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

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

AUSTAR
奧 星

2022
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 Mak Yuk Kiu

AUTHORISED REPRESENTATIVES
(For the purpose of the Listing Rules)
Madam Zhou Ning
Madam Mak Yuk Kiu

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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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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LEGAL ADVISORS AS TO HONG KONG LAWS

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Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
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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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

HONG KONG COMPANY WEBSITE

www.austar.com.hk

FINANCIAL HIGHLIGHTS

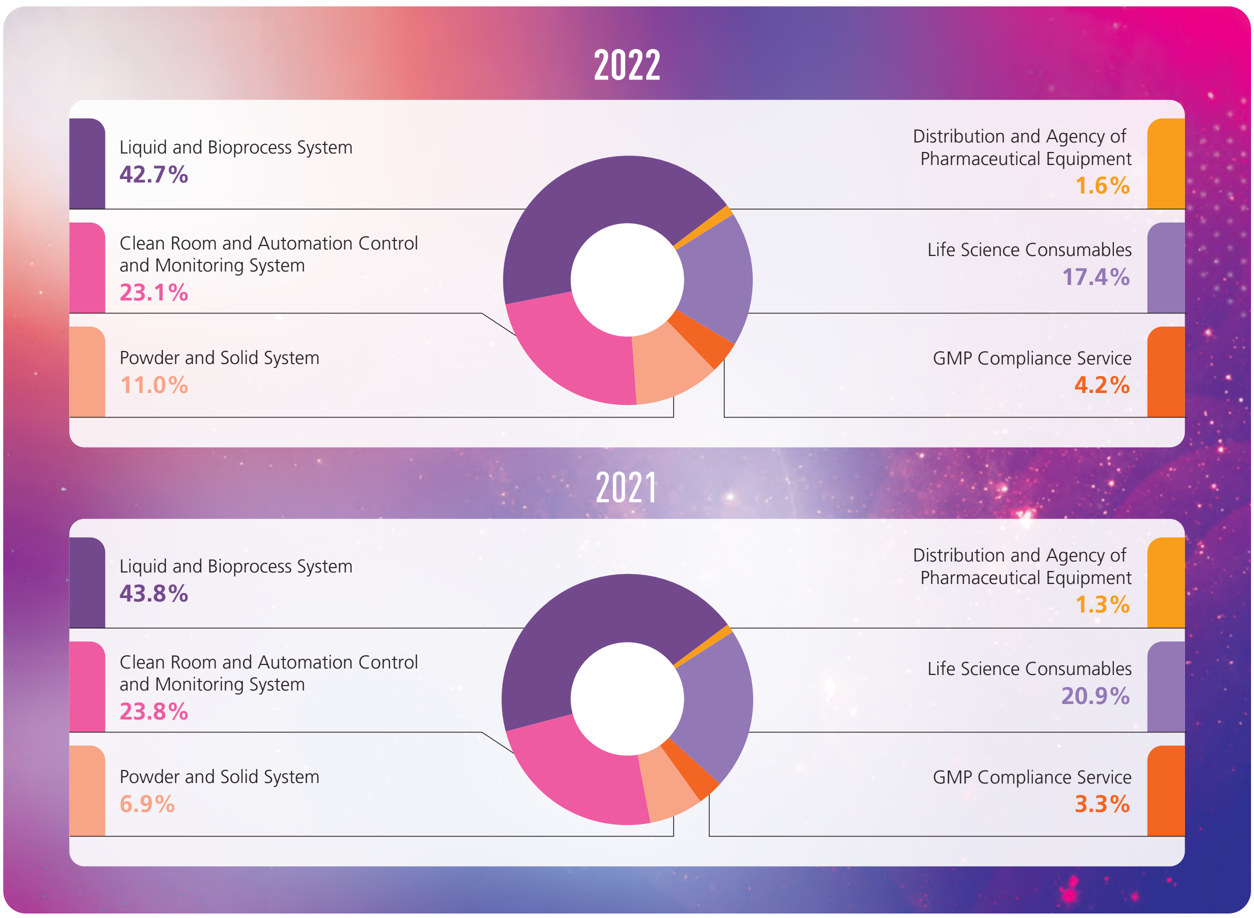
	For the year ended 31 December 2022 RMB'000	2021 RMB'000	Change
Key financials on Consolidated Income Statement			
Revenue	**2,228,644**	2,015,028	10.6%
Gross profit	**462,669**	479,008	-3.4%
Gross profit margin	**20.8%**	23.8%	
Profit attributable to the owners of the Company	**87,461**	277,300	
Basic earnings per share (RMB) (Note)	**0.17**	0.54	
Diluted earnings per share (RMB) (Note)	**0.17**	0.54	

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	Change
Key financials on Consolidated Balance Sheet			
Total assets	**2,388,763**	2,044,777	16.8%
Net assets	**883,581**	788,420	12.1%
Gearing ratio	**27.8%**	16.4%	

Note: The calculation of earnings per share is based on the profit attributable to the owners of the Company for each of the years ended 31 December 2022 and 2021 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 2022 and 2021.

REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Liquid and Bioprocess System	**950,341**	**42.7%**	882,953	43.8%
Clean Room and Automation Control and Monitoring System	**514,070**	**23.1%**	479,706	23.8%
Powder and Solid System	**245,795**	**11.0%**	138,293	6.9%
GMP Compliance Service	**94,349**	**4.2%**	66,114	3.3%
Life Science Consumables	**388,264**	**17.4%**	421,070	20.9%
Distribution and Agency of Pharmaceutical Equipment	**35,825**	**1.6%**	26,892	1.3%
Total	**2,228,644**	**100.0%**	2,015,028	100.0%



OUR PATH OF GROWTH

2003

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

2004

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

2006

AUSTAR formed a joint venture with STERIS Corporation

2007

AUSTAR 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 successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited

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

2021

AUSTAR disposed of 60% interest in PALL-AUSTAR joint venture in March 2021

AUSTAR developed the own-brand BIOSYSTEC bioreactor in July 2021

AUSTAR won The Most Outstanding Partner of SIEMENS in 2021

2022

AUSTAR acquired the technology and ancillary business in sterile liquid and powder filling line to enhance technology in customised sterile filling solutions for liquid and powder in February 2022

AUSTAR acquired shareholding interests in a company specialising in complete superb solutions for the preparation in nanomedicine, inhalation in July 2022

AUSTAR successfully promoted the digital transformation of the production lines of several leading domestic pharmaceutical enterprises of production of 10 billion tablets in 2022

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 2022 ("**Year**").

The year 2022 has been more challenging than the previous two years of the pandemic era as the strict measures of lockdowns and restrictions enforced in some major cities in China in particular during the first half of 2022 were causing more disruptions and inconvenience. Thanks to our passionate and committed leadership team and colleagues, we have been able to sort out the best possible solutions to make miracles happen to ascertain and deliver products and services to our clients and maintain a remarkably high level of client satisfaction and loyalty. The spirit and values of the Group were fully reflected during such a very tough and challenging period.

In spite of the disruptions on site project execution, logistics, and travels due to the pandemic restrictions, the Group still managed to achieve slight growth in revenue, which was not an easy task for an enterprise like AUSTAR which offers complex projects and services requiring streamlined integration, communications, and flows of goods, information and people. This has fully demonstrated the efficiency, effectiveness and resilience of the operation system of the Group being able to tackle the challenging upcoming risks ahead.

In 2022, without the one-off profit recognised from the Group's disposal of its equity interest in a then joint venture which took place in 2021, and in spite of some business units of the Group performing well witnessing significant growth with correct strategy and strong leadership, the Group's overall profit and performance have been affected by some undertakings in their start-up and preliminary phases in regions outside China. We believe that through smart restructuring and stronger leadership resources, those entities will soon turn around, and those successful business units and product lines of the Group will continue to thrive in the right strategic directions. Such judgement is rationally justified by considering the Group's persistent and consistent investment on talents, technologies and operation systems in the last few years, and considering the factors of business potential out of market competition and opportunities ahead based on the fact that the Group is able to offer comprehensive integrated solutions with products and services in life sciences industry uniquely by 12 application technologies under one roof. This uniqueness of operation, commercial and technical competences will allow the Group to be able to distinguish itself from the competition.

The stringent regulatory requirements by some new policies enforced in the year 2022 have been benefitting to the industry players who are concerned with patient safety and drug efficacy. AUSTAR is one of those industry players, with a mission to push ahead the advancement of the pharmaceutical industry. The rational normalisation of the national drug purchase policies in China becoming stable is a positive driving factor for the biopharmaceutical industry considering the transparent rules of game making decisions to be easier on new facility and drug development investments.

In 2023, the Group is expected to launch a significant number of new products developed with our own intellectual property rights and in the coming 2 to 3 years the Group can further enrich its existing sophisticated product portfolios in some specific technology applications and business units. Such results are attributed to the belief that sacrificing the short-term annual profit by investing more talents and hardware for product development in a fast-growing and dynamic industry with more lucrative returns to capture the near future business opportunities is economically justified for sound and foreseeable long-term financial performances. I believe that the Directors are in alignment with me with such belief. However, our Board must have the necessary courage to allow our investors to criticise, understand and eventually accept such a belief.

The Group's recent project acquisition and business successes in some sectors like cell and gene therapy and medical beauty therapy have been very encouraging. Apparently, the two quite different sectors have very different technical requirements, but they converge into one common client expectation, that is, digitalisation and LEAN required in their facility and operations. The client's voices are quite simple and common - it all goes back to the client's earnest considerations of cost, safety, quality, and compliances. This is exactly why AUSTAR is accepted as a preferred solution provider to tackle these common concerns of the clients in these industrial sectors.

With the present corporate and business strategies, several critical growth drivers which have been cultivated by the Group for some years are continuing to help the Group grow and develop with promising prospects. The Group's corporate leadership team is confident that our transformation initiative launched a few years ago has been gradually delivering the anticipated results with optimism.

I would like to express my thanks to all the Directors for their continuous trust on me and the Group, all our staff for their contributions to our success and all our clients for their long-term support to the Group.

Ho Kwok Keung, Mars
Chairman

28 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2022, the COVID-19 pandemic had negative impacts in mainland China on the supply chain and normal business operations in epidemic control areas. However, with the adjustments of epidemic control policy in December 2022, it is expected that the number of new pharmaceutical projects will increase, and projects suspended due to the epidemic and the pending project capital expenditure (CAPEX) investment are expected to be restarted and will bring business opportunities. With the release of international travel restrictions, international drug regulatory authorities and organisations will strengthen the inspection of drug production sites through more interactions with drug regulatory authorities in mainland China to improve the requirements of drug regulation, and the needs of meeting higher requirements also create business opportunities.

The investments on cell therapy products, antibody drug conjugate products and radioactive drugs are increasing, together with more products which are stepping onto the commercial production stage from research stage, these will also provide business opportunities for new projects and services.

With the normalisation of volume-based procurement policy and more supporting policies in China being issued, pharmaceutical innovation becomes the trend for industry development. Pharmaceutical manufacturers need to rely on better quality, higher capacity, and cost-effective advantages to win in the market. From the perspective of regulatory approval, innovative drugs will focus on clinical value, and those with higher efficacy and safety value will get better commercial recognition.

The development of traditional Chinese medicine as a national strategy in China will push the market to enter a new high-quality development stage in terms of regulations and medical insurance policies, which will accelerate the registration and launching of traditional Chinese medicine.

After joining the ICH (The International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use) , NMPA (National Medical Products Administration) applied to join PIC/S (The Pharmaceutical Inspection Co-operation Scheme) in 2021, these efforts will promote China's adaptation to the international drug regulatory system and improve regulatory compliance level and integration into the international market, which provides convenience for the global submissions of new drugs and accelerates the upgrading of the pharmaceutical industry in China.

EU GMP (Good Manufacturing Practice) Annex 1 "Manufacture of Sterile Medicinal Products" was officially issued on 25 August 2022 and adopted by PIC/S and WHO (World Health Organization). The new requirements will bring business opportunities in terms of engineering projects, aseptic pharmaceutical equipment, contamination control, new measurement and analytical technology and compliance consulting.

The regulatory authorities issued the Guidelines for the Manufacturing Quality Management of Cell Therapy Products (Trial) based on more applications for clinical and marketing of new biological technologies. These policies are conducive to the standardisation of China's new drug development and production, promoting the development of Contract X Organisation (CXO), and creating business opportunities in clinical drug production and related upstream and sub-sectors in the life sciences industry.

BUSINESS REVIEW

For the Year, the Group recorded a growth of approximately 10.6% in revenue as compared to the corresponding period in 2021, even though it was affected by the COVID-19 pandemic lockdowns causing challenges to our supply chain, manufacturing, and project execution. Order-in-take has decreased by approximately 11.5% as compared to that of the corresponding period in 2021 due to the difficulties encountered in communications and meetings, and the opportunities lost as a result of the pandemic lockdowns and its more severe impact being apparent especially in the last quarter of 2022.

The profitability in 2022 has been negatively affected by the slowing down of revenue growth due to pandemic restriction policies and significant profit shortfalls of some businesses in incubation and early maturity phases. It is believed that improvement in leadership and governance, and strengthening the competence elements of profitable product lines by deploying more corporate-level resources will both contribute a stronger profit growth in those business in coming years.

In February 2022, the Group successfully acquired the business of an expertise in sterile liquid and powder filling line ("**BOSTA Business**"), which has further enhanced the Group's business portfolio in the integration of the filling line system and freeze-dryer system and increased the capability of providing integrated solutions for the filling and freeze-drying of aseptic products.

The Group has also successfully completed the acquisition of a minority shareholding of a company which provides complete and high-end solutions used in nanomedicine and inhalation preparations. It is expected that the Group and the said company are able to benefit from this transaction through upcoming strategic business collaboration.

The volume of the service business of the Group has been further increasing. A new business brand has been established to cultivate the market awareness of preventive maintenance and facility-upgrading services. The service business has been evolving to incorporate a wider scope to meet clients' needs in terms of facility management services, after-sales services of imported equipment, etc. Under the strict operation and maintenance requirements set by regulations, together with clients' limited resources to consolidate technical talents, it is believed that the Group's service business is set to generate new significant streams of income and higher margin of profits in the coming future.

The product lines in the sectors of active pharmaceutical ingredients (API) and oral solid dosage (OSD) in chemical drugs have still been enjoying a significant growth in order-in-take and revenue, thanks to our capacities to offer modular and innovative solutions with digitalisation and robotic technologies to help clients improve their work safety, process efficiency and operation excellence based on containment-based engineering and contamination control practices. AUSTAR UK Limited ("**AUSTAR UK**"), a wholly-owned subsidiary of the Group in the UK, has been taking over the products of wet granulation equipment and fluid bed granulation technology to realise its local production and meet the application requirements of European clients and those clients which prefer equipment made in Europe.

The Group believes that building up a world-class technical competence requires continuous resources input in which efforts put into recruiting top talents and consultants may affect the Group's profitability in the short-term, but that the competitive edges would be strengthened in long-term. The Group believes that a mid and long-term robust corporate competitiveness and performance achievement are foreseeable with such continuous investment efforts together with a firm commitment to our visions and strategies. The Group's aggressive approach in investing in human resources, geographical expansion and enhancing product and application solution competences will bring about more satisfactory business results to the Group.

The Group has been undergoing a serious review on its product lines and trying to find new technical solutions by combining various product lines together to offer the most cost-effective integrated solutions. The product-line restructuring will continue to facilitate application and solution offerings, and such restructuring will bring about competence improvement and enable the Group to be more resilient under tougher competitive circumstances. The Group is proudly looking forward to a more precise positioning as a technological company with comprehensive knowledge and experience in life sciences process technology and applications as well as industry regulatory rules and practices, which would enable the Group to help clients to address issues in quality, compliance, and operation excellence.

ORDER-IN-TAKE

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

	For the year ended 31 December				
	2022		2021		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**777,428**	**33.0%**	1,207,477	45.4%	–35.6%
Clean Room and Automation Control and Monitoring System	**647,892**	**27.5%**	524,786	19.7%	23.5%
Powder and Solid System	**328,414**	**13.9%**	226,225	8.5%	45.2%
GMP Compliance Service	**108,255**	**4.6%**	117,673	4.4%	–8.0%
Life Science Consumables	**426,165**	**18.1%**	548,875	20.6%	–22.4%
Distribution and Agency of Pharmaceutical Equipment	**68,286**	**2.9%**	37,923	1.4%	80.1%
Total	**2,356,440**	**100.0%**	2,662,959	100.0%	–11.5%

During the Year, the total order-in-take amounted to approximately RMB2,356.4 million, representing a decrease of approximately RMB306.6 million or 11.5% from approximately RMB2,663.0 million for the year ended 31 December 2021. The COVID-19 and related lockdowns posed a great difficulty in business travel and communication for new business acquisition, and suspension of projects in discussion due to challenges in supply chain and project execution. The negative impact was most apparent in the last quarter of 2022, as in previous years contracts of new projects were normally signed in last quarters of the years. With the release of travel restriction and recovery of supply chain and other key resources, the business is expected to resume the momentum of increase.

Liquid and Bioprocess System

The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB777.4 million for the Year, showing a decrease of approximately RMB430.1 million or 35.6%, comparing to approximately RMB1,207.5 million for the year ended 31 December 2021. The manufacturing facility of the business segment was in the area of lockdown from April to June 2022 and thus business of this segment was greatly affected, in terms of both existing project execution and new project acquisition. With the removal of control measures around COVID-19, it is expected that the business will continue to grow in the near future. With completion of construction of a production site, this business segment is believed to have upgraded its manufacturing condition, with more space for new product research and development and more optimised production processes, which will definitely improve its competitiveness in terms of cost efficiency and quality standard. The Group has gained market recognition through years of persistent endeavours and this business segment has grown to be regional champion business, trend of which will definitely continue in 2023.

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 RMB647.9 million for the Year, representing an increase of approximately RMB123.1 million or 23.5% from approximately RMB524.8 million for the year ended 31 December 2021. The Group has been gaining good market reputation and share, with new technology of integrated space sterilisation system, dust particle online monitoring, floating bacteria monitoring, energy saving control and etc., which provides customers with computerised system confirmation and validation documents, and cost-effective solution. The fast growth of research and development for innovative drugs in mainland China had led to a much larger demand for the business of this segment, with a higher requirement on quality, cost efficiency, and effective project execution. On top of that, with the emerging innovative medical treatment, more capital is pursuing cell therapy commercial production. All these trends constitute a huge business opportunity for the Group, as a knowledge and technology leader in this area.

Powder and Solid System

The order-in-take amount of the business segment of Powder and Solid System witnessed a significant increase of approximately RMB102.2 million or 45.2% from approximately RMB226.2 million for the year ended 31 December 2021 to approximately RMB328.4 million for the Year. The adoption of modular design increases the flexibility of products, which was well acknowledged by the market and thus drove the business increase, to a large extent. At the same time, the business potential, in terms of market share and technical advantage, was greatly enlarged with integration of material and formula management system, integrated process equipment, automatic equipment, including automatic transfer equipment, robots and automatic guided vehicles (AGV), and etc.

GMP Compliance Service

The order-in-take amount of the business segment of GMP Compliance Service has a slight decrease of approximately RMB9.4 million or 8.0% from approximately RMB117.7 million for the year ended 31 December 2021 to approximately RMB108.3 million for the Year. The slight decrease of order-in-take was caused by suspension of several projects in discussion in the fourth quarter of 2022 due to COVID-19 control measures, including lockdowns and travel freeze. Along with its scope extension to the entire life cycle of pharmaceutical production process, GMP Compliance Service is believed to keep pace of a rapid growth in the future.

Life Science Consumables

The order-in-take amount of the business segment of Life Science Consumables decreased by approximately RMB122.7 million or 22.4% from approximately RMB548.9 million for the year ended 31 December 2021 to approximately RMB426.2 million for the Year. The decrease was caused by COVID-19 pandemic control measures and decrease in business related to COVID-19 vaccine production. It is foreseeable that business related to COVID-19 vaccines will continue to decrease and the Group will increase investment and business development efforts in the area of sterile chemical drugs and cell therapy, which is believed to be a new business and profit margin generator in the revised long-term business strategy.

Distribution and Agency of Pharmaceutical Equipment

The order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment witnessed an increase of approximately RMB30.4 million or 80.1% from approximately RMB37.9 million for the year ended 31 December 2021 to approximately RMB68.3 million for the Year. The Group will continue to engage in the distribution of various types of high-end pharmaceutical equipment together with its joint ventures and overseas business partners providing clients with the most intimate and timely service.

BACKLOGS

Set out below is a breakdown of the Group's closing value of backlogs (VAT excluded) and the corresponding number of contracts by business segment as at 31 December 2022:

	As at 31 December 2022			
Backlogs by business segment	**Number of contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	**417**	**29.6%**	**529,920**	**36.7%**
Clean Room and Automation Control and Monitoring System	**390**	**27.7%**	**441,735**	**30.6%**
Powder and Solid System	**185**	**13.1%**	**210,328**	**14.6%**
GMP Compliance Service	**112**	**8.0%**	**116,738**	**8.1%**
Distribution and Agency of Pharmaceutical Equipment	**305**	**21.6%**	**143,414**	**10.0%**
Total	**1,409**	**100.0%**	**1,442,135**	**100.0%**

PRODUCTION, EXECUTION AND ORGANISATION

The facility of AUSTAR UK, a wholly-owned subsidiary of the Group, at Huddersfield, West Yorkshire, UK was accredited by ISO 9001 authority in early 2021 and retained the ISO 9001 and 14001 certifications this year, ensuring customer confidence by demonstrating that the Group has a robust, globally recognised, Quality and Environmental Management System. The Group is arranging for additional space rental to build up the production capacity and competence to meet with the order-in-take in the foreseeable future.

The construction of the two new production sites in Shijiazhuang and Shanghai has been completed and the two sites will be put into full utilisation in early 2023. 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. The overall upgrading of manufacturing conditions will provide more space for new product research and manufacturing, and offer opportunities for improvement, including production process and quality management, digitalisation tools enhancement, and key production process optimisation in the new facilities.

For pressure vessel products, the Group has made progress in production capability and obtained qualification in manufacturing various metal alloys, and the obtaining of qualification in manufacturing dual-phase steel is in progress. A new vessel modeling programme based on Solidworks has been developed for bioreactor design, such programme could save up to 60% of man-hours and greatly reduce the bioreactor design process. A bottom-mounted mechanical stirrer and a microporous gas sparger were developed, which would meet the demand of the manufacturing capabilities of clients' large-scale mammalian cell culture.

The Group's Project Execution Centre has tried its best to overcome the impacts from the pandemic and ensure the successful execution of the projects during 2022, even though there was inconvenience and inefficiency caused by pandemic lockdowns and restrictions. The team will continue to promote the operation excellence management concept and improve the quality control during the entire project lifecycle. Continuous efforts will be put into implementing the information-based project management platform, through which the team could better realise project control and staff assignment to improve the overall work efficiency and project quality.

SALES AND MARKETING

The Group's internal sales cooperation model is designed to encourage sales teams from different sectors and different product lines to support each other to offer a more relevant solution to our clients. This model is facilitated by a sophisticated business-intelligent information system of customer relations management to ensure our clients are properly taken care of and our sales team are working cost-effectively. A customer service response closed-loop system was developed in 2022 and is hoped to be fully implemented in 2023 to help the Group improve both client satisfaction and loyalty level.

In China, through years of sales talent and organisation development, the Company's sales process is fairly mature. In 2022, a new sales force was introduced, pursuant to which, besides biological and chemical medicine, more efforts will be put into sub-sectors of medical device, animal health, Chinese medicine, cosmetics, nutri-pharmaceuticals etc. The China sales team is focusing on the 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, proposal preparation and presentation.

For global expansion, the Company has been building up the team gradually according to execution strategies, as in the last few years, European and Southeast Asia teams were recruited to directly take care of the related sales leads and enquiries. More agents in the Southeast Asia and Middle-East North Africa regions have been engaged in sourcing out more sales opportunities. It is believed that the Group's global sales team is able to contribute a greater portion share of sales order-in-take gradually in the near future.

In 2022, brand promotion and marketing have made significant progress. A new corporate image was successfully released to better represent the business concept of the joint venture – CAPE Europe. Following the acquisition of the BOSTA Business, which has expertise in sterile liquid and powder filling line, a new product brand vivafill was established to enhance and increase the business portfolio and brand awareness of its capability in providing integrated solutions for the filling and freeze drying of aseptic products.

