AUSTAR
奧星

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

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

2021
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

PLACE OF LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
6118

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

NON-EXECUTIVE DIRECTOR
Madam Ji Lingling

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

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

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

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

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

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

COMPANY SECRETARY
Madam Chan Pui Shan, Bessie

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

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

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

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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LEGAL ADVISOR AS TO HONG KONG LAWS

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AUDITOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

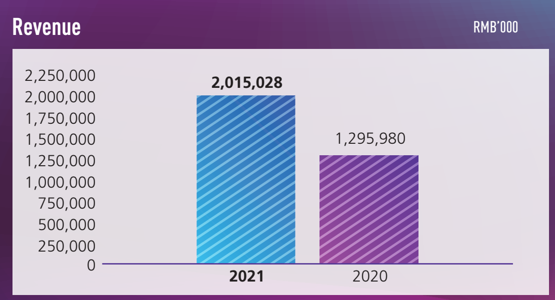
www.austar.com.hk

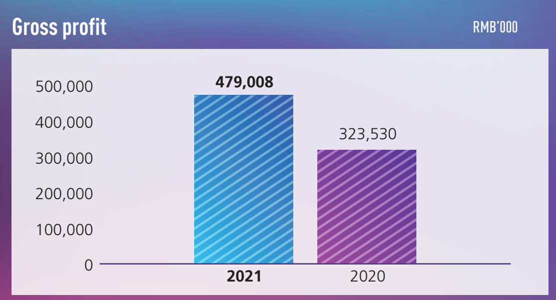
FINANCIAL HIGHLIGHTS

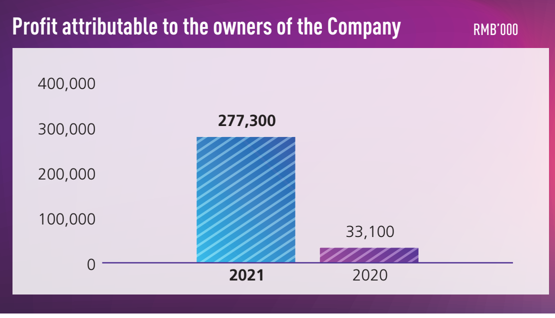
	For the year ended 31 December 2021 RMB'000	2020 RMB'000	Change
Key financials on Consolidated Income Statement			
Revenue	**2,015,028**	1,295,980	55.5%
Gross profit	**479,008**	323,530	48.1%
Gross profit margin	**23.8%**	25.0%	
Profit attributable to the owners of the Company	**277,300**	33,100	
Basic earnings per share (RMB) *(Note)*	**0.54**	0.06	
Diluted earnings per share (RMB) *(Note)*	**0.54**	0.06	

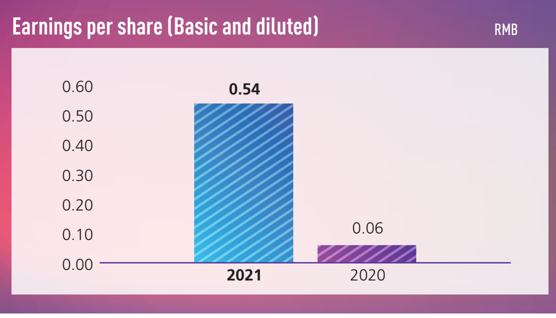
	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	Change
Key financials on Consolidated Balance Sheet			
Total assets	**2,044,777**	1,378,844	48.3%
Net assets	**788,420**	524,574	50.3%
Gearing ratio	**16.4%**	12.7%	

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 2021 and 2020 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 2021 and 2020.



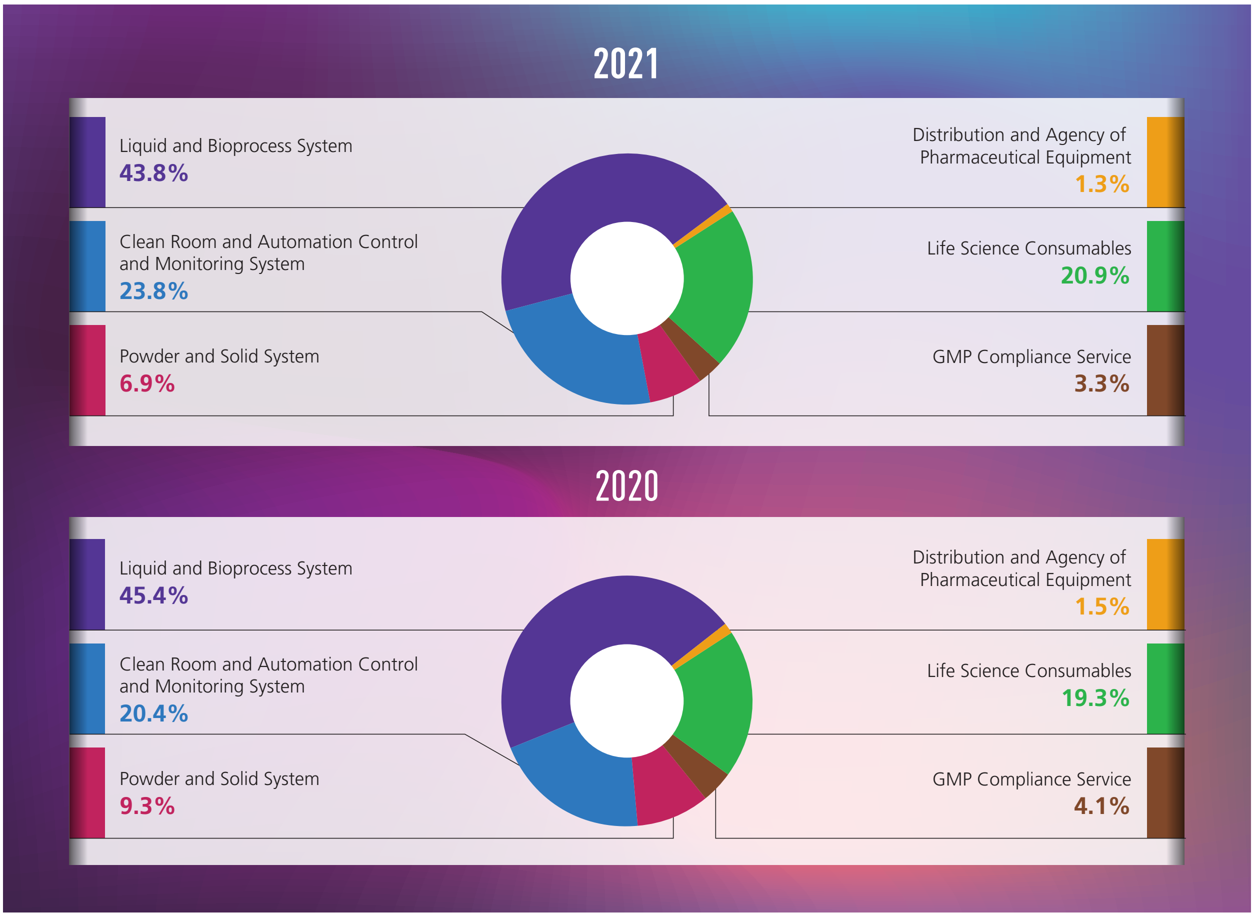






REVENUE CONTRIBUTION BY BUSINESS SEGMENT

Revenue by business segment	For the year ended 31 December			
	2021		2020	
	RMB'000	**%**	RMB'000	%
Liquid and Bioprocess System	**882,953**	**43.8%**	588,488	45.4%
Clean Room and Automation Control and Monitoring System	**479,706**	**23.8%**	264,436	20.4%
Powder and Solid System	**138,293**	**6.9%**	120,525	9.3%
GMP Compliance Service	**66,114**	**3.3%**	52,729	4.1%
Life Science Consumables	**421,070**	**20.9%**	250,170	19.3%
Distribution and Agency of Pharmaceutical Equipment	**26,892**	**1.3%**	19,632	1.5%
Total	**2,015,028**	**100.0%**	1,295,980	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

OUR PATH OF GROWTH

2015

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

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

2016

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

2017

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

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

AUSTAR signed first contract of laboratory equipment packaged services in Ethiopia

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

2018

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

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

2019

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

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

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

2020

A subsidiary in UK was established in March 2020

New AUSTAR Logo was launched with branding activities in April 2020

Contributing to key COVID-19 vaccine facilities with equipment, systems and consumables with fast delivery responses

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

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

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

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 2021 ("**Year**").

Issues arising from the COVID-19 pandemic have been causing disruption to business for the third year. From the business point of view, it has caused abnormality and inconvenience to an intolerable extent. It also posts threats and challenges to those companies which are not able to adapt themselves under such demanding circumstances. Even though with all the difficulties under the pandemic, I am very proud to inform our shareholders that with effort and determination from our leadership team and staff, AUSTAR was capable of achieving solid financial and business results in 2021 continuing the performance improvement in 2020.

For the Group, sales order-in-take has surged from RMB1.86 billion to RMB2.66 billion from 2020 to 2021 with an increase of 43%. We record a significant 55% increase in revenue from RMB1.30 billion in 2020 to RMB2.02 billion in 2021, and a record high net profit after tax of RMB273 million (USD42.8 million). Without taking into account the one-off gain of RMB176 million recognised from the Group's disposal of its equity interest in PALL-AUSTAR Lifesciences Limited, a then joint venture of the Group, the Group recorded an operational profit in 2021 of RMB97 million, which had increased to 3.1 times as compared to that in 2020. These sound financial achievements are attributed to the continuous investment on talents, technology application knowledge upgrading, operation technology by digitalisation, and corporate culture enrichment, amidst the adverse external factors such as supply-chain disruption, inefficiency due to travel restriction and keen competition during the pandemic.

In 2020, AUSTAR participated in most COVID-19 vaccine facility projects in China. In 2021, new capital expenditure (CAPEX) investment in COVID-19 vaccine facility projects seems to be cooling down evidenced by project enquiries and order-in-take. The growth of orders in 2021 came from more diverse biopharma subsectors. This is a very positive indicator. It demonstrates that the growth of the Group is not only reliant on the surge in COVID-19 vaccine related opportunities, but that the Group is able to capture opportunities arising from the CAPEX investment on other subsectors bouncing back from the pandemic, like medical devices, blood products, monoclonal antibodies, active pharmaceutical ingredients, complex injectable formulations, and conventional oral solid dosages.

AUSTAR's manufacturing site in UK which was established in 2020 continued to recruit more talents in 2021 to be able to offer equipment of oral solid dosage apart from sterility test isolators. The Group's global expansion initiative is still under progress with properly measured approach amidst barriers in international travel business contact.

Core equipment development and manufacturing is contributing to the strengthening of our position as a high-end life science system engineering integrator and solution provider. In 2021, two facility space expansion projects were launched with the commencing of ground-breaking construction phase. It is expected to have a significant increase of equipment assembly space available from mid of 2022 with two new manufacturing facilities with a total area of 55,000 square metres in operation.

CHAIRMAN'S STATEMENT

The Group's knowledge and experience in digitalisation and regulatory compliance in the pharmaceutical industry has been allowing the Group to acquire projects with challenging requirements of fully integrated system with intelligent information systems, which distinguishes AUSTAR from the other equipment and system competitors. Such automation and digitalisation project requirements are simply coming from the urgent need of clients facing the challenges of operation cost-down pressure, especially in China, due to all the currently implemented drug price-down policies.

The service business has been growing in the same momentum as the equipment and system engineering business from consulting to facility management services as more and more clients recognise the value of services and believe the services offered by the Group can contribute good economical returns. The services which have been previously neglected by most clients such as digitalisation planning consulting services, contamination control consulting services and labour toxic working environment consulting services are now key highlights in project enquiries. It shows that the maturity level of the pharmaceutical industry in emerging countries like China is improving step-by-step. AUSTAR has put in efforts in developing the competence level of such services for many years and it is expected that such services can leverage more equipment and system business ultimately.

Enthusiasm on ATMPs (Advanced Therapeutic Medicine Products) in the capital market is believed to continue with momentum. The Group was able to capture from facility design to clean utilities, automation control systems and information systems in this sector. More equipment, system and services for production process and quality control in cell and gene therapy are under development and will be offered to the market. The mRNA technology is a hot topic in 2021 since such technology which has applied to COVID-19 vaccines has been very encouraging, allowing scientists and entrepreneurs to create visions to explore more business and technology development opportunities. As a supplier and service provider, we are investigating vigorously what we can offer in the core process of this new application field, apart from the available conventional application technology.

Demand on automation and information systems of conventional APIs (active pharmaceutical ingredients) facilities is increasing due to the urgent need of operational efficiency for cost reduction. Due to severe competition on conventional generic drugs, it encourages some clients with strong drug development capabilities to focus on high-value complex injection formulation, for which AUSTAR is able to provide complete integrated process systems incorporated with some well-known software and hardware vendors, in competition with only very few competitors available in the market right now.

As the major shareholder and chairman of the Group, I have been struggling to strike a balance between the overall operation profitability and continuous resources input on talent development, technology development and supporting the building up of system infrastructure. The rationale behind continuous investment efforts on some product lines, industrial sectors, and sales territories rests on the trust of the prospects which we anticipate foreseeable significant growth opportunities ahead for many years to come with all key success factors evaluated. Historical financial performance figures are important elements for evaluating the value of a company, but I believe that digging into the company's talent competence, product profiles and its competitiveness would help to fairly determine the potential of a company. I am very pleased that our Board and top management team have been supporting my visions and strategies with a prudent financial approach and aggressive business development initiatives.

Success on leadership of transformation depends on the leadership team's belief, trust, and collaboration, especially with a long-term vision to become a globally respected and recognised system engineering solution provider in the life sciences industry. I would like to take this opportunity to express my hearted thanks to my management team for their determination and efforts paid in achieving the 2021 financial and business results.

I would like to express my thanks to the Directors for bringing our business a growth trend with healthier financial achievement and stronger foundation for growth with persistence and determination to support the Group during the last several years, and I would also like to thank the shareholders for their continuous support.

Ho Kwok Keung, Mars
Chairman

25 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The new COVID-19 omicron variant has been found to be more contagious, causing another peak of infection cases globally in the second half of 2021. China's policy on infection control as what is called "zero tolerance" remained unchanged in the entire year of 2021. Even though economic activities were interrupted occasionally by travel restrictions and quarantine measures, the business in China has been operating relatively easier as compared to other major countries, the disruption in the supply chain is one of the key topics business leaders have been focusing in finding new strategies to cope with, including adjustment to supply chain strategy not limited to inventory back-up and change of vendors. The supply of COVID-19 vaccines in major countries has been improving. The World Health Organisation (WHO) has reviewed and approved two Chinese vaccine manufacturers for emergency use for its global COVAX vaccine distribution program in the first half of 2021. The drug safety and efficacy recognition brought about by such approvals triggers the interest of some pharmaceutical companies and governments in developing countries to establish partnerships with these WHO-approved COVID-19 vaccine manufacturers with the intention to secure fast and effective supply of vaccines for their own citizens. Enthusiasm for investment in COVID-19 vaccine facilities is high among those emerging countries with high population and especially those suffering from a shortage of COVID-19 vaccine supply. In China, it is believed that the current manufacturing capacities of COVID-19 vaccines are sufficient, witnessing a decline in demand of new COVID-19 vaccine capital expenditure (CAPEX) projects in the second half of 2021.

