004 to July 2005. Since July 2005, Madam Ji has been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting him in overseeing all legal matters. Madam Ji graduated from 中國人民大學 (Ren Min University of China*) in China with a bachelor's degree in laws in July 2004 and from 北京大學 (Peking University*) in China with a master's degree in laws in January 2012 respectively. Madam Ji also obtained the Master of Laws degree from Temple University of the United States in November 2017.

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INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("**Mr. Cheung**") (張立基), aged 49, was appointed as an independent non-executive Director with effect from 21 October 2014. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over 26 years of experience in auditing and accounting field. Mr. Cheung worked as an audit assistant for George Yau & Co, a certified public accountants' firm from May 1994 to February 1996. From December 1996 to December 1998, he worked as a staff accountant for Ernst & Young. He worked for KPMG from October 1999 to January 2005. By the time he left KPMG, he was a manager. Both Ernst & Young and KPMG are certified public accountants' practice offering a variety of professional services including audit and assurance, consultancy, corporate finance and tax. Mr. Cheung served as the group financial controller, qualified accountant and company secretary of China Ruifeng Renewable Energy Holdings Limited (Stock code: 527) from February 2005 to January 2008. He served as the chief financial officer, qualified accountant and company secretary of United Photovoltaics Group Limited (now known as Beijing Energy International Holding Co., Ltd.) (Stock code: 686) from July 2008 to January 2009. He served as chief financial officer and company secretary of China Zhongwang Holdings Limited (Stock code: 1333) from December 2008 to June 2016. He served as executive director, chief financial officer and company secretary of Wan Kei Group Holdings Limited (Stock code: 1718) from January 2017 to January 2018. He served as chief financial officer of Orient Victory Travel Group Company Limited (Stock code: 265) from December 2018 to August 2019. He joined Agile Group Holdings Limited (Stock code: 3383) since September 2019. He is the deputy general manager (Hong Kong Headquarter) and company secretary of Agile Group Holdings Limited. The shares of all of the above companies are listed on the Main Board of the Stock Exchange. Mr. Cheung received a bachelor's degree in commerce from The Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006.

Madam Chiu Hoi Shan ("**Madam Chiu**") (趙凱珊), aged 44, was appointed as an independent non-executive Director with effect from 21 October 2014. She is also the chairlady of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee. Madam Chiu obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in December 1998 and June 1999 respectively. She has been practicing as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. Madam Chiu commenced practice as a founding partner of Chiu & Co. as from August 2017 and remains as a partner of S.H. Leung & Co, both are solicitors' firms in Hong Kong engaged in the provision of various legal services. Madam Chiu has served as company secretary of Chongqing Machinery & Electric Co., Ltd* (Stock code: 2722) since October 2014, joint company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053) since March 2018 and joint company secretary of Maanshan Iron & Steel Company Limited (Stock code: 323) since April 2018, shares of all of the above companies are listed on the Main Board of the Stock Exchange. Madam Chiu was appointed as a mediator of Shenzhen Qianhai International Commercial Mediation Center and an arbitrator of Nanjing Arbitration Commission since August 2020.

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Mr. Leung Oi Kin ("**Mr. Leung**") (梁愷健), aged 46, was appointed as an independent non-executive Director with effect from 21 October 2017. Mr. Leung is a professional accountant and a fellow member of the Certified Practising Accountants Australia. He has over 20 years of experience in accounting and financial management. Mr. Leung worked in PricewaterhouseCoopers as an auditor. He also served as the company secretary and chief financial officer of Wisdom Holdings Group (now known as Wisdom Sports Group) (Stock code: 1661), shares of which are listed on the Main Board of the Stock Exchange; and the chief financial officer of Linekong Interactive Group Co., Ltd. (Stock code: 8267), shares of which are listed on GEM of the Stock Exchange. Mr. Leung has served as an executive director and the company secretary of G-Resources Group Limited (Stock code: 1051), shares of which are listed on the Main Board of the Stock Exchange, since November 2016 and December 2016, respectively. Mr. Leung received a bachelor's degree in commerce from University of Adelaide, Australia in 1997.

SENIOR MANAGEMENT

Name	Age	Position
Madam Wang Wei	47	Vice-president
Madam Tang Xiangdi	43	Vice-president of Corporate Development

Madam Wang Wei ("**Madam Wang**") (王瑋), aged 47, was appointed as the Group's vice-president in October 2015 and she is primarily responsible for the marketing of the Group. Madam Wang joined the Group in October 2003 and was responsible for sales marketing and operation of consumables, instrument and equipment in lifesciences industry until June 2015. From June 2015, Madam Wang takes charge of full operations of Lifesciences Instrument & Consumables Business Unit. She was also appointed as general manager of Austar Hansen Lifesciences (Shanghai) Ltd. in June 2015. Prior to joining the Group, Madam Wang worked for NCPC Genetec Biotechnology Co. Limited as quality assurance supervisor from 2000 to 2003 and served as the leader of Strain Breeding Group, Hebei Welcome Pharmaceutical Co., Ltd. from 1995 to 1999. Madam Wang obtained a bachelor's degree from Hebei University of Science and Technology on 5 January 2010.

Madam Tang Xiangdi ("**Madam Tang**") (**唐湘娣**), aged 43, was appointed as our Group's financial controller from 1 November 2013 and served as the Group's vice-president of corporate development since 1 December 2020. She is primarily responsible for corporate development. Madam Tang joined our Group in January 2013. She has over 13 years of experience in financial reporting and treasury management. From July 2000 to May 2002, she worked as an accountant at 北京匯金科技有限責任公司 (Beijing Nasoft Co. Ltd*), a company engaged in the research and development of software and information systems and she was responsible for preparing the accounting documents and tax returns. She worked as a finance manager in 樂金電子(中國)有限公司(北京營業部) (LG Electronics (China) Co., Ltd (Beijing Sales office)*), a company engaged in the manufacturing, sales, and the research and development of various electronic products, and home appliances, from May 2002 to June 2007 and she was responsible for reviewing the daily, monthly and annual financial reports. From June 2007 to April 2009 she worked as a finance manager responsible for reviewing, examining and monitoring the revenue and expenses in the daily operations, audit reports and inventory level at 北京同樂寒舍國際餐飲有限責任公司 (My Humble House in Beijing (Restaurant) Company Limited*), a company engaged in catering business. She has been a finance manager since April 2009 in a company controlled by Mr. Mars Ho, the chairman of the Board, chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, prior to joining our Group. Madam Tang obtained a bachelor's degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master's degree of business administration from 北京大學 (Peking University) in June 2014.

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

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

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

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

The Company has, and will continue to utilise the Net Proceeds for the purposes consistent with the section heeded "Future plans and use of proceeds" as set out in the prospectus of the Company dated 28 October 2014 ("**Prospectus**"). As at 31 December 2020, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	Proposed percentage of utilisation	Proposed utilisation amount		Utilised amount up to 31 December 2020		Unutilised amount as at 31 December 2020		Expected timeline for the unutilised Net Proceeds
		HK$ in million	RMB in million	HK$ in million	RMB in million	HK$ in million	RMB in million	
Establishment of the Shijiazhuang R&D and Production Centre	39.6%	163.1	126.7	78.5	49.5	84.6	77.2	Note 1
Development of the Songjiang Production Centre	14.2%	58.4	45.4	47.4	36.2	11.0	9.2	Note 2
Expansion of sales and marketing network	6.8%	28.0	21.8	28.0	21.8	–	–	N/A
Research and development activities	9.5%	39.1	30.4	39.1	30.4	–	–	N/A
Potential acquisition of interests in companies possessing critical product technologies in the pharmaceutical equipment, process system and service market	20%	82.4	64.0	44.7	29.6	37.7	34.4	Subject to any potential targets identified
Working capital and other general corporate purposes	9.9%	40.8	31.7	40.8	31.7	–	–	N/A
Total	**100.0%**	**411.8**	**320.0**	**278.5**	**199.2**	**133.3**	**120.8**	

Notes:

1. Establishment of the Shijiazhuang R&D and Production Centre – the Company had planned to use approximately RMB126.7 million (equivalent to approximately HK$163.1 million) of the Net Proceeds for establishment of the Shijiazhuang R&D and Production Centre. The Group has paid all the expenses for the acquisition of the land use right of a piece of land in the Shijiazhuang High-New Technology Industry Development Zone, and obtained the land use right certificate during the Year. The development plans of the Group's Shijiazhuang R&D and Production Centre on such land set out in the section headed "Business" in the Prospectus have been under review and in the progress of rescheduling. It is expected that the unutilised Net Proceeds of approximately RMB77.2 million (equivalent to approximately HK$84.6 million) allocated for the establishment of the Shijiazhuang R&D and Production Centre will start to be utilised in 2021.

2. Development of the Songjiang Production Centre – the Company had planned to use approximately RMB45.4 million (equivalent to approximately HK$58.4 million) of the Net Proceeds for development of the Songjiang Production Centre. During the Year, the Group has successfully acquired a new parcel of land located also in the Songjiang area and obtained the land use right certificate for the construction of new facilities in preparation for the relocation of the existing facilities in Songjiang area. On 23 October 2020, the Group entered into a general construction agreement with a contractor for the provision of construction services for the new production plants, offices and other facilities to be constructed on such land. The construction works had been commenced and it is expected to be completed in the third quarter of 2021. It is expected that the unutilised Net Proceeds of approximately RMB9.2 million (equivalent to approximately HK$11.0 million) allocated for development of the Songjiang Production Centre will be utilised in 2021.

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

The unutilised Net Proceeds brought forward from the previous year amounted to approximately HK$204.3 million. The unutilised Net Proceeds as at 31 December 2020 of approximately HK$133.3 million has been deposited into the banks.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's operations are substantially conducted through its subsidiaries in the PRC. The Group is principally engaged in providing integrated engineering solutions to pharmaceutical manufactures and research institutes, as well as manufacturing and distribution of pharmaceutical equipment and consumables in the PRC under six business segments:(1) Liquid and Bioprocess System; (2) Clean Room and Automation Control and Monitoring System; (3) Powder and Solid System; (4) GMP Compliance Service; (5) Life Science Consumables; and (6) Distribution and Agency of Pharmaceutical Equipment. Details of principal activities of the subsidiaries of the Company are set out in Note 34 to the Consolidated Financial Statements.

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

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

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

(c) the principal risks and uncertainties facing the Company are shown in the paragraph headed "Risks and uncertainties" of this report of the Directors;

(d) the Group's environmental policies and performance are shown in the section headed "Environmental, Social and Governance Report" of this annual report;

(e) the Group's key relationships with employees, customers and suppliers are shown in the section headed "Environmental, Social and Governance Report" of this annual report and the paragraph headed "Relationships with key stakeholders" below;

(f) the Group's compliance with the relevant laws and regulations are shown in the paragraph headed "Compliance with laws and regulations" below and the section headed "Environmental, Social and Governance Report" of this annual report; and

(g) the event affecting the Company that have occurred since the end of the Year is shown in the paragraph headed "Event occurring after the reporting period" below.

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

EVENT OCCURRING AFTER THE REPORTING PERIOD

On 11 February 2021, the Group entered into an agreement with Beckman Coulter Hong Kong Limited ("**Purchaser**"), which indirectly owned 40% of the issued shares of PALL-AUSTAR JV, and PALL-AUSTAR JV pursuant to which the Purchaser conditionally agreed to purchase, and the Group conditionally agreed to sell, the 60% of the issued shares of PALL-AUSTAR JV held by the Group at an aggregate consideration of US$34,500,000 subject to adjustments ("**Disposal**").

As of the date on which these consolidated financial statements were authorised for issue, completion of the Disposal has not yet taken place. Upon completion of the Disposal, the Group will cease to have any equity interest in PALL-AUSTAR JV.

RISKS AND UNCERTAINTIES

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

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

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

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

Relationships with key stakeholders

a) Employees

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

b) Customers

As disclosed in the paragraph headed "Major customers and suppliers" below, the five largest customers of the Group accounted for approximately 21.7% of the Group's total revenue for the Year. These major customers are chemical and biopharmaceutical manufacturers and the Group has maintained stable relationships with them for around 2 to 13 years. The credit period granted to these major customers are in line with those granted to the other customers. During the Year, settlement of trade receivables by these major customers in accordance with the credit terms granted had been satisfactory, with provisions of approximately RMB1,007,000 made for the Year.

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

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

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

c) Suppliers

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RESULTS AND APPROPRIATIONS

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

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

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, 28 May 2021 ("**2021 AGM**").

For determining the entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, all transfer of Shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 24 May 2021.

FINANCIAL SUMMARY

A summary of the published financial results and of the assets and liabilities of the Group for the Year, together with the financial results and of the assets and liabilities of the Group for the four years ended 31 December 2019 is set out in the section headed "Five-year Financial Summary" of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2020 are set out in Note 19 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 17 to the Consolidated Financial Statements

There was no movement in the Company's share capital during the Year.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity on pages 114 to 115 and in Note 33 to the Consolidated Financial Statements respectively.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the Shareholders as at 31 December 2020 amounted to RMB430,617,000 (31 December 2019: RMB450,324,000).

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

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

Non-executive Director
Madam Ji Lingling

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

In accordance with Articles 84(1) and 84(2) of the Articles, Mr. Ho Kin Hung, Madam Ji Lingling and Mr. Leung Oi Kin will retire by rotation at the 2021 AGM and, being eligible, will offer themselves for re-election.

DIRECTORS' PROFILES

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has renewed his/her letter of appointment with the Company for a fixed term of two years commencing on 20 June 2020, subject to certain early termination clauses of the letter.

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

Each of the independent non-executive Directors has renewed his/her letter of appointment with the Company for a fixed term of one year commencing on 21 October 2020, subject to certain early termination clauses of the letter.

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long position:

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

Notes:

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

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

(3) As at 31 December 2020, SFH was the holding company of the Company and thus an associated corporation of the Company.