The AUSTAR brand had a good exposure with presence in 47 events worldwide. During the Year, despite being affected by the pandemic in Mainland China, the Group attended 35 online and offline events including industry meetings, seminars, trainings, and cooperation with industry media, and over 50 webinars were released to share technology solutions and knowledge with clients. The Group attended 12 international expositions reaching out to new markets and securing orders in different countries and regions, such as Making Pharma in UK; EXPOFYBI in Argentina; and Pak Pharma & Healthcare Expo in Pakistan, ACHEMA and CPhI Worldwide 2022 in Frankfurt, Germany, Bio Asia Taiwan and Pharmaconex in Cairo, Egypt, etc. Through the presence at these significant events where AUSTAR showcased, the Group has made significant progress in penetrating new clients, and the AUSTAR brand awareness continues to increase.

Over 310 news items and articles were released via 17 social media accounts of the Group in 2022, with more than 90 videos created for key projects and knowledge sharing. The Group obtained good feedback from the market and has created more business interactions. Over 180,000 visits were recorded in the Group's web resource centre as the industry clients are getting used to applying online marketing materials. It is believed that digital marketing is an effective approach for business promotion.

RESEARCH AND DEVELOPMENT

As at 31 December 2022, the Group has obtained 384 patents. During the Year, the Group obtained 76 registered patents, and applications for 83 patents are currently in progress.

Based on the SIEMENS software platform, a report system about Utility Automation System and Process Control system was developed in 2022, which improves the automation system functions and shortens the research and development period of projects.

The Group developed a data analysis system, through a series of mathematical algorithms to achieve multivariate data analysis and prediction and help clients achieve analysis and prediction in the process of biological reaction, which could be used at both research and commercial manufacturing phases of the client's product lifecycle.

A full-process material management and control system has been developed to help clients to achieve full-process unmanned material scheduling by realising signal interaction such as automatic material weighing, automatic material unpacking and automatic material feeding, which can greatly help clients to achieve capacity expansion and operation efficiency, improve safety management and attain higher digital production maturity.

Significant technology upgrading on the granulation and coating equipment of OSD was achieved by the research and development team. This helps enlarge the scope and diversity of the product range offerings of such equipment.

The core process of vacuum filtering and drying is an important step in chemical synthesis of APIs and their intermediates. These product ranges can cover a wider range of capacity applications after the research and development efforts supported by our European experts.

The stainless-steel bioreactor series have entered the stage of large-scale manufacturing and execution in 2022. The inline conditioning system ILC based on process analytical technology (PAT) developed in 2021 has completed the comprehensive upgrade of recipe management and control system and has been trialed by target clients. It is expected to achieve a breakthrough in 2023.

The Group has been cooperating with Tianjin University and has developed energy saving strategy for Heating Ventilation and Air Conditioning (HVAC) dynamic air volume control system based on cleanliness, the system has been used in a Class-C clean environment in a newly built facility. This system can be combined with the Building Management System (BMS) of pharmaceutical cleanroom workshop to provide solutions for pharmaceutical enterprises to realise the dual-carbon goal in a short time. Based on a series of technical achievements of the cooperation with this academic institution, 3 invention patents and 7 utility model patents have been achieved.

A new 100mm clean room panel adapted to the market demand was developed and has been officially launched and applied to various projects in 2022. The new product could help clients reduce the amount of on-site construction and improve their working efficiency.

The Group has completed the development of cell preparation isolator and cell culture system at the end of 2022. This development achievement supplemented AUSTAR's ability in cell therapy process system and services, and increased brand recognition in the field of Advanced Therapy Medicinal Products (ATMP). With this capability, the business could provide clients with more comprehensive solutions, and promote the sales of relevant components and consumables such as continuous bags, transfer bags, rapid docking bags, half-body clothes, so as to improve the overall competitiveness in the sterile containment technology area.

In July 2022, the Group launched the WAVE disposable bioreactor, which is an important process equipment for cell therapy and immune cell amplification.

The technology and design of vivafill series aseptic filling line partly based on the original BOSTA Business product range has been optimised, which will build a solid foundation for AUSTAR's capability on the integrated solution for the filling and freeze drying of aseptic products.

Progress has been made in AUSTAR UK in new product development. The first containment isolator was successfully completed, and this will be closely followed by a second, more complex containment isolator due for completion in the first quarter of 2023; the two isolators include integrated drum tippers and split butterfly valves. The business is demonstrating its flexibility and capability whilst adding to the product portfolio to support the growth of the business.

The Automatic Loading & Unloading System (ALUS) isolator manufactured in the UK interfacing with the ALUS and Conveyor System manufactured in China has been successfully showcased at ACHEMA in August in Germany. The isolator design is twin walled, with air return through the windows, which allows a more compact isolator design when challenged with space restrictions.

PROSPECTS

The Group has been developing 12 technology applications in our competence and knowledge model, and individual specific technology application teams have been established step by step over the past years. The Group has set up 12 technology application teams, namely: (1) Pharmaceutical Automation & Digitalization, (2) Cleaning, Sterilization & Disinfection, (3) Clean Utilities, (4) Biopharma Process and Technology, (5) Containment Technology, (6) Clean Room/HVAC/EMS/BMS, (7) Freeze-drying, Filling & Inspection, (8) Biosafety Technology and Facilities, (9) Laboratory Technology & Facilities, (10) Pharmaceutical Formulation Technology, (11) Regulatory Compliance & Operation Excellence, and (12) Analytics Measurement Technologies, where regular workshops were held for the purpose of better unification of the technology capability of individual product lines into comprehensive technology solutions. It is believed that with these cross-business-unit professional technical application teams, more up-to-date technology solutions can be provided to the clients.

Due to the release and enforcement of EU GMP new regulations and process requirements of cell and gene therapy, the sterility assurance in the whole manufacturing process become stringent and key considerations in equipment and system engineering. It is believed that with AUSTAR UK, Cape Europe Joint Venture in France and the Group's manufacturing facility for sterile transfer and isolation technology in China working closely with a strategic goal to offer most competitive sterile protection and assurance scheme globally, it will contribute substantial growth in revenue and profit to the Group.

New therapeutics research and commercialisation is one of the key business growth driving forces for life sciences service providers like AUSTAR. It is believed cell and gene therapy technology and process are still at an early development phase that there are still much room for innovative and creative service providers to initiate a lot of new business and new products and services around this topic. Optimism on this sector is bringing about enthusiasm of investment and dedication of resources towards research and development and manufacturing plans in the life sciences clearly witnessed now in Asia. The Group is getting more and more involved in this sector from strategic and engineering consulting to equipment and consumable supply. Such proactive involvement would help us develop more knowledge and experience to create and innovate products and services in this potential sector.

Conventional chemical drug manufacturing such as API and intermediates is evolving into a new phase of stressing cost concerns, labour safety concerns and scale of economy. Our technologies such as automation & digitalisation, material transfer with containment, system integration, clean and black utilities are able to deliver to such sector solutions to tackle our clients' pain points of cost, labour safety, and capacity and lead time.

The partnerships between emerging countries and China on research and development, manufacturing, technology licensing and purchase of pharmaceutical bulks and finished drug products are increasing in both quantity and quality. This continuing trend reinforced by the fast-growing innovative drug development in China has been benefiting the Group in relation to business from strategic consulting, engineering services and facility turnkey project opportunities. Engineering execution capacities in those emerging countries are critical for such success. The Group is building up such capabilities with the vendor and supplier resources in the global regions.

Continuous manufacturing has been a topic in the biopharmaceutical sector for many years but the breakthrough in terms of technologies, regulatory support and investment for future is still a long way to go. However, a number of successful drug approvals and commercialisation with these new manufacturing technologies are very encouraging. In China, API and intermediates companies are very keen on continuous manufacturing even though it is still in an early stage as they might realise the economic benefits compared to the conventional batch manufacturing. Such new manufacturing method requires new technologies, equipment and system like material transfer technologies, PAT, liquid and solid process technologies and sophisticated engineering integration and automation technologies. There are very few companies in the world with all such fundamental knowledge and experience under one roof as a company. AUSTAR is one of those. The Group is prepared to further invest in developing such continuous manufacturing technologies in partnerships with academic institutions and component vendors, more importantly with those clients who commit with passion for such advanced technologies.

The growth in the biopharmaceutical and pharmaceutical market in China has been giving the Group sufficient project experience for strengthening a concrete foundation for building core competence elements including products, technologies, project execution capability, knowledge, and expertise, all of which are able to create value to clients in emerging countries. The establishment of the Group's business team in Europe has been making project executions in emerging countries more convenient by regional and local resource support.

With the rapid development trend of cell and gene therapy sector, Car-T drugs were approved, which represents that the ATMP products has entered the stage of rapid development. The Group is dedicated to helping clients to build a compliant, lean and flexible cell therapy facilities, providing engineering and process solutions from conceptual design, clean engineering to core cell therapy process equipment, and building traceable cell therapy automation and information solutions. More cell-related equipment and systems in the ATMP sector would be launched in 2023 including some products developed and manufactured by the Company with its own intellectual property rights. Strong pipelines of products and services under development through the corporate level Innovative and Research Centre and through business unit research and development teams can support further growth in the Group's business.

Digitalisation transformation has been lagging behind in a conservative-approach industry like the biopharmaceutical industry understandably, due to the regulatory restrictions and the health risk concerns as compared with other major industries in a global sense not limited to China and Asia. However, due to its advantages in cost and efficiency, more and more mature and large-scale pharmaceutical manufacturers, no matter bulk chemicals or biological formulations, are searching for appropriate digitalisation transformation initiative custom-suited for its own circumstances by engaging consulting firms and automation engineering solution providers like AUSTAR. To the majority of those clients, it is still a learning curve. However, the huge potential for business growth is foreseeable as new clients are witnessing successful digitalisation transformation cases completed by the Group with highly appreciated cost-saving performance fact and figure demonstration.

To improve the quality and yield of drugs, API manufacturers are paying more attention to advanced technologies such as continuous-flow micro-reactions, continuous crystallisation and crystal form control, and process analysis in the production process to increase the stability of drugs in order to increase the market share through new technologies. This will further promote the digitalisation transformation of API companies. Our clients' business extension from formulations to API manufacturing, and their business extension from existing API to formulations manufacturing, was one of the key trends of pharmaceutical industry development in China in 2022. Modular design application reduces production cost and improves operation flexibility, which has successfully helped securing orders. This modular technology would be one of the key technologies for API manufacturing in the coming years.

The core competence of the Group's Powder and Solid system engineering business would be accelerated by its application of automated devices like robots and AGV integrated by automation control system together with customised production information system. Demand from some emerging countries for establishment of API facilities and chemical compound product technology transfer as supply chain back-up and cost pressure will further drive growth in this business segment.

The demand for high toxic/potent drugs is still increasing, and hormones manufacturers have started to combine the upstream and downstream processes to enhance their competitiveness. The Group is able to support this trend with its knowledge and experience. 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.

Since the establishment of the Group, the business focus has been on commercialised facilities in our clients' product life cycle. The Group's success in the research sector of life sciences with more and more project acquisitions is attributed to a strategy of enhancing the capacities to make offerings for more research laboratory products and services. The increase in Contract Research Organization (CRO) and Contract Development and Manufacturing Organization (CDMO) clients has contributed to the Group's revenue.

Our enthusiasm on the development of the service business has been prevailing among all major business units and product lines, as the service business does not apparently require heavy working capital to achieve business performance as compared with equipment and engineering systems business. The service business depends on established human capital and streamlined process, more importantly the brand recognition gained from long-time client loyalty and satisfaction. It is believed that the Company possesses all these elements.

Despite the significant growth in revenue of equipment and process system engineering in the last 3 years, the share ratio of the Group's service business has not decreased. The service business accounts for approximately 10% of revenue on average over the last 3 years. The scope of the Group's service offerings under the service business has been gradually increasing to enhance its differentiation from competition. It is not easy for the competitors to copy the service business, which offers reasonable profit margin contributions to the Group. A dedicated service business growth initiative team was established in the first half of 2022 to adopt more aggressive approach and action plans to increase the service business revenue. As the ratio of the Group's service business is increasing, the gross margin contributions therefrom would become more significant.

The importance and urgency of digitalisation transformation in terms of Pharma 4.0 have well been recognised in developed countries. Research and manufacturing companies in life sciences in emerging countries including China have gradually realised that they must speed up their pace in digitalisation transformation in order to catch up with their peers in the developed countries. The Group has addressed such development and trend in the last several years by spending serious efforts into developing talents and skills in segment of technologies. A sophisticated structure of the Research and Manufacture Operation Integrated Information System (REMOIIS) platform was created by the Group to facilitate software vendors and partners to offer solutions to clients, with the Group's capacity to act as system integrator and provide infrastructure including data processing and analytics, by covering levels from level 0 to level 3 throughout the whole product life cycle.

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 RMB2,228.6 million, representing an increase of approximately 10.6% over the year ended 31 December 2021, even though it was affected by the COVID-19 pandemic lockdowns which led to challenges in business travel and communication, supply chain and project execution. All business segments recorded an increase of revenue except that of Life Science Consumables, which showed a slight decrease. The business segments of Powder and Solid System and GMP Compliance Service showed most rapid growth among all business segments.

The following table sets forth, for the years ended 31 December 2022 and 2021, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2022		2021		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**950,341**	**42.7%**	882,953	43.8%	7.6%
Clean Room and Automation Control and Monitoring System	**514,070**	**23.1%**	479,706	23.8%	7.2%
Powder and Solid System	**245,795**	**11.0%**	138,293	6.9%	77.7%
GMP Compliance Service	**94,349**	**4.2%**	66,114	3.3%	42.7%
Life Science Consumables	**388,264**	**17.4%**	421,070	20.9%	-7.8%
Distribution and Agency of Pharmaceutical Equipment	**35,825**	**1.6%**	26,892	1.3%	33.2%
Total	**2,228,644**	**100.0%**	2,015,028	100.0%	10.6%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased by approximately RMB67.3 million or 7.6% from approximately RMB883.0 million for the year ended 31 December 2021 to approximately RMB950.3 million for the Year. Despite the lockdown of the manufacturing facility of this business segment from April to June 2022 due to pandemic control measure of the PRC government, the business of the segment of Liquid and Bioprocess System achieved slight growth, through effective management of supply chain and project execution even under difficult conditions.

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 RMB34.4 million or 7.2% from approximately RMB479.7 million for the year ended 31 December 2021 to approximately RMB514.1 million for the Year. The revenue increased along with that of order-in-take due to ever increasing market potential and recognition of the Group in the market in terms of technology and execution efficiency.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased dramatically by approximately RMB107.5 million or 77.7% from approximately RMB138.3 million for the year ended 31 December 2021 to approximately RMB245.8 million for the Year. The revenue of this business segment has been increasing constantly, due to enlarged market share of the Group by dedicated investment of new products. The increase in revenue was in line with that of order-in-take and the increased backlog balance at the end of 2021 also contributed to this growth.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased significantly by approximately RMB28.2 million or 42.7% from approximately RMB66.1 million for the year ended 31 December 2021 to RMB94.3 million for the Year. The business revenue of this segment has been increasing constantly attributable to the new business stimulated by new international standards and other requirements.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables decreased by approximately RMB32.8 million or 7.8% from approximately RMB421.1 million for the year ended 31 December 2021 to approximately RMB388.3 million for the Year. The decrease in revenue was caused by the decline from the business related to COVID-19 vaccine production. The Group is investing into the area of sterile chemical drugs and cell therapy, which is believed to be a new margin profit generator in the future.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB8.9 million or 33.2% from approximately RMB26.9 million for the year ended 31 December 2021 to approximately RMB35.8 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 2022 and 2021:

	For the year ended 31 December				
	2022		2021		Change
Revenue	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**2,073,560**	**93.0%**	1,890,654	93.8%	9.7%
Other locations	**155,084**	**7.0%**	124,374	6.2%	24.7%
Total	**2,228,644**	**100.0%**	2,015,028	100.0%	10.6%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 93.0% of the total revenue for the Year (2021: approximately 93.8%).

Cost of sales

The Group's cost of sales increased by approximately RMB230.0 million or 15.0% from approximately RMB1,536.0 million for the year ended 31 December 2021 to approximately RMB1,766.0 million for the Year. The revenue increase of approximately RMB213.6 million for the year 2022 led to a corresponding cost increase of approximately RMB162.8 million at the same gross margin of 2021. The remaining amount of approximately RMB67.2 million was due to jointly the increase in operating loss of a non-wholly owned subsidiary established in Europe, and the negative impact of the COVID-19 pandemic on the operation, especially the lockdowns of manufacturing facilities in Shanghai and Shijiazhuang, respectively, which increased the manufactory overhead of the plants during the periods.

Gross profit and gross profit margin

The Group's gross profit decreased slightly by approximately RMB16.3 million or 3.4% from approximately RMB479.0 million for the year ended 31 December 2021 to approximately RMB462.7 million for the Year . The gross profit margin decreased slightly from approximately 23.8% for the year ended 31 December 2021 to approximately 20.8% for the Year, which was due to the increase in operating loss of a non-wholly owned subsidiary established in Europe, and the negative impact of the COVID-19 pandemic on the operation, especially the lockdowns of manufacturing facilities in Shanghai and Shijiazhuang, respectively.

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

	For the year ended 31 December					
	2022			2021		
Gross profit and gross profit margin by business segment	**RMB'000**	**%**	**Gross profit margin %**	RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**114,377**	**24.7%**	**12.0%**	143,745	30.0%	16.3%
Clean Room and Automation Control and Monitoring System	**92,757**	**20.0%**	**18.0%**	90,275	18.9%	18.8%
Powder and Solid System	**51,702**	**11.2%**	**21.0%**	41,694	8.7%	30.1%
GMP Compliance Service	**43,028**	**9.3%**	**45.6%**	28,381	5.9%	42.9%
Life Science Consumables	**146,668**	**31.7%**	**37.8%**	163,044	34.0%	38.7%
Distribution and Agency of Pharmaceutical Equipment	**14,137**	**3.1%**	**39.5%**	11,869	2.5%	44.1%
Total	**462,669**	**100.0%**	**20.8%**	479,008	100.0%	23.8%

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 decreased by approximately RMB29.3 million or 20.4% from approximately RMB143.7 million for the year ended 31 December 2021 to approximately RMB114.4 million for the Year. The gross profit margin from the business segment of Liquid and Bioprocess System decreased from approximately 16.3% for the year ended 31 December 2021 to approximately 12.0% for the Year. The decrease in gross profit margin was jointly due to the increase in operating loss of a non-wholly owned subsidiary established in Europe, and the negative impact on the operation, especially the lockdown of the manufacturing facility in Shanghai.

Clean Room and Automation Control and Monitoring System

The gross profit from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB2.5 million or 2.7% from approximately RMB90.3 million for the year ended 31 December 2021 to approximately RMB92.8 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 18.8% for the year ended 31 December 2021 to approximately 18.0% for the Year. Despite the negative impact arising from the COVID-19 pandemic, the business segment only showed a slight decrease of gross profit margin due to effective project execution and adoption of new technology into the products.

Powder and Solid System

The gross profit from the business segment of Powder and Solid System increased by approximately RMB10.0 million or 24.0% from approximately RMB41.7 million for the year ended 31 December 2021 to approximately RMB51.7 million for the Year. The gross profit margin from the business segment of Powder and Solid System decreased from approximately 30.1% for the year ended 31 December 2021 to approximately 21.0% for the Year. The decrease in gross profit margin was jointly due to the negative impact arising from the COVID -19 pandemic, especially the lockdowns of the manufacturing facility in Shijiazhuang, and the competitive pricing strategy to gain more market share.

GMP Compliance Service

The gross profit from the business segment of GMP Compliance Service increased by approximately RMB14.6 million or 51.6% from approximately RMB28.4 million for the year ended 31 December 2021 to approximately RMB43.0 million for the Year. The gross profit margin from the business segment of GMP Compliance Service increased from approximately 42.9% for the year ended 31 December 2021 to approximately 45.6 % for the Year. The Group improved the gross profit margin by 2.7% due to its high market recognition.

Life Science Consumables

The gross profit from the business segment of Life Science Consumables decreased by approximately RMB16.3 million or 10.0% from approximately RMB163.0 million for the year ended 31 December 2021 to approximately RMB146.7 million for the Year. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 38.7% for the year ended 31 December 2021 to approximately 37.8% for the Year.

Distribution and Agency of Pharmaceutical Equipment

The Group's gross profit from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB2.2 million or 19.1% from approximately RMB11.9 million for the year ended 31 December 2021 to approximately RMB14.1 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment decreased from approximately 44.1% for the year ended 31 December 2021 to approximately 39.5% for the Year, which was due to the change of product portfolio, the Group considered the gross margin was in the normal range.

Other income

Other income increased by approximately RMB4.9 million or 76.4% to approximately RMB11.2 million for the Year from approximately RMB6.3 million for the year ended 31 December 2021, because of the increase in the subsidies granted by local government authorities of the PRC in the Year.

Other (losses)/gains – net

The Group recorded a net other losses of approximately RMB9.6 million for the Year, which was mainly due to the increase of exchange losses of approximately RMB2.8 million and an one-off compensation of approximately RMB3.7 million to a customer for a terminated contract as mutually agreed. For the year ended 31 December 2021, there was a one-off net other gains from the disposal of 60% equity interest in a joint venture of the Group of approximately RMB199.0 million.

Selling and marketing expenses

Selling and marketing expenses increased slightly by approximately RMB8.4 million or 4.9% to approximately RMB178.7 million for the Year from approximately RMB170.3 million for the year ended 31 December 2021. The increase was a combined result of spending reduction in marketing promotion activities at an amount of approximately RMB6.8 million, including less participation in non-critical industry exhibitions due to travel restriction by pandemic controls, and an increase in spending to enforcing sales team, including establishing a new sales force around medical device, animal health, Chinese medicine, cosmetics, nutri-pharmaceuticals etc.

Administrative expenses

Administrative expenses increased slightly by approximately RMB6.5 million or 5.1% to approximately RMB134.6 million for the Year from approximately RMB128.1 million for the year ended 31 December 2021. The increase was due to the increased rental of multiple offices newly opened in China to satisfy the needs of business development.

Research and development expenses

As at 31 December 2022, the Group had some research and development talents on board which made the total number of research and development personnel accounted for approximately 2.9% of the Group's total number of employees. The Group's research and development expenses increased by approximately RMB4.6 million or 7.0% to approximately RMB70.2 million for the Year from approximately RMB65.6 million for the year ended 31 December 2021, mainly due to the increase in spending for the research and development of new products and technology.

Finance costs – net

Finance costs – net increased from approximately RMB3.3 million for the year ended 31 December 2021 to approximately RMB7.0 million for the Year, mainly due to the increase of interest expense as a result of new borrowings during the Year.

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

The Group's share of net profit of investments accounted for using equity method decreased by approximately RMB1.2 million, from approximately RMB10.7 million for the year ended 31 December 2021 to approximately RMB9.5 million for the Year, primarily due to the decrease in profit contribution from the associates, ROTA Verpackungstechnik GmbH & Co.KG and ROTA Verpackungstechnik Verwaltungsgesellschaft GmbH.

Profit before income tax

Profit before income tax decreased by approximately RMB232.7 million to approximately RMB86.5 million for the Year from approximately RMB319.2 million for the year ended 31 December 2021, which was due to the factors as described above in this section.

Income tax expense

Income tax expense decreased by approximately RMB27.9 million, from approximately RMB46.6 million for the year ended 31 December 2021 to approximately RMB18.7 million for the Year, which was mainly due to the decrease of profit before income tax.

Profit for the year

Profit for the year decreased by approximately RMB204.9 million to approximately RMB67.7 million for the Year from approximately RMB272.6 million for the year ended 31 December 2021, 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	
	2022	2021
	RMB'000	RMB'000
Net cash used in operating activities	**(37,926)**	(103,451)
Net cash (used in)/generated from investing activities	**(153,143)**	65,022
Net cash generated from financing activities	**125,301**	59,349
Net (decrease)/increase in cash and cash equivalents	**(65,768)**	20,920

For the Year, the Group had net cash used in operating activities of approximately RMB37.9 million mainly attributable to:

i. the profit before income tax for the Year of approximately RMB86.5 million, plus the depreciation of property, plant, equipment and right-of-use assets in total of approximately RMB34.4 million and the amortisation of intangible assets of approximately RMB5.3 million etc;

ii. the increase in trade and other payables of approximately RMB132.5 million; and the decrease in inventories of approximately RMB24.6 million and restricted cash of approximately RMB68.5 million; and

iii. partially offset by the increase in contract assets of approximately RMB205.8 million, the decrease in contract liabilities of approximately RMB84.0 million and the increase in trade and other receivables of approximately RMB87.9 million.

For the Year, the Group had net cash used in investing activities of approximately RMB153.1 million, which was mainly attributable to the purchase of property, plant, equipment and intangible assets total of approximately RMB136.7 million, and acquisition of an associate of approximately RMB39.6 million, partially offset by receiving the ending payment approximately RMB11 million for the Year from disposal of the Group's 60% equity interest in the joint venture PALL-AUSTAR JV last year.