Due to the BioNTech's mRNA technology breakthrough and the application opportunities offered by the outbreak of the COVID-19 pandemic and fueled by the successful clinical performance, delivering and distribution of Pfizer, there are tremendous motivation and encouragement for using mRNA technology to other therapeutic treatments. Even though the mRNA technology requires a lot of process knowledge with patent protection to reach quality product results, these technology barriers have not hindered the momentum in investment and research studies in vaccine applications as well as other therapies. This has become a hot topic in 2021, witnessed by fund flowing into the mRNA technology platform for various therapeutic treatments. Investments in cell and gene therapies fueled by the capital market in 2021 have been igniting passionate enthusiasm from all stakeholders involved scientists to consumables, instruments and equipment vendors.

During the 14th Five-Year Plan in China, one of key initiatives in pharmaceutical industry is to encourage green production of pharmaceutical ingredient bulk chemicals as the awareness of environmental, health and safety issues has been increasing due to requirement of policy compliance and concerns from the public. Oral solid dosage (OSD) and Active Pharmaceutical Ingredient (API) manufacturers are encountering severe cost pressure due to the market trend by centralised procurement. Under the influence of environmental protection concerns and other factors, the output of APIs decreased sharply, causing the price of APIs to rise significantly, as a result an increase in the production cost of chemical and pharmaceutical enterprises in the downstream. Both OSD and API manufacturers drive to go upstream and go downstream respectively with the intention to have full control of the supply-chain and costs, which have been witnessed by the surge in CAPEX projects in chemical drugs with demand of huge manufacturing facilities with more intelligent integrated and modular solutions for optimised operation efficiencies and flexibilities. The National Health Commission of China, together with five other government departments, including the Ministry of Science and Technology, the National Healthcare Security Administration, and the National Medical Products Administration etc., released a joint circular containing a second list of encouraged generic drugs in 2021. This policy will definitely push forward the pace of investment on research and development of generic drugs targeting on substituting some specific original brand drugs to reduce the burden of government healthcare fund spending.

With the promotion of the health insurance reform policy, the scope of the volume-based procurements is becoming wider and wider. Enterprises are facing significant cost pressure, which will promote the demands on operation excellence consultancy services.

While in 2021, major focus was put onto the COVID-19 vaccine research and development (R&D) in the biopharma industry for supply chain, manufacturing, and investment sectors respectively, CAPEX for R&D, monoclonal antibody drugs and cell and gene therapies have been increased since the end of 2021.

BUSINESS REVIEW

The compound annual growth rate (CAGR) of the revenue of the Group in the last 5 years was 38.5%. The Group recorded a growth of 55.5% in revenue reaching more than RMB2 billion (approximately US$316.6 million) as compared to the year 2020. The Group recorded an operating profit of approximately RMB311.9 million for the Year, a significant increase as compared to the year 2020. The Group recorded a profit attributable to the owners of the Company of approximately RMB277.3 million for the Year, partly attributable to the one-off gain recognised from the Group's disposal of its equity interest in PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**"), one of our joint ventures, to the joint venture partner. The order-in-take for the Year amounted to RMB2,663.0 million, recording a significant growth of approximately 43.3%, which will contribute a good basis of order backlog for revenue recognition in 2022. COVID-19 vaccine related projects, which require extremely fast delivery time, have been exerting pressure on the Group's operations; on the other hand, it has helped the Group to seek for innovative methodologies to shorten the lead time and the site construction time, and benefited the Group's operations efficiency in the medium and long term. In 2021, strong repeated orders received from the Group's existing COVID-19 vaccine manufacturing clients for various product lines such as clean utilities, bioprocessing systems, automation systems and validation services have demonstrated that trust from our clients has been developed out of our quality and services delivered. It is foreseeable that the COVID-19 vaccine related projects in China may not have the same momentum of growth in 2022 as in the second half of 2021, the project enquires related to COVID-19 vaccine had been slowing down in China, but outside China, there are still potential COVID-19 projects under negotiation and existing projects under construction. During the Year, business in the biologics sector was active not only in vaccines but also for clients producing drugs like insulin, blood bio-products, and monoclonal antibiotics, which the Group had obtained numerous orders for equipment and systems.

The recent performance achievement of the Group is believed to be partly the result of organisational transformation which was initiated several years ago, bringing about consolidation of the project and business execution platform and the functional system support platform. The Group is determined to continuously push forward the following key initiatives which have started several years ago namely, Global Expansion Strategies, AUSTAR Transformation Initiatives, Technology-Application Focus Branding, Knowledge Acquisition Enhancement and Core-Product Manufacturing. All these initiatives including developing equipment and system technologies for gene and cell therapies, digitalisation services, system integration capacities, new technologies for API and OSD equipment and systems require extra resources and additional expenses, which may adversely impact the Group's profit margin for the time being. However, it is expected that such initiatives will result in favorable financial and business results in the long run. With our corporate strategies and commitment on our visions and strategies, the Group will continuously invest in CAPEX, human resources, geographical expansion and enhancing product and application solution competences, with the intention to bring about more satisfactory business results for our shareholders. This business approach of the mixing of mature business and start-up business is expected to create strong revenue and profit for the Group in mid-long term.

The Group is still further investing efforts in service business including digitalisation consulting services, biopharma occupational safety consulting services and contamination control consulting services. It is believed that the concepts of our newly established facility management services will be embraced by some start-up companies such as cell and gene therapy companies or Contract Development and Manufacture Organization (CDMO) companies as those clients might take time to consolidate resources to take care of the maintenance and upgrade of their production systems by their own talents. It is believed that the service business is able to generate new significant streams of income and higher margin of profits for the Group in the coming future.

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				
	2021		2020		Change
Order-in-take by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**1,207,477**	**45.4%**	878,656	47.3%	37.4%
Clean Room and Automation Control and Monitoring System	**524,786**	**19.7%**	435,866	23.5%	20.4%
Powder and Solid System	**226,225**	**8.5%**	152,409	8.2%	48.4%
GMP Compliance Service	**117,673**	**4.4%**	46,818	2.5%	151.3%
Life Science Consumables	**548,875**	**20.6%**	323,153	17.4%	69.8%
Distribution and Agency of Pharmaceutical Equipment	**37,923**	**1.4%**	20,964	1.1%	80.9%
Total	**2,662,959**	**100.0%**	1,857,866	100.0%	43.3%

During the Year, the total order-in-take amounted to approximately RMB2,663.0 million, representing a significant increase of approximately 43.3% from approximately RMB1,857.9 million for the year ended 31 December 2020, attributable to the increase in order-in-take amount of all the business segments in particular the high increase in Liquid and Bioprocess System, Powder and Solid System, GMP Compliance Service and Life Science Consumables. In 2021, the Group's business kept fast growth mainly due to its full spectrum of pharmaceutical technology knowledge and sophisticated product line covering the whole drug lifecycle and repeated orders from COVID-19 vaccine manufacturing clients and a series of motivating factors, such as Cell-and-Gene Therapy and CMO (Contract Manufacturing Organization)/CDMO. COVID-19 has changed cognitive habits in the pharmaceutical industry, increasing investment in bio-safety and improving the requirement of high-end clean utilities, bioprocess equipment, regulatory compliance and operation excellence. The Group as a technology-based pharmaceutical engineering solution provider with in-depth understanding and interpretation of the requirements of Compilation of Global Data Integrity and Regulations Guidance can meet the requirements of bio-safety and clean which resulted in the growth of core equipment such as bioreactor, freeze-dryer, single use consumable and instrument with appropriate compliance application solution.

Liquid and Bioprocess System

Through several years of persistent endeavours committed to the service, research and development of customized integrated solutions and various advanced solutions for the leading biopharmaceutical enterprises and research institutes worldwide, driven by accumulation of continuous experience gained by project execution, and with strong support from the experienced key account managers, and strongly supported by outstanding performance of COVID-19 projects execution with tight lead time and high quality requirements, the Group has gained market recognition, and the business segment of Liquid and Bioprocess System has grown to be regional champion business. The order-in-take amount of the business segment of Liquid and Bioprocess System amounted to approximately RMB1,207.5 million for the Year, representing an outstanding increase of approximately RMB328.8 million or 37.4% from approximately RMB878.7 million for the year ended 31 December 2020. Based on experience and reputation acquired in participation in the construction in a number of the emergent COVID-19 vaccine design and construction projects in China, the Group has the strong competence to acquire the business opportunities of vaccine projects, which has a huge growth potential. The Group will also endeavour to expand the presently regional champion business to overseas market by its core competitiveness through integration, rich process automation experience, and customised technology application.

Clean Room and Automation Control and Monitoring System

Through the clean room engineering business expansion in many life-science sectors, integrating new technology with integrated space sterilization system, dust particle online monitoring, floating bacteria monitoring, energy saving control, energy efficiency analysis and intelligent control system together to provide customers with computerised system confirmation and validation documents, continuously bringing the customer cost-effective solutions, the Group gaining good market reputation has enlarged its scale in the business segment of Clean Room and Automation Control and Monitoring System, accompanied by increase of vaccine related orders by strategic customers and growth in system turnkey engineering projects with strong design capability. The order-in-take amount of the business segment of Clean Room and Automation Control and Monitoring System amounted to RMB524.8 million for the Year, representing an increase of approximately RMB88.9 million or 20.4% from approximately RMB435.9 million for the year ended 31 December 2020. The Group will capture more business opportunities in the Pharma IT business as a system integrator to offer comprehensive automation and digitalisation systems by self-developed and partners' information systems.

Powder and Solid System

With the pharmaceutical clients' increased requirement on cost saving and efficiency improvement resulted by centralised procurement initiated by the public healthcare institutions, and strongly supported by the Group's deep understanding of technology and application in intelligent manufacturing of powder and solid system and market recognition, the Group captured more business opportunities, and experienced a high-speed business growth in the past two years. The order-in-take amount of the business segment of Powder and Solid System increased strongly by approximately RMB73.8 million or 48.4% from approximately RMB152.4 million for the year ended 31 December 2020 to approximately RMB226.2 million for the Year. As a technology based pharmaceutical solution provider with system integration capability, the Group has developed the competence to meet with the clients' demands of integrated solution, and built up a good foundation for future development.

GMP Compliance Service

For the past few years, the Group has brought the benefits of improving the quality and efficiency to clients and built up a good reputation in the GMP Compliance Service field. The order-in-take amount of the business segment of GMP Compliance Service increased by approximately RMB71.0 million or 151.3% from approximately RMB46.8 million for the year ended 31 December 2020 to approximately RMB117.8 million for the Year. Accompanied by the trend of stricter regulations and standards in GMP on-site inspection, there is huge potential of increased opportunities in this business segment. Meanwhile, the Group will seek business opportunities in the overseas market, such as Northeast Asia and Southeast Asia.

Life Science Consumables

After several years' effort on the integration of various products and services, the Group has built unique competence by offering a complete solution of Washing, Disinfection and Sterilization. Driven by this competence and huge comsumables demand increase under COVID-19 with the fast business development in pharma laboratory one-stop solution, the business segment of Life Science Consumables experienced a significant increase in the order-in-take amount by approximately RMB225.7 million or 69.8% from approximately RMB323.2 million for the year ended 31 December 2020 to approximately RMB548.9 million for the Year. The Group will continue to launch more diversified life science consumables and services with the latest technology to its customers. This segment maintained continuous strong growth in the past three years, and still has a huge potential growth, including environmental monitoring information system, rapid transfer port and bags, microbiological online monitoring technology in CAR-T and CMO.

Distribution and Agency of Pharmaceutical Equipment

The order-in-take amount of the business segment of Distribution and Agency of Pharmaceutical Equipment experienced an increase by approximately RMB17.0 million or 80.9% from approximately RMB21.0 million for the year ended 31 December 2020 to approximately RMB37.9 million for the Year. The Group will continue to engage in the distribution of various types of high-end pharmaceutical equipments together with its joint ventures and overseas business partners providing clients with the most intimate and timely service.

BACKLOGS

Set out below is a breakdown of the Group's closing value of backlogs (excluded VAT) and the corresponding number of contracts by business segment as at 31 December 2021:

	As at 31 December 2021			
Backlogs by business segment	**Number of contracts**	**%**	**RMB'000**	**%**
Liquid and Bioprocess System	**398**	**24.7%**	**805,162**	**50.6%**
Clean Room and Automation Control and Monitoring System	**208**	**12.9%**	**384,378**	**24.1%**
Powder and Solid System	**257**	**16.0%**	**164,893**	**10.4%**
GMP Compliance Service	**92**	**5.7%**	**108,454**	**6.8%**
Distribution and Agency of Pharmaceutical Equipment	**654**	**40.7%**	**129,829**	**8.1%**
Total	**1,609**	**100.0%**	**1,592,716**	**100.0%**

PRODUCTION, EXECUTION AND ORGANISATION

The facility of Austar UK Limited, a wholly-owned subsidiary of the Group, at Huddersfield, West Yorkshire, UK was accredited by ISO9001 authority in early 2021 with some more space extension for accommodating more staff and assembly/testing. Under the strong leadership of the management of Austar UK Limited, the Group is confident that the team in UK is able to support the Company's ambition in global expansion by offering a solid product development and manufacturing platform in Europe. H+E Pharma GmbH ("**H+E Pharma**"), the Group's majority-controlled subsidiary, at Stuggart, Germany was able to consolidate the service and spare part businesses, which was carved out from Hager+Elsasser, to serve European clients directly by an independent service team situated in Germany. H+E Pharma has been successful in securing relatively good orders on water purification equipment and systems from reputed European clients in 2021, and its wholly-owned subsidiary, a manufacturing arm of H+E Pharma, has been busy in building up its capacity and competence to keep up with the momentum of order-in-take. In the China region, the Group has improved its production management organisation and integrated all production sites in the regions of Shanghai, Shijiazhuang and Nanjing under one leadership team, which will facilitate the progress of resources integration, technology process optimisation and realise the standardisation of production quality.

The Group's new manufacturing facility in Shanghai of an aggregate gross area of approximately 31,200 square metres is under construction and is expected to become operational in the second quarter of 2022. This expansion strategy is in line with our expected growth in equipment and system sales and it is believed to be able to meet the growth demand in the coming 5 years. Overall upgrading of manufacturing conditions will provide more space for new product research and manufacturing, and offer opportunities for improvement, including production management process and quality management; and it can be further improved through enhancing the digitalisation tools and optimising the key production processes in the new facility. A new manufacturing centre located in Nanjing, the People's Republic of China (the "**PRC**") focusing on design and manufacturing of freeze-drying equipment integrated with automatic loading systems and sterile containment isolators, has commenced operations since the last quarter of 2020. With this new facility at Nanjing, all types and models of freeze-dryers currently required in the market can be produced and tested at this site.

A new lyophilization laboratory in the Nanjing manufacturing centre is equipped with all necessary process optimisation instrument and equipment. With this laboratory and our world-class process specialists, we are able to help clients through our training, testing and consulting services to solve issues in freeze-drying process development which typically affect protein drug stabilities. A new equipment manufacturing facility at Shijiazhuang, the PRC of an aggregate gross area of approximately 24,000 square metres, is under construction and is scheduled to be completed in the second quarter of 2022. With this expansion, the growth paths of the Group's Powder and Solid System business and Clean Room and Automation Control and Monitoring System business in the coming few years will not be hindered by space. In the Group's existing facility in Shijiazhuang, a laser welding machine, for the welding of thin plates, was introduced and has largely increased working efficiency and quality.