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

Save as disclosed above, as at 31 December 2020, none of the Directors and/or chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

Changes in Directors' information since the date of the 2020 interim report of the Company are set out below:

– Annual salary of Mr. Ho Kin Hung, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to HK$1,839,733 with effect from 1 January 2021;

– Annual salary of Mr. Chen Yuewu, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to RMB1,012,800 with effect from 1 January 2021;

– Annual salary of Madam Zhou Ning, executive Director, payable by her employment contract with a subsidiary of the Company has been revised to RMB703,248 with effect from 1 January 2021;

– Annual Director's fee of Madam Ji Lingling, non-executive Director, has been revised to RMB482,304 with effect from 1 January 2021; and

– Annual Director's fee of each of the independent non-executive Directors has been revised to HK$180,000 with effect from 21 October 2020.

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has carried out the following non-exempt continuing connected transactions that are subject to the annual review and annual reporting requirements under Chapter 14A of the Listing Rules:

1. Engineering Framework Agreement

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

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

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

The annual cap in respect of the transactions contemplated under the Engineering Framework Agreement for the Year is Euro 2,000,000 (equivalent to approximately RMB16,050,000).

For the Year, the aggregate amount paid/payable by H+E Pharma to H+E under the Engineering Framework Agreement amounted to approximately Euro 425,000 (equivalent to approximately RMB3,347,000).

2. Pre-assembly and Assembly Framework Agreement

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

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

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

The annual cap in respect of the transactions contemplated under the Pre-assembly and Assembly Framework Agreement for the Year is Euro 3,500,000 (equivalent to approximately RMB28,088,000).

For the Year, the aggregate amount received/receivable from H+E to S-Tec under the Pre-assembly and Assembly Framework Agreement amounted to approximately Euro 1,883,000 (equivalent to approximately RMB14,830,000).

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

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

(ii) on normal commercial terms or better; and

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

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

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

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

DIRECTORS' EMOLUMENTS

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

PERMITTED INDEMNITY PROVISION

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

RETIREMENT SCHEMES

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2020, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executive of the Company), who had interests in the Shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long position:

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

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2020, the Directors and the senior management of the Company are not aware of any other person who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the largest customer and the largest supplier of the Group accounted for approximately 5.1% and 10.0% of the Group's total revenue and total purchases respectively, and the five largest customers and the five largest suppliers of the Group accounted for approximately 21.7% and 25.4% of the Group's total revenue and total purchases respectively.

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

AUDIT COMMITTEE

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

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

AUDITOR

The Consolidated Financial Statements for the Year have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment at the 2021 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2021 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

26 March 2021

CORPORATE GOVERNANCE REPORT

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

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

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

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

BOARD OF DIRECTORS

Function of the Board

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

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

Board Composition

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

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

– reviewed the Group's annual financial statements for the year ended 31 December 2019 and interim financial statements for the six months ended 30 June 2020 and the related result announcements, documents and other matters or issues raised by external auditor of the Company;

– reviewed the continuing connected transactions of the Company carried out during the year ended 31 December 2019;

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

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

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

– reviewed the engagement of external consultant in relation to the review on the Group's internal control and risk management systems, and the proposed three-year internal audit plan for the three years ending 31 December 2022.

Remuneration Committee

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

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies.

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

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

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

- reviewed the existing policy and structure for the remuneration of the Directors and senior management, and the remuneration packages of executive Directors and senior management;

- reviewed the terms of reference of the Remuneration Committee; and

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

Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– made recommendation to the Board on the re-election of retiring Directors at the 2020 AGM (as defined below); and

– reviewed the terms of reference of the Nomination Committee.

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

Corporate Governance Committee

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

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

During the Year, the Corporate Governance Committee held one meeting, at which the members of the Corporate Governance Committee principally reviewed the Company's compliance with the Corporate Governance Code for the year ended 31 December 2019 and the Corporate Governance Report for the year ended 31 December 2019, and reviewed and monitored the training and continuous professional development of the Directors.

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

Risk Management Committee

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

The primary duties of the Risk Management Committee are to review the Group's risk management policies and standards, the fundamental concepts and scope of compliance management, to provide comment on the overall target and basic policy of compliance and risk management, to monitor and evaluate the risk of the Group's business on sales to sanctioned countries and to take measures to protect the interests of the Group and the Shareholders. It is also responsible for review and monitor the training and continuous professional development of Directors and senior management.

During the Year, the Risk Management Committee held two meetings, at which the members of the Risk Management Committee principally reviewed the compliance by the Group with its undertakings to the Stock Exchange, further details of which are set out below, and reviewed, evaluated and confirmed the effectiveness of the risk management policy and system of the Company. It also reviewed the engagement of external consultant for the review on the Group's internal control and risk management systems for the three years ending 31 December 2022, the terms of reference of the Risk Management Committee, and the training and continuous professional development of the Directors.

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

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

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

BOARD MEETINGS AND GENERAL MEETING

During the Year, a general meeting, being the 2020 annual general meeting held on 29 May 2020 ("**2020 AGM**"), and four Board meetings were held.

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

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

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

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

	Attendance/Number of Meetings Eligible to attend						
Name of Director	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Risk Management Committee meeting	2020 AGM
Executive Directors:							
Mr. Ho Kwok Keung, Mars	4/4	N/A	1/1	N/A	1/1	N/A	1/1
Mr. Ho Kin Hung	4/4	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Chen Yuewu	3/4	N/A	N/A	N/A	N/A	2/2	1/1
Madam Zhou Ning	4/4	N/A	N/A	3/3	1/1	2/2	1/1
Non-executive Director:							
Madam Ji Lingling	4/4	2/2	N/A	N/A	N/A	2/2	1/1
Independent non-executive Directors:							
Mr. Cheung Lap Kei	4/4	2/2	1/1	3/3	N/A	N/A	1/1
Madam Chiu Hoi Shan	4/4	2/2	1/1	3/3	1/1	N/A	1/1
Mr. Leung Oi Kin	4/4	N/A	N/A	N/A	N/A	N/A	1/1

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

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

Emoluments Band	For the year ended 31 December 2020
HK$1,000,000 and below	**6**
HK$1,000,001 to HK$1,500,000	**1**
HK$1,500,001 to HK$2,000,000	**1**
HK$2,000,001 and above	**2**
	10

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

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

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

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

COMPANY SECRETARY

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

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

Madam Tang Xiangdi, the vice president of corporate development, is the primary point of contact at the Company for the Company Secretary.

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

ACCOUNTABILITY AND AUDIT

Responsibilities in respect of the Consolidated Financial Statements

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

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the Consolidated Financial Statements for the Year is set out in the section headed "Independent Auditor's Report" on pages 104 to 109 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The main responsibilities of each party are described as follows:

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

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

In addition, the Company has engaged external consultant to conduct annual review of the effectiveness of the risk management and internal control systems for the Year, to follow up on the internal control weaknesses identified in 2019 and certain remedial actions, to report to the Board and the Board Committees and to develop risk assessment for the Year and 3-year internal audit plans.

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

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

Main Features of the Risk Management and Internal Control Systems

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

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

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

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

Process used to identify, evaluate and manage significant risks

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

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

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

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

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

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

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

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

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

Whistleblowing Policy

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

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

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

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

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

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

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

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

Internal audit function

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

INSURANCE ON DIRECTOR'S AND OFFICER'S LIABILITIES

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

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

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

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

REMUNERATION TO THE COMPANY'S AUDITOR

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

Services Rendered	For the year ended 31 December 2020 RMB'000
Statutory audit	**3,450**
Non-audit services	**724**
Total	**4,174**

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

SHAREHOLDERS' RIGHTS

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

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

DIVIDEND POLICY

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

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

CONSTITUTIONAL DOCUMENTS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

26 March 2021

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

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

The scope of this report is based on the Company and its major subsidiaries, Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd., Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd., Austar Pharmaceutical Technology (SJZ) Ltd., Austar Hansen Lifesciences (Shanghai) Ltd and Austar Pharmaceutical Equipment (NJ) Ltd. in the People's Republic of China ("**PRC**" or "**China**"), unless specifically stated otherwise. There were no significant changes observed in the Group's operating locations, the suppliers' location and supply chain structure in the financial year ended 31 December 2020 ("**year**" or "**reporting period**").

REPORTING PERIOD AND SCOPE

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

Reporting period: 1 January 2020 to 31 December 2020, the financial period of our Annual Report 2020.

Organisations covered: the Company and its major subsidiaries.

CONTACT

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

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

CHAIRMAN'S MESSAGE

In 2020, the society has experienced a severe change due to the outbreak of COVID-19. The restricted travel amongst cities in the PRC has created the challenge for our production. As a participant in the pharmaceutical industry, we have the responsibility to contribute and help the society to solve this unprecedented global incident.

The Group has experienced several ESG issues, such as workers' safety, and workplace environment. The board of directors of the company ("**Board**") is fully aware of its responsibility to oversee all of the material ESG issues of the Group. In order to achieve it, the established ESG Executive Committee is the responsible party to oversee, review and evaluate AUSTAR's sustainability performance. The committee also aims at conducting regular meeting with the Board at least two times a year in the future to ensure the Group's ESG management strategy are in-place. Management level representatives will also present during the meeting to explain the current ESG situation of the Group to the Board, such as priorities and goals. This could let the Board to fully understand all ESG issues and base on the latest information to allocate resources to the management team.

We have also conducted materiality assessment this year by engaging different stakeholders to understand their concerns on different ESG topics throughout our business. And the result is extremely useful for us to set our future ESG goals and targets.

AUSTAR will strive to bring more success to the business, meanwhile allocating more resources in sustainable development. We certainly believe that developing our business with ESG as one of the top priorities which would bring long term value to us.

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

Ho Kwok Keung, Mars
Chairman

26 March 2021

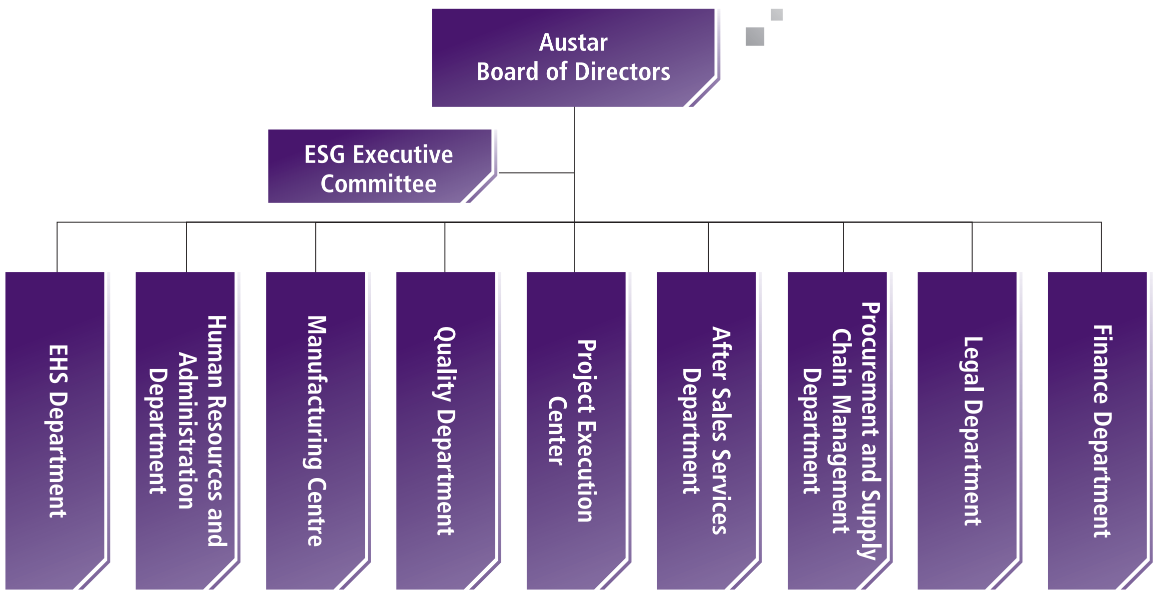
CORE VALUES/MANAGEMENT PRINCIPLES

As a leading pharmaceutical equipment and integrated engineering solution service company, we are obliged to be a socially responsible corporation. We have already integrated sustainable development during our business decision making process. The current management structure ensures the common principles of ESG management are adhered across the Group. In the meantime, we have also managed out supply chain to make sure our suppliers' ESG performances are up to our standard. At the end, we hope all of our suppliers can grow with us together in a more sustainable way.

MANAGEMENT STRUCTURE

The well-established ESG Executive Committee continues its role in the management structure. In order to let the Board oversee the Group's ESG activities better, the committee will conduct regular meetings with the Board at least twice a year in the future to discuss about the ESG development situation of AUSTAR.

Moreover, the ESG Executive Committee also conducts periodic review of ESG-related plans, principles, policies, and conducts work supervision to ensure that the Group can contribute to the environment and society and enhance its ability to perform corporate social responsibility.