For the Year, the Group had net cash generated from financing activities of approximately RMB125.3 million mainly due to the proceeds from borrowings of approximately RMB246.9 million but partially used for the repayments of borrowings of approximately RMB98.3 million, principal elements of lease payments of approximately RMB18.1 million and interest paid of approximately RMB10.1 million.

As at 31 December 2022 and 31 December 2021, the Group had cash and cash equivalents of approximately RMB133.6 million and RMB198.4 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB103.9 million and RMB172.3 million respectively, and term deposits with initial term of over three months of approximately RMB14.5 million and RMB21.3 million respectively.

Net current assets

The Group's net current assets as at 31 December 2022 decreased by approximately RMB85.8 million or 16.3% from approximately RMB527.0 million as at 31 December 2021 to approximately RMB441.2 million as at 31 December 2022 ,was driven by a more effective leverage of external funding resource and management of supplier payment terms, which increased the balance of the current liabilities.

As at 31 December 2022, the Group's total current assets amounted to approximately RMB1,801.0 million, which was an increase of approximately RMB137.8 million as compared with approximately RMB1,663.2 million as at 31 December 2021.

As at 31 December 2022, the Group's total current liabilities amounted to approximately RMB1,359.8 million, which was an increase of approximately RMB223.6 million as compared with approximately RMB1,136.2 million as at 31 December 2021.

Borrowings and gearing ratio

As at 31 December 2022, the total short-term interest-bearing bank borrowings amounted to RMB172.3 million. The secured short-term bank borrowings amounted to RMB21.5 million and bear interest rates ranging from 4.00% to 4.52% per annum (2021: 4.57% per annum), and the guaranteed short-term bank borrowings amounted to RMB150.8 million and bear interest rates ranging from 3.80% to 7.00% per annum (2021: 3.00% to 5.00% per annum). The long-term bank borrowings amounted to RMB85.7 million and bear interest rates from 4.45% to 4.65% per annum (2021: 4.65% and 4.75%). The long-term borrowings due within one year amounted to RMB45.7 million and bear interest rates from 4.45% to 4.65% per annum (2021: Nil).

The Group's gearing ratio is approximately 27.8% as at 31 December 2022 (31 December 2021: 16.4%). The ratio is calculated based on the total debts as of the respective dates divided by total capital equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 31 December 2022, in addition to pledged bank deposits of approximately RMB103.9 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB4.1 million and approximately RMB68.8 million respectively (31 December 2021: approximately RMB5.0 million and approximately RMB71.1 million respectively) and construction in progress having a carrying amount of approximately RMB124.4 million (31 December 2021: approximately RMB85.0 million) which are pledged as security for short-term bank borrowings and long-term bank borrowings with carrying amount of approximately RMB107.2 million (31 December 2021: approximately RMB74.3 million).

Contingent liabilities

As at 31 December 2022, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR887,000 approximated at RMB6,584,000. It sets forth the maximum exposure of these guarantees to the Group.

HUMAN RESOURCES

As at 31 December 2022, the Group had 1,913 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 331 employees as compared with the number of employees as at 31 December 2021. The employee costs (including the Directors' remuneration) were approximately RMB486.4 million for the Year, which was an increase of approximately 17.4% as compared with approximately RMB414.4 million for the year ended 31 December 2021.

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 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 statutory contributions for its employees in Hong Kong, Taiwan, India, Indonesia, Germany, UK and Malaysia.

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.

The Group believes that building up a world-class technical competence requires continuous resources input in which efforts put into recruiting top talents and consultants may adversely impact the Group's profit margin in the short-term, but that the competitive edges over the competition would be strengthened in long-term.

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 2022 amounted to approximately RMB54.5 million, which was mainly from the unpaid commitment of construction of the new facilities in Shanghai and Shijiazhuang, which are currently in progress.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

There were no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group during the Year.

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	60	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	65	Executive Director
Mr. Chen Yuewu	56	Executive Director
Madam Zhou Ning	50	Executive Director
Non-executive Director		
Madam Ji Lingling	40	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	51	Independent non-executive Director
Madam Chiu Hoi Shan	46	Independent non-executive Director
Mr. Leung Oi Kin	48	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**") (**何國強**), aged 60, is the founder of the Group. He was appointed as a Director on 9 January 2014 and has been an executive Director since 20 June 2014. He is the chairman of the Board, the chief executive officer of the Company, the chairman of the nomination committee of the Board ("**Nomination Committee**"), 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. In recognition of Mr. Mars Ho's dedication and achievements in the pharmaceutical industry, he was selected and awarded the honor of pharmaceutical 中國醫藥「60年60人」("**60 Elites of 60 years**" in China Pharmaceutical) in November 2009, which is a recognition of his effort in influencing and contributing to the pharmaceutical industry in China and was awarded the title of 行業領航人 ("**Industry Pilots**") by China National Pharmaceutical Packaging Association in April 2019, which is a recognition of his long-term and outstanding contribution to the development of pharmaceutical packaging of China. He had served as the chairman of China Affiliate of International Society of Pharmaceutical Engineering (ISPE) from 2011 to 2012 and had been a member of the ISPE China board of directors and executive council from 2013 to 2017. Mr. Mars Ho had co-edited a number of pharmaceutical professional books such as Pharmaceutical Process Validation Manual, Microbial Control in Pharmaceutical Cleanroom, Pharmaceutical Liquid Process, Pharmaceutical Water Systems and Quality Risk Management in Pharmaceutical Industry: A Practical Guide. 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 of Hong Kong Limited ("**Stock Exchange**") ("**Listing Rules**")) of the Company.

Mr. Ho Kin Hung ("**Mr. KH Ho**") (**何 建 紅**), aged 65, joined the Group on 20 August 2003. He was appointed as a Director on 9 January 2014 and has been an executive Director since 20 June 2014. Mr. KH 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. KH Ho has over 40 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. KH 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. KH 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 56, joined the Group on 1 August 2005 and has been an executive Director since 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. Mr. Chen had 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 since April 2000. 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.

Madam Zhou Ning ("**Madam Zhou**") (**周寧**), aged 50, joined the Group on 10 April 2014 and has been an executive Director since 20 June 2014. She is also the chairlady of each of the Corporate Governance Committee and the Risk Management Committee and a member of the remuneration committee of the Board ("**Remuneration Committee**"). Madam Zhou is also a director of certain subsidiaries of the Company. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 15 years of experience in the pharmaceutical industry. 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, responsible for finance, supply chain and factory operation management. 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.

** For idenitifcation purpose only*

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling ("**Madam Ji**") (**季玲玲**), aged 40, has been a non-executive Director since 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. 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 (Renmin 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("**Mr. Cheung**") (**張立基**), aged 51, has been an independent non-executive Director since 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 28 years of experience in auditing, accounting and financing. He has worked for big four accounting firms (Ernst & Young and KPMG, Certified Public Accountants). He has also served as different roles such as executive director, chief financial controller and company secretary, etc. in several companies which 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 46, has been an independent non-executive Director since 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.

** For idenitifcation purpose only*

Mr. Leung Oi Kin ("**Mr. Leung**") (**梁愷健**), aged 48, has been an independent non-executive Director since 21 October 2017. Mr. Leung is a professional accountant and a fellow member of the CPA Australia. He has over 20 years of experience in accounting and financial management. Mr. Leung worked in PricewaterhouseCoopers audit and assurance services team. 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 graduated from University of Adelaide, Australia in 1997 with a bachelor's degree in commerce and obtained the degree of master of business administration with honor from the University of Chicago Booth School of Business in 2022 in the United States.

SENIOR MANAGEMENT

Name	Age	Position
Madam Wang Wei	49	Vice-president
Madam Tang Xiangdi	45	Vice-president of Corporate Development

Madam Wang Wei ("**Madam Wang**") (**王瑋**), aged 49, 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 45, was appointed as our Group's financial controller on 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 the Group in January 2013. She has over 15 years of experience in financial reporting and treasury management. She had 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 the 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, a master's degree of accounting from 清華大學 (Tsinghua University) and a master's degree of science in CFO leadership from 新加坡管理大學 (Singapore Management University) in June 2022.

** For identification purpose only*

REPORT OF THE DIRECTORS

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

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

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

The Company has utilised 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 2022, the Net Proceeds has been utilised in full as intended.

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 manufacturers 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 36 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" below;

(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; and

(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.

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

RISKS AND UNCERTAINTIES

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

RISKS

Business/Market risks

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

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.

MAJOR RELEVANT ALLEVIATING MEASURES

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

Through proactive communication with its customers and strong research teams, the Group is able to develop and improve its products and services to cater various needs of the market 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.

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

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.

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'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.

MAJOR RELEVANT ALLEVIATING MEASURES

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.

The Group, through various means, to facilitate communication across departments, especially sales department and procurement department, to preserve timely completion of projects.

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.

RISKS

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.

MAJOR RELEVANT ALLEVIATING MEASURES

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 15.1% 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 1 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 were satisfactory.

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 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 Group 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 Wednesday, 31 May 2023 ("**2023 AGM**").

For determining the entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Thursday, 25 May 2023 to Wednesday, 31 May 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2023 AGM, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on Wednesday, 24 May 2023.

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 2021 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 2022 are set out in Note 20 and Note 21 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 124 to 125 and in Note 35 to the Consolidated Financial Statements respectively.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the shareholders of the Company ("**Shareholders**") as at 31 December 2022 amounted to RMB434,700,000 (31 December 2021: RMB415,313,000).

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 Kwok Keung, Mars, Madam Zhou Ning and Mr. Leung Oi Kin will retire by rotation at the 2023 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 2022, 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 2021, 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 2022, 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 2022, 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 2022, 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 2022, 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 interim report of the Company for the six months ended 30 June 2022 are set out below:

– Annual salary of Mr. Chen Yuewu, executive Director, payable under his employment contract with a subsidiary of the Company has been revised to RMB1,059,876 with effect from 1 January 2023;

– Annual salary of Madam Zhou Ning, executive Director, payable under her employment contract with a subsidiary of the Company has been revised to RMB804,780 with effect from 1 January 2023; and

– Annual Director's fee of Madam Ji Lingling, non-executive Director, has been revised to RMB529,476 with effect from 1 January 2023.

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. All 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. The Company confirms that it has complied with the requirements under Chapter 14A of the Listing Rules. Details of these related party transactions are disclosed in Note 33 to the Consolidated Financial Statements.

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 26 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. The Group has also made statutory contributions for its employees in India, Indonesia, Germany, UK and Malaysia. Particulars of these retirement plans are set out in Note 26 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 2022, 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 *(Note 3)*	Beneficial owner	335,929,000	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 2022, 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 Part 2 of 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 4.7% and 5.7% 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 15.1% and 23.2% of the Group's total revenue and total purchases respectively.

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

AUDIT COMMITTEE

The Board established the Audit Committee on 21 October 2014 which comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and the 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 auditor 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 2023 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2023 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

28 March 2023

CORPORATE GOVERNANCE REPORT

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 contained in Part 2 of Appendix 14 to the Listing Rules.

Save for the deviation from code provision C.2.1 of the Corporate Governance Code as described in the paragraph headed "Chairman and Chief Executive Officer" 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.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

BOARD OF DIRECTORS

Function of the Board

The Board is responsible for establishing the Group's strategic goals, leading and monitoring the Group's development and achieving established strategic goals to protect and maximise the interests of the Company and 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 as follows:

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 each of the Corporate Governance Committee and the Risk Management Committee Member of the Remuneration Committee
Non-executive Director	
Madam Ji Lingling	Member of each of the Audit Committee and the Risk Management Committee
Independent non-executive Directors	
Mr. Cheung Lap Kei	Chairman of the Audit Committee Member of each of the Remuneration Committee and the Nomination Committee
Madam Chiu Hoi Shan	Chairlady of the Remuneration Committee Member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee
Mr. Leung Oi Kin	

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision C.2.1 of the Corporate Governance Code requires the roles of the chairman and chief executive should be separated and should not be performed by the same individual.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

With a view to ensuring that independent views and input are available to the Board, the Board and the Nomination Committee assess the independence of independent non-executive Directors annually taking into account all relevant circumstances including: (1) the diversity, skills, qualifications, experience, character and integrity to perform their duties; (2) the devotion of sufficient time and attention to the affairs of the Company; (3) the contribution to the Company's strategy and policies through independent and constructive comments; (4) the chairman of the Board to hold meeting with the independent non-executive Directors at least annually without the presence of other Directors; and (5) the absence of any financial, business or family or other material relationships with other members of the Board or substantial Shareholders or circumstances which would interfere with their exercise of independent judgment.

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.

MECHANISM TO ENSURE INDEPENDENT VIEWS AND INPUTS TO THE BOARD

To ensure that independent views and input are available to the Board, the following mechanism has been established by the Board:

- Where appropriate, the Company shall arrange suitable and sufficient resources to cover any matters relating to the obtaining of an independent opinion by the Board, including but not limited to the engagement of a legal team or any other professionals for such purpose;

- Where appropriate, the Directors shall give at least three working days' notice to the Company Secretary of the Company to obtain an independent opinion, including but not limited to engaging a professional team for such purpose;

- The Board is required to review its structure, size, composition (including skills, knowledge and experience) and diversity policy at least annually to ensure that the composition of the Board complies with the relevant requirements of the Listing Rules including maintaining a balanced mix of executive and non-executive Directors (including independent non-executive Directors) so that the Board has a strong element of independence which can effectively exercise independent judgment; and

- If all the independent non-executive Directors have served on the Board for more than nine years, the Company should consider to appoint a new independent non-executive Director at the forthcoming annual general meeting.

The Board considers that the said mechanism has been operating effectively and will continue to monitor the implementation and effectiveness of such mechanism on an annual basis.

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 the 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 auditor 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 antibribery 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 paragraph headed "Board meetings and general meeting – 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 2021 and interim financial statements for the six months ended 30 June 2022 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 2021;
- reviewed the terms of engagement of external auditor of the Company;
- recommended to the Board, for the approval by the Shareholders, of the re-appointment of the auditor of the Company; and
- reviewed the Group's internal audit plan for the three years ending 31 December 2024;

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

– reviewed the terms of reference of the Audit Committee.

Remuneration Committee

The Board established the Remuneration Committee on 21 October 2014 with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee currently comprises two independent non-executive Directors, namely Mr. Cheung Lap Kei and Madam Chiu Hoi Shan and one executive Director, namely Madam Zhou Ning. Madam Chiu Hoi Shan is the chairlady of the Remuneration Committee. The terms of reference of the Remuneration Committee are published 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 E.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 one meeting and the attendance of each member is set out in the section headed "Board meetings and general meeting – 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 of the Company;

– reviewed and recommended to the Board the remuneration adjustment proposal for executive Directors, non-executive Director and senior management of the Company and the remuneration packages of independent non-executive Directors; and

– reviewed the terms of reference of the Remuneration Committee.

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.

Below is the summary of the Board Diversity Policy:

- the Company is committed to equality of opportunity in all aspects of its business;
- the Company believes that a diversity of perspectives can be achieved through consideration of a number of factors, including skills, regional and industry experience, background, race, gender and other qualities;
- in forming its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time;
- the Company endeavours to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and to maximize the Board's effectiveness; and
- Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

During the Year, the Nomination Committee held one meeting and the attendance of each member is set out in the section headed "Board meetings and general meeting – 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 2022 AGM (as defined below);

– review the time required from non-executive Director and independent non-executive Directors to perform his/her responsibilities to the Company; and

– reviewed the terms of reference of the Nomination Committee.

During the Year, the Nomination Committee had 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 objectives under the Board Diversity Policy.

As at the date of this report, more than one third of the members of the Board are female Directors, and the Board is satisfied that an adequate level of gender diversity has been achieved in respect of the Board. The Company, through its commitment to providing equal opportunities as well as selecting the right candidates based on objective criteria with due regard for the benefits of diversity, will ensure that gender diversity is emphasised and maintained at the Board level in respect of succession planning in order to make available a diverse pipeline of candidates for appointment to the Board in case of any vacancies.

The Group is also committed to achieving gender diversity across the workforce (including senior management). The details of gender ratio in the workforce (including senior management) are shown in the section headed "Environmental, Social and Governance Report" of this annual report. The recruitment policy of the Group is to only consider the personal merits and capabilities, qualifications, working experiences and performance of the individuals during the recruitment process, transferal, promotion, and training regardless of gender. In the interests of enhancing efficiency, the Company has not set any measurable objective for achieving gender diversity at workforce level. The Company has nonetheless always adopted a meritocratic approach and adhered to the principle of openness and fairness without any discrimination in respect of gender, disability, marital status, pregnancy, religion, nationality, social or economic class, rural or urban, political opinion, pathogen-carrier or sexuality.

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 reviewed the Company's compliance with the Corporate Governance Code for the year ended 31 December 2021 and the Corporate Governance Report for the year ended 31 December 2021, reviewed and monitored the training and continuous professional development of the Directors, and reviewed the terms of reference of the Corporate Governance Committee. The attendance of each member is set out in the section headed "Board meetings and general meeting – 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 reviewing and monitoring 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 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 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 "Board meetings and general meeting – 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 2022 annual general meeting held on 3 June 2022 ("**2022 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	2022 AGM
Executive Directors:							
Mr. Ho Kwok Keung, Mars	4/4	N/A	1/1	N/A	1/1	N/A	1/1
Mr. Ho Kin Hung	4/4	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Chen Yuewu	4/4	N/A	N/A	N/A	N/A	2/2	1/1
Madam Zhou Ning	4/4	N/A	N/A	1/1	1/1	2/2	1/1
Non-executive Director:							
Madam Ji Lingling	4/4	2/2	N/A	N/A	N/A	2/2	1/1
Independent non-executive Directors:							
Mr. Cheung Lap Kei	4/4	2/2	1/1	1/1	N/A	N/A	1/1
Madam Chiu Hoi Shan	4/4	2/2	1/1	1/1	1/1	N/A	1/1
Mr. Leung Oi Kin	4/4	N/A	N/A	N/A	N/A	N/A	1/1

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

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

Emoluments Band	For the year ended 31 December 2022
HK$1,000,000 and below	**4**
HK$1,000,000 to HK$1,500,000	**3**
HK$1,500,001 to HK$2,000,000	**2**
HK$2,000,001 and above	**1**
	10

Pursuant to Appendix 16 to the Listing Rules, the emoluments of the employees who are Directors and who are amongst the five highest paid individuals are set out in Note 26 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 Mak Yuk Kiu ("**Madam Mak**"), 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 Mak 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 114 to 119 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, as well as those related to environmental, social and governance reporting
	—	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, as well as those related to environmental, social and governance reporting
	—	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 the last year 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 Communication 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, training programmes and budget of the Company's accounting and financial report functions, as well as those related to the Company's environment, social and governance reporting 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. The whistleblowing policy is available on the website of the Company and reviewed annually by the Board to ensure its implementation and effectiveness.

Anti-corruption Policy

The Group is committed to promoting a culture of compliance, ethical conduct and good corporate governance within the Group, and the Company prohibits all forms of corruption and is committed to preventing and investigating all forms of corruption.

The Company has adopted an anti-corruption policy to set out the specific behavioural guidelines that the Group's personnel and business partners must follow to combat corruption and demonstrate the Group's commitment to the practice of ethical business conduct and the compliance of the anti-corruption laws and regulations that apply to its operations. The anti-corruption policy is available on the website of the Company and reviewed by the Board and the Management as and when appropriate to ensure its continued effectiveness.

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 ensuring 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.

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 2022 RMB'000
Statutory audit	**3,450**
Non-audit services	**85**
Total	**3,535**

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 specifying the procedures for Shareholders to put forward proposals at the general meeting under the Articles or 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

During the Year, the Company has made amendments to its memorandum of association and the Articles to be in line with the latest legal and regulatory requirements, including the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022 by way of adoption of the amended and restated memorandum and articles of association by a special resolution passed by the Shareholders at the 2022 annual general meeting of the Company held on 3 June 2022 and is available on the websites of the Company and the Stock Exchange.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company adopted its shareholders communication policy ("**Shareholders Communication Policy**") in October 2014 with the objective of providing the Shareholders with information about the Company and enabling them to engage actively with the Company and exercise their rights as Shareholders in an informed manner.

Information will be communicated to Shareholders through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the (i) corporate communication documents including, but not limited to, copy of annual reports, interim reports, notices of meeting, circulars, proxy forms ("**Corporate Communication**"); (ii) other documents issued by the Company which are published on the website of the Stock Exchange for the information or action of holders of any of its securities; (iii) constitutional documents of the Company and the Board Committees, (iv) corporate information including list of Directors; and (v) other Corporate Communication including the procedures Shareholders can use to propose a person for election as a Director on the Company's website. Corporate Communication will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding.

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.

The Board reviewed and updated the Shareholders Communication Policy on 27 September 2022 and made it available on the Company's website.

In view of the above, the Board considered that the Shareholders Communication Policy had been effectively implemented during the Year.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

28 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

As a technology-based pharmaceutical engineering solution provider, Austar Lifesciences Limited (the "**Company**") and its subsidiaries (collectively "**AUSTAR**", the "**Group**", or "**we**") strive to support the growth in the biopharmaceutical and pharmaceutical market with a business focus on commercialised facilities in our clients' product life cycle. The growth in the Chinese pharmaceutical market has been giving the Group sufficient project experience for strengthening a concrete foundation in building core competence elements, including products, technologies, project execution capability, knowledge and expertise, all of which are able to create value for clients in emerging countries. The establishment of the Group's business team in Europe has been making project executions in emerging countries more convenient with regional and local resource support. Our services are empowered by strategic global expansion initiatives and the accelerated expansion of life science sectors with a long-term strategic perspective.

Adhering to a business philosophy of responsible development, we are committed to strategising and formulating environmental, social and governance ("**ESG**") measures to bring positive influences to our community.

We are pleased to present our annual ESG report (the "**Report**") which summarises the Group's ESG management approaches and initiatives, as well as environmental and social performance during the financial year ended 31 December 2022 (the "**Reporting Period**"), unless otherwise specified. The scope of the Report covers our key business segments, including (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.

REPORTING STANDARD

The Report has been prepared in accordance with the requirements stipulated in the "Environmental, Social and Governance Reporting Guide" (the "**ESG Reporting Guide**") as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), as well as adhering to the "comply or explain" provisions set out in the ESG Reporting Guide, except for any provisions that the Group considers are inapplicable to our operations, for which explanations are illustrated in the corresponding sections. The ESG Report has been reviewed and approved by the board of directors of the Group (the "**Board**") in March 2023.

REPORTING PRINCIPLES

The ESG Reporting Guide directs the reporting principles for underlining all aspects of the disclosed ESG information. The application of the adopted reporting principles ensures the ESG Report is presenting accurate, objective, transparent and comparable content. This Report has been prepared in accordance with the following reporting principles:

Materiality

- The Group identified material ESG topics through stakeholder engagement and materiality assessment. The details are explained in the section "Materiality Assessment".

Quantitative

- The Group disclosed standards, methodologies and sources of conversion factors used for the reporting of emissions and energy consumption. Please refer to relevant sections in the ESG Report for details.

Balance

- The ESG Report presented the Group's environmental and social performance on an impartial basis to provide an objective reporting disclosure for readers.

Consistency

- The methodology adopted for disclosing key environmental and social performance indicators is consistent with that of the previous Reporting Period.

CONTACT AND FEEDBACK

At AUSTAR, we aim to deliver the best services and build a long-term relationship with the community for our business sustainability, by managing the Group for the best interests of our stakeholders. You are welcome to provide your comments and suggestions on the ESG Report or towards our performance in respect of sustainability via the following channels:

- Address: Unit 1217-1218, Block B Gemdale Plaza, 91 Jianguo Road, 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

It has been more than three years since the outbreak of the COVID-19 pandemic – the pandemic has influenced priorities and strategic formulation in the pharmaceutical industry. The COVID-19 pandemic outbreak in different regions globally and locally, especially the lockdowns in Beijing and Shanghai, caused a severe impact on supply chain and business operations. Although the supply chain of international suppliers is unstable which resulted in extended product delivery, the instability issues of international supply chains and the trade restrictions which happened in the life-sciences sector, to a certain extent, will encourage clients to consider purchasing more local market-produced equipment and service, thereby providing opportunities for regional industry players. Our growth in the Chinese market has been promising. Together with our recent acquisition of a technology and ancillary business line, our establishment of a new business brand, as well as the development of another business team in Europe, we are striving to facilitating project executions in emerging countries by providing more regional and local resource support. The Group, as a practitioner in the pharmaceutical industry, has been demonstrating our efforts and contribution to our society and coping with the global health issues under unprecedented challenge.