The LEAN-based AUSTAR Production System (APS) has been under continuous improvement and development. Its relevant targets and action plans have been worked out and are now under execution step by step. These APS concepts and practices will be utilised by the Group's other manufacturing sites once they have been proven successful. A series of improvement implementations have been taken in the form of LEAN operation, quality control (IQC, PQC and OQC), Andon System, working time system, project material checking and KPI tracking systems. We believed that the continuous improvement of working efficiency and product quality will bring about clear benchmarks and constructive action items to be set as guiding principles. Due to the increasing project volume and extremely short delivery time of COVID-19 vaccine projects, the Group's Project Execution Centre has overcome lots of challenges in 2021 to meet with clients' expectations. The team keeps improving operation efficiency through using tools of value stream analysis and Just-In-Time standardisation, project management platform informatisation, the visualised site installation videos, execution procedure simplification, documentation system and equipment component standardisation, which largely increased project execution efficiency. Improvement in design methodologies, site management practices and software tools, and LEAN management has helped the Project Execution Centre to shorten the lead time and improve project quality. As clients tend to request more integrated solutions, the packages of equipment and systems have become more sophisticated and complex, requiring more mature project management team skills and knowledge to handle. Remote factory acceptance tests and remote client's site acceptance tests with some innovative ideas and creative tools have been implemented during the lockdown travel restrictions, which will be helpful in the near future saving travel time and costs from clients, and the Group would be able to offer the same quality of testing and qualification results as face-to-face presence on-site. The technical teams of the Project Execution Centre are proactively engaging their training and learning process with front-end proposal solution teams, that a recent successful project acquisition of a recombinant coagulation factor process system of blood bioproducts demonstrated a seamless cooperation between the two teams.

In the area of the automation execution, the team promoted highly efficient programming mode using excel for the batch generation of SCL source codes for the batch generation of programs. This greatly reduced the software programming cycle and error rate, and at the same time improved the utilisation of resources of clients and lowered the operational cost. Following the new PRC Drug Administration Law, the team also revised or prepared the quality system documents based on the specifications on contract manufacturing and market authorization holder system to meet the requirements on complete independent quality systems for the market authorization holders and the drug manufacturers.

SALES AND MARKETING

As reflected from the spike in sales order-in-take in the year 2021, the sales team has demonstrated its strength and resilience. 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.

In 2021, the reorganisation of sales teams among different business segments was planned to establish a biological and chemical drug sales team respectively in the China region, which became effective in January 2022. Such arrangement, focusing on key account clients and specific industrial sectors, would be helping to better understand the clients' needs and market intelligence.

In China, through years of sales talent and organisation development, the Group's sales process is relatively mature. The China sales team is led by key account managers, and supported by specific matter experts and technology application team for technical expertises and proposal preparation and presentation.

For global expansion, we have been gradually building up the team according to execution strategies, as in the last few years, the European and Southeast Asia teams were recruited to take care directly the related sales leads and enquires. 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 near future after the COVID-19 pandemic has subsided.

To be in line with the Group's global expansion strategy, the Group carried out different kinds of marketing activities to facilitate this process of increasing AUSTAR brand awareness. During the Year, the Group organised 29 events worldwide, 22 offline events were organised in China in the form of expo, seminar, industry meeting, together with workshops with Bio-Bay and Design constitutions to share the up-to-date technology solutions and products. AUSTAR brand awareness is increasing steadily within the European market, which has been aided through 2021 by our attendance at trade shows such as Making Pharmaceuticals Coventry UK, Bio Expo Istanbul, Turkey, CPhI & PMEC Worldwide in Milan, Italy and ISPE Manchester, UK.

Over 260 business news and technical articles were released on the Group's social media platforms (WeChat, LinkedIn, Twitter, Facebook etc.) to update recipients on the Group's business progress. The Group established its first video account in WeChat to share short videos of projects, products, and events; 15 videos were released in 2021 with very positive feedback. 85 online webinars were organised to share technology solutions and knowledge with clients in different countries and regions. We believe digital marketing is an effective approach for business promotion and communication, especially during the pandemic period.

Continuous accumulation of new tools and timely updating of existing materials are the foundation for quick response to various business needs. Videos for key projects and brochures for new products and technology were established and shared in the resource centre on the Group's official website, with less hardcopies being produced and more e-copies being used, we believe it is an efficient and environmental way for clients to receive the most up-to-date materials. Our H+E Pharma website in the German language was launched to better support business growth in German-speaking countries.

A new service brand and a set of freeze-dryer product brands were added into our brand portfolio; under the 12 technology applications of the Group, more specific business and product brands will join our brand family.

Special promotion has been done to celebrate the Group's 30th anniversary, the first Group corporate image promotion video was produced and shown in international expos, helping clients worldwide to better understand the Group's key application technologies, core values and visions with positive feedback and comments; a 30th anniversary memory book which highlighted the Group's historical achievements and voices from clients and staff was created to commemorate the event.

RESEARCH AND DEVELOPMENT

As at 31 December 2021, the Group has obtained 287 patents. During the Year, the Group obtained 63 registered patents, and applications for 89 patents are currently in progress.

The Group's automation engineering team has been developing a set of flexible control systems with batch control functions and batch record reports for both small-scale API and biopharma process system projects to meet the needs of different clients. The traditional solution, was to use dedicated batch software, being sophisticated and powerful but expensive and difficult for clients to accept for small scale or low-budget projects. This newly developed control system can greatly reduce the cost and increase the flexibility of its system operation. The Group has also upgraded the visual design specifications of the Human Machine Interface (HMI). Comparing with traditional workstation HMI interface design, project execution efficiency is improved and function is made more user friendly, which largely improved customer satisfaction.

Process equipment for APIs like filter-dryers and vacuum cone mixer/dryers are under continuous improvement development supported by specialist consultants. More standardised models and function performance improvement of mechanical mills for both APIs and OSD form drugs are in R&D progress. A 500 kg big-batch wet granulation and fully integrated system for OSD was developed to meet the strong demand in the market for cost-effective solutions as requested by our clients who are facing price pressure due to the governmental volume-based procurement policy. Acquired projects with robots and automatic guided vehicles (AGVs) equipped in the integrated systems allow our technical teams opportunities to apply the most advanced material handling tools in the conventional OSD sector.

A co-axial mixing device for high viscosity and high shear force applications is under our development program. This device will be used to integrate into our equipment and systems for formulation preparation of especially high viscosity drug products.

One set of ILC (In-line conditioning) machine has been developed and built up in 2021. It has a wide application in mAbs (monoclonal antibodies) process; with this technology it can save the capital investment, facility space and operation costs.

In terms of water purification technology, the Group has successfully built a membrane integrated high-purity water equipment. The membrane integrated water treatment process is a water treatment process that combines different membrane processes such as ultrafiltration, microfiltration, reverse osmosis, and electrodeionisation (EDI) to achieve the purpose of efficient removal of pollutants and deep desalination. The purified water by the full membrane method can be directly used in medical devices, laboratories, animal houses under the present regulatory policies in China and can be directly used for pharmaceutical applications in the international market. It has a wide range of market prospects.

The Group partnered with a reputed university in China to conduct analysis, simulation and evaluation in the area of "energy consumption simulation", "cleanliness redundancy control technology based on Internet real-time monitoring" and "computer room group control technology". Such partnership with the Group's contribution by its industry knowledge and experience can help pharmaceutical clients achieve higher ranking of environmental, social and governance (ESG) and efficient energy-cost-operation.

The Group developed alternative pharmaceutical clean room 100mm panels in 2021 and is able to allow clients with more choices and flexibilities in clean room engineering solutions. After the Group's successful launch of the autoclavable cleanroom garment, the disposable cleanroom garment has been successfully marketed at the end of 2021. It is expected that the product will be widely used by clients of CMOs (Contract Manufacturing Organizations), CAR-T enterprises, and COVID-19 vaccine manufacturers with high production capacity requirements. In addition, the R&D of sterile presaturated wipes (無菌預浸漬抹布) and sterile latex gloves are in progress.

Works have been done by the Group on the development of aseptic rapid transferring technology and corresponding consumables. This technology and the corresponding consumables will complete the comprehensive solutions in the field of aseptic transfer, ensure the compliance of pharmaceutical enterprises in the future, and maintain technological leadership.

With the help of an advanced HMI and hardware manufacturing experience, the launch of BIOSYSTEC bioreactor system has enhanced the Group competitiveness in the core equipment of biopharmaceutical research and development sector.

The development of a new generation of automatic lyophilization loading equipment with advanced technology is under progress. This new technology is expected to solve the clients operation issues in the area of sterility risk control.

The Austar UK team has deployed some new manufacturing tools like 3-D printing to improve cost-effectiveness and development pace.

PROSPECTS

The Group's global expansion initiative will be one of the key drivers for growth in the coming years. The technology and knowledge gained through significant amount of project execution from small scale to huge scale projects in China can contribute to brand recognition and high chances of project acquisition in emerging countries.

The Group's service business ranging from consulting to facility management services has its service scope and diversity developing rapidly and the service business volume gaining a significant growth in the last several years and it is expected that the service business will continue to grow to support more balance on scope of offerings to avoid the Group's sustainability to become too reliant on clients' CAPEX investment.

Apart from our core sector, in the biopharma sector of the life science industry, more and more clients in industrial sectors like medical devices, diagnostics, animal health and laboratory animal research are engaging the Group from facility and process design to equipment, systems, and consumables. The Group's growth opportunities are not only focusing on the booming sector like cell and gene therapies but also on those industrial sectors as mentioned above.

Since the establishment of the Group, the business focus has been on commercialised facilities in our client product life cycle. The Group's success in the research sector of life sciences with more and more project acquisition are attributed to a strategy of more research laboratory products and services being able to make offerings. More and more Contract Research Organization (CRO) and CDMO clients are contributing to the Group's revenue.

The Group has been developing 12 technology applications in our competence and knowledge model and individual specific technology application teams are being gradually established step by step in the following 2 to 3 years. 11 technology application teams were established, namely Pharmaceutical Automation & Digitalization, Cleaning, Sterilization & Disinfection, Clean Utilities, Biopharma Process and Technology, Containment Technology, Cleanroom/HVAC/EMS/BMS, Filling & Freeze-drying, Biosafety Technology and Facilities, Lab & Quality, Pharmaceutical Formulation Technology, and Regulatory Compliance & Operation Excellence, 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.

Liquid and Bioprocess System

Following the impact brought by the COVID-19 pandemic and the eagerness for vaccine, the order-in-take increased to a historic level; the expected extremely short delivery times of these projects pushed the Group to be more flexible in the management process and to evolve accordingly to adapt the Group to deal with such emergency occasions.

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

Opportunities for advanced therapeutics and medicine in China could be felt everywhere in the last two years. It is believed that the enthusiasm on breakthrough and prospects on R&D from policy regulators, scientists, entrepreneurs and investors has created a vibrant market of vendors and suppliers providing resources, technologies, equipment and systems like AUSTAR. Our recent orders in the Year from the key cell and gene therapy companies have restrengthened our confidence in our capacities in this sector. The talents and knowledge acquisition with fast learning skills and innovative solutions are important for this new dynamic sector.

Powder and Solid System

The Group's knowledge of automation control and information systems is making contributions on the growth of the powder and solid system engineering business as the industry is now under urgent need for automation and digitalisation change process. Such distinguished technical core competence of digitalisation applications can help this business segment to offer cliche solutions in the highly competitive equipment and system market.

To improve the quality and yield of drugs, API companies pay 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 of API companies.

The increasing importance of civil health since the COVID-19 pandemic would accelerate the revolution of healthcare and life sciences industries and bring business opportunities to the Group. Under the influence of China's national centralised volume-based procurement policy, most qualified and capable successful bidders in China has increased their CAPEX investment in drug R&D, and will bring more opportunities to laboratory-scale equipment and imported production equipment.

The business extension from formulations to API manufacturing, and the business extension from existing API to formulations manufacturing is still 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 the Powder and Solid System business segment securing orders. This modular technology would be one of the key technologies for API manufacturing in the coming years. The core competence of this business would be accelerated by its application of automated devices like robots and AGVs integrated by automation control system together with customer-made 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 this business segment to grow.

The business extension from CRO to CDMO, from CMO to CDMO, and conventional pharmaceutical companies to CDMO will continue to develop following the development trend of the previous year. Due to the lack of talents for pharmaceutical engineering projects, such companies are more inclined to choose integrated solutions from regulations, design, process, equipment, etc., and will bring greater business opportunities for the Group. The Powder and Solid System business segment which integrates data, control, equipment will also become the first choice for highly toxic and active customers. The demand for projects seeking profit margin improvement from automation upgrading, continuous manufacturing and streamlined production system has grown rapidly. The development of innovative drugs will bring about more CAPEX investment. The pharmaceutical market will be further optimised with more sophisticated and advanced APIs and OSD facilities to be built.

The demand for high toxic/potent drugs is still increasing, and hormones manufacturers have started to 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.

With the deepening of the requirements of environmental, health and safety (EHS) regulations, the choice of safe, healthy and environmental protection solutions is the primary choice for clients. The Group's containment technology, explosion-proof and intelligent solutions have brought good feedback with significant order-in-take increase in the Year, and have laid a good foundation for future development.

Clean Room and Automation Control and Monitoring System

Relying on the Group's high-standard Heating Ventilation and Air Conditioning (HVAC), Building Management System (BMS) and Environmental Monitoring System (EMS) and verification technology and high-quality clean panels, the Clean Room and Automation Control and Monitoring System business segment keeps providing integrated service solutions for high-end clients. The business segment will cover more life sciences sectors such as animal research laboratories, medical device facilities, OSD workshops and soft capsule workshops. Through the integration of technical competence of HVAC and sterilisation technology, automation controls, and informatisation management, the business segment aims to be a turnkey solution provider integrating engineering design, equipment and systems, site installation and Good Engineering Practice (GEP) project management.

Utility automation has recorded a steady growth in the Year and the Group has maintained a competitive advantage in the field of sterile preparations, and its market share in human vaccines has further increased. Projects for cell therapy clients were acquired.

The demand for local software has increased in the China market because of expectations on better service quality, higher software flexibility and lower costs. Apart from partnering with world-class companies, AUSTAR started a few years ago to prepare the Group in terms of organisation and knowledge to be able to have its self-developed software for some specific small-scale project cases. The first large-scale API factory construction project using self-developed information system is expected to be delivered by the end of 2022.

The business segment aims to provide pharmaceutical companies with full life cycle digital solutions from digitalisation strategy consulting to digitalisation application implementation and after-sales service through working with industry leading partners and experience accumulation. A REMOIIS platform was established to offer unique, flexible, and versatile solutions. Integrating automation control and informatisation capabilities to facilitate pharmaceutical companies to build world-class informatised research and manufacturing enterprises with multifunctional, multi-products and modular design concept. Based on the "intelligent factory software and hardware integration" solution, with the industrial internet cloud platform as the core carrier and linking world-leading technical partners to form a new manufacturing ecology of "smart manufacturing + cloud", the Clean Room and Automation Control and Monitoring System business segment has a vision to become an industry leader in the intelligent pharmaceutical research and manufacturing operation information system in Asia.

GMP Compliance Service

The GMP Compliance Service business segment is divided into three sections: compliance consultancy, engineering consultancy and operation consultancy. By the end of 2026, the three sections are expected to comprise 50%, 30% and 20% of the total business volume of the business segment respectively. The strategy for increasing business competitiveness and reducing risks would be to diversify its products and extending business regions.

Focusing on the projects of biological products and biosimilar products, high potency chemical products and antibody-drug conjugate products, and innovative products, the business segment will develop clients in Northeast Asia and Southeast Asia while maintaining the market share in China.

Continuous attention should be paid to GMP regulations and guidelines, especially the EU GMP Annex 1 *Manufacture of Sterile Products*, the ICH Guideline Q9 (R1) on *Quality Risk Management*, and it is expected that those policies will impact the business segment, such as the series of new regulations on drug registration and inspection in China is expected to promote the increasing demand for the compliance consultancy.

Key actions will be taken to prepare for future business growth. The application of software and cloud services will be promoted, and the quality risk management will be integrated with the compliance consultancy services. The engineering and equipment system consultancy services will be actively integrated into the Group's 12 technology applications to improve the overall competitiveness of the Group's business.