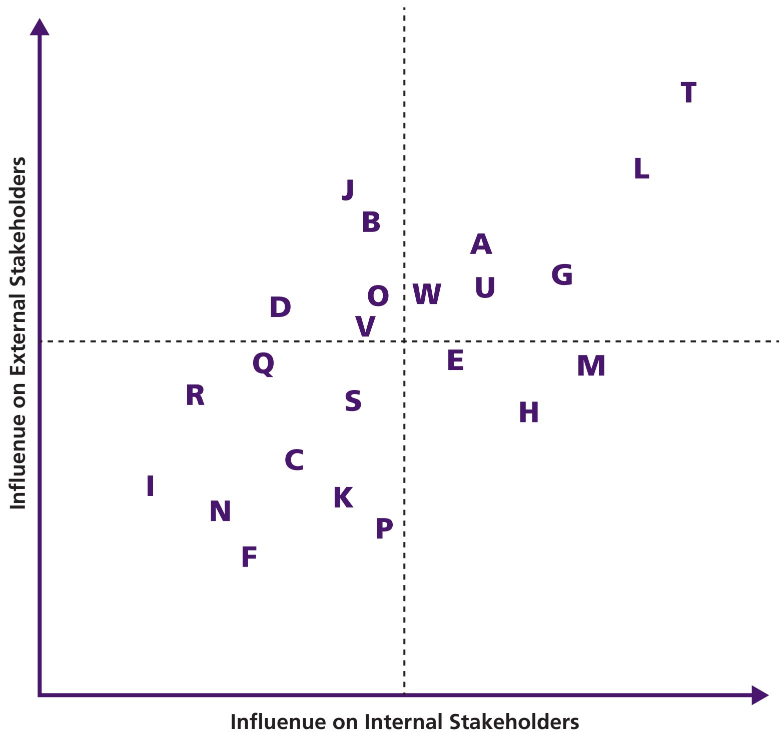
STAKEHOLDER IDENTIFICATION AND COMMUNICATION

To further improve the sustainable development strategy, stakeholders' opinions would be highly valuable. Similar to previous years, we have invited our suppliers, employees, customers and other stakeholders to comment on our approach to various issues, and ways to further improve the internal control system, corporate governance structure and formulate long-term policies. The following table sets forth the key methods for communicating with internal and external stakeholders at AUSTAR:

	Types of stakeholders	Key issues	Major communication method
Internal stakeholders	Directors (including members of the Risk Management Committee)	Risk management	Consultation via phone calls and emails Direct communication Board and Board committee meetings Suggestion box
	Employees	Vocational training and development Salaries and benefits Health and safety	Consultation via phone calls and emails Direct communication Company conferences Suggestion box
External stakeholders	Shareholders/ investors	Stable return on investment Transparency of information disclosure	General meetings Corporate communications Consultation via phone calls and emails
	Suppliers/customers	Performance of contract Standardised supply chain management system and procurement process Establishment of complaint system	Interim and annual reports Meetings, exhibitions and online webinars Social media
	Distributors	Well-established information exchange system Steady and stable supply of products	After-sales opinion box Consultation via phone calls and emails Meetings and workshops Online material sharing platform "Resource Center"
	Government	Business operation in compliance with relevant laws and regulations	Interim and annual reports Meetings
	Community/ academic institutions	Contributions to community development	Interim and annual reports Community service

MATERIALITY ASSESSMENT

To better understand stakeholders' concerns on our sustainable development issues and identify the material ESG topics, we have reached out to major stakeholders to provide their opinions of relevant issues. Based on their evaluation of AUSTAR, the impact of the business is assessed externally and internally, and key issues are summarised below. The Group has identified the main concerns of the stakeholders: the Group's employees' training and development, occupation health and safety, product safety and quality assurance management, environmental management system and related policies, child labour and forced labour issues, and customers' satisfaction. AUSTAR will continue to keep in touch with various stakeholders to improve and respond to the issues concerned.



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

ENVIRONMENTAL PERFORMANCE

During the reporting period, the major business of AUSTAR did not have a material change which is providing pharmaceutical equipment and consumable products. Therefore, electricity still remained the major type of energy source we used during the production process. A small amount of hazardous waste is generated by the Group, such as waste oil and emulsifiers for lubricating machineries, and development/fixing solutions. We have an established environmental management system to oversee the overall operation and prevent any occurrence of incompliances.

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

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

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

1. Emissions

AUSTAR strictly complies with all relevant national and local laws and regulations to control all types of emission from its business operation. The "waste water, exhaust gas and noise regulations" is in-place to ensure all production processes comply with all relevant regulations and industry guidelines. The established Environmental Management System ISO14001 also enables us to effectively control all environmental emission and pursue our environmental management goals.

Overview of the management documents related to emission:

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

1.1. Gas Emission

The production workshops of AUSTAR's production units are all fully enclosed with organic exhaust gas treatment facilities installed. The organic exhaust gas generated during production will be filtered by the treatment facilities which resulted in reducing emission of gas pollutants and maintain a safe indoor air quality level. An alert system is also installed with the treatment facilities which enables the Group continuously monitor the operation status. Third-party verification bodies are invited every year to conduct indoor air quality inspection and obtain certification from them. In addition, the Group has replaced the diesel-powered forklifts in Shijiazhuang factory with electric forklifts to reduce the consumption of fossil fuel.

The Group also ensure the measures stated in the "Management Rules on Energy Conservation and Consumption Reduction" are properly carried out during business operation. The major measures are listed below:

- All departments to manage their power consumption of air-conditioners, and to monitor departmental staff to switch off all electrical equipment and production facilities during breaks and after work;
- The Human Resources and Administration Department ("**HR Department**") reviews the performances of each department;
- Regularly maintain electrical equipment and circuits to reduce energy consumption;

- Set up ventilation and air-conditioning system and maintain at 25 degrees Celsius; and
- Promote "paper-free" office and encourage staff to reduce printing demands.

Major Gas Emission Indicators

Vehicular Emissions	Unit	Consumption in 2019	Consumption in 2020
Carbon Dioxide (CO_2)	Kilogram	25,062.4	36,812.0
Methane (CH_4)	Kilogram	2.50	3.4
Nitrous Oxide (N_2O)	Kilogram	10.8	228.9
Nitrogen Oxides (NO_x)	Kilogram	7.3	5.6
Sulphur Oxides (SO_x)	Kilogram	0.16	0.23
Particulate Matter (PM)	Kilogram	0.54	0.41

Total Greenhouse Gas Emissions	Unit	Consumption in 2019	Consumption in 2020
Direct emission from vehicles	t-CO_2 eq.	28.5	41.4
Indirect emission from electricity consumption	t-CO_2 eq.	1,262.5	1,121.1

Other Indirect Emissions	Unit	Consumption in 2019	Consumption in 2020
Emissions from processing scrap paper	Tonnes	4.1	0.3
Emissions from flights	Tonnes	2,258.1	808.9

Emission Intensity (per employee)	Unit	Consumption in 2019	Consumption in 2020
Direct emission from vehicles	t-CO_2 eq.	0.0225	0.0327
Indirect emission from electricity consumption	t-CO_2 eq.	0.9988	0.8870
Emissions from processing scrap paper	Tonnes	0.0033	0.0002
Emissions from flights	Tonnes	1.7864	0.64

1.2 Waste Management

The Group continued to implement and regularly review the established waste management system to ensure the proper handling of different types of hazardous and non-hazardous waste. The Group promotes the recycle and reuse of used office documents to reduce the generation of non-hazardous waste.

For hazardous wastes, waste oil and emulsifier for mechanical lubrication still remain the major types of hazardous waste. The Group strictly complied with national regulations and guidelines to handle all hazardous waste. All hazardous waste is stored at designated locations with clear hazard labels and warnings. Regular inspection and maintenance are conducted by staffs to prevent potential leakage. A nationally-recognised waste disposal collector is appointed to handle all of the hazardous waste generated by AUSTAR. To further reduce the generation of hazardous waste, the Group installed "Oil and Water Separation and Filtration Systems" in workshops which could reduce the consumption of emulsifier during operation. The policy of "Lean production" is still in-place to enhance the effectiveness of resource usage.

Major Waste Generation Indicator

Waste Types	Unit	Consumption in 2019	Consumption in 2020
Hazardous Waste	Tonnes	1.825	2.412
Non-Hazardous Waste	Tonnes	64.01	61.92

Waste Intensity (per employee)	Unit	Consumption in 2019	Consumption in 2020
Hazardous Waste	Tonnes	0.0014	0.0019
Non-Hazardous Waste	Tonnes	0.05	0.05

1.3 Water Discharge

Since water is not the major production resource, the Group generates minimal amount of wastewater. Nevertheless, the Group strictly complied with all relevant laws and regulations. All rainwater channel and sewage channels are separated to prevent polluting water bodies and soil around production site by contaminating rainwater. A septic tank is installed at production site to pre-process the sewage prior to discharge to the municipal sewage system.

Major Wastewater Indicator

Water Type	Unit	Consumption in 2019	Consumption in 2020
Sewage water	Tonnes	8,960.8	11,605.6

Sewage Water Intensity (per employee)	Unit	Consumption in 2019	Consumption in 2020
Sewage water	Tonnes	7.1	9.2

2. Use of Resources

The Group implemented the policy of "Lean production" to enhance resource utilisation rate during production. Municipal pipeline water supply is the only water source the Group uses for all business operation. The Group regularly conduct inspection and maintenance of the pipelines in the factories to prevent leakage. Furthermore, the Group monitors the usage of water monthly which helps us spot any abnormality of water usage instantly. During the reporting period, no material issues were observed by the Group in seeking water resources.

Resource Consumption	Unit	Consumption in 2019	Consumption in 2020
Electricity	Kilowatt Per Hour	1,400,163.0	1,339,923.0
Gasoline	Litre	9,800	13,084.0
Diesel	Litre	740	2,270.0
Water	Tonnes	8,961	11,605.6
Packaging materials	Tonnes	31	33.0

Resource consumption Intensity (per employee)	Unit	Consumption in 2019	Consumption in 2020
Electricity	Kilowatt Per Hour	1107.72	1060.07
Gasoline	Litre	7.8	10.35
Diesel	Litre	0.59	1.80
Water	Tonnes	7.1	9.18
Packaging materials	Tonnes	0.025	0.026

3. The Environment and Natural Resources

Due to the business nature, the Group causes minimal impact to the environmental and natural resources. The Group strives to minimise the impact of the business operation to the environment and natural resources. During daily operation, all environmental protection measures are under supervision to ensure proper implementation. The Group also constantly explore any potential emission reduction measures day-to-day. The "Procedures for Identifying and Evaluating Environmental Factors", "Control Procedures on EHS-Related Parties" and "EHS Operation Control Procedures" are well implemented to manage exhaust gas, noises and other wastes control measures. ISO14001 Environmental Management System is implemented which will also be regularly reviewed by third party authority to obtain certification.

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

4. Climate Change

As a leading player in pharmaceutical industry, we are fully aware of the potential impact the climate change may bring to our business operation, such as extreme weather events. As majority of our operation is conducted indoors, our Group did not experience a high level of impact by climate change.

The Group will keep monitoring the impact of climate change to our business and formulate preventive counter measures to avoid such impact in the future.

SOCIAL PERFORMANCE

1. Employment

The Group has 1,404 employees, of which 1,320 are full-time and 84 are part-time employees. All employment are strictly complied with national regulations, such as *the Labour Law of the PRC, the Labour Contract Law of the PRC, the Employment Promotion Law of the PRC, the Labour Dispute Mediation and Arbitration Law of the PRC, the Regulations of Paid Annual Leave of Employees* and local labour laws and regulations, and we use such laws and regulations to formulate the Group's policies and work codes. The Group ensures all our employees are fully protected in terms of compensation and benefits, dismissal, recruitment and promotion, working hours, rest periods, entitled leaves, equal opportunity, diversity, anti-discrimination, staff training, attendance and performance.

All the details of our employment policies are clearly stated in the Group's "Staff Handbook" such as our adoption of an eight-hour working system, and requirement for employees to seek supervisors' approval for overtime-work. Different benefits are also provided for our staffs, such as annual leave, marriage leave and maternity leave, medical insurance, medical reimbursement, maternity subsidies, birthday gifts and birthday parties, housing allowances, transportation allowances and meal allowances. From 2019 onwards, all employees can also have the 5 days paid sick leaves.

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

Major indicators for employment in 2020

	Number of Employees	Employee turnover rate	
			By gender
Male	1,061	16.8%	
Female	343	27.4%	
			By age group
Age 30 or below	361	16.1%	
Age 31-40	809	15.6%	
Age 41-50	184	45.7%	
Age 51 or above	50	0	
			By geographical region
Hong Kong	3	0	
The PRC	1,378	17.0%	
Others	23	4.2%	
Overall	1,404	19.4%	

2. Health and Safety

Safe and comfortable working environment is the Group's top priority and AUSTAR strictly complies with *the Labour Law of the PRC, the Prevention and Control of Occupational Diseases of the PRC, Fire Control Law of the PRC, Regulations on Work-related Injurie insurance* and relevant local laws and regulations.

In order to further enhance every employee's safety, the Group has upgraded the occupational health and safety certification from OHSAS 18001 to ISO45001 standard. The new ISO45001 standard allows the Group to be more efficient in managing workplace and occupational safety during business operation as the standard can be integrated with ISO14001 Environmental Management System and oversee the overall system together.

The Group also provides relevant training programs, which are designed by a third-party professional organisation, to our employees, such as potential occupational hazards, a brief introduction to the sequelae and their respective preventive measures. On-the-job and post-employment medical examinations and regular health checks are also provided for our employees. During the reporting period, AUSTAR conducted inspections and physical examinations on employees' occupational disease and occupational health and has obtained qualified results.

The Group also has a comprehensive procedure to handle any safety accidents. According to the "Control Procedures on Incident Investigation, Treatment and Report" and industrial accident management system, the Group will investigate the situation and condition of the accident if an accident arises. The management system clearly outlines the response plans, responsibilities, and treatment processes under different situations and types of accidents to minimise injuries and casualties. The Group also conducts regular occupational health and safety training to reduce the work-related risks of our employees.

During 2018 to 2020, there was no worked-related injury and fatality incident.

3. Development and Training

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

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

Major indicators for development and training.

Training	Percentage of employees trained (%) 2020	Average training hours (hours/ employees) 2020
By employment category		
Senior Management	25.0%	1.22
Middle Management	29.9%	1.02
General	36.8%	0.83
By gender		
Male	35.9%	0.85
Female	36.2%	0.84

Note: General staffs refer to department staffs.

4. Labour Standards

The Group does not tolerate any child labour and forced labour within our business operation and we strictly comply with *the Labour Law of the PRC, the Labour Contract Law of PRC, Provisions on Prohibition of Using Child Labour, the Law of the PRC on the Protection of Minors* and other related labour laws and regulations. All related rules are clearly stated in the "Staff Handbook", all applicants are required to present valid identity documents during recruitment processes. If the applicants were found to provide any false information, the Group possesses the rights to terminate the employment with immediate effect. If any situation of child labour or forced labour has been observed, the incident will be immediately reported to the management and the Group possesses the rights to terminate the employment instantly if the related personnel were found to provide false information.