During the Reporting Year, the Group continues to foster sustainable development across our business segments. We continue to conduct stakeholder engagement and materiality assessment to identify and review ESG issues that are material and significant to our business and our stakeholders. Engaging both internal and external stakeholders, more than 600 responses are collected. Putting voices from our stakeholders in our heart, we are committed to strengthening the focus areas of ESG management in response to the concerns of various stakeholders, with a view to achieving optimal business prioritisation and resource allocation, by directing our ESG strategic formulation efficiently, with reference to the assessment result.

As a matter of course, a robust ESG governance structure is well maintained to facilitate the Group's ESG management. The Board is responsible for overseeing the sustainability strategy with a view to the Group's long-term development. Meanwhile, the ESG Executive Committee is responsible for the effective implementation of the oversight through coordination, monitoring and evaluating sustainability performance. Regular meetings are held with the Board to review the current sustainability performance as well as to provide any update on the overall directions of strategies. For plan execution and policy implementation, department units take the responsibilities and present relevant progress and observation to the Board. On behalf of the Board, I would like to express my gratitude to my fellow colleagues for their contributions to the Group's sustainable development. In the near future, we will continue to strengthen our ESG governance across structural levels to support our long-term goals.

As always, the Group adheres to the role of excellent corporate citizen to consciously fulfil social responsibilities, and will work together with our customers, employees, business partners and the society to build a better society with friendly environment and coordinated development. We will be capturing business opportunities and nurturing sustainability in our business development plan, as the key to creating and bringing long term value to the Group that could not be achieved merely with corporate financial performance.

Ho Kwok Keung, Mars
Chairman

VISION, MISSION AND CORE VVALUES

As a leading pharmaceutical enterprise in the market and in the research field, AUSTAR has an obligation to operate and develop responsibly. We have integrated ESG-related and people-centred considerations into our business decision-making process. The current governance structure also ensures that our management principles are fully adopted across the Group. We will continue to uphold the highest standards of professionalism and governance, therefore meeting our responsibility to our stakeholders and the society.

Mission

Vision

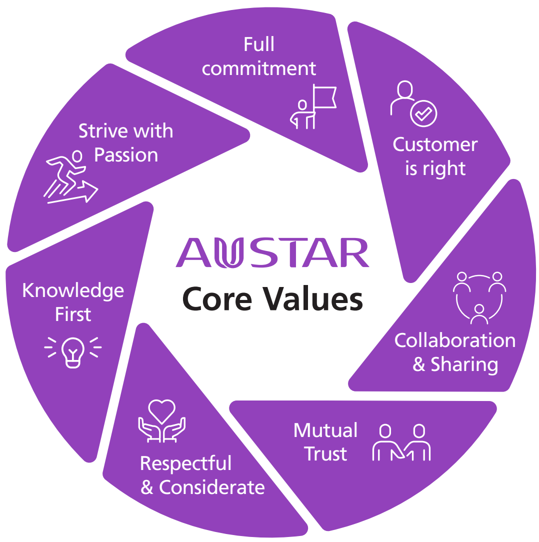
01 Being the globally recognized best technical product and service and solution provider to pharmaceutical researchers and manufacturers;

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

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

Core Values

- Truth Kindness Perfection Operation Philosophy



ESG MANAGEMENT APPROACH

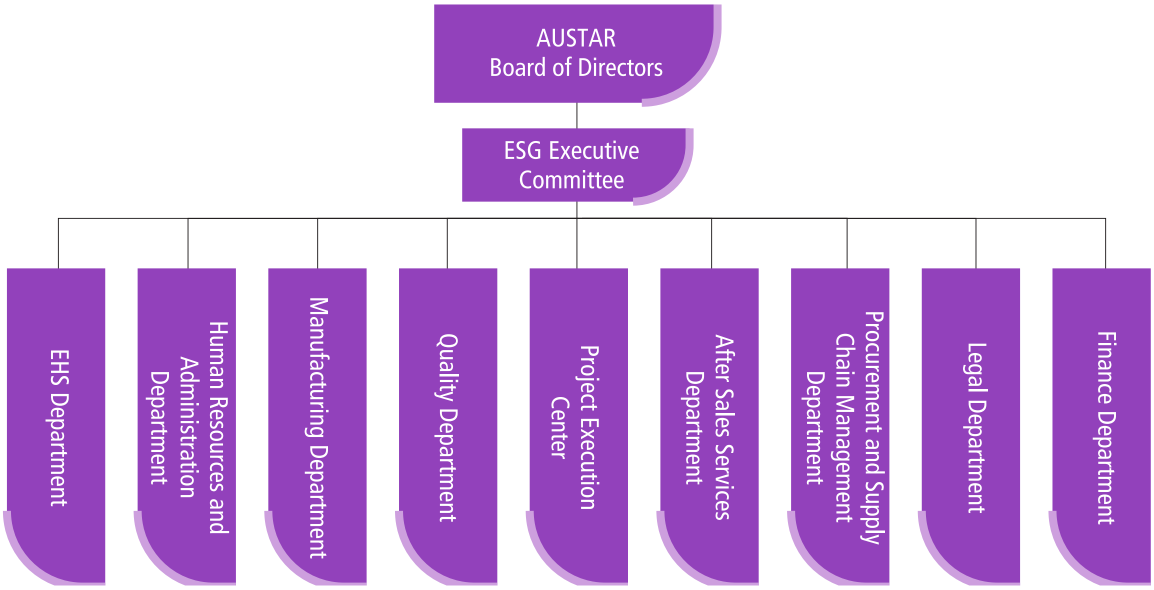
Management Structure

A well-established ESG governance structure is crucial for effective ESG management which involves multiple working levels and department units in AUSTAR. A top-down governance and management structure is applied, so as to ensure the formulated principles and plans are fully incorporated throughout the entire business value chain in AUSTAR.

The Board is committed to creating positive value in the biopharmaceutical and pharmaceutical market and the community through comprehensive ESG management. The Board is proactively engaging in ESG strategy formulation to direct the Group's development towards sustainability. The Board also oversees the overall ESG strategies, management approaches and all the other ESG matters of the Group, including ESG risk management, action plans and corresponding targets setting and initiatives. In addition, the Board provides strategic guidance on the identification of ESG-related risks and material ESG issues. Progress and achievement of ESG objectives and targets are regularly reviewed by the Board. The Board is also responsible for reviewing and approving ESG reports as prepared by the ESG Executive Committee.

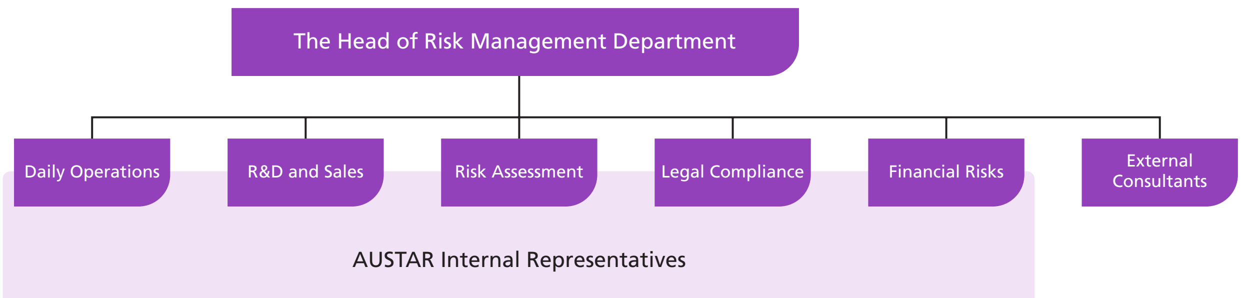
Authorised by the Board, the ESG Executive Committee is composed of representatives from different department units across the Group for advising key ESG matters and focuses especially on the implementation of various initiatives across different operating units in AUSTAR. Collecting opinions and suggestions from multiple department units, the ESG Executive Committee formulates ESG strategy with practical details. It is also the ESG Executive Committee's responsibility to identify and analyse significant ESG risks and opportunities in investment strategy and risk management that may pose potential influences on the Group's operation and development. Relevant target-setting and corresponding progress reviews are conducted by the ESG Executive Committee to ensure that the ESG governance and management system in AUSTAR is stepping towards the right direction. Moreover, the ESG Executive Committee monitors the latest market trends and industry practices in respect of ESG-related issues and carries out the activities of stakeholder engagement and materiality assessment for the preparation of the annual ESG reporting disclosure, as facilitated by a third-party consultant. The ESG Executive Committee shall report the findings to the Board and provide recommendations on further enhancement in ESG performance on a regular basis.

For all the department units, they are responsible for the execution and management of all ESG-related initiatives through effective coordination. Performance and progress are tracked and regularly reviewed, therefore facilitating the development of corresponding improvement plans and the preparation of the annual ESG report for public disclosure.



Risk Management

In AUSTAR, maintaining a sound and solid internal control and risk management system is the key to promoting operational efficiency and minimising potential influences being brought by the market. With a standardised procedure for risk identification, assessment, monitoring and reporting, the Risk Management Department responds to potential risks and corresponding impacts on the Group's operations timely, therefore entrenching the best interests of the Group's stakeholders.



The Head of the Risk Management Department is responsible for the overall risk management of the Group. By communicating with different department units regularly, the Head of the Risk Management Department provides guidance on risk management and facilitates coordination in risk adaptation or mitigation.

As led by the Head of the Risk Management Department, five authorised personnel are assigned and responsible for delivering internal control of the highest standard by identifying, assessing, and responding to risks associated with R&D and Sales, Daily Operations, Legal Compliance, and Financial Risks. External consultants are also a part of the Risk Management System. They are to assist in the identification and assessment of risks of various units in the operation process. Identified risks are reported to the Risk Management Department regularly with the support of suggested measures and initiatives for risk adaptation or mitigation, to facilitate follow-up handling and rectification. All types of risks, including climate-related risks, are considered in the annual risk assessment process and are reviewed by the Internal Control System.

Regular meetings are held within the Departments during the Reporting Period. The top 20 most significant events are discussed with reference to the opinions provided by external consultants, focusing on sources of risks and relevant follow-up measures to implement. The Risk Management Department would then conduct analysis of possible solutions, to ensure respective feasibility in implementation and effectiveness in risk adaptation or mitigation.

Besides, the Risk Management Department is also in charge of emergency situation handling. Coordinating solutions as suggested by various department units across the Group, the Risk Management Department is responsible for coming up with a plan and responding to the event as soon as possible. If applicable, the Risk Management Department shall seek opinions from external consultants. When necessary, the Risk Management Department would also be engaging in relevant follow-up investigations and/or measures.

STAKEHOLDER ENGAGEMENT

By providing open and transparent communication channels, we engage in regular and active dialogue with our stakeholders. It is a crucial move to improve our strategy formulation in ESG management and gain a better understanding of respective stakeholders' expectations, concerns and perspectives regarding our ESG management as well as business operations and development. During the Reporting Period, directors, employees, shareholders/investors, suppliers/customers, distributors, government and regulatory authorities, and community/academic institutions are considered our key stakeholder groups. Capturing views and concerns from stakeholders, we have considered and responded to their opinions in our management approaches and long-term policy formulation. The below table sets forth the adopted communication channels for stakeholder engagement to ensure effective and quality communications.

Stakeholders	Concerns and Expectations	Communication channels
Directors[1]	• 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
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 and regulatory authorities	• 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

[1] Including members of the Risk Management Department.

MATERIALITY ASSESSMENT

Facilitated by a third-party consultant, the Group commissioned a third-party consultant to perform a materiality assessment to identify ESG issues and our stakeholders respectively. During the Reporting Period, the Group invited both internal and external key stakeholder groups to score on the ESG topics based on their materiality through an online survey. A total of valid 687 responses were collected for result analysis. The corresponding working procedures performed for materiality assessment during the Reporting Period are as follows:

Process of materiality assessment

Identification

- Identified the list of 30 ESG topics associated with AUSTAR's business operation and its stakeholders, in reference with the peer benchmarking, ESG Reporting Guide and global reporting standard (e.g. GRI and SASB).

Prioritisation

- Reviewed ESG disclosures of AUSTAR's industry peers to identify common disclosure practices.
- Conducted an online survey with both internal and external stakeholders to assess the materiality of various ESG issues.
- Combined and analysed the results of the peer benchmarking exercise to develop a prioritised list of ESG issues of varying materiality levels for confirmation.

Validation

- Convened a meeting with the third-party consultant to confirm a finalised list of material ESG topics for reporting disclosure.
- Placed additional attention to the focus areas of ESG managrment according to the materiality of respective ESG issues and key concerns as suggested by the Group's key stakeholders.


External assessment (Impact on stakeholders)
Internal assessment (Impact on business)
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Environmental issue
Social issue: Employment and Labour Practices
Social issue: Product and Innovation
Social issue: Supply Chain
Social issue: Community
Governance issue

Aspects	ESG Issue
Environmental	1) Emission Management 2) Waste Management 3) The Environment and Natural Resources 4) Climate Change 5) Resources Management 6) Water Management 7) Greenhouse Gas Emissions
Social	**Employment and Labour Practices** 8) Employee Rights & Turnover Rate 9) Employee Welfare and Pay System 10) Occupational Health and Safety 11) Employee Training and Development 12) Labour Standards 13) Diversity and Inclusion 14) Inclusive Working Environment and Equal Opportunities **Product and Innovation** 15) Product Safety and Quality Assurance Management 16) Customer Satisfaction 17) Customer Data Protection and Privacy Protection 18) R&D and innovation 19) Intellectual Property Rights 20) Selling Practise and Compliance **Supply Chain** 21) Supply Chain Management 22) Open and Fair Sourcing 23) Stable and Responsible Sourcing **Community** 24) Community Investment 25) Promotion of Sector Development
Governance	26) ESG Governance 27) Stakeholder Communication 28) Business Ethics and Anti-corruption 29) Strategic Cooperation 30) Risk Management

The materiality of each ESG issue is summarised in the materiality matrix above, after our internal discussion and evaluation. The ESG issues that are categorised as high materiality fall on the top right quadrant of the matrix. The result of the materiality matrix and the identified material ESG issues are reviewed and finalised by senior management and the Board.

With reference to the assessment result and the adopted reporting principle, the Report focuses mainly on the ESG issues of high materiality. The Group considers formulating management approaches on issues categorised as being of moderate materiality and low materiality, so as to provide an overall picture to stakeholders in terms of the Group's ESG management. The Group regularly reviews the existing ESG strategies, policies, and objectives, therefore facilitating continuous enhancement in ESG performance and reporting disclosure.

During the Reporting Period, ESG issues regarding product and innovation remain of high materiality with significant impacts on both our business and stakeholders. As expressed by both our internal and external stakeholders, 1) Waste Management, 2) Occupational Health and Safety, 3) Inclusive Working Environment and Equal Opportunities, 4) Open and Fair Sourcing, 5) Promotion of Sector Development, 6) Business Ethics and Anti-corruption, and 7) Risk Management are the focus areas that we shall pay attention to.

ENVIRONMENTAL PERFORMANCE

AUSTAR acknowledges that sustainable and responsible business operation has become a bigger priority in the global biopharmaceutical and pharmaceutical market. Seeking to manage environmental responsibilities systematically, we have established an Environmental Management System certified with the ISO14001 standard. Various control measures are in place for resource optimization and emissions and waste reduction, therefore minimising our operational footprints. During the Reporting Period, AUSTAR has strictly complied with relevant environmental laws and regulations and was not aware of any incidents of non-compliance and litigation cases.

1. Emissions

AUSTAR strictly complies with all applicable laws and regulations in where we operate that have a significant impact on AUSTAR relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, including but not limited to the Environmental Protection Law of the People's Republic of China ("**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 the Noise Pollution Prevention and Control, and the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste and Law of the PRC on Environmental Impact Assessment.

The impact of emissions on both the environment and human health has been widely recognised. With the implementation of "Wastewater, Waste Gas and Noise Management System", we strive to minimise our operational footprints and pollutions through effective management of emissions control. We endeavour to keep up with our promising progress in reducing emissions and achieving our internal environmental targets within the timeline through standardised management approaches and the deployment of various initiatives across our facilities.

1.1. *Air Emissions*

In AUSTAR, major sources of air emissions are considered to be the air pollutants from the consumption of gaseous fuels from stationary and mobile combustions. With an aim to cut air emissions generated from our daily operations, all manufacturing sites are completely enclosed and equipped with organic exhaust gas treatment facilities. Organic exhaust gas generated during the manufacturing process is filtered by the treatment facilities before being emitted into the atmosphere. With such practice, emissions of gaseous pollutants are expected to be reduced while maintaining the indoor air quality of our facilities at a safe and healthy level. The treatment facilities are also equipped with a monitoring and alarm system, therefore allowing real-time performance tracking and timely follow-up responses to specific conditions. In addition, diesel-powered facilities, such as forklifts, are gradually upgraded to electrical-powered, to further reduce fossil fuel consumption.

Annual external inspection and third-party verification are conducted to ensure compliance with relevant emissions standards. The emissions of non-methane hydrocarbon (NMHC), benzene, toluene, xylene, and particulates are closely monitored and assessed across manufacturing sites. During the Reporting Period, the Group's manufacturing sites have been verified to comply with the national requirements of the "Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises" and "Integrated emission standard of air pollutants".

To reinforce company vehicle management, the internal "Vehicle Management Regulation" has been established to ensure the administrative control in daily business travel and short-distance business trips for reducing unnecessary air emissions and fuel usage.

The Group's air emissions during the Reporting Period are illustrated in the below table:

Emissions	**Unit**	2020	2021	**2022**
Nitrogen oxides (NO_x)	kg	5.6	7.32	**9.73**
Sulphur oxides (SO_x)	kg	0.23	0.16	**0.24**
Particulate Matters (PM)	kg	0.41	0.54	**0.72**

1.2. *Greenhouse Gas ("**GHG**") Emissions*

In AUSTAR, Scope 1 Emissions refer to the fuel combustion from machinery and vehicles owned by the Group, while Scope 2 Emissions cover the consumption of purchased electricity in offices and production sites and Scope 3 Emissions include air business travel by the Group's employees. The Group's GHG emissions are mainly derived from the energy consumption across the Group's daily operations. To enhance energy efficiency and therefore reduce carbon emissions, the Group has formulated various relevant measures. Further details of the measures adopted are elaborated under the section "2.1 Energy Use".

In addition, the Group has formulated the "Greenhouse Gas Emission Management Regulations", to standardise the Group's GHG management work in accordance with the requirements of the ISO 14064 standards. These regulations are specially prepared to improve the Group's GHG emission inventory and report comply with the principles of relevance, completeness, consistency, accuracy and transparency.

The Group's GHG emissions during the Reporting Period are illustrated in the below table:

GHG Emissions[1]	**Unit**	2020	2021	**2022**
Scope 1[2]	Tonnes of carbon dioxide equivalent ("**tCO_2e**")	41.4	32.11	**38.94**
Scope 2[3]	tCO_2e	1,121.1	1,522.09	**1,296.12**
Scope 3[4]	tCO_2e	808.9	1,062.47	**580.58**
Total GHG emission[4]	tCO_2e	1,971.4	2,616.67	**1,915.64**
Intensity[5]	tCO_2e/employee	0.83	0.87	**0.68**

Note:

1. The calculation of Scopes 1 and Scope 2 GHG emissions is defined and calculated in accordance with the GHG Protocol, ISO14064 standard and "How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" published by the Stock Exchange.

2. The direct emission (Scope 1) includes the combustion of fuels for stationary source and mobile combustion of company vehicles.

3. The energy indirect emission (Scope 2) includes the purchased electricity consumed by the Group. For emissions data of 2020 and 2021, the calculation is based on the emission factors from Average Carbon Dioxide Emission Factors of China Regional Power Grid 2011 and 2012 issued by the National Development and Reform Commission of the PRC. Meanwhile for emissions data of 2022, the latest update in national baseline emission factors, as released by the Ministry of Ecology and Environment of the PRC, is also adopted in the calculation.

4. The other indirect emissions (Scope 3) include the business travel by the Group only.

5. The GHG intensity is the sum of Scope 1 and 2 emissions divided by the number of employees.

1.3. Waste and Wastewater Management

With the implementation of "Management Regulation on Waste Management", we have standardised the management and handling procedures of both hazardous and non-hazardous waste, and therefore minimising the adverse environmental impacts in form of soil degradation, water contamination, and ecological balance upset.

A huge volume of waste generation will pose a challenge to cities with the use of landfills being one of major waste management solutions, likewise in the regions where we operate. In AUSTAR, we continue to promote green office initiatives as designed with reference to the 4R principles – Reduce, Reuse, Recycle, and Replace. Reducing waste at source is crucial for diverting wastes to landfills, therefore facilitating effective waste management. The ultimate goal of the green office initiative is to create a greener, cleaner and more sustainable workplace by avoiding or minimising waste, and collecting and recycling materials. We will continue to attach great importance to the education for our staff on resource sustainability and fostering material reuse and recycling. Currently, recycling facilities and guidance are provided in all our manufacturing sites and offices, so as to facilitate proper waste segregation and avoid contamination of recycled materials due to hygienic issues, therefore enhancing recycling rate and efficiency.

Primary hazardous waste generation of the Group is considered to be waste oil and emulsifiers as associated with mechanical lubricating across the Group's manufacturing sites. The Group understands the importance of proper handling of hazardous waste in avoiding land and water pollution. In response to this issue, the Group has strictly complied with applicable laws and regulation regarding waste handling. All hazardous wastes are stored in designated areas with proper chemical labelling and safety warnings. Inspection and follow-up maintenance are conducted regularly by assigned staffs, to prevent potential chemical leakage. Meanwhile for all hazardous waste as generated by the Group, such materials are handled by qualified waste collectors.

With the Group's oil and water separation and filtration system in manufacturing sites, a reduction of the use of emulsifier during the production process is achieved. The Group ensures that a septic tank is installed in every manufacturing site, therefore facilitating on-site sewage treatment before discharging to the municipal sewage system.

During the Reporting Period, the Group achieved full compliance with relevant legislations and regulations regarding hazardous waste handling. The Group would continue to monitor our existing waste management system, evaluate it effectiveness at onsite implementation and establish waste reduction goals as appropriate in future.

The Group's waste generation during the Reporting Period is illustrated in the below table:

Waste Generation	Unit	2020	2021	2022
Hazardous waste				
Hazardous waste	Tonnes	2.41	3.67	**1.19**
Intensity	Tonnes/employee	0.0017	0.0021	**0.0006**
Non-hazardous waste				
General waste	Tonnes	61.92	102.69	**69.74**
Intensity	Tonnes/employee	0.04	0.06	**0.04**
Sewage Discharge	m^3	11,605.6	13,473.77	**16,689.58**
Intensity	m^3/employee	8.27	7.54	**8.50**

Note:

1. Hazardous wastes include lubricant oil, emulsifier, and chemical waste.

2. Non-hazardous wastes include the domestic waste, wastepaper, and waste plastic.

2. Use of Resources

The Group always attaches great importance to optimising resources for efficient operation in the aspects of energy, water, and packaging material usage. Management policies and operational guidelines are set by the Group to encourage green operations. In order to achieve the goals, all employees are obligated to share responsibilities and participate proactively. Meanwhile, our customers would receive energy-saving-related strategies and recommendations, achieving the goals of energy conservation and efficient use of resources through collaborative efforts.

2.1. Energy Use

Energy consumption is inevitable in ensuring the Group's smooth operation in its business segments. However, the Group emphasises the significance and obligation of educating and raising employee awareness of energy-saving practices. The "Management Procedure on Energy Conservation and Consumption Reduction" has been provided a detailed guideline for saving energy during business operations. The key measures for energy conservation are shown as follows:

- Switch off electrical appliances after office hours and when they are not in use (such as air-conditioning, computer, printer, photocopier, lighting, etc.);

- Provide relevant trainings and education on energy-saving practices;

- Collect energy usage data regularly;

- Maintain an average indoor temperature between 24 – 26°C to save energy; and

- Regularly conduct equipment and circuit maintenance to reduce energy consumption.

The Group will continue to assess its influences on their stakeholders and their businesses respectively, before setting any related targets in the future.

The Group's energy consumption during the Reporting Period is illustrated in the below table:

Energy	Unit	2020	2021	2022
Purchased electricity	MWh	1,339.92	1,889.18	**2,230.84**
Mobile fuel consumption	MWh	119.14	98.79	**156.75**
Stationary fuel consumption	MWh	22.78	31.22	**NA**
Total energy consumption	MWh	1,481.84	2,019.20	**2,387.59**
Intensity	MWh/employee	1.06	1.13	**1.22**

Note:

Due to limited consumption of stationary fuel during the Reporting Period as associated with relatively small environmental footprint, stationary fuel consumption in 2022 is considered insignificant.