The operation excellence consultancy service will help clients improve the quality and efficiency by various kinds of methods, such as the improvement of the procedures and the application informatisation.

Life Science Consumables

Based on a 3 to 5 year business planning, the product line business of contamination control consumables of the Life Science Consumables business segment is committed to promoting the application of rapid microbial detection technology in pharmaceutical processes, building a clean process R&D platform, and carrying out intelligent clean room microbial control. After the Chinese Pharmacopoeia have released the preparation method of Water For Injection (WFI), the business segment is expected to actively promote the microbiological online monitoring technology in CMO and the CAR-T industries and make preparation for challenges that the Group may encounter.

During the Year, the cleaning process development and cleaning verification services of the Wash, Decontamination and Sterilization business have been further recognised by the industry, and more requirements for R&D of customised cleaning process equipment have been discovered. Based on the continuous improvement of cleaning process knowledge, the strategy of providing guidance to clients at the control strategy stage for customised clean process equipment is really important.

As smart factories are expected to prevail in the pharmaceutical industry, in the field of aseptic control, human contamination will be reduced, and production efficiency will be increased when intelligent robots replace the manual operation. During the Year, the business segment has completed R&D for offline environmental monitoring information management system and has formulated R&D for cleanroom disinfection robot technical route, which is a good start for intelligent contamination control.

With the maturity of the rapid transfer technology, aseptic transportation in the pharmaceutical industry will face a revolution. The requirements for its core components, rapid transfer port (RTP) and rapid transfer bag (RTB), are expected to increase dramatically. With Fosun Kite and WuXi Junuo's Car-T approval for market, it is believed that the Chinese market for advanced therapy medicinal products (ATMP) will enter a stage of rapid development, and that the ATMP production line has huge market potentials.

Lab engineering and lab IT business are closely integrated to form an intelligent solution. To promote the laboratory construction and informitisation business, digitalisation solutions are introduced during the laboratory construction design phase to form an intelligent solution.

As biopharmaceutical clients continued to increase their requirements for product quality and cost control performance, continuous manufacturing is bound to become a magic weapon for most key biopharmaceutical companies instead of conventional batch production. Therefore, whether the Group can provide a complete solution for the continuous production of biopharmaceuticals from upstream to downstream has become a struggling goal for the recent years. In the last several years with application knowledge accumulation, the Group has already equipped to support the required Process Analysis Technology (PAT) technology platform for the upstream continuous production of biopharma clients. In the next 3 to 5 years, the Group will continue to expand this technology with its application on downstream bioprocess and establish more data analysis and project cases and eventually the goal is to be able to offer a complete PAT upstream and downstream solution to our biopharma clients.

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 RMB2,015.0 million, representing an increase of approximately 55.5% over 2020, all business segments recorded increase but in particular the significant increase in revenue from the business segments of Liquid and Bioprocess System, Life Science Consumables, and Clean Room and Automation Control and Monitoring System.

The following table sets forth, for the years ended 31 December 2021 and 2020, the breakdown of the Group's revenue by business segment:

	For the year ended 31 December				
	2021		2020		Change
Revenue by business segment	**RMB'000**	**%**	RMB'000	%	%
Liquid and Bioprocess System	**882,953**	**43.8%**	588,488	45.4%	50.0%
Clean Room and Automation Control and Monitoring System	**479,706**	**23.8%**	264,436	20.4%	81.4%
Powder and Solid System	**138,293**	**6.9%**	120,525	9.3%	14.7%
GMP Compliance Service	**66,114**	**3.3%**	52,729	4.1%	25.4%
Life Science Consumables	**421,070**	**20.9%**	250,170	19.3%	68.3%
Distribution and Agency of Pharmaceutical Equipment	**26,892**	**1.3%**	19,632	1.5%	37.0%
Total	**2,015,028**	**100.0%**	1,295,980	100.0%	55.5%

Liquid and Bioprocess System

The Group's revenue from the business segment of Liquid and Bioprocess System increased significantly by approximately RMB294.5 million or 50.0% from approximately RMB588.5 million for the year ended 31 December 2020 to approximately RMB883.0 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2020 and the increase in the order-in-take in the business segment of Liquid and Bioprocess System for the Year, and high project execution efficiency with good quality in the COVID-19 vaccine projects.

Clean Room and Automation Control and Monitoring System

The Group's revenue from the business segment of Clean Room and Automation Control and Monitoring System increased by approximately RMB215.3 million or 81.4% from approximately RMB264.4 million for the year ended 31 December 2020 to approximately RMB479.7 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2020 and the increase in order-in-take in the business segment of Clean Room and Automation Control and Monitoring System during the Year, a part of which was recognised as revenue.

Powder and Solid System

The Group's revenue from the business segment of Powder and Solid System increased by approximately RMB17.8 million or 14.7% from approximately RMB120.5 million for the year ended 31 December 2020 to approximately RMB138.3 million for the Year. The increase was mainly attributable to the increase in the closing amount of backlog as at 31 December 2020 and the increase in the order-in-take in the business segment of Powder and Solid System for the Year, a part of which was recognised as revenue.

GMP Compliance Service

The Group's revenue from the business segment of GMP Compliance Service increased by approximately RMB13.4 million or 25.4% from approximately RMB52.7 million for the year ended 31 December 2020 to approximately RMB66.1 million for the Year. This was mainly driven by the increasing demand due to stricter regulations and standards in GMP on-site inspection.

Life Science Consumables

The Group's revenue from the business segment of Life Science Consumables increased by approximately RMB170.9 million or 68.3% from approximately RMB250.2 million for the year ended 31 December 2020 to approximately RMB421.1 million for the Year, which was primarily attributable to the core competence by offering a complete solution of Washing, Disinfection and Sterilization, and continuous launching of more diversified life science consumables and services with the latest technology.

Distribution and Agency of Pharmaceutical Equipment

The Group's revenue from the business segment of Distribution and Agency of Pharmaceutical Equipment increased by approximately RMB7.3 million or 37.0% from approximately RMB19.6 million for the year ended 31 December 2020 to approximately RMB26.9 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 2021 and 2020:

	For the year ended 31 December				
	2021		2020		Change
Revenue	**RMB'000**	**%**	RMB'000	%	%
Mainland China	**1,890,654**	**93.8%**	1,219,015	94.1%	55.1%
Other locations	**124,374**	**6.2%**	76,965	5.9%	61.6%
Total	**2,015,028**	**100.0%**	1,295,980	100.0%	55.5%

The Group derived its revenue mainly from customers in Mainland China, which accounted for approximately 93.8% of the total revenue for the Year (2020: approximately 94.1%).

Cost of sales

The Group's cost of sales increased by approximately RMB563.5 million or 58.0% from approximately RMB972.5 million for the year ended 31 December 2020 to approximately RMB1,536.0 million for the Year. Such increase was mainly in line with the increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB155.5 million or 48.1% from approximately RMB323.5 million for the year ended 31 December 2020 to approximately RMB479.0 million for the Year, resulted from growth in both revenue and gross profit from all business segments. The gross profit margin decreased slightly from approximately 25.0% for the year ended 31 December 2020 to approximately 23.8% for the Year, which was due to the decrease in gross profit margin from the business segments of Clean Room and Automation Control and Monitoring System, GMP Compliance Service and Life Science Consumables.

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

Gross profit and gross profit margin by business segment	For the year ended 31 December 2021 RMB'000	%	Gross profit margin %	2020 RMB'000	%	Gross profit margin %
Liquid and Bioprocess System	**143,745**	**30.0%**	**16.3%**	90,251	27.9%	15.3%
Clean Room and Automation Control and Monitoring System	**90,275**	**18.9%**	**18.8%**	57,197	17.7%	21.6%
Powder and Solid System	**41,694**	**8.7%**	**30.1%**	34,111	10.5%	28.3%
GMP Compliance Service	**28,381**	**5.9%**	**42.9%**	25,975	8.0%	49.3%
Life Science Consumables	**163,044**	**34.0%**	**38.7%**	109,351	33.8%	43.7%
Distribution and Agency of Pharmaceutical Equipment	**11,869**	**2.5%**	**44.1%**	6,645	2.1%	33.8%
Total	**479,008**	**100.0%**	**23.8%**	323,530	100.0%	25.0%

Notes:

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

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

Liquid and Bioprocess System

The gross profit from the business segment of Liquid and Bioprocess System increased by approximately RMB53.4 million or 59.3% from approximately RMB90.3 million for the year ended 31 December 2020 to approximately RMB143.7 million for the Year. The gross profit margin from the business segment of Liquid and Bioprocess System increased from approximately 15.3% for the year ended 31 December 2020 to approximately 16.3% for the Year, mainly attributable to innovative methodologies to shorten the lead time and the site construction time.

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 RMB33.1 million or 57.8% from approximately RMB57.2 million for the year ended 31 December 2020 to approximately RMB90.3 million for the Year. The gross profit margin from the business segment of Clean Room and Automation Control and Monitoring System decreased from approximately 21.6% for the year ended 31 December 2020 to approximately 18.8% for the Year, which was primarily due to the keen market competition in the product lines of Clean Room and Automation Control and Monitoring System, and the Group undertook several projects with lower gross margin for the Year. The Group will continuously make better control over cost management through implementing LEAN-based manufacturing management.

Powder and Solid System

The Group's gross profit from the business segment of Powder and Solid System increased by approximately RMB7.6 million or 22.2% from approximately RMB34.1 million for the year ended 31 December 2020 to approximately RMB41.7 million for the Year. The gross profit margin from the business segment of Powder and Solid System increased from approximately 28.3% for the year ended 31 December 2020 to approximately 30.1% for the Year, primarily attributable to the improved product manufacture and project execution efficiency.

GMP Compliance Service

The Group's gross profit from the business segment of GMP Compliance Service increased by approximately RMB2.4 million or 9.3% from approximately RMB26.0 million for the year ended 31 December 2020 to approximately RMB28.4 million for the Year. The gross profit margin from the business segment of GMP Compliance Service decreased from approximately 49.3% for the year ended 31 December 2020 to approximately 42.9% for the Year, which was mainly due to the undertaking of projects with a relatively lower gross profit in light of the keen market competition for the Year. The Group will keep on providing high quality service and improving cost control management.

Life Science Consumables

The Group's gross profit from the business segment of Life Science Consumables increased by approximately RMB53.6 million or 49.1% from approximately RMB109.4 million for the year ended 31 December 2020 to approximately RMB163.0 million for the Year. The gross profit margin from the business segment of Life Science Consumables decreased from approximately 43.7% for the year ended 31 December 2020 to approximately 38.7% for the Year, which was partly due to the increase of lower margin business of laboratory instruments and engineering and lower margin orders from some strategic clients.

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 RMB5.3 million or 78.6% from approximately RMB6.6 million for the year ended 31 December 2020 to approximately RMB11.9 million for the Year. The gross profit margin from the business segment of Distribution and Agency of Pharmaceutical Equipment increased from approximately 33.8% for the year ended 31 December 2020 to approximately 44.1% for the Year, which was mainly due to higher portion of high-margin services of the business.

Other income

Other income decreased by approximately RMB1.7 million or 21.3% to approximately RMB6.3 million for the Year from approximately RMB8.0 million for the year ended 31 December 2020, mainly due to the decrease in the subsidies granted by local government authorities of the PRC in the Year.

Other gains – net

Other gains-net increased by approximately RMB189.8 million to approximately RMB196.8 million for the Year from approximately RMB7.0 million for the year ended 31 December 2020, mainly attributable to the one-off net gain from the disposal of 60% equity interest in PALL-AUSTAR JV of approximately RMB199.0 million, but partially offset by the decrease from currency exchange losses from retranslation of foreign currency denominated trade related balances.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB21.6 million or 14.5% to approximately RMB170.3 million for the Year from approximately RMB148.7 million for the year ended 31 December 2020. The increase was mainly due to the increase in the staff costs, warranty provision and depreciation of right-of-use assets by the total amount of approximately RMB32.3 million, but partially offset by the decrease in the marketing promotion expenses, professional fees and freight and port charges by the total amount of approximately RMB7.6 million.

Administrative expenses

Administrative expenses increased by approximately RMB29.4 million or 29.8% to approximately RMB128.1 million for the Year from approximately RMB98.7 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in the staff costs, travel expenses, impairment of inventories and professional fees by the total amount of approximately RMB32.1 million, but partially offset by the decrease in convention service expenses, depreciation of right-of-use assets and technical service fee by approximately RMB2.3 million.

Research and development expenses

As at 31 December 2021, the Group had 45 research and development personnel which accounted for approximately 2.8% of the Group's total number of employees. The Group cooperated with well-known academic institutions in order to upgrade the Group's technology level. The Group's research and development expenses increased by approximately RMB17.3 million or 35.9% to approximately RMB65.6 million for the Year from approximately RMB48.3 million for the year ended 31 December 2020, mainly due to the increase of staff costs and materials utilised in more research projects. The Group will make continuous efforts to enhance research and development activities.

Finance (cost)/income – net

The Group recorded a net finance income of approximately RMB0.3 million for the year ended 31 December 2020 and recorded a net finance cost of approximately RMB3.3 million for the Year, mainly due to the decrease of interest income of approximately RMB1.6 million, and the increase of interest expense of approximately RMB2.0 million 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 increased by approximately RMB0.2 million, from approximately RMB10.5 million for the year ended 31 December 2020 to approximately RMB10.7 million for the Year, primarily due to the increase in profit contribution from the associates, ROTA Verpackungstechnik GmbH & Co.KG and ROTA Verpackungstechnik Verwaltungsgesellschaft GmbH and the joint venture PALL-AUSTAR JV which was disposed in March 2021, and partially offset by the decrease in profit contribution from the joint venture, STERIS-AUSTAR Pharmaceutical Systems Hong Kong Limited.

Profit before income tax

Profit before income tax increased substantially by approximately RMB277.7 million to approximately RMB319.2 million for the Year from approximately RMB41.5 million for the year ended 31 December 2020, which was primarily due to the factors as described above in this section.

Income tax expense

Income tax expense increased by approximately RMB36.7 million, from approximately RMB9.9 million for the year ended 31 December 2020 to approximately RMB46.6 million for the Year, which was mainly due to the increase of profit before income tax of approximately RMB277.7 million.

Profit for the year

Profit for the year increased substantially by approximately RMB241.0 million to approximately RMB272.6 million for the Year from approximately RMB31.6 million for the year ended 31 December 2020, 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	
	2021	2020
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(103,451)**	52,224
Net cash generated from/(used in) investing activities	**65,022**	(59,806)
Net cash generated from/(used in) financing activities	**59,349**	(5,513)
Net increase/(decrease) in cash and cash equivalents	**20,920**	(13,095)

For the Year, the Group had net cash used in operating activities of approximately RMB103.5 million mainly attributable to:

i. the profit before income tax for the year of approximately RMB319.2 million, eliminated the gains on disposal of a joint venture of approximately RMB199.0 million, plus the depreciation of property, plant, equipment and right-of-use assets in total of approximately RMB27.9 million and the amortisation of intangible assets of approximately RMB3.7 million;

ii. the increase in contract liabilities of approximately RMB144.5 million, and trade and other payables of approximately RMB124.9 million; and

iii. partially offset by the increase in contract assets of approximately RMB146.1 million, inventories of approximately RMB222.7 million, restricted cash of approximately RMB44.4 million, trade and other receivables of approximately RMB113.0 million.

For the Year, the Group had net cash generated from investing activities of approximately RMB65.0 million, which was mainly attributable to:

i. proceeds from disposal of the Group's 60% equity interest in the joint venture, PALL-AUSTAR JV, of approximately RMB185.4 million; and

ii. partially offset by purchasing of property, plant, equipment, intangible assets and land use right in total of approximately RMB115.9 million; and the increase in term deposits with initial terms of over three months of approximately RMB21.1 million.