Furthermore, all guidelines and regulations for attendance, labour intensity and overtime work are listed in the "Staff Handbook" and "Attendance and Leave Management Control Procedures". All employees are encouraged to enhance their work efficiency and finish all their duties within working hour. During the reporting period, AUSTAR did not find any use of forced labour and child labour.

5. Supply Chain Management on Environmental and Social Risks

The quality and the stability of raw material supply will largely influence the Group's performance. Therefore, the Group is in close business relationship with the major suppliers. The Group has established a series of management documents such as "Control Procedures on Evaluating and Managing Suppliers", "Procurement Control Procedures", and "Procurement Manual" which enables staff from the Sales Department, the Purchasing Department, the Quality Control Department and the Production Department to establish an evaluation mechanism to evaluate the performance of suppliers.

To further assess the ESG performance of the suppliers, an "Environmental, Social and Governance Self-Assessment Form" is distributed to the suppliers. For existing suppliers, the Group also conduct annual performance review and list certain suppliers with potential risks in environmental and social aspects in the "List of Related Parties in Special Need of Influence". For new suppliers who are manufacturers, they must fulfil our EHS requirement before they can pass the whole supply chain assessment. Pickling passivation subcontractors are required to possess related qualifications in order to become our business partners. In 2020, we have more than 500 suppliers being assessed for their ESG performance.

If situation allows, the Group prefers to choose suppliers who can provide more environmentally friendly materials as our suppliers. The suppliers are required to provide related information or certifications proving their products are environmentally friendly.

Major indicators for supply chain management

Region	Number of suppliers
Northeast China	18
Northern China	295
Eastern China	772
Southern China	72
Central China	16
Southwestern China	19
Northwest China	4
Foreign Countries	49

6. Product Responsibility

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

Management of Customer Complaints

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

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

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

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

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

During the reporting period, the Group does not receive any complaint and no products were required to recall due to health and safety issues.

Protecting Intellectual Property

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

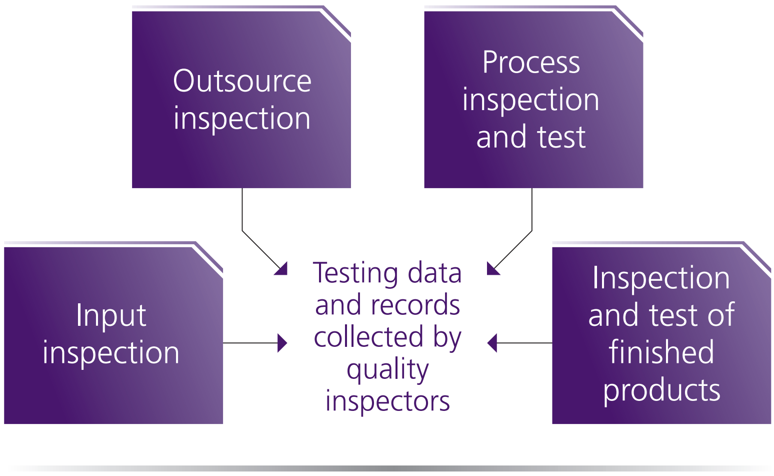
During the reporting period, the Group possessed the following intellectual properties:

Types of intellectual properties	**Number**
Copyrights	62
Patents	269

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

Strict Quality Assurance

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



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

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

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

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

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

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

Protecting Customer Information

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

7. Anti-Corruption

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

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

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

AUSTAR has two channels to report illegal or suspicious behaviours:

(A) Report on commercial bribery and fraud:

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

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

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

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

Anti-corruption training is provided to all level of staffs, including directors, which includes the basic concept of anti-corruption, introduction of Company's anti-corruption policy and implementation.

8. Community Investment

Austar always values the development of surrounding communities. Apart from the establishment of a harmonious and win-win relationship with community stakeholders, the Group also encourages our employees to participate in different community activities and fully understand the needs of community to ensure that the Group fully considers the interests of the community while developing the Group's business. The Group strives to focus on the area of education and labour needs. In 2020, the Group did not record any community investment event and aims at putting more resources on helping the society.

CONTENT INDEX

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
A. Environmental			
Aspect A1: Emissions			
General Disclosure	A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	84-88
Key Performance Indicators (“**KPI**”)	A1.1	The types of emissions and respective emissions data.	86
	A1.2	Greenhouse gas emissions in total and intensity.	86
	A1.3	Total hazardous waste produced and intensity.	87
	A1.4	Total non-hazardous waste produced and intensity.	87
	A1.5	Description of emissions target(s) and steps taken to achieve them.	85-86
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction target(s) set and steps take to achieve them.	87
Aspect A2: Use of Resources			
General Disclosure	A2	Policies on the efficient use of resources, including energy, water and other raw materials.	88

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
KPI	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity.	88
	A2.2	Water consumption in total and intensity.	88
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	88
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	88
	A2.5	Total packaging material used for finished products.	88
Aspect A3: The Environment and Natural Resources			
General Disclosure	A3	Policies on minimising the issuer's significant impact on the environment and natural resources.	89
KPI	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	89
Aspect A4: Climate Change			
General Disclosure	A4	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	89
KPI	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	89

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	89-90
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Aspect B2: Health and Safety			
General Disclosure	B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	90-91
KPI	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	91
	B2.2	Lost days due to work injury.	91
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	90-91

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
Aspect B3: Development and Training			
General Disclosure	B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	91
KPI	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	92
	B3.2	The average training hours completed per employee by gender and employee category.	92
Aspect B4: Labour Standards			
General Disclosure	B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	92
KPI	B4.1	Description of measures to review employment practices to avoid child and forced labour.	N/A
	B4.2	Description of steps taken to eliminate such practices when discovered.	N/A
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	B5	Policies on managing environmental and social risks of the supply chain.	92-93

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
KPI	B5.1	Number of suppliers by geographical region.	93
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	92-93
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	92-93
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	92-93
Aspect B6: Product Responsibility			
General Disclosure	B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	93-96
KPI	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	94
	B6.2	Number of products and service related complaints received and how they are dealt with.	94
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	94
	B6.4	Description of quality assurance process and recall procedures.	95-96
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	96

ESG Reporting Guidelines Aspects		Description	Pages/Remarks
Aspect B7: Anti-corruption			
General Disclosure	B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	96-97
KPI	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	96
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	96-97
	B7.3	Description of anti-corruption training provided to directors and staff.	97
Community			
Aspect B8: Community Investment			
General Disclosure	B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	97
KPI	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	97
	B8.2	Resources contributed (e.g. money or time) to the focus area.	97

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Austar Lifesciences Limited (the "Company") and its subsidiaries (the "Group") set out on pages 110 to 201, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

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

Independence

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

KEY AUDIT MATTERS

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables and contract assets Refer to note 13 and note 12 to the consolidated financial statements. As of 31 December 2020, the gross amounts of trade receivables and contract assets totalling approximately RMB265 million and RMB241 million where impairment provisions totalling RMB37 million was made for trade receivables and contract assets.	In addressing this matter, we had performed following procedures: 1. We understood, evaluated, and tested key controls related to assessment of the expected credit losses of trade receivables and contract assets performed by management, and assessed the inherent risk of material misstatements by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity and subjectivity. 2. For expected credit losses specifically provided against individual customers, we discussed with management to understand the detailed circumstances and basis of provision on specific customers, such as credit related information, and historical repayment record. We obtained management's assessments and reviewed the evidence available to us, including background information of customers, past transaction history and historical repayment record.

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

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

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hon Chong Heng.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2021

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**68,625**	55,005
Right-of-use assets	7	**117,300**	90,426
Intangible assets	8	**23,459**	26,253
Deferred income tax assets	10	**7,047**	6,558
Investments accounted for using the equity method	9	**62,940**	57,509
Prepayments and other receivables	14	**10,190**	10,399
Total non-current assets		**289,561**	246,150
Current assets			
Inventories	11	**209,240**	163,517
Contract assets and other assets	12	**238,119**	185,747
Trade and notes receivables	13	**279,417**	251,091
Prepayments and other receivables	14	**56,469**	47,746
Pledged bank deposits	15	**127,927**	88,778
Term deposits with initial terms of over three months	15	**162**	209
Cash and cash equivalents	15	**177,949**	191,084
Total current assets		**1,089,283**	928,172
Total assets		**1,378,844**	1,174,322

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
EQUITY			
Equity attribute to the owners of the Company			
Share capital	17	**4,071**	4,071
Reserves		**379,822**	389,560
Retained earnings		**134,006**	100,906
		517,899	494,537
Non-controlling interests		**6,675**	8,088
Total equity		**524,574**	502,625
LIABILITIES			
Non-current liabilities			
Lease liabilities	7	**32,337**	24,988
Deferred income	18	**452**	1,972
Deferred income tax liabilities	10	**15,797**	10,950
Total non-current liabilities		**48,586**	37,910
Current liabilities			
Trade and other payables	20	**439,957**	378,708
Contract liabilities	12	**322,177**	222,276
Current income tax liabilities		**832**	907
Short-term borrowings	19	**30,000**	20,000
Lease liabilities	7	**12,718**	11,896
Total current liabilities		**805,684**	633,787
Total liabilities		**854,270**	671,697
Total equity and liabilities		**1,378,844**	1,174,322

The accompanying notes on pages 117 to 201 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 110 to 201 were approved by the Board of Directors on 26 March 2021 and were signed on its behalf.

Mr. Ho Kwok Keung, Mars	**Madam Zhou Ning**
Executive Director	*Executive Director*

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Revenue	5	**1,295,980**	1,049,021
Cost of sales	5,21	**(972,450)**	(764,777)
Gross profit		**323,530**	284,244
Selling and marketing expenses	21	**(148,692)**	(137,077)
Administrative expenses	21	**(98,695)**	(108,731)
Net impairment losses on financial and contract assets	3	**(12,139)**	(5,109)
Research and development expenses	21	**(48,268)**	(42,577)
Other income	22	**8,039**	9,153
Other gains — net	23	**6,955**	146
Operating profit		**30,730**	49
Finance income	25	**3,115**	5,703
Finance costs	25	**(2,833)**	(3,736)
Finance income — net		**282**	1,967
Share of net profit of investments accounted for using the equity method	9	**10,477**	10,192
Profit before income tax		**41,489**	12,208
Income tax expense	26	**(9,884)**	(4,744)
Profit for the year		**31,605**	7,464
Profit/(loss) attributable to:			
The owners of the Company		**33,100**	8,091
Non-controlling interests		**(1,495)**	(627)
Earnings per share for profit attributable to the owners of the Company — basic and diluted (RMB)	27	**0.06**	0.02

The accompanying notes on pages 117 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Profit for the year		**31,605**	7,464
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(10,441)**	5,713
Changes in the fair value of financial assets at fair value through other comprehensive income		**74**	55
Share of other comprehensive income/(loss) of investments accounted for using the equity method	9	**711**	(213)
Other comprehensive income/(loss) for the year, net of tax		**(9,656)**	5,555
Total comprehensive income for the year		**21,949**	13,019
Total comprehensive income attributable to:			
The owners of the Company		**23,362**	13,573
Non-controlling interests		**(1,413)**	(554)
		21,949	13,019

The accompanying notes on pages 117 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

The accompanying notes on pages 117 to 201 are an integral part of these consolidated financial statements.

		Attributable to the owners of the Company								
	Notes	Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Other reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2020		**4,071**	**314,009**	**30,150**	**100,906**	**45,475**	**(74)**	**494,537**	**8,088**	**502,625**
Comprehensive income										
Profit for the year		**—**	**—**	**—**	**33,100**	**—**	**—**	**33,100**	**(1,495)**	**31,605**
Other comprehensive income										
Currency translation differences		**—**	**—**	**—**	**—**	**(10,523)**	**—**	**(10,523)**	**82**	**(10,441)**
Changes in fair value of financial assets at fair value through other comprehensive income		**—**	**—**	**—**	**—**	**—**	**74**	**74**	**—**	**74**
Share of other comprehensive income of investments accounted for using the equity method	9	**—**	**—**	**—**	**—**	**711**	**—**	**711**	**—**	**711**
Total comprehensive income		**—**	**—**	**—**	**33,100**	**(9,812)**	**74**	**23,362**	**(1,413)**	**21,949**
Balance at 31 December 2020		**4,071**	**314,009**	**30,150**	**134,006**	**35,663**	**—**	**517,899**	**6,675**	**524,574**

The accompanying notes on pages 117 to 201 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	29(a)	**55,201**	35,545
Income taxes paid		**(5,601)**	(2,946)
Interest received	25	**2,624**	5,194
Net cash generated from operating activities		**52,224**	37,793
Cash flows from investing activities			
Decrease/(increase) in term deposits with initial terms of over three months	15	**47**	(3)
Dividend received from a joint venture	9	**7,128**	—
Acquisition of a subsidiary, net of cash acquired		**—**	(7,451)
Payment for property, plant and equipment		**(26,540)**	(13,725)
Proceeds from disposal of property, plant and equipment		**242**	26
Payment for land use right		**(39,347)**	—
Payment for intangible assets		**(1,336)**	(934)
Net cash used in investing activities		**(59,806)**	(22,087)
Cash flows from financing activities			
Interest paid		**(2,793)**	(3,350)
Proceeds from borrowings	29(c)	**45,000**	25,000
Repayments of borrowings	29(c)	**(35,000)**	(30,888)
Repayment of loan from a non-controlling shareholder of a subsidiary	29(c)	**(153)**	(1,406)
Principal elements of lease payments	29(c)	**(12,567)**	(10,050)
Net cash used in financing activities		**(5,513)**	(20,694)
Net decrease in cash and cash equivalents		**(13,095)**	(4,988)
Cash and cash equivalents at beginning of year	15	**191,084**	196,459
Exchange losses on cash and cash equivalents	25	**(40)**	(387)
Cash and cash equivalents at end of year	15	**177,949**	191,084

The accompanying notes on pages 117 to 201 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in thousands of Renminbi Yuan (the "**RMB**"), unless otherwise stated, and is approved for issue by the Board of Directors on 26 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

The Group has applied the following standard for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material — amendments to IAS 1 and IAS 8
- Definition of a Business — amendments to IFRS 3
- Interest Rate Benchmark Reform — amendments to IFRS7, IFRS 9 and IAS 39
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(a) *Subsidiaries*

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(b) Associates

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

(c) Joint arrangements

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

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

(d) Equity method

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(e) *Changes in ownership interests*

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

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

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

2.3 Business combinations

(a) *Business combinations under common control*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

(b) Business combinations not under common control

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

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

(c) Group companies

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(d) *Disposal of foreign operation and partial disposal*

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

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

2.7 Property, plant and equipment

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

2.8 Intangible assets

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

(a) Computer software

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

(b) Goodwill

Goodwill is measured as described in note 2.3(b). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

(c) Trademarks and Know-How

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

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

2.9 Research and development

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

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

2.11 Financial assets

2.11.1 Classification

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

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

- those to be measured at amortised cost.