2.2. Water Management

The Group makes effort to wisely use water resources. Based on the Group's "Management System for Saving Energy and Reducing Consumption", several water conservation initiatives have been implemented to remind employees of the urgency of water conservation:

- Avoid washing hands under running water;

- Tighten the faucet to prevent water dripping;

- Inspect water facilities on a regular basis to guarantee no leakage or dripping; and

- Report water pipeline leaking to the property management firm as soon as possible.

To conserve water, regular inspection and pipeline maintenance are conducted in our manufacturing sites to prevent leakage. Moreover, the Group keeps monitoring the monthly water usage and spotting any abnormality in water usage, ensure effective water management. The Group will continue to assess its significance to both its stakeholders and businesses before setting any critical targets in the Group's development plans.

During the Reporting Period, the Group had no problems on water sourcing as it is fully under the property management company control at our offices and manufacturing sites.

The Group's water consumption during the Reporting Period is illustrated in the below table:

Water	Unit	2020	2021	2022
Water Consumption	m^3	11,605.6	16,842.21	**20,861.98**
Intensity	m^3/employee	8.27	9.42	**10.62**

2.3. Packaging Materials

The Group devotes great effort to reducing excessive and unnecessary packaging. We have cut down on the number of packing materials used and avoided merchandising non-recyclable materials, promoting packaging material reduction by controlling at source.

The Group's use of packaging materials during the Reporting Period is shown as follows.

Packaging Materials	Unit	2020	2021	2022
Wrapping Paper	Tonnes	N/A	2.00	**1.50**
Carton Box	Tonnes	N/A	8.00	**4.50**
Stretch Film	Tonnes	N/A	9.80	**6.52**
Wooden Box	Tonnes	N/A	452.0	**351.50**
Plastic Strapping	Tonnes	N/A	6.75	**5.50**
Total	Tonnes	33.00	478.55	**369.52**
Intensity	Tonnes/employee	0.02	0.27	**0.19**

3. The Environment and Natural Resources

Adhering to the responsibility of reducing the Group's influence on the environment and natural resources, the ISO14001 Environmental Management System ("**EMS**") and relevant management approaches have been implemented throughout the operation and management process in AUSTAR. The EMS and relevant management approaches are considered as practical tools to facilitate systematic environmental management. We regularly assess and evaluate the Group's operation and performance. To ensure the effective implementation of the EMS and its efficiency, an independent consultant is engaged to provide us with regular audits regarding the EMS and our environmental performance.

In addition, the Group has established the "Management Regulation on Noise Management" to standardise noise monitoring procedures. It is to scrutinise the extant noise problems and establish relevant follow-up measures to tackle with and rectify them. For example, we have adopted low-noise machinery and equipment and implemented practical engineering solutions (such as the installation of noise barriers) to minimise the noise nuisance to the surroundings. To assure the noise level associated with the Group's operation complies with the permissible level under the relevant laws and regulations, noise assessment and monitoring are conducted by a certified third-party consultant.

Besides, we strive to eliminate the negative impact of our operations on the environment by conducting environmental factor and risk identification and assessment, and strictly controlling air, water, soil and noise pollution by closely overseeing the risks as outlined in the list of environmental aspects.

4. Climate Change

The problem of climate change poses significant impacts to communities and businesses, whereas combating and mitigating the problem is of global awareness. The 14th Five-Year Plan was officially implemented to commit to putting forward the target of reaching the peak of carbon emissions by 2030 and carbon neutrality by 2060. In addition, the Paris Agreement acts as a legally binding agreement to avoid dangerous climate change by limiting global warming below 2°C.

In light of the rising concerns of climate change, we consider the recommendations of the Task Force on Climate-related Financial Disclosure ("**TCFD**") framework, and conduct climate-related risk identification regularly. This helps us to understand the potential financial and operational impacts being brought to the operation of our business, and further observe the possibilities of combating climate change. The Group has identified the following possible climate risks:

Physical risks

- Acute risk: The increased severity of extreme weather events (e.g. frost, snowstorm and hail) may cause damage to our office buildings and/or manufacturing sites. It may further interrupt our business operation and increase the maintenance cost.

- Chronic risk: Extreme weather events, such as flooding caused by rising seawater levels, extreme cold waves, and heatwaves, will lead to a decrease in revenue due to business interruption and additional costs in our business operation. Also, in order to maintain the room temperature at comfort level under such extreme weather conditions, the energy consumption at our offices and manufacturing sites will then be increased which lead to an upsurging operating cost.

Transition risks

- Policy risk: The latest implementation of carbon-pricing mechanisms raised the cost of GHG emissions, which would escalate the operating cost and cause potential risks to our financial stability.

- Market risk: Market investors may prefer focusing on projects that are environmental-friendly and include low-carbon goods and design services. The preferences of the customers might then be shifted. Moreover, the cost of purchasing raw materials for our business operation may be increased due to limited natural resources and higher transportation costs.

- Technological risk: Adopting technologies with lower impacts on the climate instead of those that are more vulnerable to the climate might be costly.

- Reputational risk: Posing long-term damaging impacts on the climate might be barriers to attracting and retaining customers, employees, business partners and investors.

Responding to the risks identified, the Group has formulated the "Addressing Climate Change and Sustainable Development Management Measures", specifying that:

- the Group would take preferred measures to progressively reduce and minimise direct and indirect GHG emissions within its scope of control and encourage the Group's stakeholders to take similar practices;

- the Group would avoid or minimise disruptions associated with climate change and, where possible, take advantage of opportunities to adapt to change; and

- the Group would take measures to respond to existing or potential impacts posed by climate change, and commit to building the capacity and resilience to adapt to climate change together with its stakeholders.

Taking the recommendations of the TCFD framework into consideration, the Group strives to enhance the governance processes and integrate the climate-related risks and opportunities into our future risk assessment. Moving forward, the Group would continue to monitor the impacts of climate change on our business and formulate preventive countermeasures to mitigate or avoid such impacts in the future.

SOCIAL PERFORMANCE

5. Employment

The Group acknowledges its employees are the most valued assets in achieving AUSTAR's business objectives and maintaining its industry leadership and competitiveness. Therefore, we have established an effective system in human resources management, intending to create a safe, motivated and inclusive working environment for all our employees. Our employment management policies and guidelines are formulated in accordance with the United Nations Universal Declaration of Human Rights and appropriate local laws and regulations. During the Reporting Period, the Group strictly complied with the applicable labour laws and regulations, including but not limited to the Employment Ordinance (Cap.57) of HKSAR, Employees' Compensation Ordinance (Cap.282) of HKSAR, Mandatory Provident Fund Schemes Ordinance (Cap.485) of HKSAR and the Minimum Wage Ordinance (Cap.608) of HKSAR, the Labour Law of PRC and the Labour Contract Law of the PRC. The Group was not aware of any incidents or violations of the relevant labour laws and regulations relating to compensation and dismissal, recruitment, and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other benefits and welfare.

5.1. *Employment Practice*

Employees are the cornerstone of enterprise development, and the Group has been actively protecting the basic rights and interests of employees. The Group's Employee Handbook and "Personnel Records Management Control Procedures" set out the Group's human resource management details on employment, promotion, compensation and dismissal, working hours, rest periods, benefits, assessment, training, employee relations and communication. It is to ensure that all employment practices of the Group comply with the statutory requirements within the scope of the Group's business.

Competitive remuneration and welfare packages are provided to attract and retain talents. Benefits specifically provided to full-time employees including but not limited to 5-days of paid sick leave, medical insurance and reimbursement, marriage and maternity leave, maternity allowance, housing allowance, and transportation allowance. In addition, the Group acquires talents through multiple channels, such as professional human resource agencies, university campus recruitment, social recruitment and internal recommendation, to ensure the sustainable development of the talent pool.

The Group has also established an "Annual Performance Assessment Management System" for employees, to create a performance-oriented culture and stimulate employees' positivity and creativity in workplace. Setting key performance indicators ("**KPI**") through the System, the senior management can evaluate employees' respective performance in terms of quality of work and contribution to the Group. It is considered an objective and measurable tool to facilitate annual adjustment in salary, bonus and promotion, aiming to reward outstanding performances while inspiring employees to advance in their work.

5.2. *Equal Opportunities and Anti-discrimination*

In addition to legal and regulatory requirements, we also attach great emphasis on the protection of the fundamental human rights and freedoms of our employees by constantly enhancing our internal policy.

Diversity and inclusion form an integral part of our corporate culture. We strive to bring together talents from various backgrounds and with different expertise, aiming to create a diversified workplace in which human resources can be turned into the best account to the Group's business performance and management. Adhering to the principle of openness and fairness, we are committed to providing equal opportunities for all our potential candidates and employees in recruitment, employment, remuneration, promotion and transferal. Regardless of nationality, race, religion, gender, age, or family situation. The Human Resources Department assesses and evaluates our potential candidates and employees only with individual merits and abilities, qualifications, work experience and performance, as highlighted in our human resources management policy. It is to ensure that there is no discrimination, harassment or vilification in respect of age, gender, native place, nationality, custom, religion, social class, physical disability, political affiliation, pathogen carrier or sexual orientation across the operation and development of AUSTAR. We do not tolerate any discrimination or harassment in the workplace. Employees who violate the policy would be subjected to disciplinary action, including immediate termination.

5.3. Employee Wellbeing

Workplace productivity as supported by employee wellbeing is more important than ever. Employee wellbeing is no longer just about physical health and employee benefits anymore, but also about mental health and social wellbeing. As a kind of employee welfare, team building activities do not only enrich employees' spare time, relieve work pressure, and achieve the balance of work and life, but also strengthen the employee connection and trust. During the Reporting Period, the Group held a number of birthday parties and team building activities for employees. Moving forward, with the relaxation of the social distancing restrictions, the Group will continue to enhance the well-being of its employees, by arranging more employee activities related to team cohesion and social interaction, to motivate employees to deliver satisfactory work performance and achieve sustainable business development.

In addition, we also care about the physical health of our employees and provide regular physical examinations to identify potential occupational health conditions.

Fighting Against the Coronavirus disease ("COVID-19") Pandemic

During the Reporting Period, the spread of COVID-19 pandemic has again emerged in many regions. The Group has been carefully supervising the pandemic condition in the regions where we operate since the outbreak of the COVID-19 epidemic. We have always adhered to the latest pandemic policies, regulations and preventive measures recommended by local authorities. To avoid the risk of spreading the COVID-19 virus, the Group does not only refer to the Centre for Health Protection's Workplace Hygiene Guidelines for the Prevention of COVID-19, but also provides training and manuals relevant to the epidemic, so as to ensure effective implementation of COVID-19 precautions.

To safeguard the health and safety of our employees and workers, the Group has implemented the following measures in our business units, including but not limited to:

- Wear masks at all times and maintain adequate social distancing when employees are in public facilities in the workplace (e.g. break rooms, changing rooms, meeting rooms, tea rooms, etc.);
- Set up a prevention and control working group for responding to epidemic emergencies;
- Maintain air circulation and, if circumstances permit, open office windows to increase the supply of fresh air;
- Equip all workplaces with thermometers, masks and other precautions;
- Disinfect frequented areas at least twice a day;

- Provide hand sanitisers in the office to perform hand hygiene frequently;
- Empty properly the rubbish and waste stored in the rubbish room on a daily basis;
- Wash and wipe down facilities at least twice a day; and
- Reduce face-to-face meetings and site visits to online meetings, avoid physical contact and maintain sufficient social distance.

5.4. Employee Profile

The Group has a total of 1,964 employees, of which 1,913 are full-time employees, and 51 are part-time employees. Our turnover rate was 20.2%. The workforce profile divided by gender, age group and geographical region during the Reporting Period is illustrated in the below table:

	2020		2021		**2022**	
Employment Profile	Number of employees	Turnover rate (%)	Number of employees	Turnover rate[2] (%)	**Number of employees**	**Turnover rate[2] (%)**
By gender						
Male	1,061	16.8	1,408	17.6	**1,481**	**21.9**
Female	343	27.4	380	18.2	**483**	**15.1**
By age group						
< 30	361	16.1	500	18.6	**609**	**29.6**
Age 31 to 40	809	15.6	1,013	17.2	**960**	**16.7**
Age 41 to 50	184	45.7	222	19.8	**315**	**14.6**
> 51	50	0	53	22.6	**80**	**13.8**
By geographical region						
Hong Kong	3	0	9	0	**3**	**33.3**
Mainland China	1,378	17.0	1,751	18.3	**1,894**	**20.4**
Others	23	4.2	28	10.7	**67**	**13.4**

Note:

1. The figures of employee number and employee turnover are calculated based on the number of headcounts.

2. The turnover rate covers employee voluntary resignations and retirements.

3. The overall employee turnover rate equals the total number of employee turnover divided by the total number of employees as of end date the Reporting Period.

4. The employee turnover rate equals the total number of employee turnover in corresponding gender group divided by the total number of employees in the gender group as of end date the Reporting Period.

5. The employee turnover rate equals the total number of employee turnover in corresponding age group divided by the total number of employees in the age group as of end date the Reporting Period.

6. Health and Safety

The Group pays great attention to employee welfare and puts employee safety at first. We manage workplace and occupational safety across our operation and manufacturing facilities in a proactive and systematic manner in order to provide a safe, comfortable and harmonious working environment for our employees. To prevent workplace accidents and occupational hazards, the Group has established an Occupational Health and Safety Management System in accordance with ISO 45001 standard, to identify and manage safety risks. In addition, we have formulated a series of internal policies and implementation mechanisms in accordance with relevant international guidelines and applicable local laws and regulations, such as the Guidelines for Occupational Health and Safety Management System as proposed by the International Labour Organization, the Work Safety Law of the PRC, Labour Law of the PRC, Fire Control Law of the PRC and the Law of the PRC on the Prevention and Control of Occupational Diseases.

It is critical to carry out a thorough occupational health and safety risk assessment to proper identify and manage the significant safety risks with effective mitigation measures. The Group has established "Control Procedures on Risk Identification and Risk Assessment" to ensure that a comprehensive occupational health and safety risk assessment is conducted, together with the development of effective mitigation measures in eliminating the risks and controlling the level of risk in an acceptable level.

Besides, internal safety inspections and checks are carried out by the safety officer and departmental supervisors to ensure the precautionary safety measures and practices are in place and well-maintained. This also enables us to continuously identify and assess potential safety risks and hazards to prevent accidents from its occurrence.

Raising the safety awareness of our employees is crucial to fostering a safety-centred culture in the workplace. The Group offers relevant safety training programmes, most of which are designed by third-party professional organisations for our employees. A variety of health and safety-related topics are covered, such as safety responsibility advocacy, occupational health protection and measures to acquire competencies and qualifications required for daily work. If employees are engaged in work with potential high occupational hazards, the Group will offer regular health checks for them.

The Group has developed "Incident Investigation Processing Reporting Management Procedures" to deal with safety incidents in our workplace. The responding actions, accountability, and follow-up processes are clearly stated under various types of situations and accidents. The corresponding accident investigation would be carried out to identify the root cause(s) of the accident or incident. Subsequently, we will rectify and improve the existing safety conditions in workplace based on the investigation findings to prevent recurrence. The Group has also outlined the "Emergency Preparedness and Response Control Procedures" and the "Integrated Safety Incident Response Plan" which clarifies the standardised emergency handling procedures. As the document stated, emergency trainings and drills should be carried out regularly for all employees to acquire necessary skills for tackling emergencies.

During the Reporting Period, the Group has strictly complied with the applicable health and safety laws and regulations. Our safety performance is shown in the below table.

	2020	2021	**2022**
Work-related fatalities	0	0	**0**
Work-related accidents	0	0	**0**
Lost days of work-related injury	0	0	**0**

7. Development and Training

To meet the emerging business development and keep abreast with the latest industry standards, the Group endeavours to cultivate employees' competencies and skills and promote a positive learning atmosphere. The Group has established "Training Management Procedures" to identify the employee training needs, set development goals and the annual training plan, and standardise the Group's training management process, in order to nurture the employees' full potentials and professionalism.

For newly recruited employees, the Group will arrange New Hire Orientation Training for them and introduce the Group's corporate culture, business objectives, relevant policies and regulations, product knowledge and workflow of different departments. In addition, pre-employment training will be provided at three different levels, including at the corporate level, departmental level and position level. The training aims to enrich the new employees' occupational skills and facilitate them to adapt to the workplace swiftly, and to be competent in their positions and seek their own career development.

For specific employees, the Group also provides internal on-the-job training, such as management skills training, ISO standard training, pharmaceutical project management and various technical skills and knowledge. Such arrangement is to facilitate employees' development towards respective career development goals and improve respective work capabilities. External post qualification training, skill upgrading training, ongoing training and supervised education training are also arranged for selected employees through training sponsorship, therefore enhancing one's specific knowledge of the position and enhance overall expertise. The Group also conducts different workshops for knowledge management, case studies and experience sharing within different teams, so as to learn from experience and maintain appropriate knowledge transfer.

During the Reporting Period, the Group conducted a total of 12,040.5 hours of job-related trainings covering different professional areas with 1,096 of the employees trained.

Employee Training Data

	2021		2022	
Employee Training	Percentage of employees trained (%)	Average training hours (hours/employee)	**Percentage of employees trained (%)**	**Average training hours (hours/employee)**
Senior Management	48.0	2.29	**71.4**	**8.85**
Middle Management	58.3	3.89	**52.6**	**6.02**
General	32.9	3.72	**55.5**	**6.04**
Male	38.2	3.77	**56.2**	**6.03**
Female	33.8	3.67	**54.5**	**6.44**

8. Labour Standards

The Group has zero-tolerance for child labour and forced labour within our business operation. To conform the Group's operations to the highest standards of ethical conduct and to protect the fundamental rights of labour, 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. According to the Employee Handbook, all applicants must present valid identity documents during recruitment processes. It is to verify candidates' eligibility for working in related positions, and to prevent any child, forced and bonded labour from being employed. Candidates are also required to submit official documents (e.g. qualification certificate, job reference records) to validate their information provided. The Group reserves the right to terminate the employment contract with immediate effect, if any false information is provided, or any indication of child labour or forced labour is observed.

Additional guidance and regulations regarding attendance, labour intensity and overtime are detailed in our "Employee Handbook" and the "Attendance and Leave Management Control Procedures". Employees are encouraged to enhance their work efficiency and complete all their tasks and duties within working hours. All overtime work is required prior approval by the department heads and employees who work over-time are compensated with the determined overtime rate structure.

The Group constantly reviews its suppliers' performance in labour practices to eliminate child and forced labour issues along its supplier chain and business collaboration, so as to avoid putting the Group at any legal risks.

During the Reporting Period, AUSTAR did not find any cases of forced labour and child labour.

9. Supply Chain Management

The Group works in partnership with its suppliers to comply with social and environmental standards to create a stable and sustainable supply chain. The Group prefers to engage suppliers who can provide more environmentally friendly materials and products. Suppliers are requested to provide relevant specifications and certifications as evidence to proof their goods and materials are green or from sustainable natural sources. In addition, geographic location is another key factor to consider in our supplier selection. The Group always prioritises the engagement with local suppliers for material sourcing to reduce carbon footprint through transportation.

We recognise that the quality of raw materials is the foundation of the quality of the Group's products and services. The Group has established a supplier management system to select qualified suppliers and monitor their quality, environmental, safety and ethical practices through the "Procurement Control Procedure" and "Supplier Performance Evaluation and Management Control Procedures".

The supplier management system outlines the requirements and practices for legal compliance, selection and evaluation of suppliers. Assessment and a series of qualification process will be conducted when selecting new suppliers. For the critical material suppliers, the Group requires suppliers who have obtained ISO 9001 certifications, and all suppliers must have good track records on environmental, health and safety ("**EHS**") compliance. For existing suppliers, the Group conducts annual performance review, in terms of safety compliance, materials/service quality, product provision, and customer service, to ensure they uphold consistent products and services quality. When the mechanism is adjusted or the quality of the products provided has significant changes, additional evaluation is required. Suppliers are distributed with "Environmental, Social and Governance Self-Assessment Form" to further assess their EHS performance. This assessment is used to manage qualified suppliers and the entire product purchase cycle. Suppliers formally engaged by the Group's Procurement Department are required to sign a Corporate Social Responsibility Commitment, which includes statements on Labour standards, no child or forced labour, health and safety, and sustainable development. We reserve the right to immediately terminate our cooperation when a supplier fails to meet our standards or violates our regulations continuously.

During the Reporting Period, we engaged in a total of 1,426 suppliers.

Supplier Profile

Country/City	Number of suppliers
Mainland China	1,375
Foreign	51
Total	**1,426**

10. Product Responsibility

As a high-tech pharmaceutical engineering solutions provider, the Group is committed to helping customers to improve pharmaceutical process and operational efficiency. The Group strives to integrate high-quality global resources and contribute to the safety and effectiveness of medicines worldwide for protecting human health. With the Group's Comprehensive Management Manual, it is required that product quality, environmental protection and employee occupational health and safety should be given high priority in the process of business decision-making. The Group also implements a comprehensive quality management system ("**QMS**") certified with the international standards of ISO 9001 and conducts both internal and external audits on the QMS regularly in order to ensure the management system is effectively maintained.


Certificate

Standard ISO 9001:2015

Certificate Registr. No. 01 100 064539

Certificate Holder: AUSTAR 奥星

Shanghai Austar Pharmaceutical Technology Equipment Ltd.
Unified Social Credit Code: 91310000752491690L
Registration Address: No.799, Yuyang Road, Songjiang District, 201600 Shanghai, P. R. China
Operation Address: same as above

Scope: Manufacturing of Purified Water Equipment, Distribution Equipment, Preparation Equipment and Cleaning Equipment for Pharmaceutical Use;
Design, Installation, Commissioning and Validation Service of Pharmaceutical Water Storage and Distribution System, Preparation System and CIP/SIP (Clean-in Place/Sterilization-in-place) System

Proof has been furnished by means of an audit that the requirements of ISO 9001:2015 are met.

Validity: The certificate is valid from 2022-01-10 until 2025-01-09.
It remains valid subject to satisfactory surveillance audits.
First certification 2007
This certificate information can be searched on CNCA official website http://www.cnca.gov.cn

2022-01-05

TÜV Rheinland Cert GmbH
Am Grauen Stein · 51105 Köln

Authorized responsible office: TÜV Rheinland China Ltd., Room 301, 3F and Room 1203, 12F, Building 4, No.15, Ronghua South Road, Beijing Economic-Technological Development Area, Beijing (Yizhuang group in high-end industrial area of Beijing Pilot Free Trade Zone), 100176, P. R. China

www.tuv.com

DAkkS Deutsche Akkreditierungsstelle D-ZM-16031-01-00

TÜVRheinland® Precisely Right.


OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM CERTIFICATE

Registration No. 0350822S30083ROM

This is to certify that the occupational health and safety management system of
Austar Engineering Technology (Shijiazhuang) Limited
Room 201, 106# Building, GREE Supporting Industrial Park, No. 389 Hengshan Street, High-tech Zone, Shijiazhuang City, Hebei Province, P.R.China
Social Credit Code: 91130101MA0G5PY2XR

is in conformity with
GB/T 45001-2020 / ISO 45001:2018 Standard

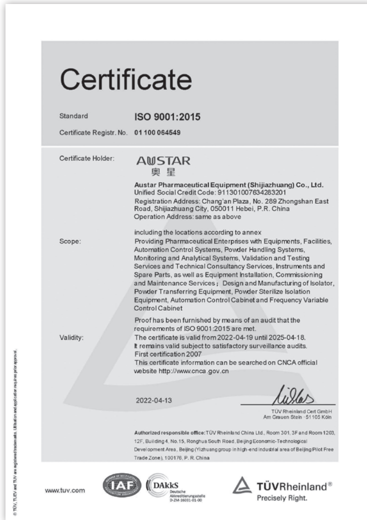
This certificate is valid to
Projects within the scope of qualifications as construction contracting of building mechanical and electrical installation, construction contracting of decoration (Site Covered: 27th Floor, Block D, Lerthai Center Office Building, 39#, Zhongshan East Road, Shijiazhuang, Hebei province, P.R.China).

Date of issue: October 27, 2022
Date of expiry at most: October 26, 2025
Representative: WangHonglin

XINGYUAN CERTIFICATION CENTRE CO., LTD. (XQCC)
(7FL, Tower C, Jiahua Plaza, No.9 Shangdi 3 St., Haidian, Beijing)

中国认可
国际互认
管理体系
MANAGEMENT SYSTEM
CNAS C035-M

NOTE: This certificate shall be maintained by regular surveillance audit.
The validity of the certificate can be verified by scanning QR code.
The information of the certificate can be available in http://www.cnca.gov.cn, the website of CNCA, and in our website http://www.xqcc.com.cn.