For the Year, the Group had net cash generated from financing activities of approximately RMB59.3 million mainly due to the proceeds from borrowings of approximately RMB109.1 million but partially used for the repayments of borrowings of approximately RMB30.0 million, principal elements of lease payments of approximately RMB15.4 million and interest paid of approximately RMB4.4 million.

As at 31 December 2021 and 31 December 2020, the Group had cash and cash equivalents of approximately RMB198.4 million and RMB177.9 million respectively, and balances of pledged bank deposits under the current assets were approximately RMB172.3 million and RMB127.9 million respectively, and term deposits with initial terms of over three months of approximately RMB21.3 million and RMB0.2 million respectively.

Net current assets

The Group's net current assets as at 31 December 2021 had increased by approximately RMB243.4 million, from approximately RMB283.6 million as at 31 December 2020 to approximately RMB527.0 million as at 31 December 2021.

As at 31 December 2021, the Group's total current assets amounted to approximately RMB1,663.2 million, which was an increase of approximately RMB573.9 million as compared with approximately RMB1,089.3 million as at 31 December 2020. The increase was primarily attributable to:

i. the increase in contract assets of approximately RMB139.8 million, inventories of approximately RMB214.1 million, pledged bank deposits of approximately RMB44.4 million, trade and notes receivables of approximately RMB16.9 million, and prepayment and other receivables of approximately RMB117.2 million, which was mainly attributable to the fast business expansion during the Year; and

ii. the increase in cash and cash equivalents of approximately RMB20.5 million.

As at 31 December 2021, the Group's total current liabilities amounted to approximately RMB1,136.2 million, which was an increase of approximately RMB330.5 million as compared with approximately RMB805.7 million as at 31 December 2020. The increase was primarily due to the increase in contract liabilities of approximately RMB144.5 million, trade and other payables of approximately RMB159.0 million, short-term borrowings of approximately RMB24.8 million, but partially offset by the decrease from the lease liabilities of approximately RMB2.7 million.

Borrowings and gearing ratio

As at 31 December 2021, the total short-term interest-bearing bank borrowings amounted to RMB54.8 million. The secured short-term bank borrowings amounted to RMB20.0 million and bear interest rate of 4.57% per annum (2020: 4.57% per annum), and the guaranteed short-term bank borrowings amounted to RMB34.8 million and bear interest rates range from 3% to 5% per annum (2020: 3.65% per annum). The long-term bank borrowings amounted to RMB54.3 million and bear interest rates of 4.65% and 4.75% per annum (2020: Nil).

The Group's gearing ratio is approximately 16.4% as at 31 December 2021 (31 December 2020: 12.7%). 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 2021, in addition to pledged bank deposits of approximately RMB172.3 million, the Group had buildings and right-of-use assets having a total carrying amount of approximately RMB5.0 million and approximately RMB71.1 million respectively (31 December 2020: approximately RMB5.6 million and approximately RMB5.2 million respectively) and construction in progress having a carrying amount of approximately RMB85.0 million (31 December 2020: Nil) which are pledged as security for short-term bank borrowings and long-term bank borrowings with carrying amount of approximately RMB74.3 million (31 December 2020: approximately RMB20.0 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2021 (31 December 2020: Nil).

HUMAN RESOURCES

As at 31 December 2021, the Group had 1,582 full-time employees for research and development, sales and marketing, administration, project management and execution and manufacturing, increased by 178 employees as compared to the number of employees as at 31 December 2020. The employee costs (including the Directors' remuneration) were approximately RMB414.4 million for the Year, which was an increase of approximately 34.2% as compared with approximately RMB308.8 million for the year ended 31 December 2020.

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, 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.

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 2021 amounted to approximately RMB101.4 million, which was mainly from the unpaid commitment of construction of the new facility in Shanghai and Shijiazhuang, which are currently in progress.

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

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

The Disposal constituted a major transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), and was approved by the written approval from the controlling shareholder of the Company, Standard Fortune Holdings Limited, in lieu of holding a general meeting. For details of the Disposal, please refer to the announcement of the Company dated 15 February 2021 and the circular of the Company dated 23 March 2021.

The final consideration in respect of the Disposal was approximately US$34.4 million. The completion of the Disposal took place on 31 March 2021. Upon completion, the Group ceased to have any equity interest in PALL-AUSTAR JV.

Save as disclosed above, there were no other 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	59	Chairman and Chief Executive Officer
Mr. Ho Kin Hung	64	Executive Director
Mr. Chen Yuewu	55	Executive Director
Madam Zhou Ning	49	Executive Director
Non-executive Director		
Madam Ji Lingling	39	Non-executive Director
Independent Non-executive Directors		
Mr. Cheung Lap Kei	50	Independent non-executive Director
Madam Chiu Hoi Shan	45	Independent non-executive Director
Mr. Leung Oi Kin	47	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**") (**何國強**), aged 59, is the founder of the Group and was appointed as a Director on 9 January 2014 and became an executive Director with effect from 20 June 2014. He is the chairman of the Board and the chief executive officer of the Company. Mr. Mars Ho is also the chairman of the nomination committee of the Board ("**Nomination Committee**") and a member of the corporate governance committee of the Board ("**Corporate Governance Committee**"), and a director of certain subsidiaries of the Company. He is responsible for overseeing the business, corporate strategy and long-term planning all-round development of the Group. Mr. Mars Ho has over 35 years of experience in the pharmaceutical industry. Prior to founding the Group, Mr. Mars Ho worked as an assistant manager in the Pharmaceutical Equipment Department of Sun Hung Kai (China) Limited* from June 1985 to April 1988, where he was responsible for marketing of pharmaceutical equipment. Sun Hung Kai (China) Limited* was primarily engaged in a number of businesses, including property development, hotels, infrastructures, telecommunications and property management. From May 1988 to October 1990, he worked as a sales manager of Pharmaceutical and Chemical Industry for Leybold Limited (Hong Kong), where he was primarily responsible for the sales and marketing of products in the pharmaceutical, chemical and vacuum coating industries. Leybold Limited (Hong Kong) was primarily engaged in vacuum technology, vacuum process engineering, measuring and analytical technology. Mr. Mars Ho also worked as a sales manager for China Fen Hin Industrial Co., Ltd from November 1990 to April 1991 where he was responsible for managing and supervising the sales department and designing marketing plans. China Fen Hin Industrial Co., Ltd was engaged in the export and wholesale of Chinese medicine and health products. Since 1991, Mr. Mars Ho started his own business of an equipment agent company. Through co-operating with various reputable companies and by founding various pharmaceutical related companies, Mr. Mars Ho has been exposed in different aspects of the pharmaceutical industry. Mr. Mars Ho has also been serving some of the multinational pharmaceutical companies clients and pharmaceutical research institutes and manufacturers in the PRC. His technical knowledge has been acquired from his execution of projects and business with various partners over the past decades.

** For idenitifcation purpose only*

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

Mr. Ho Kin Hung ("**Mr. Ho**") (何建紅), aged 64, joined the Group on 20 August 2003. He was appointed as a Director on 9 January 2014 and became an executive Director with effect from 20 June 2014. Mr. Ho is also a director of two subsidiaries of the Company. He is responsible for overall management of operations and sales of the Group. Mr. Ho has over 40 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Ho worked as a marketing executive at China Fen Hin Medicine Co., Ltd from February 1981 to January 1992, where he was responsible for marketing. China Fen Hin Medicine Co., Ltd was primarily engaged in the export and wholesale of Chinese medicine and health products. He obtained a higher diploma in China trade awarded jointly by the Hong Kong Management Association and the Institute of Research on Economics of SEZs, Hong Kong and Macau Jinan University, China in October 1987. Mr. Ho is a director of True Worth Global Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Chen Yuewu ("**Mr. Chen**") (陳躍武), aged 55, joined the Group on 1 August 2005 and was appointed as an executive Director with effect from 20 June 2014. He is also a member of the risk management committee of the Board ("**Risk Management Committee**") and a director of a subsidiary of the Company. Mr. Chen is responsible for overall management of operations and managing technology centre of the Group. Mr. Chen has over 30 years of experience in the pharmaceutical industry. Prior to joining the Group, he worked as a production manager at 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) from September 1990 to March 2000 where he was responsible for managing the engineering department and the production department. 河北聯合製藥有限公司 (Hebei Union Pharmaceutical Company Limited*) was engaged in pharmaceutical production. Mr. Chen 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.

** For idenitifcation purpose only*

Madam Zhou Ning ("**Madam Zhou**") (**周寧**), aged 49, joined the Group on 10 April 2014 and was appointed as an executive Director with effect from 20 June 2014. She is also the chairlady of each of the Corporate Governance Committee and the Risk Management Committee and a member of the remuneration committee of the Board ("**Remuneration Committee**"). Madam Zhou is also a director of certain subsidiaries of the Company. She is responsible for overall management of operations and internal control of the Group. Madam Zhou has over 15 years of experience in the pharmaceutical industry. Prior to joining the Group, Madam Zhou worked as project manager at 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) from July 1995 to December 1999, where she was responsible for the operations of international exhibitions. 北京國際經濟技術公司 (Beijing International Economics and Technology Co., Ltd*) is a subsidiary of 北京市貿促會 (China Council for the Promotion of International Trade Beijing Sub-council*), which was engaged in the promotion of international trade and exchange of technology between different countries and the PRC, and a sub-council of 中國國際貿易促進委員會 (China Council for the Promotion of International Trade*). Before joining the Group in April 2014, from November 2005 to February 2014, Madam Zhou had been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting the coordination and communication of different business segments, and as the chief financial officer, where she was responsible for procurement and financial matters. Madam Zhou graduated with a bachelor's degree of arts from 北京師範大學 (Beijing Normal University*) in China in June 1995 and a master's degree in business administration from 北京大學 (Peking University*) in China in January 2006.

NON-EXECUTIVE DIRECTOR

Madam Ji Lingling ("**Madam Ji**") (**季玲玲**), aged 39, was appointed as a non-executive Director with effect from 20 June 2014, on which she joined the Group. She is also a member of each of the audit committee of the Board ("**Audit Committee**") and the Risk Management Committee. Madam Ji is a qualified lawyer in the PRC and has over 15 years' experience in legal compliance. Prior to becoming the chairman's assistant in 2005, she worked as a sales assistant in 北京啟迪世紀通訊技術有限公司 (Beijing Unismobile Communication Technology Co*) which is a company engaged in the research and development of communication and computer products from May 2004 to July 2005. Since July 2005, Madam Ji has been employed by a company controlled by Mr. Mars Ho, the chairman of the Board, an executive Director, the chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, as an assistant to Mr. Mars Ho, assisting him in overseeing all legal matters. Madam Ji graduated from 中國人民大學 (Ren Min University of China*) in China with a bachelor's degree in laws in July 2004 and from 北京大學 (Peking University*) in China with a master's degree in laws in January 2012 respectively. Madam Ji also obtained the Master of Laws degree from Temple University of the United States in November 2017.

** For idenitifcation purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Lap Kei ("**Mr. Cheung**") (張立基), aged 50, was appointed as an independent non-executive Director with effect from 21 October 2014. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over 27 years of experience in auditing and accounting field. Mr. Cheung worked as an audit assistant for George Yau & Co, a certified public accountants' firm from May 1994 to February 1996. From December 1996 to December 1998, he worked as a staff accountant for Ernst & Young. He worked for KPMG from October 1999 to January 2005. By the time he left KPMG, he was a manager. Both Ernst & Young and KPMG are certified public accountants' practice offering a variety of professional services including audit and assurance, consultancy, corporate finance and tax. Mr. Cheung served as the group financial controller, qualified accountant and company secretary of China Ruifeng Renewable Energy Holdings Limited (Stock code: 527) from February 2005 to January 2008. He served as the chief financial officer, qualified accountant and company secretary of United Photovoltaics Group Limited (now known as Beijing Energy International Holding Co., Ltd.) (Stock code: 686) from July 2008 to January 2009. He served as chief financial officer and company secretary of China Zhongwang Holdings Limited (Stock code: 1333) from December 2008 to June 2016. He served as executive director, chief financial officer and company secretary of Wan Kei Group Holdings Limited (Stock code: 1718) from January 2017 to January 2018. He served as chief financial officer of Orient Victory Travel Group Company Limited (Stock code: 265) from December 2018 to August 2019. He joined Agile Group Holdings Limited (Stock code: 3383) since September 2019. He is the deputy general manager (Hong Kong Headquarter) and company secretary of Agile Group Holdings Limited. The shares of all of the above companies are listed on the Main Board of the Stock Exchange. Mr. Cheung received a bachelor's degree in commerce from The Australian National University in Australia in September 1994, and a master's degree in business administration from Deakin University in Australia in August 2006.

Madam Chiu Hoi Shan ("**Madam Chiu**") (趙凱珊), aged 45, was appointed as an independent non-executive Director with effect from 21 October 2014. She is also the chairlady of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee. Madam Chiu obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in December 1998 and June 1999 respectively. She has been practicing as a solicitor in Hong Kong since August 2001 and her practice has been focusing on civil litigation and corporate commercial matters. Madam Chiu commenced practice as a founding partner of Chiu & Co. as from August 2017 and remains as a partner of S.H. Leung & Co, both are solicitors' firms in Hong Kong engaged in the provision of various legal services. Madam Chiu has served as company secretary of Chongqing Machinery & Electric Co., Ltd* (Stock code: 2722) since October 2014, joint company secretary of Chongqing Iron & Steel Company Limited (Stock code: 1053) since March 2018 and redesignated as the company secretary of such company since January 2021, 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 47, was appointed as an independent non-executive Director with effect from 21 October 2017. Mr. Leung is a professional accountant and a fellow member of the Certified Practising Accountants Australia. He has over 20 years of experience in accounting and financial management. Mr. Leung worked in PricewaterhouseCoopers as an auditor. He also served as the company secretary and chief financial officer of Wisdom Holdings Group (now known as Wisdom Sports Group) (Stock code: 1661), shares of which are listed on the Main Board of the Stock Exchange; and the chief financial officer of Linekong Interactive Group Co., Ltd. (Stock code: 8267), shares of which are listed on GEM of the Stock Exchange. Mr. Leung has served as an executive director and the company secretary of G-Resources Group Limited (Stock code: 1051), shares of which are listed on the Main Board of the Stock Exchange, since November 2016 and December 2016, respectively. Mr. Leung received a bachelor's degree in commerce from University of Adelaide, Australia in 1997.

SENIOR MANAGEMENT

Name	Age	Position
Madam Wang Wei	48	Vice-president
Madam Tang Xiangdi	44	Vice-president of Corporate Development

Madam Wang Wei ("**Madam Wang**") (**王瑋**), aged 48, 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 44, was appointed as our Group's financial controller from 1 November 2013 and served as the Group's vice-president of corporate development since 1 December 2020. She is primarily responsible for corporate development. Madam Tang joined our Group in January 2013. She has over 13 years of experience in financial reporting and treasury management. From July 2000 to May 2002, she worked as an accountant at 北京匯金科技有限責任公司 (Beijing Nasoft Co. Ltd*), a company engaged in the research and development of software and information systems and she was responsible for preparing the accounting documents and tax returns. She worked as a finance manager in 樂金電子(中國)有限公司(北京營業部) (LG Electronics (China) Co., Ltd (Beijing Sales office)*), a company engaged in the manufacturing, sales, and the research and development of various electronic products, and home appliances, from May 2002 to June 2007 and she was responsible for reviewing the daily, monthly and annual financial reports. From June 2007 to April 2009 she worked as a finance manager responsible for reviewing, examining and monitoring the revenue and expenses in the daily operations, audit reports and inventory level at 北京同樂寒舍國際餐飲有限責任公司 (My Humble House in Beijing (Restaurant) Company Limited*), a company engaged in catering business. She has been a finance manager since April 2009 in a company controlled by Mr. Mars Ho, the chairman of the Board, chief executive officer and one of the controlling shareholders (as defined under the Listing Rules) of the Company, prior to joining our Group. Madam Tang obtained a bachelor's degree in management at 中南財經政法大學 (Zhongnan University of Economics and Law*) in June 2000. She also obtained a master's degree of business administration from 北京大學 (Peking University) in June 2014.