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

2.11.2 Recognition and derecognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.3 Measurement

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

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

Debt instruments

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.3 Measurement (Continued)

Equity instruments

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

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

2.11.4 Impairment

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

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

2.12 Offsetting financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial guarantee contracts

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

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

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

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

2.14 Inventories

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

2.15 Trade receivables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Trade and other payables

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

2.19 Borrowings

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

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

2.20 Borrowing costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax (Continued)

(c) Offsetting

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

2.22 Employee benefits

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

Pension and social obligations

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Provisions

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

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

2.24 Revenue recognition

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

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

(a) Revenue from system engineering contract

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

(b) Revenue from sale of goods

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

(c) Revenue from services rendered

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

2.25 Government grants

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

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

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

2.26 Interest income

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

2.27 Dividend income

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

2.28 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leases (Continued)

- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

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

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

To determine the incremental borrowing rate, the group:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leases (Continued)

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

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

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

As at 31 December 2020, if Hong Kong dollar had weakened/strengthened by 1% against the US dollar with all other variables held constant, profit before income tax for the years would have been RMB372,000 (as at 31 December 2019: RMB347,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash and cash equivalents, pledged bank deposit, receivables and payables held by the Group entities.

As at 31 December 2020, if Hong Kong dollar had weakened/strengthened by 5% against the EUR with all other variables held constant, profit before income tax for the years would have been RMB2,341,000 (as at 31 December 2019: RMB2,136,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of EUR denominated cash and cash equivalents, pledged bank deposit, receivables and payables held by the Group entities.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

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

(i) Risk management

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

(ii) Impairment of financial assets

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

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

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

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles of sales over a period of 72 months before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group considers the following indicator in forward looking estimates, such as changes in macroeconomic conditions, time value, industry trends and accordingly adjusts the historical loss rates based on expected changes in these factors.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for both trade receivables and contract assets.

31 December 2020	With in 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected loss rate	0.77%	4.09%	16.46%	36.09%	63.46%	
Gross carrying amount — trade receivables	165,784	20,817	40,207	10,227	23,053	260,088
Gross carrying amount — contract assets	222,688	7,435	8,075	1,438	614	240,250
Loss allowance	2,976	1,155	7,945	4,210	15,018	31,304

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

As at 31 December 2020, specific provisions of RMB5,751,000 (2019:RMB6,330,000) have been provided against trade receivables and contract assets of RMB5,751,000 (2019:RMB6,330,000) for customers with known financial difficulties.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

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

	2020 RMB'000	2019 RMB'000
Opening loss allowance at 1 January	**26,647**	26,878
Increase in loss allowance recognised in profit or loss during the year	**12,245**	6,392
Reversal of previous impairment loss	**(310)**	(1,252)
Receivables written off during the year as uncollectible	**(1,527)**	(5,371)
Closing loss allowance at 31 December	**37,055**	26,647

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

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

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

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

	2020 **RMB'000**	2019 RMB'000
Opening loss allowance at 1 January	**116**	147
Increase/(decrease) in loss allowance recognised in profit or loss during the year	**204**	(31)
Closing loss allowance at 31 December	**320**	116

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

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

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

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

	2020 **RMB'000**	2019 RMB'000
Impairment losses for trade receivables and contract assets	**11,935**	5,140
Provision for/(reversal of) impairment on other financial assets at amortised cost	**204**	(31)
Net impairment losses on financial and contract assets	**12,139**	5,109

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

	Less than 1 year RMB'000	Between 1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2020					
Trade payables	**280,591**	**—**	**—**	**280,591**	**280,591**
Notes payables	**16,331**	**—**	**—**	**16,331**	**16,331**
Other payables	**51,106**	**—**	**—**	**51,106**	**51,106**
Short-term borrowings	**31,155**	**—**	**—**	**31,155**	**30,000**
Lease liabilities (Note 7)	**17,586**	**23,455**	**13,179**	**54,220**	**45,055**
Financial guarantee contracts	**7,118**	**—**	**—**	**7,118**	**—**
	403,887	**23,455**	**13,179**	**440,521**	**423,083**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

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

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

The gearing ratio as at 31 December 2020 and 2019 are as follows:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Total debt (Note 29(c))	**76,465**	58,447
Total equity	**524,574**	502,625
Total capital	**601,039**	561,072
Gearing ratio	**13%**	10%

The gearing ratio increased from 10% to 13% as a result of the increase in short borrowing and lease liabilities in 2020.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Financial assets

(i) Fair value hierarchy

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
At 31 December 2020			
Financial assets			
FVOCI			
— Notes receivable	**—**	**14,876**	**—**
Total financial assets	**—**	**14,876**	**—**

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Financial assets (Continued)

(i) *Fair value hierarchy* (Continued)

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of trade receivables and contract assets

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

(b) Revenue recognised over time

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

(c) Impairment of inventories

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

(d) Income taxes and deferred income taxation

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

5. SEGMENT INFORMATION

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

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

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

The segment results for the year ended 31 December 2020 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	634,619	303,465	120,822	55,595	254,508	20,800	1,389,809
Inter-segment revenue	(46,131)	(39,029)	(297)	(2,866)	(4,338)	(1,168)	(93,829)
Revenue	588,488	264,436	120,525	52,729	250,170	19,632	1,295,980
Recognised at a point in time	139,202	42,855	13,741	2,162	250,170	19,632	467,762
Recognised over time	449,286	221,581	106,784	50,567	—	—	828,218
Cost of sales	(498,237)	(207,239)	(86,414)	(26,754)	(140,819)	(12,987)	(972,450)
Segment results							
Gross profit	90,251	57,197	34,111	25,975	109,351	6,645	323,530
Other segment items							
Amortisation	2,715	704	54	23	—	9	3,505
Depreciation	16,729	5,957	1,435	801	3,066	407	28,395
Provision for impairment losses on financial and contract assets	7,670	1,899	783	357	1,293	137	12,139
(Reversal of)/provision for impairment of inventories	(818)	1,021	518	218	(533)	70	476
Impairment of goodwill	3,141	—	—	—	—	—	3,141
Share of net profits of investments accounted for using the equity method	7,559	123	—	—	2,795	—	10,477

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2019 are as follows:

	Liquid and Bioprocess System RMB'000	Clean Room and Automation Control and Monitoring System RMB'000	Powder and Solid System RMB'000	GMP Compliance Service RMB'000	Life Science Consumables RMB'000	Distribution and Agency of Pharmaceutical Equipment RMB'000	Total RMB'000
Segment revenue and results							
Segment revenue	482,816	300,934	87,175	54,685	204,303	24,056	1,153,969
Inter-segment revenue	(46,836)	(50,059)	(4,212)	(1,044)	(717)	(2,080)	(104,948)
Revenue	435,980	250,875	82,963	53,641	203,586	21,976	1,049,021
Recognised at a point in time	82,829	55,871	31,572	8,468	203,586	21,976	404,302
Recognised over time	353,151	195,004	51,391	45,173	—	—	644,719
Cost of sales	(361,347)	(191,980)	(55,048)	(25,525)	(116,941)	(13,936)	(764,777)
Segment results Gross profit	74,633	58,895	27,915	28,116	86,645	8,040	284,244
Other segment items							
Amortisation	1,536	632	58	33	—	15	2,274
Depreciation	13,434	6,338	1,119	698	2,141	293	24,023
Provision for/(reversal of) impairment losses on financial and contract assets	4,872	(263)	(191)	(79)	819	(49)	5,109
Impairment of inventories	11,902	1,018	165	104	344	43	13,576
Share of net profit/(loss) of investments accounted for using the equity method	5,222	(208)	—	—	5,178	—	10,192

5. SEGMENT INFORMATION (Continued)

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

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Liquid and Bioprocess System	**90,251**	74,633
Clean Room and Automation Control and Monitoring System	**57,197**	58,895
Powder and Solid System	**34,111**	27,915
GMP Compliance Service	**25,975**	28,116
Life Science Consumables	**109,351**	86,645
Distribution and Agency of Pharmaceutical Equipment	**6,645**	8,040
Total gross profit for reportable segments	**323,530**	284,244
Selling and marketing expenses	**(148,692)**	(137,077)
Administrative expenses	**(98,695)**	(108,731)
Net impairment losses on financial and contract assets	**(12,139)**	(5,109)
Research and development expenses	**(48,268)**	(42,577)
Other income	**8,039**	9,153
Other gains — net	**6,955**	146
Finance income — net	**282**	1,967
Share of net profit of investments accounted for using the equity method	**10,477**	10,192
Profit before income tax	**41,489**	12,208

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2020 and 2019 are as follows:

	As at 31 December 2020		As at 31 December 2019	
	Total assets RMB'000	Investments accounted for using the equity method RMB'000	Total assets RMB'000	Investments accounted for using the equity method RMB'000
Liquid and Bioprocess System	543,838	17,758	354,973	17,369
Clean Room and Automation Control and Monitoring System	255,687	23,010	255,540	21,517
Powder and Solid System	71,943	—	70,490	—
GMP Compliance Service	33,197	—	32,586	—
Life Science Consumables	159,687	22,172	136,658	18,623
Distribution and Agency of Pharmaceutical Equipment	6,745	—	28,085	—
Total segment assets	1,071,097	62,940	878,332	57,509
Unallocated				
Deferred income tax assets	7,047		6,558	
Headquarter assets	300,700		289,432	
Total assets	1,378,844		1,174,322	

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

5. SEGMENT INFORMATION (Continued)

The Group's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

	As at 31 December 2020 Total liabilities RMB'000	As at 31 December 2019 Total liabilities RMB'000
Liquid and Bioprocess System	**415,592**	292,155
Clean Room and Automation Control and Monitoring System	**133,377**	118,086
Powder and Solid System	**47,894**	39,594
GMP Compliance Service	**22,280**	19,725
Life Science Consumables	**97,089**	84,617
Distribution and Agency of Pharmaceutical Equipment	**5,503**	10,276
Total segment liabilities	**721,735**	564,453
Unallocated		
Deferred income tax liabilities	**15,797**	10,950
Short-term borrowings	**30,000**	20,000
Headquarter liabilities	**86,738**	76,294
Total liabilities	**854,270**	671,697

5. SEGMENT INFORMATION (Continued)

Geographical information

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

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Revenue		
Mainland China	**1,219,015**	964,135
Other locations	**76,965**	84,886
	1,295,980	1,049,021

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Non-current assets other than financial assets and deferred tax assets		
Mainland China	**192,213**	152,502
Other locations	**80,111**	76,691
	272,324	229,193

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2019						
Opening net book value	7,089	30,795	1,402	2,601	8,682	50,569
Additions	—	7,446	111	4,301	4,720	16,578
Transfer upon completion of construction	—	1,021	—	—	(1,021)	—
Acquisition of a subsidiary	—	624	—	—	112	736
Depreciation charge (Note 21)	(738)	(6,536)	(443)	(1,645)	(1,814)	(11,176)
Disposal	—	(416)	(1)	—	(1,285)	(1,702)
Closing net book value	6,351	32,934	1,069	5,257	9,394	55,005
As at 31 December 2019						
Cost	16,443	58,047	4,753	5,257	29,867	114,367
Accumulated depreciation	(10,092)	(25,113)	(3,684)	—	(20,473)	(59,362)
Net book value	6,351	32,934	1,069	5,257	9,394	55,005
Year ended 31 December 2020						
Opening net book value	**6,351**	**32,934**	**1,069**	**5,257**	**9,394**	**55,005**
Additions	**7**	**3,437**	**188**	**17,525**	**6,569**	**27,726**
Transfer upon completion of construction	**—**	**373**	**—**	**(373)**	**—**	**—**
Transfer to intangible assets (Note 8)	**—**	**—**	**—**	**(1,782)**	**—**	**(1,782)**
Depreciation charge (Note 21)	**(739)**	**(7,015)**	**(260)**	**—**	**(3,991)**	**(12,005)**
Disposal	**—**	**(57)**	**—**	**—**	**(262)**	**(319)**
Closing net book value	**5,619**	**29,672**	**997**	**20,627**	**11,710**	**68,625**
As at 31 December 2020						
Cost	**16,450**	**61,602**	**4,941**	**20,627**	**34,698**	**138,318**
Accumulated depreciation	**(10,831)**	**(31,930)**	**(3,944)**	**—**	**(22,988)**	**(69,693)**
Net book value	**5,619**	**29,672**	**997**	**20,627**	**11,710**	**68,625**

As at 31 December 2020 and 2019, the Group's buildings were secured for short-term borrowings (Note 19).

7. LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2020 RMB'000	As at 1 January 2019 RMB'000
Right-of-use assets		
Land use right	**73,351**	53,082
Buildings	**43,949**	37,344
	117,300	90,426
Lease liabilities		
Current	**12,718**	11,896
Non-current	**32,337**	24,988
	45,055	36,884

Additions to the right-of-use assets during the 2020 financial year were RMB20,738,000 (2019: RMB11,252,000).