Certificate

Standard ISO 9001:2015

Certificate Registr. No. 01 100 064549

Certificate Holder: AUSTAR 奥星

Austar Pharmaceutical Equipment (Shijiazhuang) Co., Ltd.
Unified Social Credit Code: 911301007634283201
Registration Address: Chang'an Plaza, No. 289 Zhongshan East Road, Shijiazhuang City, 050011 Hebei, P.R. China
Operation Address: same as above

including the locations according to annex

Scope: Providing Pharmaceutical Enterprises with Equipments, Facilities, Automation Control Systems, Powder Handling Systems, Monitoring and Analytical Systems, Validation and Testing Services and Technical Consultancy Services, Instruments and Spare Parts, as well as Equipment Installation, Commissioning and Maintenance Services; Design and Manufacturing of Isolator, Powder Transferring Equipment, Powder Sterilize Isolation Equipment, Automation Control Cabinet and Frequency Variable Control Cabinet

Proof has been furnished by means of an audit that the requirements of ISO 9001:2015 are met.

Validity: The certificate is valid from 2022-04-19 until 2025-04-18.
It remains valid subject to satisfactory surveillance audits.
First certification 2007
This certificate information can be searched on CNCA official website http://www.cnca.gov.cn

2022-04-13

TÜV Rheinland Cert GmbH
Am Grauen Stein · 51105 Köln

Authorized responsible office: TÜV Rheinland China Ltd., Room 301, 3F and Room 1203, 12F, Building 4, No.15, Ronghua South Road, Beijing Economic-Technological Development Area, Beijing (Yizhuang group in high-end industrial area of Beijing Pilot Free Trade Zone), 100176, P. R. China

www.tuv.com

DAkkS Deutsche Akkreditierungsstelle D-ZM-16031-01-00

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10.1. Strict Quality Assurance

To ensure that product quality is under control, we have established an Inspection and Test Management Program. Under its guidance, the Quality Control Department conducts strict quality control checks at different stages of the production cycle, from incoming materials, manufacturing processes to final product inspection and delivery. Inspection data and records are collected, sorted, and managed by the Quality Control Department. If unqualified products found in the inspection and testing, it shall be executed according to the Nonconforming Products Control Procedure.

Our product quality assurance approaches are outlined as the following:

- Incoming material inspection – Inspectors would take random samples to validate the types, quantity, and quality of procured materials, parts, and components, and conduct inspection according to the "Guidance to Incoming material Inspection". Inspectors would prepare 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 – Inspectors conducts regular sampling checks in different processes in order to verify the consistency of the product quality and the products are cross-checked by all operators. Only qualified products with verification and inspectors' signature can be delivered to the next stage or the storage facilities. Immediate rectification for any abnormal circumstances will be made during the production.

- Inspection and test of finished products – Various indicators would be implemented at this stage to further verify and ensure the products free from defects and meet specific customer requirements, and on-time delivery.

The Group has developed "Product Recall Management Procedure", which standardizes the recall procedure for the product that have a potential risk for threatening the health and safety of users due to product quality. In event of any products is required to be recalled due to safety and health reason after performed the recall necessity assessment by the Quality Department, the Quality Department works with the Sales Department to initiate the product recall process after informing the affected customers. After the recall, the Quality Department is responsible for marking, isolating, and tracking the handling of recalled products and shall prepare product recall report accordingly to find out the root cause(s) of such incident and prevent the recurrence.

10.2. Protecting Customer Privacy

Data governance and customer privacy are the keys to the Group's success and reputation in the biopharmaceutical and pharmaceutical industry. Our Test Service Department may obtain sensitive information from clients when necessary. As a result, the Group has implemented strict security measures to protect customer privacy. In addition to data management strategy, we have cybersecurity policies in place that aligns with industry best practices.

Every employee at AUSTAR is responsible for ensuring customer data security. As outlined in the Labour Contract and the Employee Handbook, employees shall strictly abide by the confidentiality principle of non-public information of customers, to prevent any information leakage risk. In addition, employees are required to sign confidential agreements when handling IT information management, and contract archiving systems. For instance, employees are prohibited from divulging confidential information, including but not limited to strategic business plans, financial plans, and information, inside information, unpublished corporate information, contract designs and specifications, quotation documents, client information, to the third parties during their employment or any time thereafter without authorization.

During the Reporting Period, the Group complied with relevant laws and regulations such as the Personal Data (Privacy) Ordinance (Cap.486) of HKSAR and the Data Security Law of PRC. The Group were not aware of any significant non-compliance cases associated with privacy matters.

10.3. Customer Satisfaction

We regard customer satisfaction as an essential business factor and constantly work on improving product and services quality. To track the level of customer satisfaction, we consolidate the results of customer satisfaction survey under the guidance of the Customer Satisfaction Survey Control Procedure, together with the customer opinions received from other communication channels such as customers visits, phone calls and inquiries, to evaluate the performance of product quality, quality management system and the customer satisfaction level. It allows us to understand our customer' expectations regarding our products and services and address their concerns and needs in a timely manner. Based on the result of customer survey, all the products and services provided by AUSTAR have obtained satisfaction of 90% or above on average. It demonstrates the Group's capability in delivering products and providing services of a high-quality standard, assuring the Group's management system.

In event of any receipt of customer complaints, either in verbal or written form, on the quality of products, we strictly follow the "Management Procedures on Customer Requirements and Complaints" to investigate the cases arising from the customers to address and resolve their concerns promptly with the following measures:

- Coordinate with the corresponding departments and review the entire production cycle or service to determine the root cause(s) of the complained issue;
- Maintain continuous communication with complainants to adjust our response and action plan until complainants are satisfied with the outcome; and
- Analyse the complaints every six months to review whether the management system and internal procedures are required to improve and/or refine to prevent the recurrence of similar issues.

During the Reporting Period, the Group strictly complies with the Law of the PRC on the Protection of Consumer Rights and Interests and there was no product recall, return or complaint regarding the products and services. In addition, we received letters of appreciation from customers in several regions, which motivated us to continue to improve the quality of our products and services.

10.4. Protecting Intellectual Property

Intellectual property protection is the lifeline of product research and development. AUSTAR is committed to protecting valuable intangible assets and promoting innovative development. The Group emphasises the importance of respecting and protecting intellectual property rights and the accumulation and application of intellectual property rights. To this end, we have established effective management mechanisms and procedures such as the "Business Secrets Protection Regulations", the "Patent Management Procedure", the "Registered Trademark Management Procedure" and the "Copyright Management Procedure" to standardise the working guidelines for application and registration procedures for patents, trademarks and copyrights and control intellectual property risks in all aspects of the Group. Our Intellectual Property ("**IP**") Strategy Department handles patent analysis, acquisitions, changes, transfers and licences to better protect the Company's intellectual property and prevent any infringement.

During the Reporting Period, the Group possessed the following intellectual properties:

Types of IP	Number
Copyrights	123
Patents	384

11. Anti-Corruption

The Group is dedicated to conducting our business with honesty and trustworthiness, and has zero tolerance for corruption, extortion, money laundering, fraud and solicitation. Our Employee Handbook outlines the code of conduct and related policies that stipulate different forms of corruption must be avoided to regulate business conduct. All employees must adhere to legal and ethical standards without taking inappropriate methods when interacting with stakeholders, including avoiding conflicts of interest, allegations of bribery or money laundering and other misconduct. We have also formulated and enforced the "Integrity Management Policy" to raise the employees' anti-corruption awareness and further promote the corporate compliance culture. The policy is applicable to all our employees and commercial activities or external events across the Group. It is to facilitate relevant anti-corruption and anti-bribery work, and to emphasise the importance of honesty and work ethics among our employees and stakeholders by providing sufficient support and guidance. Only reasonable and moderate entertainment is allowed while all payments must be accurately recorded per the Group's financial accounting requirement with supported vouchers and invoices. To guarantee the effectiveness of execution, the policies and code of conduct are evaluated by the management team regularly. In case of breach of regulation, employees are subject to the corresponding penalty and disciplinary action, which may include immediate dismissal.

The Group has established a whistleblowing mechanism to raise the concerns of any suspected cases of misconduct, malpractice, unethical or unfair treatment. A well-established communication and report channels are provided to encourage employees and other stakeholder to report any forms of corruption practices and misconducts in a timely manner. All information received including the reported information and identity of the whistle-blower would be kept in the strictest confidential to protect his/her against retaliation for genuine reporting. The Group conducts immediate case investigations and validates the reported case to guarantee that the case is treated properly with suitable remedial action(s). All information would not be disclosed unless there is evidence of criminal activity which enters judicial proceedings.

To further embed anti-corruption programme throughout the Group, we provide relevant anti-corruption training courses to ensure that employees are familiar with our policies and procedures. We are committed to establishing a clean and honest working culture that all kinds of corruptions or briberies are prohibited. During the Reporting Period, We organized six anti-corruption related training sessions on integrity and self-discipline. All staff participated in mandatory training during the reporting period.

During the Reporting Period, the Group has strictly complied relevant laws and regulations, including the Criminal Law of the PRC, the Anti-unfair Competition Law of the PRC, and Anti-Money Laundering Law of the PRC. There were no illegal cases of corruption, extortion, fraud, or money laundering brought against the Group or its employees.

12. Community Investment

The Group has been adhering to its mission and vision, while actively improving the pharmaceutical technology for customers and giving back to the community. We aim to demonstrate our commitment to community with the focus areas of education and labour needs. The Group also endeavours to build a win-win relationship with our community by encouraging our employees to participate in different community activities to serve the underprivileged and the needy in the society.

To further regulate and strengthen the management of our external donations and sponsorship, and better fulfil our social responsibilities and civic obligations, we have formulated external donation and sponsorship management policy. The Group prudently prepares the annual budget for the donation and sponsorship, and keeps refining the internal approval procedures and the audit process. Meanwhile, summary and evaluation steps will be followed upon each donation and sponsored project to ensure the effectiveness.

ESG REPORTING GUIDE INDEX

ESG Reporting Guide		Section/Explanation
Mandatory Disclosure Requirements		
Governance Structure	A statement from the board containing the following elements: (i) a disclosure of the board's oversight of ESG issues; (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	ESG Management Approach – Management Structure
Reporting Principles	A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report: **Materiality:** The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement. **Quantitative:** Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed. **Consistency:** The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.	About the Report – Reporting Principles
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.	About the Report

ENVIRONMENTAL PERFORMANCE

ESG Reporting Guide		Section/Explanation
A1 Emission		
A1	General Disclosure Information: (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.	1. Emissions
KPI A1.1	The types of emissions and respective emissions data.	1. Emissions – 1.1 Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1. Emissions – 1.2 Greenhouse Gas Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1. Emissions – 1.3 Waste and Wastewater Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1. Emissions – 1.3 Waste and Wastewater Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	1. Emissions – 1.1 Air Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	1. Emissions – 1.3 Waste and Wastewater Management

ESG Reporting Guide		Section/Explanation
A2 Use of Resources		
A2	General Disclosure Policies on the efficient use of resources, including energy, water, and other raw materials.	2. Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	2. Use of Resources – 2.1 Energy Use
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	2. Use of Resources – 2.2 Water Management
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	2. Use of Resources – 2.1 Energy Use
KPI 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.	2. Use of Resources – 2.2 Water Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	2. Use of Resources – 2.3 Packaging Materials
A3 The Environment and Natural Resources		
A3	General Disclosure Policies on minimising the issuer's significant impacts on the environment and natural resources.	3. The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3. The Environment and Natural Resources
A4 Climate Change		
A4	General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	4. Climate Change
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.	4. Climate Change

SOCIAL PERFORMANCE

ESG Reporting Guide		Section/Explanation
B1 Employment		
B1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5. Employment
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	5. Employment – 5.4 Employee Profile
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	5. Employment – 5.4 Employee Profile
B2 Health and Safety		
B2	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	6. Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	6. Health and Safety
KPI B2.2	Lost days due to work injury.	6. Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	6. Health and Safety

ESG Reporting Guide		Section/Explanation
B3 Development and Training		
B3	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	7. Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	7. Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	7. Development and Training
B4 Labour Standard		
B4	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	8. Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	8. Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	8. Labour Standards
B5 Supply Chain Management		
B5	General Disclosure Policies on managing environmental and social risks of the supply chain.	9. Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	9. Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	9. Supply Chain Management

ESG Reporting Guide		Section/Explanation
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	9. Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	9. Supply Chain Management
B6 Product Responsibility		
B6	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress.	10. Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	10. Product Responsibility – 10.3 Customer Satisfaction
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	10. Product Responsibility – 10.3 Customer Satisfaction
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	10. Product Responsibility – 10.4 Protecting Intellectual Property
KPI B6.4	Description of quality assurance process and recall procedures.	10. Product Responsibility – 10.1 Strict Quality Assurance
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	10. Product Responsibility – 10.2 Protecting Customer Privacy

ESG Reporting Guide		Section/Explanation
B7 Anti-Corruption		
B7	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud, and money laundering.	11. Anti-Corruption
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.	11. Anti-Corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	11. Anti-Corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	11. Anti-corruption
B8 Community Investment		
B8	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	12. Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	12. Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	12. Community Investment

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**"), which are set out on pages 120 to 213, comprise:

- the consolidated balance sheet as at 31 December 2022;
- 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 significant accounting policies and other explanatory information.

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 2022, 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 (Continued)
TO THE SHAREHOLDERS OF AUSTAR LIFESCIENCES LIMITED
(incorporated in the Cayman Islands with limited liability)

BASIS FOR OPINION (Continued)

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
Expected credit losses of trade receivables and contract assets Refer to Note 13 and Note 12 to the consolidated financial statements. As of 31 December 2022, the gross amounts of trade receivables and contract assets totalling approximately RMB413 million and RMB592 million where allowance for credit losses totalling RMB38 million was made for trade receivables and contract assets.	We obtained an understanding of management's internal control and assessment process for the estimation of allowances for credit loss on trade receivables and contract assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud. We evaluated, and tested key controls related to assessment of the expected credit losses of trade receivables and contract assets performed by management.

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

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Allowances for credit loss on 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 receivables and contract assets relating to customers with known financial difficulties or significant doubt on collection of trade receivables and contract assets are assessed individually and provided for credit loss. Expected credit losses are also estimated by grouping the remaining trade receivables and contract assets based on shared credit risk characteristics and collectively assessed for likelihood of recovery by taking into account of their historical credit losses, 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 allowances for credit loss on trade receivables and contract assets is considered significant due to complexity of the model and subjectivity of assumptions used. Therefore, we have identified the expected credit losses of trade receivables and contract assets as a key audit matter.	1. 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. 2. 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 judgments and estimates used in the assessment of expected credit losses of trade receivables and contract assets were supported by the evidence obtained and procedures performed.

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INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE SHAREHOLDERS OF AUSTAR LIFESCIENCES LIMITED
(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.

羅兵咸永道

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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, 28 March 2023

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**278,468**	188,452
Right-of-use assets	7	**155,141**	123,353
Intangible assets	8	**55,865**	21,113
Deferred income tax assets	10	**12,783**	8,915
Investments accounted for using the equity method	9	**85,499**	39,703
Total non-current assets		**587,756**	381,536
Current assets			
Inventories	11	**388,106**	423,261
Contract assets	12	**585,364**	377,937
Trade and notes receivables	13	**416,513**	296,299
Prepayments and other receivables	14	**159,039**	173,686
Pledged bank deposits	15	**103,856**	172,317
Term deposits with initial terms of over three months	15	**14,505**	21,294
Cash and cash equivalents	15	**133,624**	198,447
Total current assets		**1,801,007**	1,663,241
Total assets		**2,388,763**	2,044,777

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
EQUITY			
Equity attribute to the owners of the Company			
Share capital	17	**4,071**	4,071
Reserves		**394,106**	371,207
Retained earnings		**498,767**	411,306
		896,944	786,584
Non-controlling interests		**(13,363)**	1,836
Total equity		**883,581**	788,420
LIABILITIES			
Non-current liabilities			
Lease liabilities	7	**62,874**	34,890
Long-term borrowings	20	**40,067**	54,271
Deferred income	18	**544**	746
Deferred income tax liabilities	10	**37,740**	30,254
Other financial liabilities	19	**4,192**	—
Total non-current liabilities		**145,417**	120,161
Current liabilities			
Trade and other payables	22	**739,603**	598,992
Contract liabilities	12	**382,707**	466,689
Current income tax liabilities		**5,150**	5,716
Short-term borrowings	21	**172,254**	54,830
Current portion of long-term borrowings	20	**45,670**	—
Lease liabilities	7	**14,381**	9,969
Total current liabilities		**1,359,765**	1,136,196
Total liabilities		**1,505,182**	1,256,357
Total equity and liabilities		**2,388,763**	2,044,777

The accompanying notes on pages 127 to 213 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 120 to 213 were approved by the Board of Directors on 28 March 2023 and were signed on its behalf.

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Revenue	5	2,228,644	2,015,028
Cost of sales	5, 23	(1,765,975)	(1,536,020)
Gross profit		462,669	479,008
Selling and marketing expenses	23	(178,659)	(170,289)
Administrative expenses	23	(134,614)	(128,094)
Net impairment gains/(losses) on financial and contract assets	3.1(b)	3,212	(6,243)
Research and development expenses	23	(70,163)	(65,598)
Other income	24	11,163	6,330
Other (losses)/gains — net	25	(9,630)	196,804
Operating profit		83,978	311,918
Finance income	27	2,273	1,471
Finance costs	27	(9,302)	(4,824)
Finance costs — net		(7,029)	(3,353)
Share of net profit of investments accounted for using the equity method	9	9,536	10,660
Profit before income tax		86,485	319,225
Income tax expense	28	(18,741)	(46,601)
Profit for the year		67,744	272,624
Profit attributable to:			
The owners of the Company		87,461	277,300
Non-controlling interests		(19,717)	(4,676)
Earnings per share for profit attributable to the owners of the Company — basic and diluted (RMB)	29	0.17	0.54

The accompanying notes on pages 127 to 213 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Profit for the year		**67,744**	272,624
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**27,114**	(8,767)
Share of other comprehensive loss of investments accounted for using the equity method	9	**(515)**	(11)
Other comprehensive income/(loss) for the year, net of tax		**26,599**	(8,778)
Total comprehensive income for the year		**94,343**	263,846
Total comprehensive income attributable to:			
The owners of the Company		**114,965**	268,685
Non-controlling interests		**(20,622)**	(4,839)
		94,343	263,846

The accompanying notes on pages 127 to 213 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	Total equity
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000	RMB'000	RMB'000
Balance at 1 January 2021		4,071	314,009	30,150	134,006	35,663	517,899	6,675	524,574
Comprehensive income									
Profit for the year		—	—	—	277,300	—	277,300	(4,676)	272,624
Other comprehensive income									
Currency translation differences		—	—	—	—	(8,604)	(8,604)	(163)	(8,767)
Share of other comprehensive income of investments accounted for using the equity method	9	—	—	—	—	(11)	(11)	—	(11)
Total comprehensive income		—	—	—	277,300	(8,615)	268,685	(4,839)	263,846
Balance at 31 December 2021		4,071	314,009	30,150	411,306	27,048	786,584	1,836	788,420

The accompanying notes on pages 127 to 213 are an integral part of these consolidated financial statements.

	Notes	Attributable to the owners of the Company							
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022		4,071	314,009	30,150	411,306	27,048	786,584	1,836	788,420
Comprehensive income									
Profit for the year		—	—	—	87,461	—	87,461	(19,717)	67,744
Other comprehensive income									
Currency translation differences		—	—	—	—	28,019	28,019	(905)	27,114
Share of other comprehensive income of investments accounted for using the equity method	9	—	—	—	—	(515)	(515)	—	(515)
Total comprehensive income		—	—	—	87,461	27,504	114,965	(20,622)	94,343
Transactions with owners, recognised directly in equity									
Transactions with non-controlling interests		—	—	(549)	—	—	(549)	307	(242)
Capital contributions from non-controlling interests		—	—	—	—	—	—	5,116	5,116
Recognition of put option liabilities from non-controlling interests		—	—	(4,056)	—	—	(4,056)	—	(4,056)
Total transactions with owners, recognised directly in equity		—	—	(4,605)	—	—	(4,605)	5,423	818
Balance at 31 December 2022		4,071	314,009	25,545	498,767	54,552	896,944	(13,363)	883,581

The accompanying notes on pages 127 to 213 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000
Cash flows from operating activities			
Cash used in operations	31(a)	**(24,510)**	(97,021)
Income taxes paid		**(15,689)**	(7,809)
Interest received	27	**2,273**	1,379
Net cash used in operating activities		**(37,926)**	(103,451)
Cash flows from investing activities			
Increase in term deposits with initial terms of over three months		**(14,505)**	(21,294)
Redemption of term deposits with initial terms of over three months		**21,294**	162
Dividend received from a joint venture	9	**5,322**	6,189
Payment for property, plant and equipment		**(117,327)**	(100,571)
Payment for intangible assets		**(19,333)**	(8,447)
Payment for land use right		**—**	(6,863)
Proceeds from disposal of property, plant and equipment		**51**	173
Investment in an associate		**(39,615)**	—
Repayment of loans by a joint venture		**—**	10,282
Proceeds from disposal of a joint venture		**10,970**	185,391
Net cash (used in)/generated from investing activities		**(153,143)**	65,022
Cash flows from financing activities			
Interest paid		**(10,062)**	(4,402)
Proceeds from borrowings	31(c)	**246,878**	109,101
Payment for the acquisition of a non-controlling interests		**(242)**	—
Repayments of borrowings	31(c)	**(98,315)**	(30,000)
Principal elements of lease payments	31(c)	**(18,074)**	(15,350)
Contributions from non-controlling interests		**5,116**	—
Net cash generated from financing activities		**125,301**	59,349
Net (decrease)/increase in cash and cash equivalents		**(65,768)**	20,920
Cash and cash equivalents at beginning of year	15	**198,447**	177,949
Exchange gains/(losses) on cash and cash equivalents	27	**945**	(422)
Cash and cash equivalents at end of year	15	**133,624**	198,447

The accompanying notes on pages 127 to 213 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. 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 equipments 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 28 March 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

(a) New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Amendments to IFRS 3 "Reference to the Conceptual Framework"
- Amendments to IAS 16 "Property, Plant and Equipment: Proceeds before intended use"
- Amendments to IAS 37 "Onerous Contracts — Cost of Fulfilling a Contract"
- Annual Improvements to IFRS Standards 2018 — 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(c) *Joint arrangements*

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

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

(d) *Equity 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 Hong Kong dollar (HK$).

(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 in progress is not depreciated until the asset is completed and ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of 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 determining the length of useful life of trademarks and know-how, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

2.9 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 non-financial 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 and contract assets, 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. Trade and other payables are presented as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. 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 is recognised when control of the products has been transferred, being when the products are delivered to the customer. The control of the products refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the products.

(c) Revenue from services rendered

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 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
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leases (Continued)

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.

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. 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, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar (US$) 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 2022, 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 RMB515,000 (as at 31 December 2021: RMB1,541,000) 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 2022, 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 RMB354,000 (as at 31 December 2021: RMB3,656,000) 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.

(ii) Interest rate risk

The Group's exposure to interest rate risk arises from borrowings. The Group's borrowings at floating rates expose the Group to cash flow interest rate risk. However, the exposure to interest rate risk is not material to Group.

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

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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

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 were of 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 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 2022 and 31 December 2021 was determined as follows for both trade receivables and contract assets.

31 December 2022	Within 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected loss rate	0.50%	3.06%	13.07%	28.62%	61.70%	
Gross carrying amount — trade receivables	274,285	43,379	55,238	22,021	11,433	406,356
Gross carrying amount — contract assets	558,191	24,721	3,778	482	2,348	589,520
Loss allowance	4,162	2,084	7,713	6,440	8,503	28,902

31 December 2021	Within 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected loss rate	0.67%	3.64%	15.89%	34.30%	70.19%	
Gross carrying amount — trade receivables	176,966	45,925	37,157	26,120	9,243	295,411
Gross carrying amount — contract assets	349,790	22,619	7,809	875	1,663	382,756
Loss allowance	3,529	2,495	7,145	9,259	7,656	30,084

The trade receivables and contract assets relating to customers with known financial difficulties or with significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2022, the balance of individually assessed receivables and contract assets were RMB8,986,000 (2021: RMB11,244,000) and the loss allowances in respect of individually assessed receivables and contract assets were RMB8,986,000 (2021: RMB11,244,000).