** For idenitifcation purpose only*

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

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

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

The Company has, and will continue to utilise the Net Proceeds for the purposes consistent with the section heeded "Future plans and use of proceeds" as set out in the prospectus of the Company dated 28 October 2014 ("**Prospectus**"). As at 31 December 2021, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	Proposed percentage of utilisation	Proposed utilisation amount		Utilised amount up to 31 December 2021		Unutilised amount as at 31 December 2021		Expected timeline for the unutilised Net Proceeds
		HK$ in million	RMB in million	HK$ in million	RMB in million	HK$ in million	RMB in million	
Establishment of the Shijiazhuang R&D and Production Centre	39.6%	163.1	126.7	151.4	117.9	11.7	8.8	Note
Development of the Songjiang Production Centre	14.2%	58.4	45.4	58.4	45.4	–	–	N/A
Expansion of sales and marketing network	6.8%	28.0	21.8	28.0	21.8	–	–	N/A
Research and development activities	9.5%	39.1	30.4	39.1	30.4	–	–	N/A
Potential acquisition of interests in companies possessing critical product technologies in the pharmaceutical equipment, process system and service market	20%	82.4	64.0	44.7	29.6	37.7	34.4	Subject to any potential targets identified
Working capital and other general corporate purposes	9.9%	40.8	31.7	40.8	31.7	–	–	N/A
Total	**100.0%**	**411.8**	**320.0**	**362.4**	**276.8**	**49.4**	**43.2**	

Note:

Establishment of the Shijiazhuang R&D and Production Centre – The Company had planned to use approximately RMB126.7 million (equivalent to approximately HK$163.1 million) of the Net Proceeds for establishment of the Shijiazhuang R&D and Production Centre. The Group's Shijiazhuang R&D and Production Centre is under construction for the Year. It is expected that a large part of the unutilised Net Proceeds of approximately RMB8.8 million (equivalent to approximately HK$11.7 million) allocated for the establishment of the Shijiazhuang R&D and Production Centre will be utilised in 2022.

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

The unutilised Net Proceeds as at 31 December 2021 of approximately HK$49.4 million has been deposited into the banks.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

EVENT OCCURRING AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 1 March 2022, whereby the Company announced that the Group had completed the acquisition ("**Acquisition**") of the technology and ancillary business of 南京博健科技有限公司 (Nanjing Bojian Technology Co., Ltd.*) ("**Transferor**"). Under the Acquisition, the Group has acquired from the Transferor (i) the Transferor's technology of the products such as washing machine, sterilizing tunnel, filling line and cap machine; (ii) related intangible assets such as software copyright, trademark, domain name and other commercial symbols; and (iii) the personnel to carry out the target business including research and development, manufacturing, sales and after-sales service. The Transferor is a company established in the PRC with limited liability in which the Group held 0.09% equity interest and is principally engaged in the equipment design and manufacture of liquid filling line and powder filling line for vials. The Acquisition did not constitute a notifiable transaction or a connected transaction of the Company under Chapter 14 or Chapter 14A of the Listing Rules respectively.

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RISKS AND UNCERTAINTIES

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

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

RISKS	MAJOR RELEVANT ALLEVIATING MEASURES
Operational risks	
Cost management is critical in ensuring the Group's projects meet their budgeted profit margins. The risk of cost overrunning increases with the prolonged execution of projects, and possible increase in the price of materials and cost of labours.	The Group, through various means in particular the establishment of engineering project execution centre, strives to promote closer relationship and information sharing between the marketing team, project engineers and technical experts in budgeting and cost monitoring.
In addition, some of the projects could not be completed within the agreed contract period as a result of the ineffective communication across different departments.	The Group, through various means, to facilitate communication across departments, especially sales department and procurement department, to preserve timely completion of projects.
The Group's operations are highly dependent on its personnel, including both senior and mid-level management, engineers, skilled technical personnel and marketing and sales personnel. The Group may be materially and adversely affected if any of these key personnel leaves the Group and there being no adequate and timely replacement.	The engineering project execution centre also strengthens the Group's ability to monitor and coordinate its various projects, both in supply chain management and human resources allocation, in order to achieve an optimal use of the Group's resources and avoid its personnel being overworked. The Group also closely monitors its staffing and maintains close communication between the engineering project execution centre and the human resources department, so that any recruitment needs would be promptly responded. Allocating ample resources to staff training and development with the aim of sustaining a competent, professional and ethical staff force, and assisting the long-term career development of staff.

RISKS	MAJOR RELEVANT ALLEVIATING MEASURES
Compliance risks	
The Group's operations are subject to the environmental protection, safety and health laws and regulations in the PRC. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of the Group's licences or permits to conduct its business. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources in establishing efficient compliance and monitoring systems.	Through close monitoring of various legal and regulatory pronouncements from the government by its industry experts and legal and compliance personnel, the Group is able to keep itself updated with various regulatory requirements. Adequate and timely trainings are provided to operational staff, and monitoring and control measures are established to ensure efficient and effective compliance with the laws and regulations.

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

a) Employees

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

b) Customers

As disclosed in the paragraph headed "Major customers and suppliers" below, the five largest customers of the Group accounted for approximately 22.8% 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 5 to 17 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 Friday, 27 May 2022 ("**2022 AGM**").

For determining the entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2022 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 23 May 2022.

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 2020 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 2021 are set out in Note19 and Note 20 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 125 to 126 and in Note 34 to the Consolidated Financial Statements respectively.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the Shareholders as at 31 December 2021 amounted to RMB415,313,000 (31 December 2020: RMB430,617,000).

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. Chen Yuewu, Mr. Cheung Lap Kei and Madam Chiu Hoi Shan will retire by rotation at the 2022 AGM and, being eligible, will offer themselves for re-election.

DIRECTORS' PROFILES

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

DIRECTORS' SERVICE CONTRACTS

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

The non-executive Director has renewed her letter of appointment with the Company for a fixed term of two years commencing on 20 June 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 2021, 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 2021, 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 2021, 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 2021, 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 2021 interim report of the Company are set out below:

– Annual salary of Mr. Ho Kin Hung, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to HK$1,894,924.99 with effect from 1 January 2022;

– Annual salary of Mr. Chen Yuewu, executive Director, payable by his employment contract with a subsidiary of the Company has been revised to RMB1,043,184 with effect from 1 January 2022;

– Annual salary of Madam Zhou Ning, executive Director, payable by her employment contract with a subsidiary of the Company has been revised to RMB773,580 with effect from 1 January 2022; and

– Annual Director's fee of Madam Ji Lingling, non-executive Director, has been revised to RMB516,065.28 with effect from 1 January 2022.

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS

During the Year, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Save for those transactions as disclosed in the paragraph headed "Non-exempt continuing connected transactions" below, all other related party transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are disclosed in Note 32 to the Consolidated Financial Statements.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

1. Engineering Framework Agreement

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

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

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

The annual cap in respect of the transactions contemplated under the Engineering Framework Agreement for the year ended 31 December 2021 is Euro 2,500,000 (equivalent to approximately RMB18,049,000).

For the year ended 31 December 2021, the aggregate amount paid/payable by H+E Pharma to H+E under the Engineering Framework Agreement amounted to approximately Euro 209,000 (equivalent to approximately RMB1,595,000).

2. Pre-assembly and Assembly Framework Agreement

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

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

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

The annual cap in respect of the transactions contemplated under the Pre-assembly and Assembly Framework Agreement for the year ended 31 December 2021 is Euro 4,000,000 (equivalent to approximately RMB 28,879,000).

For the year ended 31 December 2021, the aggregate amount received/receivable from H+E to S-Tec under the Pre-assembly and Assembly Framework Agreement amounted to approximately Euro 1,561,000 (equivalent to approximately RMB11,908,000).

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

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

(ii) on normal commercial terms or better; and

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

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

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

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in Note 25 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 25 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 2021, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executive of the Company), who had interests in the Shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long position:

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

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2021, 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 contained in Appendix 14 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" of this annual report. The Board will continue to review and monitor the practices of the Company with an aim to maintaining the highest standard of corporate governance.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the largest customer and the largest supplier of the Group accounted for approximately 9.2% and 7.3% 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 22.8%% and 27.5% of the Group's total revenue and total purchases respectively.

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

AUDIT COMMITTEE

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

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

AUDITOR

The Consolidated Financial Statements for the Year have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment at the 2022 AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the 2022 AGM.

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

25 March 2022

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 of the Company ("**Shareholders**") as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code ("**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules.

Save for the deviation from code provision A.2.1 of the Corporate Governance Code (which has been re-numbered as code provision C.2.1 under the new Corporate Governance Code that came into effect on 1 January 2022) 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 prevailing Corporate Governance Code during the Year and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

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

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

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

BOARD OF DIRECTORS

Function of the Board

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

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

Board Composition

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Corporate Governance Code (which has been re-numbered as code provision C.2.1 under the new Corporate Governance Code that came into effect on 1 January 2022) requires the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

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

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

BOARD COMMITTEES

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

Audit Committee

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

The primary duties of the Audit Committee are to review the half-yearly and annual results of the Company and to supervise the Group's financial report process and internal control system, 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 2020 and interim financial statements for the six months ended 30 June 2021 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 2020;

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

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

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

Remuneration Committee

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

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

The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and the general market conditions. The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the Corporate Governance Code (which has been re-numbered as code provision E.1.2(c)(ii) under the new Corporate Governance Code that came into effect on 1 January 2022) 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, and the remuneration packages of executive Directors and senior management;

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

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

Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

During the Year, the Nomination Committee held one meeting and the attendance of each member is set out in the section headed "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 2021 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 has principally reviewed the Board composition and was of the opinion that the Board consisted of members with different gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge, which met the requirements under the terms of the Board Diversity Policy.

Corporate Governance Committee

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

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

During the Year, the Corporate Governance Committee held one meeting, at which the members of the Corporate Governance Committee reviewed the Company's compliance with the Corporate Governance Code for the year ended 31 December 2020 and the Corporate Governance Report for the year ended 31 December 2020, 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 review and monitor the training and continuous professional development of Directors and senior management.

During the Year, the Risk Management Committee held two meetings, at which the members of the Risk Management Committee 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 2021 annual general meeting held on 28 May 2021 ("**2021 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

Name of Director	Attendance/Number of Meetings Eligible to attend						
	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting	Risk Management Committee meeting	2021 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 2021
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 25 to the Consolidated Financial Statements.

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

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

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

COMPANY SECRETARY

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

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

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

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

ACCOUNTABILITY AND AUDIT

Responsibilities in respect of the Consolidated Financial Statements

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

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the Consolidated Financial Statements for the Year is set out in the section headed "Independent Auditor's Report" on pages 115 to 120 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The main responsibilities of each party are described as follows

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

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

The Management	—	Design and implement the risk management and internal control systems
	—	Monitor the status of remediation of internal control weaknesses
	—	Analyse the probability and impact of the risks and assess the existing risk management procedures
	—	Monitor the on-going risk and develop necessary responsive measures according to risk management procedures
	—	Provide confirmation to the Board and the Board Committees on the effectiveness of the risk management and internal control systems

In addition, the Company has engaged external consultant to conduct annual review of the effectiveness of the risk management and internal control systems for the Year, to follow up on the internal control weaknesses identified in 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 needed to carry out day-to-day controls
Monitoring	—	ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning

Process used to identify, evaluate and manage significant risks

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

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

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

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

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

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

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

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

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

Whistleblowing Policy

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

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

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

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

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

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

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

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

Internal audit function

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

INSURANCE ON DIRECTOR'S AND OFFICER'S LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Directors and the senior management of the Company.

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 2021 RMB'000
Statutory audit	**3,450**
Non-audit services	**725**
Total	**4,175**

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

SHAREHOLDERS' RIGHTS

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

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

DIVIDEND POLICY

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

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

CONSTITUTIONAL DOCUMENTS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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.

The Shareholders Communication Policy is available on the websites of the Company and the Stock Exchange.

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

On behalf of the Board

Ho Kwok Keung, Mars
Chairman

25 March 2022

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

As an integrated engineering solution provider for the pharmaceutical industry, Austar Lifesciences Limited (the "**Company**") and its subsidiaries (collectively "**AUSTAR**", the "**Group**", or "**we**") strive to support high-end clients in China and the emerging countries for compliance and operation excellence with consulting services, as well as a strong pipeline of products across the entire drug product lifecycle that the Group has been developing. We facilitate mainly the pharmaceutical, biologics, and pharmaceutical bulk chemical sectors, and our services scope is expanding also to medical device, research laboratory animal, and animal health sectors. Services are empowered by strategic global expansion initiatives and the accelerated expansion of life science sectors with a long-term strategic perspective.

The Group acknowledges that it is of paramount importance to integrate sustainability initiatives into our business operation. As we adhere to a business philosophy of responsible development, we are committed to strategizing and formulating environmental, social and governance ("**ESG**") measures to bring positive influences on our community.

We are delighted to publish our annual ESG report (the "**Report**") summarizing the Group's ESG management approaches, practices and performances during the financial year ended 31 December 2021 (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 "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 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 Company (the "**Board**") in March 2022.

REPORTING PRINCIPLES

The Group has compiled the ESG Report in accordance with the following reporting principles.

Materiality

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

Quantitative

- The Group disclosed the information of the standards, methodologies and source of conversion factors used for the reporting of emissions and energy consumption. Please refer to the relevant section 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

A trusted relationship with our community is crucial for our business sustainability. We strive to manage the Group for the best interests of our stakeholders. Your feedback is highly appreciated and will help us to improve our abilities. If you have any comments or suggestions regarding our ESG Report or ESG initiatives, please feel free to contact us via the following channels:

- Address: Rooms 2010-2013, 20th Floor, No. 1018, Changning Road, Changning District, Shanghai, PRC
- Email: info@austar.com.cn
- Official website: http://www.austar.com.hk

CHAIRMAN'S MESSAGE

It has been more than two years since the outbreak of the global COVID-19 pandemic. Despite the obstacles posed to our supply chain, manufacturing, and project execution due to the pandemic lockdowns, the Group is rapidly growing with the significant increase of demand in equipment and systems in the biologics sector, especially of vaccine-related projects. 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.

In the past year, the Group has encountered different ESG-related issues, such as employees' health and safety, especially in the workplace, as well as investigating a new aspect of energy optimization across manufacturing. We emphasize sustainable development across our business segments. In response to the national net-zero target by 2060, we have collaborated with Tianjin University to establish the research and development of an energy consumption analysis system for a pharmaceutical cleanroom facility. The partnership fosters our journey in achieving the energy-saving and reduction targets. In addition, a robust ESG governance structure is in place, the Board is responsible for overseeing the sustainability strategy with a view to the Group's long-term development. 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 the ESG situation to the Board, including the limitations, updates, and suggestions from implementation. We will continue to strengthen our ESG governance across structural levels to support our long-term goals.

The Group conducted the materiality assessment to identify the ESG topics that matter most to our business operation and stakeholders. The result will not only determine the direction of reporting disclosure, but also facilitate future ESG-related goal-setting and strategic planning. The Group will endeavour to bring our current regional champion business unit onto the greater global level and pursue sustainable developments as an industry leader. 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. This can create and bring long term value to the Group that could not be achieved merely with corporate financial performance.