7. LEASES (Continued)

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Note	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Depreciation charge of right-of use assets	Note 21		
Land use right		**2,257**	1,131
Buildings		**14,133**	11,716
		16,390	12,847
Interest expense (included in finance costs)	Note 25	**1,755**	1,610

The total cash outflow for leases in 2020 was RMB14,322,000 (2019: RMB11,660,000). The details are as follows:

- Payment for principle elements of leases — RMB12,567,000 (2019: RMB10,050,000)
- Payment for interest elements of leases — RMB1,755,000 (2019: RMB1,610,000)

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, plants and pieces of land. Rental contracts are typically made for fixed periods of 1 to 50 years as stated below but may have enforceability beyond the written contracts as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

	Lease terms
Buildings	1-10 years
Land use right	50 years

7. LEASES (Continued)

(d) Enforceability beyond the written contracts

Enforceability beyond the written contracts are included in a number of offices, warehouses and plants leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

(e) As at 31 December 2020 and 2019, the Group's land use right were secured for short-term borrowings (Note 19 and 32).

8. INTANGIBLE ASSETS

	Software and others RMB'000	Trademarks RMB'000	Know-how RMB'000	Goodwill RMB'000	Total RMB'000
Year ended 31 December 2019					
Opening net book value	9,012	—	—	—	9,012
Additions	965	—	—	—	965
Acquisition of a subsidiary	—	3,379	10,292	4,565	18,236
Exchange differences	—	58	176	80	314
Amortisation charge (Note 21)	(1,701)	(142)	(431)	—	(2,274)
Closing net book value	8,276	3,295	10,037	4,645	26,253
As at 31 December 2019					
Cost	14,660	3,437	10,468	4,645	33,210
Accumulated amortisation	(6,384)	(142)	(431)	—	(6,957)
Net book value	8,276	3,295	10,037	4,645	26,253
Year ended 31 December 2020					
Opening net book value	**8,276**	**3,295**	**10,037**	**4,645**	**26,253**
Additions	**1,625**	**—**	**—**	**—**	**1,625**
Transfer from construction in progress (Note 6)	**1,782**	**—**	**—**	**—**	**1,782**
Exchange differences	**—**	**94**	**285**	**125**	**504**
Impairment charge	**—**	**—**	**—**	**(3,200)**	**(3,200)**
Amortisation charge (Note 21)	**(2,061)**	**(357)**	**(1,087)**	**—**	**(3,505)**
Closing net book value	**9,622**	**3,032**	**9,235**	**1,570**	**23,459**
As at 31 December 2020					
Cost	**18,067**	**3,531**	**10,753**	**4,770**	**37,121**
Accumulated amortisation and impairment	**(8,445)**	**(499)**	**(1,518)**	**(3,200)**	**(13,662)**
Net book value	**9,622**	**3,032**	**9,235**	**1,570**	**23,459**

8. INTANGIBLE ASSETS (Continued)

Note:

(a) Amortisation expenses are included in cost of sales RMB101,000 (2019: RMB80,000), selling and marketing expenses RMB18,000 (2019: RMB100,000), and administrative expenses RMB3,386,000 (2019: RMB2,094,000).

(b) The carrying amount of goodwill at the end of the reporting period is attributable to acquisition of a subsidiary, which is identified as a cash generating unit ("**CGU**").

The recoverable amount of the above CGU is determined based on value in use calculation. The calculation uses cash flow projections based on the financial budget of five years approved by management and a pre-tax discount rate of 17%. Cash flows beyond the five-year period are maintained constant. Key assumptions in preparing the cash flow projection are gross margin and annual growth rates in revenue which are determined based on past performance and management's expectation on the future trend of service orders in the following 5 years. The impairment charge for the 2020 financial year is mainly due to the descending prospective income by the consideration of COVID-19.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	2020 **RMB'000**	2019 RMB'000
Opening balance at 1 January	**57,509**	47,728
Share of net profit	**10,477**	10,192
Share of other comprehensive income	**711**	(213)
Exchange differences	**1,371**	(198)
Dividend received	**(7,128)**	—
Closing balance at 31 December	**62,940**	57,509

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

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Note	Measurement method
Steris-Austar Pharmaceutical Systems Hong Kong Limited ("**STERIS-AUSTAR JV**")	Hong Kong	49.00%	Joint venture	Note (a)	Equity
Steris-Austar Pharmaceutical Systems (Shanghai) Ltd. ("**STERIS-AUSTAR WFOE**")	Shanghai	49.00%	Joint venture	Note (a)	Equity
PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**")	Hong Kong	60.00%	Joint venture	Note (b)	Equity
PALL-Austar Packaging Technology (Beijing) Co., Ltd. ("**PALL-AUSTAR WFOE**")	Beijing	60.00%	Joint venture	Note (b)	Equity
ROTA Verpackungstechnik GmbH & Co. KG ("**ROTA KG**")	Germany	33.33%	Associate	Note (c)	Equity
ROTA Verpackungstechnik Verwaltungsgesellschaft mbH ("**ROTA GmbH**")	Germany	33.33%	Associate	Note (c)	Equity

Note:

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

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

(c) ROTA KG is a strategic partnership to the Group, which develops and produces pharmaceutical equipment in Germany. ROTA GmbH, the general partner of ROTA KG, is an investment holding company.

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

Summarised balance sheet

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

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG*	
	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	As at 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	As at 31 December 2019 RMB'000
Current						
Cash and cash equivalents	**32,384**	29,240	**16,754**	20,160	**1,711**	5,903
Other current assets	**46,942**	42,418	**36,196**	31,981	**105,197**	107,332
Total current assets	**79,326**	71,658	**52,950**	52,141	**106,908**	113,235
Financial liabilities (excluding trade payables)	**(5,318)**	(5,353)	**(6,051)**	(3,977)	**(6,767)**	(3,682)
Other current liabilities (including trade payables)	**(38,538)**	(32,246)	**(14,489)**	(10,536)	**(100,195)**	(99,306)
Total current liabilities	**(43,856)**	(37,599)	**(20,540)**	(14,513)	**(106,962)**	(102,988)
Non-current						
Assets	**2,905**	2,877	**32,737**	25,963	**60,840**	54,588
Financial liabilities	**—**	—	**(19,673)**	(20,008)	**(18,313)**	(20,172)
Other liabilities	**(2,134)**	(1,490)	**(8,522)**	(12,543)	**(6,486)**	(6,392)
Net assets	**36,241**	35,446	**36,952**	31,040	**35,987**	38,271

* The financial information includes its respective subsidiary.

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

Summarised comprehensive income statement

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG*	
	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	**Year ended 31 December 2020 RMB'000**	Year ended 31 December 2019 RMB'000	**Year ended 31 December 2020 RMB'000**	Year ended 31 December 2019 RMB'000
Revenue	**76,965**	70,268	**44,237**	43,353	**138,096**	125,891
Depreciation and amortisation	**(296)**	(303)	**(1,435)**	(1,392)	**(3,930)**	(3,271)
Interest income	**224**	175	**142**	52	**—**	—
Interest expense	**(7)**	(3)	**(1,115)**	(1,065)	**(2,259)**	(2,069)
Profit before income tax	**21,611**	15,042	**5,960**	11,154	**419**	(711)
Income tax expense	**(6,184)**	(4,385)	**(1,301)**	(2,524)	**(51)**	87
Profit for the year	**15,427**	10,657	**4,659**	8,630	**368**	(624)
Other comprehensive income	**(86)**	(36)	**1,253**	(325)	**(2,652)**	(593)
Total comprehensive income	**15,341**	10,621	**5,912**	8,305	**(2,284)**	(1,217)
Dividends received from joint ventures	**7,128**	—	**—**	—	**—**	**—**

* The financial information includes its respective subsidiary.

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

Summarised financial information

	STERIS-AUSTAR JV*		PALL-AUSTAR JV*		ROTA KG*	
	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	As at 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	As at 31 December 2019 RMB'000
Opening net assets as at 1 January	**35,446**	24,825	**31,040**	22,735	**38,271**	39,488
Profit for the year	**15,427**	10,657	**4,659**	8,632	**368**	(624)
Dividends	**(14,546)**	—	**—**	—	**—**	—
Other comprehensive income	**(86)**	(36)	**1,253**	(327)	**(2,652)**	(593)
Closing net assets	**36,241**	35,446	**36,952**	31,040	**35,987**	38,271
Interest	**17,758**	17,369	**22,170**	18,623	**14,252**	12,757
Goodwill	**—**	—	**—**	—	**8,760**	8,760
Carrying value	**17,758**	17,369	**22,170**	18,623	**23,012**	21,517

* The financial information includes its respective subsidiary.

The information above reflects the amounts presented in the financial statements of the associates and joint ventures and not the Group's share of those amounts. They have been amended to reflect adjustment made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policies between the Group and the associates and joint ventures.

10. DEFERRED INCOME TAX

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Deferred income tax assets		
— to be recovered within 12 months	**6,979**	6,436
— to be recovered after more than 12 months	**68**	122
	7,047	6,558
Deferred income tax liabilities		
— to be recovered within 12 months	**(185)**	(180)
— to be recovered after more than 12 months	**(15,612)**	(10,770)
	(15,797)	(10,950)
	(8,750)	(4,392)

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

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
As at 31 December 2019	**(4,392)**	(745)
Acquisition of a subsidiary	**—**	(1,775)
Charged directly to equity	**(45)**	(31)
Charged to the consolidated income statement (Note 26)	**(4,313)**	(1,841)
As at 31 December 2020	**(8,750)**	(4,392)

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax assets is as follows:

	Tax losses RMB'000	Impairment provision of receivables and inventories RMB'000	Warranty provisions and others RMB'000	Total RMB'000
As at 31 December 2018	1,262	5,506	496	7,264
(Charged)/credited to the consolidated income statement	(900)	(491)	685	(706)
As at 31 December 2019	362	5,015	1,181	6,558
(Charged)/credited to the consolidated income statement	(362)	747	104	489
As at 31 December 2020	**—**	**5,762**	**1,285**	**7,047**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

For the year ended 31 December 2020, the Group did not recognise deferred income tax assets of RMB32,923,000 (2019: RMB31,071,000) in respect of losses amounting to RMB200,859,000 (2019: RMB197,188,000) as utilisation of such tax losses before expiry is uncertain.

For the year ended 31 December 2020, the Group did not recognise deferred income tax assets of RMB1,901,000 (2019: RMB763,000) in respect of deductible temporary differences amounting to RMB12,676,000 (2019: RMB5,087,000) as utilisation of such deductible temporary differences in the foreseeable further is uncertain.

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax liabilities is as follows:

	Withholding tax RMB'000	Fair value adjustments RMB'000	Total RMB'000
As at 31 December 2018	(8,009)	—	(8,009)
Acquisition of a subsidiary	—	(1,775)	(1,775)
(Charged)/credited to the consolidated income statement	(1,210)	75	(1,135)
Charged directly to equity	—	(31)	(31)
As at 31 December 2019	(9,219)	(1,731)	(10,950)
Acquisition of a subsidiary			
(Charged)/credited to the consolidated income statement	(4,984)	182	(4,802)
Charged directly to equity	—	(45)	(45)
As at 31 December 2020	**(14,203)**	**(1,594)**	**(15,797)**

11. INVENTORIES

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Raw materials	**87,073**	62,269
Work in progress	**82,647**	75,461
Finished goods	**49,344**	40,399
	219,064	178,129
Less: provision for inventories	**(9,824)**	(14,612)
	209,240	163,517

11. INVENTORIES (Continued)

Movements of provision for inventories are analysed as follows:

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Beginning of the year	**(14,612)**	(7,534)
Addition	**(2,021)**	(13,576)
Reversal	**1,545**	—
Write-off	**5,264**	6,498
End of the year	**(9,824)**	(14,612)

12. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

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

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Contract assets	(i)	**240,778**	186,523
Loss allowance of contract assets		**(4,699)**	(3,659)
		236,079	182,864
Costs incurred to obtain contracts	(iii)	**2,040**	2,883
Total contract assets and other assets		**238,119**	185,747
Contract liabilities	(i)	**(322,177)**	(222,276)

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

(i) Revenue recognised in relation to contract liabilities

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**123,606**	152,764

(ii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts.

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	**1,242,050**	882,937

As of 31 December 2020, the aggregate amount of the transaction price allocated to the remaining performance obligation ("**backlog**") is RMB1,242.1 million and management expects that the Group will recognise this revenue as the contracts are completed, most of which is expected to occur over the next 24 months.

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

(iii) Costs incurred to obtain contracts

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Asset recognised from costs incurred to obtain contracts at 31 December	**2,040**	2,883
Amortisation recognised as cost of satisfying performance obligations during the year	**2,304**	4,334

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

13. TRADE AND NOTES RECEIVABLES

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Trade receivables (Note (b))	**265,311**	226,963
Notes receivable (Note (a))	**46,462**	47,116
	311,773	274,079
Less: loss allowance	**(32,356)**	(22,988)
	279,417	251,091

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2019: within six months).

13. TRADE AND NOTES RECEIVABLES (Continued)

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Within 6 months	**165,784**	143,827
6 months to 1 year	**20,817**	17,536
1 to 2 years	**41,513**	29,576
2 to 3 years	**10,594**	26,767
Over 3 years	**26,603**	9,257
	265,311	226,963

Most of the trade receivables are due within 90 days in accordance with sales contracts.

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
RMB	**264,712**	238,611
US$	**3,794**	6,582
HK$	**2,419**	46
EUR	**8,486**	5,852
Others	**6**	—
	279,417	251,091

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Current:		
Non-financial assets		
— Prepayments to suppliers	**34,863**	28,332
— Staff advance	**2,352**	2,299
— Others	**5,867**	6,393
	43,082	37,024
Less: provision for impairment (Note (b))	**(544)**	(650)
	42,538	36,374
Financial assets at amortised cost		
— Deposits as guarantee for tender	**14,251**	11,488
Less: loss allowance (Note 3.1(b))	**(320)**	(116)
	13,931	11,372
	56,469	47,746
Non-current:		
Loan and interest to PALL-AUSTAR JV (Note (d), Note 31(c)(i))	**10,190**	10,399
	10,190	10,399

(a) As at 31 December 2020 and 2019, the carrying amounts of other receivables approximated their fair values.