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:

	2022 RMB'000	2021 RMB'000
Opening loss allowance at 1 January	**41,328**	37,055
Increase in loss allowance recognised in profit or loss during the year	**7,545**	5,957
Reversal of previous impairment loss	**(10,697)**	(264)
Receivables written off during the year as uncollectible	**(288)**	(1,420)
Closing loss allowance at 31 December	**37,888**	41,328

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 tender 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:

	2022 **RMB'000**	2021 RMB'000
Opening loss allowance at 1 January	**870**	320
(Decrease)/increase in loss allowance recognised in profit or loss during the year	**(60)**	550
Closing loss allowance at 31 December	**810**	870

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:

	2022 RMB'000	2021 RMB'000
Impairment (gains)/losses for trade receivables and contract assets	**(3,152)**	5,693
(Reversal of)/provision for impairment on other financial assets at amortised cost	**(60)**	550
Net impairment losses on financial and contract assets	**(3,212)**	6,243

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

	Less than 1 year RMB'000	Between 1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2022					
Trade payables	426,204	—	—	426,204	426,204
Other payables	147,255	—	—	147,255	147,255
Lease liabilities (Note 7)	14,933	59,111	18,918	92,962	77,255
Short-term borrowings (Note 21)	176,034	—	—	176,034	172,254
Long-term borrowings (Note 20)	46,618	45,766	—	92,384	85,737
Other financial liabilities	—	—	5,314	5,314	4,192
Financial guarantee contracts	6,584	—	—	6,584	—
	817,628	104,877	24,232	946,737	912,897

	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 2021					
Trade payables	350,846	—	—	350,846	350,846
Notes payables	1,500	—	—	1,500	1,500
Other payables	120,528	—	—	120,528	120,528
Lease liabilities (Note 7)	13,163	29,107	12,299	54,569	44,859
Short-term borrowings (Note 21)	56,092	—	—	56,092	54,830
Long-term borrowings (Note 20)	—	60,003	—	60,003	54,271
Financial guarantee contracts	6,404	—	—	6,404	—
	548,533	89,110	12,299	649,942	626,834

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 2022 and 2021 are as follows:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Gross debt (Note 31(c))	**340,737**	155,223
Total equity	**883,581**	788,420
Total capital	**1,224,318**	943,643
Gearing ratio	**28%**	16%

The gearing ratio increased from 16% to 28% as a result of the increase in short-term borrowings and long-term borrowings in 2022.

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 2022			
Financial assets			
Financial assets at FVOCI			
— Notes receivable	—	10,407	—
Total financial assets	—	10,407	—

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
At 31 December 2021			
Financial assets			
Financial assets at FVOCI			
— Notes receivable	—	10,011	—
Total financial assets	—	10,011	—

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 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 2022 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	1,033,837	678,636	293,034	98,858	391,805	39,290	2,535,460
Inter-segment revenue	(83,496)	(164,566)	(47,239)	(4,509)	(3,541)	(3,465)	(306,816)
Revenue	950,341	514,070	245,795	94,349	388,264	35,825	2,228,644
Recognised at a point in time	145,596	25,564	10,613	7,205	388,264	25,354	602,596
Recognised over time	804,745	488,506	235,182	87,144	—	10,471	1,626,048
Cost of sales	(835,964)	(421,313)	(194,093)	(51,321)	(241,596)	(21,688)	(1,765,975)
Segment results							
Gross profit	114,377	92,757	51,702	43,028	146,668	14,137	462,669
Other segment items							
Amortisation	3,817	306	200	58	891	21	5,293
Depreciation	14,019	8,519	4,253	1,366	5,777	513	34,447
(Reversal of)/provision for impairment losses on financial and contract assets	(2,603)	(2,252)	627	188	732	96	(3,212)
Provision for/(reversal of) impairment of inventories	3,231	(318)	(383)	(132)	4,625	(6)	7,017
Share of net profit of investments accounted for using the equity method	9,069	467	—	—	—	—	9,536

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2021 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	970,095	537,759	140,205	72,630	428,394	30,749	2,179,832
Inter-segment revenue	(87,142)	(58,053)	(1,912)	(6,516)	(7,324)	(3,857)	(164,804)
Revenue	882,953	479,706	138,293	66,114	421,070	26,892	2,015,028
Recognised at a point in time	203,368	15,932	13,391	1,802	421,070	19,806	675,369
Recognised over time	679,585	463,774	124,902	64,312	—	7,086	1,339,659
Cost of sales	(739,208)	(389,431)	(96,599)	(37,733)	(258,026)	(15,023)	(1,536,020)
Segment results							
Gross profit	143,745	90,275	41,694	28,381	163,044	11,869	479,008
Other segment items							
Amortisation	3,426	186	38	18	—	7	3,675
Depreciation	15,496	6,419	1,272	664	3,563	486	27,900
(Reversal of)/provision for impairment losses on financial and contract assets	(4,102)	7,157	996	490	1,500	202	6,243
Provision for impairment of inventories	3,302	1,889	650	308	273	122	6,544
Impairment of goodwill	1,091	—	—	—	—	—	1,091
Share of net profit of investments accounted for using the equity method	6,356	639	—	—	3,665	—	10,660

5. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Liquid and Bioprocess System	**114,377**	143,745
Clean Room and Automation Control and Monitoring System	**92,757**	90,275
Powder and Solid System	**51,702**	41,694
GMP Compliance Service	**43,028**	28,381
Life Science Consumables	**146,668**	163,044
Distribution and Agency of Pharmaceutical Equipment	**14,137**	11,869
Total gross profit for reportable segments	**462,669**	479,008
Selling and marketing expenses	**(178,659)**	(170,289)
Administrative expenses	**(134,614)**	(128,094)
Net impairment gains/(losses) on financial and contract assets	**3,212**	(6,243)
Research and development expenses	**(70,163)**	(65,598)
Other income	**11,163**	6,330
Other (losses)/gains — net	**(9,630)**	196,804
Finance cost — net	**(7,029)**	(3,353)
Share of net profit of investments accounted for using the equity method	**9,536**	10,660
Profit before income tax	**86,485**	319,225

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2022 and 2021 are as follows:

	As at 31 December 2022		As at 31 December 2021	
	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	**1,034,779**	**60,737**	834,531	17,890
Clean Room and Automation Control and Monitoring System	**429,886**	**24,762**	362,161	21,813
Powder and Solid System	**140,264**	**—**	100,912	—
GMP Compliance Service	**48,626**	**—**	36,464	—
Life Science Consumables	**277,240**	**—**	259,063	—
Distribution and Agency of Pharmaceutical Equipment	**9,866**	**—**	9,254	—
Total segment assets	**1,940,661**	**85,499**	1,602,385	39,703
Unallocated				
Deferred income tax assets	**12,783**		8,915	
Headquarter assets	**435,319**		433,477	
Total assets	**2,388,763**		2,044,777	

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 2022 Total liabilities RMB'000	As at 31 December 2021 Total liabilities RMB'000
Liquid and Bioprocess System	**510,217**	561,002
Clean Room and Automation Control and Monitoring System	**241,315**	182,630
Powder and Solid System	**118,626**	55,585
GMP Compliance Service	**44,224**	32,435
Life Science Consumables	**142,989**	168,289
Distribution and Agency of Pharmaceutical Equipment	**23,310**	7,861
Total segment liabilities	**1,080,681**	1,007,802
Unallocated		
Deferred income tax liabilities	**37,740**	30,254
Short-term borrowings	**172,254**	54,830
Long-term borrowings	**40,067**	54,271
Current portion of long-term borrowings	**45,670**	—
Headquarter liabilities	**128,770**	109,200
Total liabilities	**1,505,182**	1,256,357

5. SEGMENT INFORMATION (Continued)

Geographical information

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

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Revenue		
Mainland China	**2,073,560**	1,890,654
Other locations	**155,084**	124,374
	2,228,644	2,015,028

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Non-current assets other than financial assets and deferred tax assets		
Mainland China	**501,499**	303,794
Other locations	**73,474**	68,827
	574,973	372,621

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 2021						
Opening net book value	5,619	29,672	997	20,627	11,710	68,625
Additions	171	6,598	1,118	121,422	5,386	134,695
Transfer upon completion of construction	—	2,047	—	(2,047)	—	—
Transfer to intangible assets (Note 8)	—	—	—	(1,968)	—	(1,968)
Transfer to leasehold improvements	—	—	—	(2,479)	2,479	—
Depreciation charge (Note 23)	(757)	(7,236)	(252)	—	(3,691)	(11,936)
Disposal	—	(204)	(59)	—	(701)	(964)
Closing net book value	5,033	30,877	1,804	135,555	15,183	188,452
As at 31 December 2021						
Cost	16,621	69,625	5,476	135,555	39,025	266,302
Accumulated depreciation	(11,588)	(38,748)	(3,672)	—	(23,842)	(77,850)
Net book value	5,033	30,877	1,804	135,555	15,183	188,452
Year ended 31 December 2022						
Opening net book value	**5,033**	**30,877**	**1,804**	**135,555**	**15,183**	**188,452**
Additions	**—**	**6,588**	**26**	**82,794**	**18,070**	**107,478**
Transfer upon completion of construction	**750**	**33**	**—**	**(783)**	**—**	**—**
Transfer to intangible assets (Note 8)	**—**	**—**	**—**	**(3,524)**	**—**	**(3,524)**
Depreciation charge (Note 23)	**(806)**	**(4,973)**	**(358)**	**—**	**(7,449)**	**(13,586)**
Disposal	**—**	**(121)**	**—**	**—**	**(231)**	**(352)**
Closing net book value	**4,977**	**32,404**	**1,472**	**214,042**	**25,573**	**278,468**
As at 31 December 2022						
Cost	**17,370**	**75,094**	**5,502**	**214,042**	**54,810**	**366,818**
Accumulated depreciation	**(12,393)**	**(42,690)**	**(4,030)**	**—**	**(29,237)**	**(88,350)**
Net book value	**4,977**	**32,404**	**1,472**	**214,042**	**25,573**	**278,468**

As at 31 December 2022, certain buildings and construction in progress of the Group amounting to RMB128,556,000 (2021: RMB90,657,000) were secured to bank borrowings (Note 21 and 34).

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 2022 RMB'000	As at 31 December 2021 RMB'000
Right-of-use assets		
Land use right	75,889	77,957
Buildings	79,252	45,396
	155,141	123,353
Lease liabilities		
Current	14,381	9,969
Non-current	62,874	34,890
	77,255	44,859

Additions to the right-of-use assets during the 2022 financial year were RMB68,379,000 (2021: RMB15,154,000).

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:

	Notes	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Depreciation charge of right-of use assets	Note 23		
Land use right		1,130	2,257
Buildings		19,731	13,707
		20,861	15,964
Interest expense (included in finance costs)	Note 27	3,092	2,021
Expense relating to short-term leases		841	—

The total cash outflow for leases in 2022 was RMB21,166,000 (2021: RMB17,371,000). The details are as follows:

Payment for principal elements of leases — RMB18,074,000 (2021: RMB15,350,000)

Payment for interest elements of leases — RMB3,092,000 (2021: RMB2,021,000)

(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 2022 and 2021, the Group's land use right for the value of RMB4,900,000 (2021: RMB5,050,000) were pledge as security for short-term borrowings (Note 21 and 34).

(f) As at 31 December 2022 and 2021, the Group's land use right for the value of RMB63,937,000 (2021: RMB66,044,000) were pledge as security for long-term borrowings (Note 20 and 34).

8. INTANGIBLE ASSETS

	Software and others RMB'000	Unpatented technologies RMB'000	Trademarks RMB'000	Know-how RMB'000	Goodwill RMB'000	Total RMB'000
Year ended 31 December 2021						
Opening net book value	9,622	—	3,032	9,235	1,570	23,459
Additions	2,365	—	—	—	—	2,365
Transfer from property, plant and equipment (Note 6)	1,968	—	—	—	—	1,968
Exchange differences	(1)	—	(354)	(1,079)	(479)	(1,913)
Impairment charge	—	—	—	—	(1,091)	(1,091)
Amortisation charge (Note 23)	(1,958)	—	(431)	(1,286)	—	(3,675)
Closing net book value	11,996	—	2,247	6,870	—	21,113
As at 31 December 2021						
Cost	22,399	—	3,177	9,674	4,291	39,541
Accumulated amortisation and impairment	(10,403)	—	(930)	(2,804)	(4,291)	(18,428)
Net book value	11,996	—	2,247	6,870	—	21,113
Year ended 31 December 2022						
Opening net book value	11,996	—	2,247	6,870	—	21,113
Additions	12,225	24,000	—	—	—	36,225
Transfer from property, plant and equipment (Note 6)	3,524	—	—	—	—	3,524
Exchange differences	(1)	—	89	208	—	296
Amortisation charge (Note 23)	(3,201)	(1,333)	(178)	(581)	—	(5,293)
Closing net book value	24,543	22,667	2,158	6,497	—	55,865
As at 31 December 2022						
Cost	38,147	24,000	3,266	9,882	4,291	79,586
Accumulated amortisation and impairment	(13,604)	(1,333)	(1,108)	(3,385)	(4,291)	(23,721)
Net book value	24,543	22,667	2,158	6,497	—	55,865

8. INTANGIBLE ASSETS (Continued)

Note:

Amortisation expenses are included in cost of sales RMB2,030,000 (2021: RMB105,000), selling and marketing expenses RMB187,000 (2021: RMB24,000), administrative expenses RMB2,979,000 (2021: RMB3,546,000), and research and development cost RMB97,000 (2021: Nil).

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Opening balance at 1 January	39,703	62,940
Additions (Note)	39,615	—
Share of net profit	9,536	10,660
Share of other comprehensive income	(515)	(11)
Exchange differences	2,482	(1,835)
Dividend received	(5,322)	(6,189)
Disposal	—	(25,862)
Closing balance at 31 December	85,499	39,703

Note:

On 20 July 2022, the Group acquired 40% equity interest in Noozle Fluid Technology (Shanghai) Co., Ltd. ("**Noozle**"), from an independent third party. The associate as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group.

Noozle is a private company and there is no quoted market price available for their shares.

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

Details of net assets acquired and goodwill arising from the acquisition of Noozle are as follows:

	As at 20 July 2022 (date of acquisition) RMB'000
Purchase consideration:	
— Cash paid	39,615
Less: share of fair value of net assets acquired (see below)	(23,134)
Goodwill	16,481

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

Fair value of net assets acquired:

	As at 20 July 2022 (date of acquisition) RMB'000
Fixed assets	1,621
Intangible assets	17,748
Inventories	15,592
Other assets	77,101
Other liabilities	(54,228)
Net assets acquired	57,834
Ownership interest acquired	40.00%
Share of fair value of net assets acquired	23,134

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
ROTA Verpackungstechnik GmbH & Co. KG ("**ROTA KG**")	Germany	33.33%	Associate	Note (b)	Equity
ROTA Verpackungstechnik Verwaltungsgesellschaft mbH ("**ROTA GmbH**")	Germany	33.33%	Associate	Note (b)	Equity
Noozle	Shanghai	40.00%	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) 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.

(c) Noozle is a strategic partnership to the Group, which develops and produces pharmaceutical equipment in Shanghai.

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

Summarised balance sheet

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

	STERIS-AUSTAR JV*		ROTA KG*		Noozle	
	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**	As at 31 December 2021 RMB'000
Current						
Cash and cash equivalents	**23,512**	31,873	**15**	65	**26,804**	7,625
Other current assets	**62,006**	61,193	**46,567**	40,510	**58,281**	81,360
Total current assets	**85,518**	93,066	**46,582**	40,575	**85,085**	88,985
Financial liabilities (excluding trade payables)	**(7,726)**	(5,467)	**(997)**	(920)	**(8,104)**	(8,767)
Other current liabilities (including trade payables)	**(41,442)**	(52,932)	**(31,108)**	(41,250)	**(29,540)**	(39,584)
Total current liabilities	**(49,168)**	(58,399)	**(32,105)**	(42,170)	**(37,644)**	(48,351)
Non-current						
Assets	**3,601**	3,820	**50,882**	51,245	**22,728**	23,077
Financial liabilities	**—**	—	**(32,973)**	(17,052)	**—**	—
Other liabilities	**(1,972)**	(1,977)	**(5,790)**	(5,627)	**(6,054)**	(5,877)
Net assets	**37,979**	36,510	**26,596**	26,971	**64,115**	57,834

* The financial information includes its respective subsidiaries.

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

Summarised comprehensive income statement

	STERIS-AUSTAR JV*		ROTA KG*		Noozle
	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000	**For the year ended 31 December 2022 RMB'000**	For the year ended 31 December 2021 RMB'000	**For the year ended 31 December 2022 RMB'000**
Revenue	**67,771**	92,935	**150,052**	189,265	**37,848**
Depreciation and amortisation	**(344)**	(318)	**(3,443)**	(4,067)	**(1,028)**
Interest income	**259**	254	**—**	—	**6**
Interest expense	**(12)**	(11)	**(1,315)**	(1,389)	**(326)**
Profit before income tax	**18,296**	17,612	**1,600**	2,184	**8,160**
Income tax expense	**(4,915)**	(4,640)	**(196)**	(267)	**(1,879)**
Profit for the year	**13,381**	12,972	**1,404**	1,917	**6,281**
Other comprehensive income	**(1,051)**	(73)	**(1,779)**	(10,933)	**—**
Total comprehensive income	**12,330**	12,899	**(375)**	(9,016)	**6,281**
Dividends received from joint ventures	**5,322**	6,189	**—**	—	**—**

* The financial information includes its respective subsidiaries.

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

Summarised financial information

	STERIS-AUSTAR JV*		ROTA KG*		Noozle
	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**
Opening net assets as at 1 January	**36,510**	36,241	**26,971**	35,987	**57,834**
Profit for the year	**13,381**	12,972	**1,404**	1,917	**6,281**
Dividends	**(10,861)**	(12,630)	**—**	—	**—**
Other comprehensive income	**(1,051)**	(73)	**(1,779)**	(10,933)	**—**
Closing net assets	**37,979**	36,510	**26,596**	26,971	**64,115**
Interest	**18,610**	17,890	**16,002**	13,053	**25,646**
Goodwill	**—**	—	**8,760**	8,760	**16,481**
Carrying value	**18,610**	17,890	**24,762**	21,813	**42,127**

* The financial information includes its respective subsidiaries.

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 2022 RMB'000	As at 31 December 2021 RMB'000
Deferred income tax assets		
— to be recovered within 12 months	12,702	8,803
— to be recovered after more than 12 months	81	112
	12,783	8,915
Deferred income tax liabilities		
— to be recovered within 12 months	(200)	(167)
— to be recovered after more than 12 months	(37,540)	(30,087)
	(37,740)	(30,254)
	(24,957)	(21,339)

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 net movement of the deferred income tax account is as follows:

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
As at 31 December 2021	(21,339)	(8,750)
(Charged)/credited directly to equity	(565)	176
Charged to the consolidated income statement (Note 28)	(3,053)	(12,765)
As at 31 December 2022	(24,957)	(21,339)

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax assets is as follows:

	Impairment provision of receivables and inventories RMB'000	Warranty provision accrued payroll and others RMB'000	Total RMB'000
As at 31 December 2020	5,762	1,285	7,047
Credited to the consolidated income statement	1,494	374	1,868
As at 31 December 2021	7,256	1,659	8,915
Credited to the consolidated income statement	935	2,933	3,868
As at 31 December 2022	**8,191**	**4,592**	**12,783**

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 2022, the Group did not recognise deferred income tax assets of RMB40,684,000 (2021: RMB29,801,000) in respect of losses amounting to RMB207,035,000 (2021: RMB184,329,000) as utilisation of such tax losses before expiry is uncertain.

For the year ended 31 December 2022, the Group did not recognise deferred income tax assets of RMB3,756,000 (2021: RMB2,831,000) in respect of deductible temporary differences amounting to RMB25,005,000 (2021: RMB21,148,000) 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 2020	(14,203)	(1,594)	(15,797)
(Credited)/charged to the consolidated income statement	(14,809)	176	(14,633)
Charged directly to equity	—	176	176
As at 31 December 2021	(29,012)	(1,242)	(30,254)
(Credited)/charged to the consolidated income statement	(7,168)	247	(6,921)
Credited directly to equity	—	(565)	(565)
As at 31 December 2022	**(36,180)**	**(1,560)**	**(37,740)**

11. INVENTORIES

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Raw materials	**175,226**	205,587
Work in progress	**143,874**	110,280
Finished goods	**88,110**	121,073
	407,210	436,940
Less: provision for inventories	**(19,104)**	(13,679)
	388,106	423,261

11. INVENTORIES (Continued)

Movements of provision for inventories are analysed as follows:

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Beginning of the year	**(13,679)**	(9,824)
Addition	**(5,485)**	(6,544)
Write-off	**60**	2,689
End of the year	**(19,104)**	(13,679)

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 2022 RMB'000	As at 31 December 2021 RMB'000
Contract assets	(i)	**591,660**	386,482
Less: loss allowance		**(7,767)**	(9,951)
		583,893	376,531
Costs incurred to obtain contracts	(iii)	**1,471**	1,406
Total contract assets		**585,364**	377,937
Contract liabilities	(i)	**(382,707)**	(466,689)

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 2022 RMB'000	As at 31 December 2021 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**343,382**	238,348

(ii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts.

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	**1,442,135**	1,592,716

As of 31 December 2022, the aggregate amount of the transaction price allocated to the remaining performance obligation ("**backlog**") is RMB1,442.1 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 2022 RMB'000	As at 31 December 2021 RMB'000
Asset recognized from costs incurred to obtain contracts at 31 December	**1,471**	1,406
Amortisation recognized as cost of satisfying performance obligations during the year	**551**	658

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 2022 RMB'000	As at 31 December 2021 RMB'000
Trade receivables (Note (a))	**413,202**	302,930
Notes receivables (Note (b))	**33,432**	24,746
	446,634	327,676
Less: loss allowance	**(30,121)**	(31,377)
	416,513	296,299

13. TRADE AND NOTES RECEIVABLES (Continued)

(a) 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 2022 RMB'000	As at 31 December 2021 RMB'000
Within 6 months	**274,285**	176,980
6 months to 1 year	**43,379**	45,925
1 to 2 years	**56,769**	38,582
2 to 3 years	**23,506**	27,210
Over 3 years	**15,263**	14,233
	413,202	302,930

Most of the trade receivables are due within 90 days in accordance with sales contracts.

(b) Most of the notes receivables are bank acceptance with maturity dates within six months (2021: within six months).

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
RMB	**393,308**	272,659
US$	**7,560**	7,216
HK$	**383**	731
EUR	**14,346**	15,229
Others	**916**	464
	416,513	296,299

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Current:		
Non-financial assets		
— Prepayments to suppliers	**101,276**	103,057
— Staff advance	**5,900**	3,830
— Others	**21,754**	18,418
	128,930	125,305
Less: provision for impairment (Note(b))	**(930)**	(931)
	128,000	124,374
Financial assets at amortised cost		
— Receivables from disposal of a joint venture	**—**	10,970
— Deposits as guarantee for bidding	**31,849**	39,212
Less: loss allowance (Note 3.1(b))	**(810)**	(870)
	31,039	49,312
	159,039	173,686

(a) As at 31 December 2022 and 2021, the carrying amounts of other receivables are approximated at 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 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Beginning of the year	**(931)**	(544)
Addition	**—**	(387)
Reversal	**1**	—
End of the year	**(930)**	(931)

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
RMB	**55,806**	45,484
US$	**58**	11,836
HK$	**205**	252
	56,069	57,572

15. CASH AND BANK BALANCES

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Cash and cash equivalents		
— Cash in hand	30	185
— Deposits at bank	133,594	198,262
	133,624	198,447
Pledged bank deposits (Note (a))	103,856	172,317
Term deposits with initial terms of over three months	14,505	21,294
	251,985	392,058

(a) The pledged bank deposits were held as security mainly for standby letter of credit, letter of guarantee and restricted deposit for lawsuit.

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
US$	59,072	153,071
RMB	110,144	140,203
HK$	62,740	80,736
EUR	8,566	14,990
Others	11,463	3,058
	251,985	392,058

16. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Financial assets		
Financial assets at amortised cost		
— Trade receivables (Note 13)	413,202	302,930
— Notes receivables	23,025	14,735
— Deposits as guarantee for bidding (Note 14)	31,849	39,212
— Pledged bank deposits (Note 15)	103,856	172,317
— Term deposits with initial terms of over three months (Note 15)	14,505	21,294
— Cash and cash equivalents (Note 15)	133,624	198,447
Financial assets at FVOCI (Note 3.3)		
— Notes receivables	10,407	10,011
Total	730,468	758,946
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and other payables (Note 3.1(c))	573,459	472,874
— Borrowings (Note 20 and Note 21)	257,991	109,101
— Lease liabilities (Note 7)	77,255	44,859
— Other financial liabilities (Note 19)	4,192	—
Total	912,897	626,834

17. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2021 and 2022	10,000,000	100,000

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary share RMB'000
Issued and fully paid, HK$0.01 each:			
At 31 December 2021 and 2022	512,582	5,126	4,071

18. DEFERRED INCOME

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
At beginning of the year	**746**	452
Additions of government grant obtained	**651**	1,000
Credited to consolidated income statement	**(853)**	(706)
At end of the year	**544**	746

19. OTHER FINANCIAL LIABILITIES

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Measured at amortised cost:		
Redemption liabilities (Note)	**4,192**	—

Note: Redemption liabilities are arising from put option arrangements with non-controlling shareholders of an established subsidiary of approximately RMB4,192,000 (2021: Nil).