Ho Kwok Keung, Mars
Chairman

ESG MANAGEMENT APPROACH

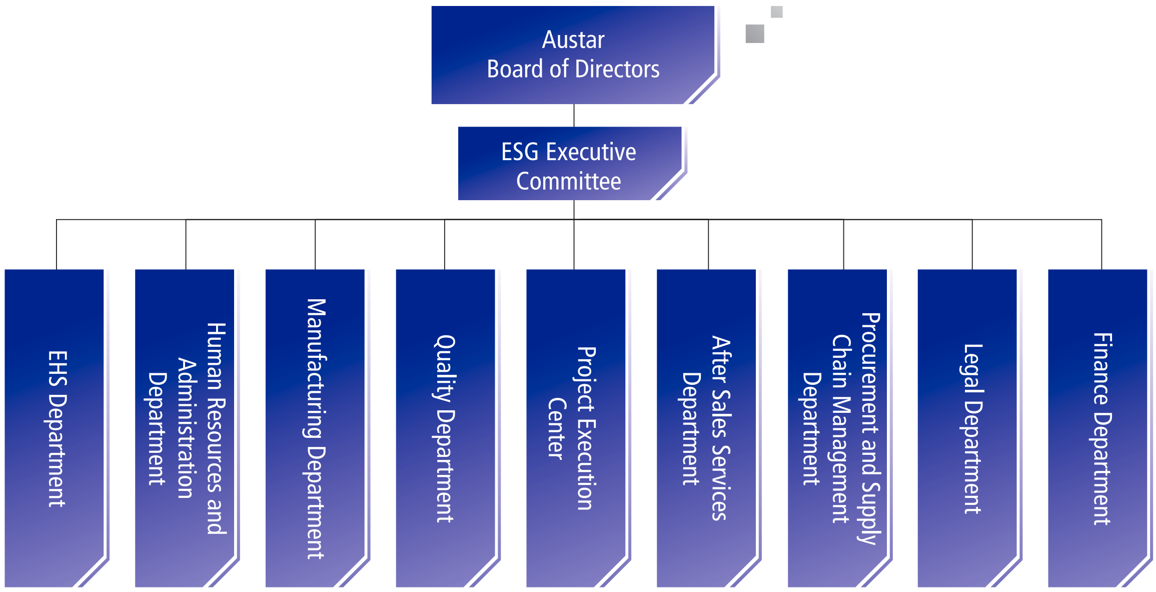
Management Structure

The Group acknowledges that a well-established ESG governance structure could strengthen the Group's ESG management and ensures the corresponding principles fully incorporated throughout the entire business value chain.

The Board is actively participated in planning ESG strategies and lead the direction of the Group in long-term sustainable development. The Board oversees the overall ESG strategies, management approaches and all ESG matters of the Group, including ESG risk management, action plans and related targets setting and initiatives. The Board proactively engages in providing strategic guidance on the ESG-related risk identification and material ESG issues, and regularly reviews the progress and achievement on ESG objectives and targets. The Board is also responsible in approving ESG report submitted by the ESG Executive Committee.

The ESG Executive Committee is authorized by the Board and composed of representatives from different department units across the Group to advise all ESG matters and implementation of the Group from different perspectives. The ESG Executive Committee assists in establishing ESG strategies, identifying and analysing the significant ESG risks and opportunities in investment strategy and risk management with associated impacts on the Group, as well as setting relevant targets and initiatives with actions plans in line with the determined ESG strategies. Moreover, the ESG Executive Committee monitors the current market trends and development, industry practices, and norms in respect of ESG related issues, the activities of stakeholder engagement and materiality assessment of the Group and the annual ESG reporting disclosure. The ESG Executive Committee shall meet and report the findings and recommendations of ESG performance to the Board on a regular basis.

The department units are responsible in executing ESG-related action plans decided by the ESG Executive Committee and monitor progress and achievements against the determined targets and initiatives in daily operations. They carry out the activities of stakeholder engagement and materiality assessment, collect relevant ESG data for reporting disclosure and performance review, and coordinate the preparation of ESG report.



Risk Management

The Group acknowledges that it is of importance to maintain a sound internal control and risk management system. With a process on identification, assessment, monitoring and reporting, the Risk Management Department conducts regular risk analysis to identify upcoming risks and corresponding impacts on the Group's business operations, so as to safeguard stakeholders' interests.

The Head of Risk Management Department is responsible for the overall risk management of the Group. It communicates with different functional department units to implement guidance and facilitate coordination.

Led by the Department Head, five authorized personnel are responsible to deliver internal control of the highest standard by identifying, assessing, and responding to risks associated with R&D and Sales, Daily Operation, Legal Compliance, and Financial Risks. External consultants are also considered a part of the system to assist in the identification and assessment of risks of various units in the operation process, as well as to report the identified risks, to suggest measures and initiatives, and to facilitate follow-up handling and rectification. All types of risks, including climate risks are considered in the annual risk assessment process and are reviewed by the internal control system.

Several meetings were held within the Departments during the Reporting Period. 20 events would be discussed with opinions provided by external consultants, focusing mainly on sources of risks and relevant follow-up measures to implement. The Risk Management Department would then conduct its analysis, based on the suggestions of external consultants, to ensure its effectiveness in risk adaptation or mitigation, and its feasibility in implementing relevant follow-up measures.

Besides, the Risk Management Department is also responsible for handling emergencies. Coordinating solutions suggested by various departments across the Group, therefore to come up with a plan to respond to the occurrence of the event as soon as possible. If applicable, the Risk Management Department shall seek opinions from our external consultant as well. When necessary, the Risk Management Department would also be responsible for the relevant follow-up.

STAKEHOLDER ENGAGEMENT

Maintaining regular engagement with our stakeholders through diversified channels of communication is vital to improve our strategy formulation in sustainability and better understand respective stakeholders' expectations, concerns and perspectives associated with the business operations and development, as well as ESG management. During the Reporting Period, we identified our key stakeholder groups as directors, employees, shareholders/investors, suppliers/customers, distributors, government and regulatory authorities, and community/academic institutions. We have engaged our stakeholders and fully considered their opinions on ESG governance structure, internal control system, approach to various ESG-related issues and long-term policy formulation. The below table sets forth the adopted communication channels for stakeholder engagement to ensure building quality communications.

Stakeholders	Concerns and Expectations	Communication channels
Directors (including members of the Risk Management Committee)	• Risk management	• Consultation via phone calls and emails • Direct communication • Board and Board committee meetings • Suggestion box
Employees	• Vocational training and development • Salaries and benefits • Health and safety	• Consultation via phone calls and emails • Direct communication • Company conferences • Suggestion box
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 Canter"
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

MATERIALITY ASSESSMENT

The Group conducted a materiality assessment to identify the ESG topics that are material to the Group and our stakeholders, so as to direct the formulation of ESG strategy and reporting disclosure. We continuously improve the process of identifying and determining ESG issues in relevance to the Group's operation, review and disclose the material ESG issues and strengthen the focus areas of ESG management in response to the concerns of various stakeholders.

Process of materiality assessment

Identification of relevant ESG topics

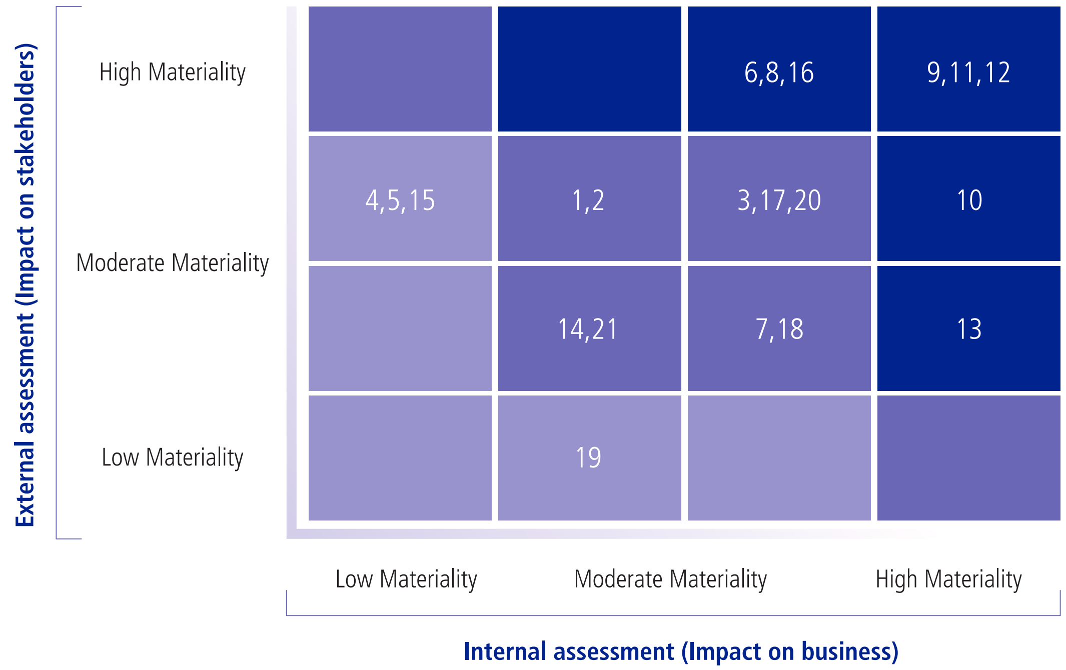
- Based on the Group's existing businesses, the requirements of ESG reporting guidelines, and industry ESG management priorities, potential ESG topics were identified.

Review of materiality matrix and material ESG topics

- Considering the business operations, industry development trends, ESG related standards and guidelines, together with the material ESG topics identified last year, we then reviewed and updated the materiality matrix with ESG topics that are material to the Group.

Response to material ESG topics

- According to the materiality of ESG issues and key concern of our key stakeholders, we determined the focus area of ESG managrment as well as the direction of the reporting disclosure.



Aspects	Materiality Issue
Environmental	1) Emission Management
	2) Waste Management
	3) Resources Management
	4) The Environment and Natural Resources
	5) Climate Change
Social	6) Employee Rights and Turnover Rate
	7) Employee Welfare and Pay System
	8) Occupational Health and Safety
	9) Employee Training and Development
	10) Supply Chain Management
	11) Product Safety and Quality Assurance Management
	12) Customer Satisfaction
	13) Business Ethics and Anti-corruption
	14) Labour Standards
	15) Community Investment
	16) Customer Data Protection and Privacy Protection
	17) Technology Innovation
	18) Intellectual Property Rights
	19) Selling Practice
Governance	20) ESG Governance
	21) Stakeholder Communication

The materiality of each ESG topic is illustrated in the materiality matrix after an internal evaluation. The ESG topics that are categorized as high importance are fell on the top right quadrant of the matrix. The result of the materiality matrix and the identified material ESG topics are reviewed and finalized by senior management and the Board.

Based on the result of materiality assessment and the reporting principle, the disclosure of the Report is mainly focused on the issues categorised as being of high materiality. The Group considers providing the overall management approaches on such ESG issues categorised as being of moderate materiality and low materiality of the Group in order to provide the overall picture to stakeholders in ESG management. The Group would continue to review the existing ESG strategies, policies, and objectives so as to optimise the ESG performance and reporting disclosure in pursue of continuous improvement.

ENVIRONMENTAL PERFORMANCE

1. Emissions

AUSTAR strictly complies with all applicable laws and regulations in where we operate, such as 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, 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 "Wastewater, Waste Gas and Noise Management System" has been formulated to control all types of possible pollutant emissions and reduce the adverse impacts on the health of workers and the environment. With the implementation of Environmental Management System certified with the ISO14001 standard, we are confident in enhancing the performance of emission reduction and achieving our internal environmental goals within the timeline.

1.1. Air Emissions

The major sources of air emissions include the air pollutants from consumption of gaseous fuels from stationary and mobile combustions. To reduce air emissions during our daily operation, all manufacturing sites are completely enclosed and equipped with organic exhaust gas treatment facilities. All the organic exhaust gas generated during the production process is filtered by the treatment facilities before emitted to the atmosphere, resulting in lower emissions of gaseous pollutants and the maintenance of a safe indoor air quality level. The treatment facilities are installed with an alarm system which allows to keep track of the operation status onsite at all times. External inspection and third-party verification are arranged at least annually to ensure compliance with relevant emission standards. In addition, the Group has replaced the diesel-powered forklifts in Shijiazhuang factory with electric forklifts to reduce the consumption of fossil fuel. During the Reporting Period, our production workshops have been verified complying with the national requirements of "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:

Emission	Unit	2020	2021
Nitrogen oxides (NO_x)	kg	5.6	**7.32**
Sulphur oxides (SO_x)	kg	0.23	**0.16**
Particulate Matters (PM)	kg	0.41	**0.54**

1.2. Greenhouse Gas Emissions

The GHG emissions of the Group are principally derived from fuel combustion from machinery and vehicles owned by the Group ("**Scope 1 emission**"), the consumption of purchased electricity ("**Scope 2 emission**") in offices and production workshops and air business travel by employees ("**Scope 3 emission**"). The GHG emissions are closely linked with the Group's energy consumption. The Group has implemented relevant measures to increase the energy efficiency as result in reducing the carbon emission. Further details of the measures adopted are stated under the section of "2.1 Energy Use".

Based on the materiality assessment result and reporting principles, GHG emission is not considered as the most material ESG issue for the Group. We would continue to assess its impacts on our stakeholders and our business operation respectively before setting any emission reduction targets in future.

The Group's GHG emission during the Reporting Period is illustrated in the below table:

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

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. 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.

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

AUSTAR has "Management Regulation on Waste Management" in place to ensure that different forms of hazardous and non-hazardous waste are handled properly, so as to minimize environmental pollution and wastage of resources. To reduce the waste at source and manage waste and minimize the waste directly diverted to landfill as our main goal, the Group promotes green office practices based on the 4R principles (Reduce, Reuse, Recycle, Replace) to educate our staff on resource sustainability and foster waste reuse and recycling. For instance, we have setting up recycling facilities and providing guidelines to indicate recyclable materials proper waste segregation which avoids mixing up of recyclable and non-recyclable wastes, to increase the material recycling rate.

Hazardous wastes such as waste oil and emulsifiers for mechanical lubrication are major sources of the Group. The Group understands that improper handling of hazardous wastes would contribute to serious land and water pollution, thus the Group has rigorously followed the applicable national legislations and regulations on waste handling. All hazardous wastes are stored in designated areas with proper chemical labels and safety warnings. Regular inspection and maintenance are conducted by the staff to prevent from potential chemical leakage. All hazardous materials generated by AUSTAR are handled by a qualified waste collector.

The Group has built "Oil and Water Separation and Filtration Systems" in production workshops, which could reduce emulsifier usage during operation. The Group ensures that all production workshops have installed a septic tank to treat the sewage before discharging to the municipal sewage system.

During the Reporting Period, the Group achieved 100% compliance with relevant legislations and regulations regarding hazardous waste handling. According to the materiality assessment result and reporting principles, waste management is not considered as the most material ESG issue for the Group. 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.

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

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 strives to optimize resource efficiency in terms of energy, water, packaging material usage during operation. The Group has set out a series of management policies and operational guidelines in order to encourage green operation. We expect all our employees to oblige the shared responsibilities and participation to achieve the goals. Meanwhile, we also offer recommendations on energy-saving strategies to our customers in joining hands to achieve energy conservation and efficient use of resources.