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Beginning of the year	**(650)**	(1,111)
Addition	**98**	(35)
Write-off	**8**	496
End of the year	**(544)**	(650)

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
RMB	**20,233**	19,202
US$	**—**	58
HK$	**65**	382
	20,298	19,642

(d) This loan to PALL-AUSTAR JV is provided by its shareholder Austar Pharmaceutical Process Systems Limited ("**APPS**"), a subsidiary of the Group. This loan is unsecured and bearing interest rate at LIBOR plus an interest rate variable as prescribed in the loan agreement. For the year ended 31 December 2020, the effective interest rate ranged from 5.34% to 5.94% (2019: 6.01% to 6.96%) per annum. This loan will be expired in 2023.

15. CASH AND BANK BALANCES

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Cash and cash equivalents		
— Cash in hand	**5,737**	111
— Deposits at bank	**172,212**	190,973
	177,949	191,084
Pledged bank deposits (Note (a))	**127,927**	88,778
Term deposits with initial terms of over three months	**162**	209
	306,038	280,071

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

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
HK$	**96,226**	122,223
RMB	**159,665**	118,132
US$	**39,291**	31,853
EUR	**9,424**	7,842
Others	**1,432**	21
	306,038	280,071

16. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Financial assets		
Financial assets at amortised cost		
— Loan and interest to PALL-AUSTAR JV (Note 14)	**10,190**	10,399
— Trade receivables (Note 13)	**265,311**	226,963
— Notes receivables (Note 13)	**31,586**	35,719
— Deposits as guarantee for bidding (Note 14)	**14,251**	11,488
— Pledged bank deposits (Note 15)	**127,927**	88,778
— Term deposits with initial terms of over three months (Note 15)	**162**	209
— Cash and cash equivalents (Note 15)	**177,949**	191,084
Financial assets at fair value through other comprehensive income (FVOCI)		
— Notes receivables	**14,876**	11,397
Total	**642,252**	576,037
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and other payables (Note 3.1(c))	**348,028**	326,923
— Borrowings (Note 19)	**30,000**	20,000
Lease liabilities (Note 7)	**45,055**	36,884
Total	**423,083**	383,807

17. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2019 and 2020	10,000,000	100,000

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000
Issued and fully paid, HK$0.01 each:			
At 31 December 2019 and 2020	512,582	5,126	4,071

18. DEFERRED INCOME

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
At beginning of the year	**1,972**	3,511
Additions of government grant obtained	**300**	801
Credited to consolidated income statement	**(1,820)**	(2,340)
At end of the year	**452**	1,972

19. SHORT-TERM BORROWINGS

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Bank borrowings, secured (Note (a))	**20,000**	20,000
Bank borrowings, guaranteed (Note (b))	**10,000**	—
	30,000	20,000

(a) As at 31 December 2020, secured short-term bank borrowings are denominated in RMB and secured by the Group's buildings (Note 6) and right-of-use assets (Note 7). For the year ended 31 December 2020, the short-term bank borrowings bear interest rate of 4.57%(2019: 4.57%) per annum and is repayable within one year.

(b) As at 31 December 2020, the short-term bank borrowings are guaranteed by Shanghai Administration Center of Policy Financing Guarantee Funds for SMEs. For the year ended 31 December 2020, the short-term bank borrowings bear interest rate of 3.65% per annum and is repayable within one year (2019: nil).

20. TRADE AND OTHER PAYABLES

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Trade payables	**280,591**	236,504
Notes payables	**16,331**	25,244
Payroll and welfare payable	**64,499**	37,856
Taxes other than income taxes payable	**15,067**	3,510
Warranty provision	**12,109**	12,422
Accrued expenses	**17,401**	29,883
Employee payable	**3,494**	5,533
Loan from a non-controlling shareholder of a subsidiary (Note (a))	**1,410**	1,563
Others	**29,055**	26,193
	439,957	378,708

(a) As at 31 December 2020 and 2019, the loan from a non-controlling shareholder of a subsidiary is unsecured and unguaranteed, bears interest at 5.00% per annum and repayable on demand.

20. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Within 6 months	**247,112**	206,632
6 months to 1 year	**12,667**	14,597
1 to 2 years	**13,036**	7,550
2 to 3 years	**2,146**	2,735
Over 3 years	**5,630**	4,990
	280,591	236,504

(c) As at 31 December 2020 and 2019, the carrying amounts of trade and other payables approximated their fair values.

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
RMB	**412,195**	349,664
US$	**17,279**	13,628
HK$	**25**	4,063
EUR	**10,457**	10,546
Others	**—**	807
	439,957	378,708

(e) As at 31 December 2020, payments for trade payables RMB27,551,000 (31 December 2019: RMB35,778,000) with notes receivable were not derecognised.

21. EXPENSES BY NATURE

	For the Year ended 31 December 2020 RMB'000	For the Year ended 31 December 2019 RMB'000
Raw materials	**722,907**	570,889
Staff costs, including directors' emoluments (Note 24)	**308,833**	225,741
On-site subcontract fee	**48,225**	59,659
Travel expenses	**33,676**	43,136
Promotion expenses	**12,681**	22,176
Freight and port charges	**22,796**	21,973
Impairment of inventories (Note 11)	**476**	13,576
Professional fees	**12,319**	13,310
Depreciation		
— Property, plant and equipment (Note 6)	**12,005**	11,176
— Right-of-use assets (Note 7)	**16,390**	12,847
Office expenses	**7,233**	10,524
Warranty provision	**8,663**	6,548
Sales tax and surcharges	**8,180**	4,988
Auditor's remuneration		
— Audit service		
— PricewaterhouseCoopers	**3,450**	3,450
— Other auditors	**541**	538
— Non-audit service	**724**	9
Amortisation (Note 8)	**3,505**	2,274
Impairment of goodwill	**3,141**	—
Communication expenses	**2,560**	1,997
Technical service fee	**9,768**	1,526
Business entertainment expenses	**8,535**	8,316
Repair and maintenance	**2,618**	1,369
Human resources management expenses	**1,873**	2,855
Bank charges	**1,818**	2,028
Convention service expenses	**1,423**	2,805
Property management fee	**1,306**	1,076
Labour insurance premiums	**676**	603
Renovation expenses	**562**	995
Other operating expenses	**11,221**	6,778
	1,268,105	1,053,162

22. OTHER INCOME

	For the Year ended 31 December 2020 RMB'000	For the Year ended 31 December 2019 RMB'000
Government grants (Note)	**7,618**	8,733
Rental income (Note 31 (b) (iv))	**421**	420
	8,039	9,153

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

23. OTHER GAINS — NET

	For the Year ended 31 December 2020 RMB'000	For the Year ended 31 December 2019 RMB'000
Losses on disposal of property, plant and equipment	**(47)**	(218)
Exchange gains/(losses)	**4,396**	(2,415)
Others	**2,606**	2,779
	6,955	146

24. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	For the Year ended 31 December 2020 RMB'000	For the Year ended 31 December 2019 RMB'000
Salaries and bonuses	**277,392**	177,499
Pension and social obligations	**31,441**	48,242
	308,833	225,741

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

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group were as follows:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Directors	**2**	2
Non-director individuals	**3**	3
	5	5

The Directors' emoluments were reflected in the analysis presented below. The emoluments payable to the remaining individuals were as follows:

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Basic salaries and allowances	**3,336**	2,190
Discretionary bonuses	**1,113**	1,287
Other benefits including pension	**53**	260
	4,502	3,737

The emoluments fell within the following bands:

	Number of individuals	
	For the year ended 31 December 2020	For the year ended 31 December 2019
Emolument bands		
HK$1,000,001~HK$1,500,000	**—**	2
HK$1,500,001~HK$2,000,000	**3**	1
	3	3

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

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2020 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	–	911	–	–	–	–	–	–	16	927
Ho Kin Hung	–	1,811	89	–	–	–	–	–	16	1,916
Chen Yuewu	–	957	1,220	–	–	–	–	–	51	2,228
Zhou Ning	–	641	119	–	–	–	–	–	101	861
Non-Executive Directors										
Ji Lingling	472	–	–	–	–	–	–	–	–	472
Chiu Hoi Shan	143	–	–	–	–	–	–	–	–	143
Cheung Lap Kei	143	–	–	–	–	–	–	–	–	143
Leung Oi Kin	143	–	–	–	–	–	–	–	–	143

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

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

For the year ended 31 December 2019 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	—	902	—	—	—	—	—	—	16	918
Ho Kin Hung	—	1,655	251	—	—	—	—	—	16	1,922
Chen Yuewu	—	842	524	—	—	—	—	—	61	1,427
Zhou Ning	—	600	239	—	—	—	—	—	126	965
Non-Executive Directors										
Ji Lingling	494	—	—	—	—	—	—	—	—	494
Chiu Hoi Shan	137	—	—	—	—	—	—	—	—	137
Cheung Lap Kei	137	—	—	—	—	—	—	—	—	137
Leung Oi Kin	137	—	—	—	—	—	—	—	—	137

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

(c) Directors' retirement benefits

During the year ended 31 December 2020, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his/her services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2019: nil).

(d) Directors' termination benefits

During the year ended 31 December 2020, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2019: nil).

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

During the year ended 31 December 2020, no consideration was provided to or receivable by third parties for making available director's services (2019: nil).

(f) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2019: nil).

(g) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: nil).

25. FINANCE INCOME — NET

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Interest expenses		
— Short term bank borrowings	**(1,038)**	(1,739)
— Lease liabilities	**(1,755)**	(1,610)
Exchange losses	**(40)**	(387)
Finance costs	**(2,833)**	(3,736)
Finance income		
— Bank deposits	**2,624**	5,194
— Loan to PALL-AUSTAR JV (Note 14, Note 31 (b) (v))	**491**	509
	3,115	5,703
	282	1,967

26. INCOME TAX EXPENSE

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Current income tax expense	**5,571**	2,903
Deferred income tax expense (Note 10)	**4,313**	1,841
	9,884	4,744

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

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

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the year (2019: 16.5%).

26. INCOME TAX EXPENSE (Continued)

The taxation of the Group's subsidiary in Germany is calculated at 30% of the estimated assessable profit for the year (2019: 30%).

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Co., Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd. ("**Austar SJZ**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2014 and renewed its "High and New Technology Enterprise" qualification for another three years in 2018. Shanghai Austar and Austar Hansen have been enjoying preferential corporate income tax rate since 2013 and renewed their "High and New Technology Enterprise" qualification for another three years in 2019. During the year ended 31 December 2020, Hebei Aunity Engineering Consulting Limited ("**Hebei Aunity**") met the criteria for Micro and Small Enterprises and was entitled to preferential income tax rate of 20%, and was eligible to have income tax calculated based on 50% of taxable income.

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Profit before income tax	**41,489**	12,208
Tax expense calculated at applicable statutory tax rate	**10,550**	4,172
Impact of preferential corporate income tax rates	**(5,459)**	(1,832)
Non-taxable income	**(480)**	(823)
Expenses not deductible for taxation purposes	**1,385**	1,591
Impact of losses not recognised as deferred income tax assets	**3,235**	2,970
Other deductible temporary differences not recognised as deferred income tax assets	**1,138**	763
Utilisation of previously unrecognised tax losses	**(1,383)**	—
Additional deduction of research and development expense	**(4,086)**	(3,307)
Withholding tax from overseas income	**4,984**	1,210
Income tax expense	**9,884**	4,744

27. EARNINGS PER SHARE

(a) Basic

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

	For the year ended 31 December 2020	For the year ended 31 December 2019
Profit attributable to the owners of the Company (RMB'000)	**33,100**	8,091
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic earnings per share (RMB)	**0.06**	0.02

(b) Diluted

As the Company had no dilutive ordinary shares for each of the years ended 31 December 2020 and 2019, diluted earnings per share for the years ended 31 December 2020 and 2019 are the same as basic earnings per share.

28. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2020 (2019: nil).

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Profit before income tax	**41,489**	12,208
Adjustments for:		
Depreciation		
— property, plant and equipment (Note 6)	**12,005**	11,176
— Right-of-use assets (Note 7)	**16,390**	12,847
Amortisation (Note 8)	**3,505**	2,274
Net impairment losses on financial assets and contract assets	**12,139**	5,109
Losses on disposals on property, plant and equipment (Note 23)	**47**	218
(Reversal of)/provision for impairment of prepayments and other receivables (excluding financial assets measured at amortised cost)	**(98)**	35
Impairment of goodwill (Note 8)	**3,141**	—
Impairment of inventories (Note 11)	**476**	13,576
Share of net profit of investments accounted for using the equity method (Note 9)	**(10,477)**	(10,192)
Finance income — net (Note 25)	**(282)**	(1,967)
Deferred income (Note 18)	**(1,820)**	(2,340)
Changes in working capital:		
(Increase)/decrease in restricted cash	**(39,149)**	8,038
Increase in inventories	**(47,274)**	(43,895)
Decrease in trade and other receivables	**61,006**	42,869
(Decrease)/increase in trade and other payables	**(41,676)**	15,596
Increase in contract liabilities	**99,901**	28,332
Increase in contract assets	**(54,422)**	(59,140)
Increase in deferred income	**300**	801
Cash generated from operations	**55,201**	35,545

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

(b) Non-cash investing and financing activities

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Acquisition of property, plant and equipment transferred from inventories	**1,075**	—

Non-cash investing and financing activities disclosed in Note 7 are related to acquisition of right-of-use assets.