20. LONG-TERM BORROWINGS

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Bank borrowings, secured (Note)	**85,737**	54,271
Less: Long-term borrowings due within one year	**(45,670)**	—
	40,067	54,271

Note:

As at 31 December 2022, the secured long-term bank borrowings are denominated in RMB and secured by the Group's buildings, construction in progress and land use right (Note 6 and 7). For the year ended 31 December 2022, the secured long-term bank borrowings bear interest rates ranging from 4.45% to 4.65% (2021: 4.65% and 4.75%) per annum.

As at 31 December 2022, the fair value of the borrowings (including long-term borrowings due within one year) is not materially different to their carrying amounts, since the interest payable on those borrowings is close to current market rates.

21. SHORT-TERM BORROWINGS

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Bank borrowings, secured (Note (a))	**21,464**	20,000
Bank borrowings, guaranteed (Note (b))	**150,790**	34,830
	172,254	54,830

(a) As at 31 December 2022, the secured short-term bank borrowings are denominated in RMB and secured by the Group's buildings and right-of-use assets (Note 6 and 7). For the year ended 31 December 2022, the secured short-term bank borrowings bear interest rates from 4.00% to 4.52% (2021: 4.57%) per annum and are repayable within one year.

(b) As at 31 December 2022, certain short-term bank borrowings were guaranteed by Austar Equipment Limited, Austar Pharmaceutical Equipment (Shijiazhuang) Ltd. ("**Austar SJZ**") and Shanghai Austar Pharmaceutical Technology Equipment Ltd. ("**Shanghai Austar**"), which are subsidiaries of the Company. For the year ended 31 December 2022, the guaranteed short-term bank borrowings bear interest rates ranging from 3.80% to 7.00% per annum (2021: 3.00% to 5.00%) and are repayable within one year.

22. TRADE AND OTHER PAYABLES

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Trade payables	**426,204**	350,846
Payroll and welfare payable	**126,830**	98,623
Accrued expenses	**34,031**	40,119
Payable to vendors of construction, machinery and equipment	**21,001**	23,714
Indirect taxes payable	**17,690**	13,410
Warranty provision	**16,499**	13,517
Employee payable	**2,378**	3,208
Loan from a non-controlling shareholder of a subsidiary (Note (a))	**1,299**	1,263
Notes payables	**—**	1,500
Others	**93,671**	52,792
	739,603	598,992

(a) As at 31 December 2022 and 2021, the loan from a non-controlling shareholder of a subsidiary is unsecured, bearing interest at 5.00% per annum and repayable on demand.

22. 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 2022 RMB'000	As at 31 December 2021 RMB'000
Within 6 months	**348,478**	326,305
6 months to 1 year	**55,297**	7,335
1 to 2 years	**7,997**	4,419
2 to 3 years	**4,014**	5,546
Over 3 years	**10,418**	7,241
	426,204	350,846

(c) As at 31 December 2022 and 2021, the carrying amounts of trade and other payables are approximated at 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 2022 RMB'000	As at 31 December 2021 RMB'000
RMB	**698,491**	573,395
US$	**13,319**	12,026
HK$	**1,414**	230
EUR	**21,355**	11,711
Others	**5,024**	1,630
	739,603	598,992

(e) As at 31 December 2022, payments for trade payables RMB22,098,000 (31 December 2021: RMB13,970,000) with notes receivable were not derecognised.

23. EXPENSES BY NATURE

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Raw materials used	**1,242,546**	1,202,876
On-site subcontract fee	**196,329**	67,864
Staff costs, including directors' emoluments (Note 26)	**486,403**	414,432
Depreciation		
— Property, plant and equipment (Note 6)	**13,586**	11,936
— Right-of-use assets	**20,861**	15,964
Amortisation (Note 8)	**5,293**	3,675
Travel expenses	**30,890**	34,693
Freight and port charges	**28,711**	28,153
Professional fee	**22,659**	17,929
Technical service fee	**17,198**	13,055
Sales tax and surcharges	**11,365**	10,439
Warranty provision	**11,060**	9,521
Office expenses	**8,421**	7,931
Business entertainment expenses	**7,290**	12,561
Impairment of inventories	**7,017**	6,544
Promotion expenses	**5,927**	12,764
Auditor's remuneration		
— Audit service		
— PricewaterhouseCoopers	**3,450**	3,450
— Other auditors	**448**	149
— Non audit service		
— PricewaterhouseCoopers	**85**	725
— Other auditors	**29**	—
Repair and maintenance	**1,941**	2,186
Human resources management expenses	**1,633**	1,356
Labour productive cost	**1,451**	681
Bank charges	**1,224**	1,920
Communication expenses	**1,035**	1,879
Renovation expenses	**490**	198
Convention service expenses	**437**	674
Property management fee	**59**	429
Impairment of goodwill	**—**	1,091
Other operating expenses	**21,573**	14,926
	2,149,411	1,900,001

24. OTHER INCOME

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Government grants (Note)	**10,744**	5,900
Rental income (Note 33 (b) (iv))	**419**	430
	11,163	6,330

Note: There are no unfulfilled conditions or other contingencies attaching to these grants.

25. OTHER (LOSSES)/GAINS — NET

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Gains on disposal of a joint venture	**—**	198,988
Losses on disposal of property, plant and equipment	**(297)**	(716)
Exchange losses, net	**(6,117)**	(3,322)
Others	**(3,216)**	1,854
	(9,630)	196,804

26. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Salaries and bonuses	**377,758**	318,805
Pension and social obligations	**108,645**	95,627
	486,403	414,432

26. 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 2022	For the year ended 31 December 2021
Directors	2	1
Non-director individuals	3	4
	5	5

The Directors' emoluments were reflected in the analysis presented in Note 26(b). The emoluments payable to the remaining individuals were as follows:

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Basic salaries and allowances	3,017	3,366
Discretionary bonuses	1,406	1,435
Other benefits including pension	237	94
	4,660	4,895

The emoluments fell within the following bands:

	Number of individuals	
	For the year ended 31 December 2022	For the year ended 31 December 2021
Emolument bands		
HK$1,500,001~HK$2,000,000 (Equivalent to RMB1,339,906~RMB1,786,540)	3	2
HK$2,000,001~HK$2,500,000 (Equivalent to RMB1,786,541~RMB2,233,175)	—	1
HK$2,500,001~HK$3,000,000 (Equivalent to RMB2,233,176~RMB2,679,810)	—	1
	3	4

26. 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 2022 (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	–	880	–	–	–	–	–	–	15	895
Ho Kin Hung	–	1,932	446	–	–	–	–	–	19	2,397
Chen Yuewu	–	1,121	309	–	–	–	–	–	42	1,472
Zhou Ning	–	881	212	–	–	–	–	–	52	1,145
Non-Executive Directors										
Ji Lingling	648	–	–	–	–	–	–	–	–	648
Chiu Hoi Shan	155	–	–	–	–	–	–	–	–	155
Cheung Lap Kei	155	–	–	–	–	–	–	–	–	155
Leung Oi Kin	155	–	–	–	–	–	–	–	–	155

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

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

For the year ended 31 December 2021 (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	—	850	—	—	—	—	—	—	15	865
Ho Kin Hung	—	1,758	294	—	—	—	—	—	16	2,068
Chen Yuewu	—	1,085	414	—	—	—	—	—	38	1,537
Zhou Ning	—	791	144	—	—	—	—	—	41	976
Non-Executive Directors										
Ji Lingling	591	—	—	—	—	—	—	—	—	591
Chiu Hoi Shan	149	—	—	—	—	—	—	—	—	149
Cheung Lap Kei	149	—	—	—	—	—	—	—	—	149
Leung Oi Kin	149	—	—	—	—	—	—	—	—	149

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

(c) Directors' retirement benefits

During the year ended 31 December 2022, 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 (2021: Nil).

(d) Directors' termination benefits

During the year ended 31 December 2022, 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 (2021: Nil).

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

During the year ended 31 December 2022, no consideration was provided to or receivable by third parties for making available director's services (2021: 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 (2021: 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 (2021: Nil).

27. FINANCE COSTS — NET

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Finance costs		
— Bank borrowings	**(7,155)**	(2,381)
— Lease liabilities (Note 7 (b))	**(3,092)**	(2,021)
Exchange gains/(losses), net	**945**	(422)
	(9,302)	(4,824)
Finance income		
— Bank deposits	**2,273**	1,379
— Loan to PALL-AUSTAR JV (Note 33 (b) (v))	**—**	92
	2,273	1,471
	(7,029)	(3,353)

28. INCOME TAX EXPENSE

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Current income tax expense	**15,688**	33,836
Deferred income tax expense (Note 10)	**3,053**	12,765
	18,741	46,601

The Company was incorporated in the Cayman Islands as an exempted company with limited liability 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 are exempted from local income tax.

28. INCOME TAX EXPENSE (Continued)

The taxation of the Group's subsidiaries in Hong Kong is calculated at 16.5% of the estimated assessable profits for the year (2021: 16.5%), except for a subsidiary of the Group in Hong Kong which is a qualifying entity applicable to the two-tiered profits tax rates. Under the two-tiered profits tax rates regime, the profits tax rate for the first HK$2 million of assessable profits will be lowered to 8.25%, and assessable profits above HK$2 million will continue to be subject to the rate of 16.5%.

The taxation of the Group's subsidiary in Germany is calculated at 30% of the estimated assessable profit for the year (2021: 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, Austar SJZ, and Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") 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 2021. 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 2022.

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 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Profit before income tax	**86,485**	319,225
Tax expense calculated at applicable statutory tax rate	**21,477**	66,401
Impact of preferential corporate income tax rates	**(15,571)**	(13,515)
Impact of disposal of a joint venture	**—**	(12,934)
Non-taxable income	**(447)**	(591)
Expenses not deductible for taxation purposes	**375**	669
Impact of losses not recognised as deferred income tax assets	**18,661**	5,416
Other deductible temporary differences not recognised as deferred income tax assets	**925**	930
Utilisation of previously unrecognised tax losses	**(7,778)**	(7,344)
Research and development tax credit	**(8,239)**	(7,755)
Withholding tax on dividend	**7,168**	14,810
Adjustments for current tax of prior periods	**2,170**	514
Income tax expense	**18,741**	46,601

29. 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 2022	For the year ended 31 December 2021
Profit attributable to the owners of the Company (RMB'000)	**87,461**	277,300
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic earnings per share (RMB)	**0.17**	0.54

(b) Diluted

As the Company had no potential ordinary shares for each of the years ended 31 December 2022 and 2021, diluted earnings per share for the years ended 31 December 2022 and 2021 are the same as basic earnings per share.

30. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2022 (2021: Nil).

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000
Profit before income tax	**86,485**	319,225
Adjustments for:		
Depreciation		
— property, plant and equipment (Note 6)	**13,586**	11,936
— Right-of-use assets	**20,861**	15,964
Amortisation (Note 8)	**5,293**	3,675
Net impairment (gains)/losses on financial assets and contract assets	**(3,212)**	6,243
Losses on disposals on property, plant and equipment (Note 25)	**297**	716
(Reversal of)/Provision for impairment of prepayments and other receivables (excluding financial assets measured at amortised cost)	**(1)**	387
Impairment of goodwill (Note 8)	**—**	1,091
Gains on disposal of a joint venture (Note 25)	**—**	(198,988)
Impairment of inventories	**7,017**	6,544
Share of net profit of investments accounted for using the equity method (Note 9)	**(9,536)**	(10,660)
Finance cost — net (Note 27)	**7,029**	3,353
Deferred income (Note 18)	**(853)**	(706)
Changes in working capital:		
Decrease/(increase) in restricted cash	**68,461**	(44,390)
Decrease/(increase) in inventories	**24,598**	(222,690)
Increase in trade and other receivables	**(87,892)**	(113,021)
Increase in trade and other payables	**132,517**	124,873
(Decrease)/increase in contract liabilities	**(83,982)**	144,513
Increase in contract assets	**(205,829)**	(146,086)
Increase in deferred income	**651**	1,000
Cash used in operations	**(24,510)**	(97,021)

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Non-cash investing and financing activities

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Acquisition of property, plant and equipment transferred from inventories	—	2,125

Non-cash investing and financing activities disclosed in Note 6 are related to acquisition of property, plant and equipment.

(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 2022 RMB'000	As at 31 December 2021 RMB'000
Cash and cash equivalents (Note 15)	133,624	198,447
Lease liabilities (Note 7)	(77,255)	(44,859)
Borrowings (Note 20, Note 21)	(257,991)	(109,101)
Other financial libilities (Note 19)	(4,192)	—
Loan from a non-controlling shareholder of a subsidiary (Note 22)	(1,299)	(1,263)
Net debt	(207,113)	43,224
Cash and cash equivalents (Note 15)	133,624	198,447
Gross debt	(340,737)	(155,223)
Net debt	(207,113)	43,224

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

(c) Net debt reconciliation (continued)

	Liabilities from financing activities					Other assets	
	Borrowings	Loan from a non-controlling shareholder of a subsidiary	Leases	Others	Sub-total	Cash	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 31 December 2020	(30,000)	(1,410)	(45,055)	—	(76,465)	177,949	101,484
Cash flows	(79,101)	—	15,350	—	(63,751)	20,920	(42,831)
Foreign exchange adjustments	—	147	—	—	147	(422)	(275)
Other non-cash movements	—	—	(15,154)	—	(15,154)	—	(15,154)
Net debt as at 31 December 2021	(109,101)	(1,263)	(44,859)	—	(155,223)	198,447	43,224
Cash flows	**(148,563)**	**—**	**18,074**	**—**	**(130,489)**	**(65,768)**	**(196,257)**
Foreign exchange adjustments	**(327)**	**(36)**	**—**	**—**	**(363)**	**945**	**582**
Other non-cash movements	**—**	**—**	**(50,470)**	**(4,192)**	**(54,662)**	**—**	**(54,662)**
Net debt as at 31 December 2022	**(257,991)**	**(1,299)**	**(77,255)**	**(4,192)**	**(340,737)**	**133,624**	**(207,113)**

32. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Property, plant and equipment	**54,457**	100,963
Intangible assets	**—**	432
	54,457	101,395

32. COMMITMENTS (Continued)

(b) Lease commitments

The Group leases various offices and warehouses under non-cancellable lease agreements. The Group has recognised right-of-use assets for these leases (Note 7), except for short-term leases as set out below:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Not later than one year	**263**	—

33. 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 2022 and 2021:

Names of the related parties	Nature of relationship
PALL-AUSTAR JV (Note)	Joint venture of the Group
PALL-Austar Packaging Technology (Beijing) Co., Ltd. ("**PALL-AUSTAR WFOE**") (Note)	Subsidiary of PALL-AUSTAR JV
Steris-Austar Pharmaceutical Systems (Shanghai) Ltd. ("**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 Verpackungstechnik GmbH & Co. KG ("**ROTA KG**")	An associate of the Group
H+E GmbH	Non-controlling shareholder of a subsidiary of the Group
Aquarion AG	Ultimate holding company sof non-controlling shareholder of a subsidiary of the Group

Note:

On 31 March 2021, the Group has completed the disposal and ceased to have any equity interest in the PALL-AUSTAR JV.

33. 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 2022 RMB'000	For the year ended 31 December 2021 RMB'000
STERIS-AUSTAR WFOE	60,286	101,953
H+E GmbH		
— engineering and non-engineering	658	1,595
PALL-AUSTAR WFOE	—	19,266
ROTA KG	—	32
	60,944	122,846

(ii) Sales of goods and services

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
STERIS-AUSTAR WFOE	15,548	10,543
H+E GmbH		
— pre-assembly and assembly services	9,943	11,908
— other services	—	669
ROTA KG	3,920	3,406
PALL-AUSTAR WFOE	—	411
	29,411	26,937

33. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iii) Rental expenses

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Austar Limited	152	127
Aquarion AG	113	120
Madam Gu Xun	—	891
	265	1,138

(iv) Rental and miscellaneous income

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
STERIS-AUSTAR WFOE	419	452

(v) Interest income from a loan provided to a joint venture

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
PALL-AUSTAR JV	—	92

33. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) Receivable due from/prepayments to related parties

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Receivable due from:		
STERIS-AUSTAR WFOE	12,682	12,812
H+E GmbH	972	1,435
ROTA KG	725	3,993
Prepayments to:		
STERIS-AUSTAR WFOE	13,768	17,053
ROTA KG	761	625
Austar Limited	25	22
Madam Gu Xun	—	468
	28,933	36,408

(ii) Payable due to related parties

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
STERIS-AUSTAR WFOE	36,936	43,617
Aquarion AG	1,997	1,826
H+E GmbH	772	43
ROTA KG	374	—
	40,079	45,486

33. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Salaries and bonuses	**10,034**	8,289
Pension and others	**967**	768
	11,001	9,057

34. ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for short-term and long-term borrowings are:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Property plant and equipment		
— Buildings	**4,135**	4,874
— Construction in progress	**124,421**	85,783
Right-of-use assets		
— Land use right	**68,837**	71,094
Total assets pledged as security	**197,393**	161,751

35. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**110,133**	100,804
	110,133	100,804
Current assets		
Prepayments and other receivables	**323,488**	309,141
Cash and cash equivalents	**753**	2,753
Term deposits with initial terms of over three months	**6,281**	8,228
Total assets	**440,655**	420,926
Equity and liabilities		
Equity attributable to the owners of the company		
Share capital	**4,071**	4,071
Share premium	**314,009**	314,009
Capital surplus	**97,870**	97,870
Currency translation differences	**50,297**	12,229
Accumulated losses	**(27,476)**	(8,794)
Total equity	**438,771**	419,385
Liabilities		
Non-current liabilities		
Trade and other payables	**1,884**	1,541
Total liabilities	**1,884**	1,541
Total equity and liabilities	**440,655**	420,926

The balance sheet of the Company was approved by the Board of Directors on 28 March 2023 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

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

Reserve movement of the Company

	Share premium RMB'000	Capital surplus RMB'000	Currency translation differences RMB'000	Accumulated losses RMB'000
At 1 January 2021	314,009	97,870	24,645	(5,906)
Profit for the year	—	—	—	(2,888)
Currency translation differences	—	—	(12,416)	—
At 31 December 2021	314,009	97,870	12,229	(8,794)
At 1 January 2022	314,009	97,870	12,229	(8,794)
Profit for the year	—	—	—	(18,682)
Currency translation differences	—	—	38,068	—
At 31 December 2022	**314,009**	**97,870**	**50,297**	**(27,476)**

36. SUBSIDIARIES

The following is a list of subsidiaries as at 31 December 2022:

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$29,265,032	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 Engineering Technology (Shijiazhuang) Limited (奧星工程科技石家莊有限公司)	Limited liability company	Shanghai, the PRC/ 23 March 2021	RMB38,500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar Pharmaceutical Process Systems Limited (奧星製藥工藝系統有限公司)	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

36. SUBSIDIARIES (Continued)

The following is a list of subsidiaries as at 31 December 2022 (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 Process Systems (Shijiazhuang) Limited (奧星製藥工藝系統(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
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	RMB20,000,000	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

36. SUBSIDIARIES (Continued)

The following is a list of subsidiaries as at 31 December 2022 (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 Equipment Investment (NJ) Limited (奧星製藥設備投資(南京)有限公司)	Limited liability company	BVI/12 January 2015	US$209,717	100%	Investment holding/BVI
Austar Biosciences GmbH	Limited liability company	Germany/29 January 2016	EUR25,000	100%	Investment holding/Germany
Shanghai Austar Biotechnology Co., Ltd. (上海奧星生物科技有限公司)	Limited liability company	Shanghai, the PRC/ 20 May 2015	—	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar India Investment Ltd. (奧星印度投資有限公司) (Now known as Austar Asia Investment Limited (奧星亞洲投資有限公司)	Limited liability company	BVI/19 July 2017	US$1	100%	Investment holding/BVI
Austar Hansen lifescience (Hebei) Limited (奧星衡迅生命科技(河北)有限公司)	Limited liability company	Shijiazhuang, the PRC/ 16 September 2021	RMB14,500,000	100%	Provision of life sciences consumable/the PRC
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	100%	Investment holding/the PRC
Hebei Aunity Engineering Consulting Limited (河北奧恒工程設計咨詢有限公司)	Limited liability company	Hebei, the PRC/ 2 November 2017	RMB3,822,000	100%	Provision of pharmaceutical engineering design/the PRC

36. SUBSIDIARIES (Continued)

The following is a list of subsidiaries as at 31 December 2022 (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 India Process Systems Private Limited	Limited liability company	India/29 November 2018	Rupees7,500,000	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/India
Austar Malaysia Limited	Limited liability company	Malaysia/13 November 2019	US$100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
AUSTARUNION Malaysia Sdn Bhd	Limited liability company	Malaysia/5 December 2019	RM100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
H+E Pharma GmbH	Limited liability company	Germany/23 July 2019	EUR51,020	51%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/Germany
S-Tec GmbH	Limited liability company	Germany/15 July 2019	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	England and Wales/ 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

36. SUBSIDIARIES (Continued)

The following is a list of subsidiaries as at 31 December 2022 (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:					
Cape Europe Limited	Limited liability company	England and Wales/ 31 March 2022	EUR1,500,000	50%	Investment holding/UK
Cape Europe France SAS	Limited liability company	France/31 March 2022	EUR10,000	50%	Research & Development* Sales RTP product and related services/France
Austar Taiwan Limited (奧星台灣有限公司)	Limited liability company	Taiwan/23 February 2022	TWD1,000,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/TaiWan
Union Pharmaceutical Engineering Company(sfz) SPC	Limited liability company	Oman/4 January 2022	—	100%	Contract execution/OMAN
Shanghai AUSTAR Micro Nano Application Technology Limited	Limited liability company	Shanghai, the PRC/8 July 2022	—	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC

The English names of certain subsidiaries and joint ventures referred to herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

37. 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 management believes the outflow of resources is not probable.

As at 31 December 2022, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR887,000 approximated at RMB6,584,000. It sets forth the maximum exposure of these guarantees to the Group.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	**2,228,644**	2,015,028	1,295,980	1,049,021	816,585
Cost of sales	**(1,765,975)**	(1,536,020)	(972,450)	(764,777)	(612,191)
Gross profit	**462,669**	479,008	323,530	284,244	204,394
Selling and marketing expenses	**(178,659)**	(170,289)	(148,692)	(137,077)	(105,635)
Administrative expenses	**(134,614)**	(128,094)	(98,695)	(108,731)	(77,450)
Net impairment losses on financial and contract assets	**3,212**	(6,243)	(12,139)	(5,109)	(4,066)
Research and development expenses	**(70,163)**	(65,598)	(48,268)	(42,577)	(30,308)
Other income	**11,163**	6,330	8,039	9,153	3,148
Other gains/(losses) — net	**(9,630)**	196,804	6,955	146	(1,667)
Operating profit/(loss)	**83,978**	311,918	30,730	49	(11,584)
Finance (cost)/income — net	**(7,029)**	(3,353)	282	1,967	3,420
Share of net profit of investments accounted for using the equity method	**9,536**	10,660	10,477	10,192	11,662
Profit/(loss) before income tax	**86,485**	319,225	41,489	12,208	3,498
Income tax (expense)/credit	**(18,741)**	(46,601)	(9,884)	(4,744)	(3,378)
Profit/(loss) for the year	**67,744**	272,624	31,605	7,464	120
Profit/(loss) attributable to:					
The owners of the Company	**87,461**	277,300	33,100	8,091	107
Non-controlling interests	**(19,717)**	(4,676)	(1,495)	(627)	13
Profit/(loss) for the year	**67,744**	272,624	31,605	7,464	120

ASSETS AND LIABILITIES

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	**2,388,763**	2,044,777	1,378,844	1,174,322	1,071,370
Total liabilities	**1,505,182**	1,256,357	854,270	671,697	588,447
Total assets less current liabilities	**1,028,998**	908,581	573,160	540,535	494,443
Total equity attributable to the owners of the Company	**896,944**	786,584	517,899	494,537	480,964