(c) Net debt reconciliation

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Cash and cash equivalents (Note 15)	**177,949**	191,084
Lease liabilities (Note 7)	**(45,055)**	(36,884)
Borrowings — repayable within one year (Note 19)	**(30,000)**	(20,000)
Loan from a non-controlling shareholder of a subsidiary	**(1,410)**	(1,563)
Net debt	**101,484**	132,637
Cash and liquid investments (Note 15)	**177,949**	191,084
Gross debt	**(76,465)**	(58,447)
Net debt (Note)	**101,484**	132,637

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

(c) Net debt reconciliation (Continued)

Note:

The positive value means that the Group has net cash.

	Liabilities from financing activities				Other assets	
	Borrowing due within 1 year RMB'000	Loan from a non-controlling shareholder of a subsidiary RMB'000	Leases RMB'000	Sub-total RMB'000	Cash RMB'000	Total RMB'000
Net debt as at 31 December 2018	(25,888)	—	—	(25,888)	196,459	170,571
Recognised on adoption of IFRS 16	—	—	(35,682)	(35,682)	—	(35,682)
Cash flows	5,888	(1,563)	10,049	14,374	(4,988)	9,386
Foreign exchange adjustments	—	—	—	—	(387)	(387)
Other non-cash movements	—	—	(11,251)	(11,251)	—	(11,251)
Net debt as at 31 December 2019	(20,000)	(1,563)	(36,884)	(58,447)	191,084	132,637
Cash flows	**(10,000)**	**129**	**12,567**	**2,696**	**(13,095)**	**(10,399)**
Foreign exchange adjustments	**—**	**24**	**—**	**24**	**(40)**	**(16)**
Other non-cash movements	**—**	**—**	**(20,738)**	**(20,738)**	**—**	**(20,738)**
Net debt as at 31 December 2020	**(30,000)**	**(1,410)**	**(45,055)**	**(76,465)**	**177,949**	**101,484**

30. COMMITMENTS

(a) Capital commitments

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Capital expenditure contracted for but not yet incurred:		
Property, plant and equipment	**104,700**	1,631
Intangible assets	**331**	611
	105,031	2,242

31. RELATED PARTY TRANSACTIONS

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

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2020 and 2019:

Names of the related parties	Nature of relationship
PALL-AUSTAR JV	Joint venture of the Group
PALL-AUSTAR WFOE	Subsidiary of PALL-AUSTAR JV
STERIS-AUSTAR WFOE	Joint venture of the Group
Austar Limited	Under common control of the Controlling Shareholder
Madam Gu Xun	Close family member of the Controlling Shareholder
ROTA KG	An associate of the Group
H+E GmbH	Non-controlling shareholder of a subsidiary of the Group
Aquarion AG	Ultimate holding company of non-controlling shareholder of a subsidiary of the Group

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

During the year, the Group has the following significant transactions with related parties:

(i) Purchase of goods and services

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
PALL-AUSTAR WFOE	**42,797**	40,131
STERIS-AUSTAR WFOE	**75,832**	70,903
ROTA KG	**1,031**	1,459
H+E GmbH		
— engineering and non-engineering services	**3,347**	1,205
— other services	**—**	458
	123,007	114,156

(ii) Sales of goods and services

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
STERIS-AUSTAR WFOE	**22,296**	16,968
H+E GmbH		
— pre-assembly and assembly services	**14,830**	5,107
— other services	**3,915**	2,512
PALL-AUSTAR WFOE	**3,566**	3,127
ROTA KG	**2,616**	—
	47,223	27,714

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iii) Rental fee expenses

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Madam Gu Xun	**891**	935
Aquarion AG	**186**	—
Austar Limited	**141**	100
	1,218	1,035

(iv) Rental fee and miscellaneous income

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
STERIS-AUSTAR WFOE	**421**	420

(v) Interest income from a loan provided to a joint venture

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
PALL-AUSTAR JV	**491**	509

31. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) Receivable due from /prepayments to related parties

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Receivable due from:		
PALL-AUSTAR JV (Note 14)	**10,190**	10,399
STERIS-AUSTAR WFOE	**12,340**	9,936
H+E GmbH	**3,969**	3,154
Madam Gu Xun	**234**	468
ROTA KG	**1,242**	—
PALL-AUSTAR WFOE	**502**	52
Prepayments to:		
STERIS-AUSTAR WFOE	**17,160**	10,028
ROTA KG	**—**	264
Madam Gu Xun	**468**	234
Austar Limited	**22**	16
	46,127	34,551

(ii) Payable due to related parties

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
STERIS-AUSTAR WFOE	**34,660**	28,950
PALL-AUSTAR WFOE	**10,280**	9,681
H+E GmbH	**3,891**	—
Aquarion AG	**1,864**	1,563
ROTA KG	**—**	163
	50,695	40,357

31. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Salaries and bonuses	**9,006**	8,208
Pension and others	**338**	404
	9,344	8,612

32. ASSETS PLEDGED AS SECURITY

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Property plant and equipment	**5,612**	6,351
Right-of-use assets		
— Land use right	**5,200**	5,350
Total assets pledged as security	**10,812**	11,701

33. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**103,768**	110,443
	103,768	110,443
Current assets		
Prepayments and other receivables	**318,993**	344,621
Cash and cash equivalents	**13,592**	783
Total assets	**436,353**	455,847
Equity and liabilities		
Equity attributable to the owners of the company		
Share capital	**4,071**	4,071
Capital surplus	**411,879**	411,879
Currency translation differences	**24,645**	52,545
Retained earnings	**(5,906)**	(14,100)
Total equity	**434,689**	454,395
Liabilities		
Non-current liabilities		
Trade and other payables	**1,664**	1,452
Total liabilities	**1,664**	1,452
Total equity and liabilities	**436,353**	455,847

The balance sheet of the Company was approved by the Board of Directors on 26 March 2021 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

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

Reserve movement of the Company

	Capital surplus RMB'000	Currency translation differences RMB'000	Accumulated losses RMB'000
At 1 January 2019	411,879	42,582	(7,951)
Loss for the year	—	—	(6,149)
Currency translation differences	—	9,963	—
At 31 December 2019	411,879	52,545	(14,100)
At 1 January 2020	411,879	52,545	(14,100)
Profit for the year	—	—	8,194
Currency translation differences	—	(27,900)	—
At 31 December 2020	**411,879**	**24,645**	**(5,906)**

34. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2020:

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Directly owned:					
Austar Equipment Limited (奧星設備有限公司)	Limited liability company	BVI/25 January 2005	US$100	100%	Investment holding/BVI
Indirectly owned:					
Shanghai Austar	Limited liability company	Shanghai, the PRC/ 20 August 2003	US$20,638,528	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar SJZ	Limited liability company	Shijiazhuang, the PRC/ 9 July 2004	RMB51,060,000	100%	Provision of integrated engineering solutions pharmaceutical equipment manufacturing, maintenance, GMP compliance service/ the PRC
Austar Hansen	Limited liability company	Shanghai, the PRC/ 29 March 2001	RMB6,660,000	100%	Distribution and agency/the PRC
Austar Clean Room System Equipment (Shanghai) Co., Ltd. (奧星潔淨設備(上海)有限公司)	Limited liability company	Shanghai, the PRC/ 12 November 2007	RMB2,155,446	100%	Provision of integrated solution of clean room enclosure system/the PRC
APPS	Limited liability company	Hong Kong/20 April 2012	HK$55,812,404	100%	Investment holdings, distribution and agency /Hong Kong
Austar Europe S.r.l	Limited liability company	Italy/27 July 2012	EUR20,000	100%	Provision of consulting service/Italy
Austar Pharmaceutical Process System (Shijiazhuang) Co, Ltd (奧星制葯工藝系統(石家莊)有限公司)	Limited liability company	Shijiazhuang, the PRC/ 6 May 2014	RMB43,000,000	100%	Provision of integrated solution of clean room enclosure system/the PRC

34. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar Pharmaceutical Technology (SJZ) Limited (奧星製藥科技(石家莊)有限公司)	Limited liability company	Hong Kong / 27 January 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Equipment (NJ) Limited (奧星製藥設備(南京)有限公司)	Limited liability company	Hong Kong / 27 January 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Equipment (Nanjing) Ltd. (奧星製藥技術設備(南京)有限公司)	Limited liability company	Nanjing, the PRC/ 18 May 2015	RMB500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing /the PRC
Austar Biosciences Investment Limited (奧星生物科技投資有限公司)	Limited liability company	BVI/1 April 2015	US$100	100%	Investment holding/BVI
Austar Biosciences Limited (奧星生物科技有限公司)	Limited liability company	Hong Kong/20 April 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Investment (SJZ) Limited (奧星製藥科技投資(石家莊)有限公司)	Limited liability company	BVI/12 January 2015	US$12,048,383	100%	Investment holding/BVI
Austar Pharmaceutical Equipment Investment (NJ) Limited (奧星製藥設備投資(南京)有限公司)	Limited liability company	BVI/12 January 2015	US$209,717	100%	Investment holding/BVI
Austar Biosciences GmbH	Limited liability company	Germany/29 January 2016	EUR25,000	100%	Investment holding/Germany

34. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Shanghai Austar Biotechnology Co., Ltd. (上海奧星生物科技有限公司)	Limited liability company	Shanghai, the PRC/ 20 May 2015	—	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing /the PRC
Austar India Investment Ltd. (奧星印度投資有限公司) (now known as Austar Asia Investment Ltd. (奧星亞洲投資有限公司))	Limited liability company	BVI/19 July 2017	US$1	100%	Investment holding/BVI
Shanghai Austar Pharmaceutical Science and Technology Limited (上海奧星醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/ 7 August 2017	RMB2,150,000	100%	Investment holding/the PRC
Shanghai Aunity Pharmaceutical Science and Technology Limited (上海奧恒醫藥科技有限公司)	Limited liability company	Shanghai, the PRC/ 24 October 2017	RMB4,200,000	51%	Investment holding/the PRC
Hebei Aunity	Limited liability company	Hebei,the PRC/ 2 November 2017	RMB3,822,000	51%	Provision of pharmaceutical engineering design/the PRC
Austarunion India Process Systems Private Limited	Limited liability company	India/29 November 2018	Rupees 7,500,000	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/India
Austar Malaysia Ltd	Limited liability company	Malaysia /13 November 2019	US$100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia

34. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
AUSTARUNION Malaysia Sdn Bhd	Limited liability company	Malaysia/5 December 2019	RM100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
H+E Pharma GmbH	Limited liability company	Germany/26 September 2018	EUR51,020	51%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing /Germany
S-Tec GmbH	Limited liability company	Germany/14 August 2013	EUR100,000	51%	Assembly and pre-assembly service/Germany
Austar Luxembourg S.a.r.l.	Limited liability company	Luxembourg/21 August 2019	EUR12,000	100%	Investment holding/Luxembourg
Austar UK Limited	Limited liability company	Cardiff/31 March 2020	GBP100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and manufacturing/ United Kingdom
Austar Europe Asset Holdings Limited (奧星歐洲資產控股有限公司)	Limited liability company	Hong Kong/30 October 2020	HK$10,000,000	100%	Investment holding/ Hong Kong

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

35. CONTINGENT LIABILITIES

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

As at 31 December 2020, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR 887,000 approximated at RMB7,118,000. It sets forth the maximum exposure of these guarantees to the Group.

36. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 11 February 2021, the Group entered into an agreement with Beckman Coulter Hong Kong Limited ("**Purchaser**"), which indirectly owned 40% of the issued shares of PALL-AUSTAR JV and PALL-AUSTAR JV pursuant to which the Purchaser conditionally agreed to purchase, and the Group conditionally agreed to sell, the 60% of the issued shares of PALL-AUSTAR JV held by the Group at an aggregate consideration of US$34,500,000 subject to adjustments ("**Disposal**").

As of the date on which these consolidated financial statements were authorised for issue, the completion of the Disposal has not yet taken place. Upon completion of the Disposal, the Group will cease to have any equity interest in PALL-AUSTAR JV.

Management will continuously evaluate its accounting impact on the relevant financial statements during which the Disposal is completed.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	**1,295,980**	1,049,021	816,585	546,933	672,545
Cost of sales	**(972,450)**	(764,777)	(612,191)	(425,401)	(512,838)
Gross profit	**323,530**	284,244	204,394	121,532	159,707
Selling and marketing expenses	**(148,692)**	(137,077)	(105,635)	(100,473)	(82,687)
Administrative expenses	**(98,695)**	(108,731)	(77,450)	(70,946)	(68,103)
Net impairment losses on financial and contract assets	**(12,139)**	(5,109)	(4,066)	–	–
Research and development expenses	**(48,268)**	(42,577)	(30,308)	(26,062)	(32,041)
Other income	**8,039**	9,153	3,148	7,438	2,103
Other gains/(losses) – net	**6,955**	146	(1,667)	1,001	(2,083)
Operating profit/(loss)	**30,730**	49	(11,584)	(67,510)	(23,104)
Finance income/(expenses) – net	**282**	1,967	3,420	3,909	2,208
Share of net profit of investments accounted for using the equity method	**10,477**	10,192	11,662	5,181	3,395
Profit/(loss) before income tax	**41,489**	12,208	3,498	(58,420)	(17,501)
Income tax (expense)/credit	**(9,884)**	(4,744)	(3,378)	4,223	(1,169)
Profit/(loss) for the year	**31,605**	7,464	120	(54,197)	(18,670)
Profit/(loss) attributable to:					
The owners of the Company	**33,100**	8,091	107	(54,085)	(18,670)
Non-controlling interests	**(1,495)**	(627)	13	(112)	–
Profit/(loss) for the year	**31,605**	7,464	120	(54,197)	(18,670)

ASSETS AND LIABILITIES

	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	**1,378,844**	1,174,322	1,071,370	881,567	914,776
Total liabilities	**854,270**	671,697	588,447	401,180	368,661
Total assets less current liabilities	**573,160**	540,535	494,443	489,905	561,286
Total equity attributable to the owners of the Company	**517,899**	494,537	480,964	478,441	546,114