2.1. Energy Use

To allow the Group's smooth operation across business segments, energy consumption is inevitable. However, it is considered that the Group is obligated to educate the employees and raise their awareness in terms of energy-saving practices. Under the "Management Procedure on Energy Conservation and Consumption Reduction", a clear guidance in energy-saving practices in business operations is provided. The following key measures that we adopted in energy conversation:

- 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.

As resources management is not considered as AUSTAR's material ESG issue, 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
Purchased electricity	MWh	1,339.92	**1,889.18**
Mobile fuel consumption	MWh	119.14	**98.79**
Stationary Consumption	MWh	22.78	**31.22**
Total energy consumption	MWh	1,481.84	**2,019.20**
Intensity	MWh/employee	1.06	**1.13**

2.2. Water Management

The Group makes effort to wisely use of water resources. To remind our employees about the urgency of water conservation, we have adopted the following water conservation initiatives according to the Group's "Management System for Saving Energy and Reducing Consumption":

- 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.

The Group regularly conducts inspection and maintenance of the pipelines in the production workshops to prevent leakage. Furthermore, the Group monitors the monthly usage of water which helps us to spot any abnormality of water usage instantly.

As resources management is not considered as AUSTAR's material ESG issue, the Group will continue to assess its influences on our stakeholders and our businesses respectively, before setting any related targets in the future.

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 production workshops.

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

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

2.3. Packaging Materials

Regarding the business nature of the Group, the consumption of packaging materials is unavoidable in addressing health and safety concerns of our products. However, we have as far as possible reduced the amount of packaging materials used and avoid merchandising unrecyclable materials.

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

Packaging Materials	Unit	2020	2021
Wrapping Paper	Tonnes	N/A	**2.00**
Carton Box	Tonnes	N/A	**8.00**
Stretch Film	Tonnes	N/A	**9.80**
Wooden Box	Tonnes	N/A	**452.0**
Plastic Strapping	Tonnes	N/A	**6.75**
Total	Tonnes	33.00	**478.55**
Intensity	Tonnes/employee	0.02	**0.27**

3. The Environment and Natural Resources

The Group strives to minimize the impacts of the business operation to the environment and natural resources. The Group has implemented the ISO14001 environmental management system and developed relevant management approaches to actively prevent, eliminate and manage and effectively evaluate the performances of various environmental factors, therefore to make continual improvement on environmental management and safeguard public health to the greatest extent possible. The environmental management system is regularly reviewed by an independent third-party to verify its proper implementation and effectiveness.

Besides, the Group has also implemented monitoring procedures in strict accordance with the "Management Regulation on Noise Management". For example, the Group adopts the low noise machinery and equipment and implements practical engineering solutions (such as the installation of noise barriers) to minimize the noise nuisance to the surroundings. In event of any abnormal situation is found, we therefore formulate corresponding follow-up and remedial measures to control the noise level to acceptable noise level. Noise assessment and monitoring are conducted by a certified third-party to ensure the noise level complying with the permissible level under the relevant laws and regulations.

4. Climate Change

The pressing concern of combating climate change is circulated globally, such as the 14th Five-Year Plan with an objective to reach the peak of carbon emissions by 2030 and carbon neutrality by 2060 and the Paris Agreement to prevent the further rising of global temperature. As a leading player in the pharmaceutical industry, we are fully aware of the potential impacts that climate change may bring to the operation of our businesses. 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 production workshops and further interrupt our business operation and increase the maintenance cost.

- Chronic risk: The increased severity and frequency of extreme weather events (e.g. flooding caused by rising seawater level, extreme cold wave, heatwave) may cause the office building to submerge and further interrupt our business operation. The increase of energy consumption at our offices and production workshops to maintain the room temperature at comfort level which increase the operating cost.

Transition risks

- Policy risk: Increasing the price of GHG emissions by the latest implementation of carbon-pricing mechanisms, increase operating cost and pose a potential risk of financial instability.

- Market risk: Higher demand for environmental-friendly and low-carbon goods and design services may result in the shift of customer preferences. Moreover, limited natural resources and higher transportation costs due to increasing climate-related weather events that may increase the cost of raw materials required for our business operation.

The Group would also take the recommendations of Task Force on Climate-related Financial Disclosures (TCFD) into consideration, to enhance the governance processes and integrate the consideration of the climate-related risks and opportunities into our future risk assessment. Although the Group considered that climate change issue is not material to the current business operations, the Group would keep monitoring the impacts of climate change on our business and formulate preventive countermeasures to avoid such impacts in the future. The Group would take preferred measures to progressively reduce and minimize direct and indirect greenhouse gas emissions within its control and encourage similar actions within its sphere of influence.

SOCIAL PERFORMANCE

5. Employment

Employees are the most valued asset for our business development and maintaining our leading position and the competitiveness in the industry. During the Reporting Period, the Group strictly complied with the applicable labour laws and regulations 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

Our "Staff Handbook" and "Personnel Files and Documents Management Control Procedures" stipulate the relevant human management policies and guidelines, ranging from remuneration and benefits, recruitment, and promotion, working hours, rest time, anti-discrimination policies, employee training, attendance, and performance management measures, to ensure all our employment practices complied with the statutory requirements of the regions we operate. Benefits provided to full-time employees include 5-days of paid sick leaves, medical insurance and reimbursement, marriage and maternity leave, maternity allowance, housing allowance, and transportation allowance, etc. Besides, the Group acquires talents of high quality through different channels, such as professional human resource agencies, campus recruitment from universities, social recruitment, and internal recommendation, etc. to ensure the sustainable talent pipeline.

5.2. Equal Opportunities and Anti-discrimination

Adhering to the principles of openness and fairness, the Group is committed to providing equal opportunities for all employees in terms of selection, employment, remuneration, promotion, and transferal. Our Human Resources Department strictly follows our recruitment policy and only take in consideration the personal merits and capabilities, qualifications, working experiences and performance of the individuals during the recruitment process, transferal, promotion, and training, and free from any discrimination, harassment or vilification in respect of gender, disability, marital status, pregnancy, religion, nationality, social or economic class, rural or urban, political opinion, pathogen-carrier or sexuality. We do not tolerate any discrimination or harassment behaviour in the workplace. Employees who breach the policies would be subject to disciplinary actions including summary dismissal.

5.3. Employee Wellbeing

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

Since the outbreak of the COVID-19 pandemic, the Group has been closely monitoring the pandemic situation in the regions where we operate. We have been constantly keeping to the latest pandemic policies, regulations, and precautionary measures suggested by the local government. Aside from referencing the "Health Advice on Prevention of Coronavirus disease (COVID-19) in Workplace" issued by the Centre of Health Protection, the Group also provides pandemic-related training and handbook to ensure that the preventative measures for COVID-19 are effectively implemented and avoid the risks of COVID-19 infection.

Safeguarding our employees' and workers' health and safety, the Group has implemented the following measures in our business segments, including but not limited to:

- Keep the environment clean and regularly disinfect frequently touched surfaces, such as door handles, furniture, and commonly shared items;
- Set up a prevention and control working group for responding to epidemic emergencies;
- Increase the stockpile amount of pandemic prevention equipment, such as masks and sanitizers;
- Require employees undergo a daily body temperature check to ensure they are fit to work;
- Require our employees to stay home when they feel unwell and/or are showing symptoms of COVID-19, seek medical attention and report to relevant personnel for the record;
- Provide hand sanitizers in the office to perform hand hygiene frequently;
- Require our employees and visitors to wear surgical masks all the time;
- Circulate health advice and updated news to raise employee's awareness on COVID-19 infection prevention practices;
- Reduce face-to-face meetings and site visits with online meetings, to avoid physical contact and keep adequate social distancing; and
- Allow flexible working arrangements, such as rostering and home office, to reduce the flow of people in workplaces.

5.4. *Employee Profile*

The Group has a total of 1,788 employees, of which 1,582 are full-time employees, 142 are part-time employees and 64 are other employees (i.e. internship employee). Our voluntary turnover rate was 18.1%. The workforce profile divided by gender, age group and geographical region in 2021 is illustrated in the below table:

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

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 puts employee safety at first and strives to provide a safe, comfortable, and harmonious working environment for all our employees. With the implementation of occupational health and safety management system accredited to ISO 45001 standard, the Group can identify the safety risks and manage workplace and occupational safety under our business operation in a proactive and systematic manner to prevent the occurrence of work-related injuries and accidents. The Group has strictly complied with the applicable health and safety laws and regulations such as the Work Safety Law of the PRC, Labour Law of the PRC, the Prevention and Control of Occupational Diseases Law of the PRC and Fire Control Law of the PRC.

It is critical to carry out a thorough occupational health and safety risk assessment with a well-established control system to proper 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 thorough occupational health and safety risk assessment is conducted with the development of effective mitigation measures in safeguarding the employee health and wellbeing.

Internal safety inspections and/or 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 allows us to assess potential safety risks and hazards in an on-going manner for accident prevention. Health inspections and physical examinations are offered to employees for identifying the potential occupational health diseases. All employees have achieved the health standard with no occupational disease discovered.

Raising the safety awareness of our employee is vital to cultivate a safety-focused culture in our workplace. The Group provides relevant safety training programs, which are mostly designed by a third-party professional organization to our employees, to our employees. Various health and safety-related topics are covered, such as safety responsibility advocacy, occupational health protection, and measures to acquire necessary competence and qualifications for their daily work. Safety and emergency drills such as fire drills, storm, and other severe weather preparedness drills, are also conducted to strengthen their capability in handling emergencies.

The Group has set out the "Control Procedures on Incident Investigation and accident management" for handling workplace incidents and accidents. The responding actions, accountability, and follow-up processes are clearly stated under various situations and accidents. Follow-up accident investigation would be carried out to find out the root cause(s) of the accident or incident, rectify and improve the existing safety conditions in workplace based on the investigation findings to prevent recurrence. The Group also outlines the "Control Procedures on Emergency Preparedness and Response" to standardize emergency handling procedures and minimize the associating impact.

	2019	2020	**2021**
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 standardize the Group's training management process, in order to nurture the employees' full potentials and professionalism.

For newly recruited staff, the Group would arrange New Hire Orientation Training to introduce the new joiners about the Group's corporate culture, operational goals, corporate related policies and regulations, product knowledge, and the working processes of relevant different departments of the Group. Pre-employment training is also provided at three different levels: company level, department level and position level. With such training, new employees are able to adapt to the new working environment swiftly with acquired sufficient knowledge and skillset applicable to the new position.

Internal on-job training, such as management skills training, ISO standard training, pharmaceutical projects management and various technical skills knowledge, are offered to targeted employees to achieve respective career development goals and improve their work capabilities. External post qualification training, skill improvement training, continuous training and oversee education training are arranged to the selected staff member with training sponsorship in order to improve his/her specific knowledge of the position and improve the overall professional expertise. The Group also organizes different workshops to have case study and experience sharing within different teams and thus learn from the experience and maintain proper knowledge transfer.

In 2021, the Group conducted a total of 6,596 hours of job-related trainings covering different professional areas with 41% of the employees trained.

Employee Training Data

	2020		**2021**	
Employee Training	Percentage of employees trained (%)	Average training hours (hours/employee)	**Percentage of employees trained (%)**	**Average training hours (hours/employee)**
By employment category				
Senior Management	25.0	1.22	**48.0**	**2.29**
Middle Management	29.9	1.02	**58.3**	**3.89**
General	36.8	0.83	**32.9**	**3.72**
By Gender				
Male	35.9	0.85	**38.2**	**3.77**
Female	36.2	0.84	**33.8**	**3.67**

8. Labour Standards

The Group has zero-tolerance for child labour and forced labour within our business operation. To keep our operations aligned with the highest standards of ethical behaviours and protection of labour rights, 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 our Employee Handbook, all applicants must present valid identity documents during recruitment processes. It is to verify the candidates' eligibility for working in related positions 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 "Staff 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 quality of raw material supply by the suppliers is interconnected to the quality of the Group's products and services. Hence, it is crucial to maintain the steady and sustainable supply chain for our business operations. The Group has formulated the "Procurement Management Manual" and "Supplier Performance Evaluation and Management Control Procedure" for selecting competent suppliers, as well as monitoring their quality, environmental, safety and ethics practices.

New suppliers are required to undergo a series of selection procedures before being qualified as approved 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. Suppliers are distributed with "Environmental, Social and Governance Self-Assessment Form" to further assess their EHS performance. When suppliers consecutively fail to meet our standards or violate the regulations, we reserve the right to terminate the collaboration immediately.

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 also considered in our supplier selection. The Group always prioritizes the engagement with local suppliers for material sourcing to reduce carbon footprint through transportation.

During the Reporting Period, we engaged in a total of 1,415 suppliers.

Supplier Profile

Country/City	Number of suppliers
Mainland China	1,355
Foreign	60
Total	**1,415**

10. Product Responsibility

As a prime provider of pharmaceutical equipment and associated integrated engineering solutions, the Group is committed to offering a sanitary and germ-free manufacturing environment and quality products and services as our products are directly used in the pharmaceutical production process that influence the public health. The Group also implements a comprehensive quality management system ("**QMS**") certified with the international standards of ISO 9001 in production workshops and conducts both internal and external audits on the QMS regularly in order to ensure the management system is effectively maintained. AUSTAR has strictly complied with national laws and regulations pertaining to product safety labelling and advertising, including the Pharmaceutical Administration Law of the PRC, the Good Supply Practice for Pharmaceutical Products, the Advertisement Law of the PRC, in order to protect the public interests with no false data or misleading information on pharmaceutical products.

10.1. Strict Quality Assurance

Guided by "Management Procedures on Inspection and Test", The Quality Control Department conducts stringent quality control inspections at different processes 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.

The Quality Control Department conducts stringent quality control inspections at different stages of the production cycle, from incoming materials, manufacturing processes to final product delivery.

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.

10.2. Protecting Customer Privacy

The Group attaches great emphasis to customer privacy. 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. Our employees are required to strictly abide by the regulations and guidelines as stated in the employee handbook in handling confidential information in order to satisfy the rising concern in confidentiality and prevent information leakage. Our 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 value our customer feedbacks and suggestions which enable us to continually improve our product and services quality and client satisfaction. Guided by the "Customer Satisfaction Management Procedure", the Group consolidates the results of the surveys, 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. This can help 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 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:

- Coordinates 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.

- 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.

10.4. Protecting Intellectual Property

AUSTAR is dedicated to protecting our valuable intangible assets and fostering innovative development. In this regard, we have developed the "Patent Management Procedure", "Trademark Management Procedure" and "Copyright Management Procedure", which detail the operation guidelines for the application, registration or registering procedures of patents, trademarks and copyrights. Our Intellectual Property ("**IP**") Strategic Department is responsible for handling the issues of patent analysis, acquisition, change, transfer, and license to better secure the corporate intellectual property rights and prevent any infringement.

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

Types of IP	Number
Copyrights	100
Patents	287

11. Anti-Corruption

The Group is dedicated to conducting business in an ethical manner and maintaining a high level of integrity. We enact zero tolerance towards corruption, extortion, money laundering, fraud, and solicitation. Our staff 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 developed the "Integrity Management Policy" to raise the employees' anti-corruption awareness and further promote the corporate compliance culture. The policy would be a guideline in handling affairs to drive anti-corruption and anti-bribery in commercial activities. 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.

AUSTAR 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 foster an honest and ethical working culture throughout the Group, the Group provides two anti-corruption training sessions to the Directors and employees in order to equip with the updated knowledge of relevant laws and regulations on anti-corruption, as well as the corporate anti-corruption policy, integrity management system with its implementation. Training session about compliance management in the tendering process is also offered to introduce the potential corruption and fraud traps and legal risk during the procurement and bidding. Total training hours for the Directors and staff during the Reporting Period were 8 and 99 respectively.

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 is no illegal cases of corruption, extortion, fraud, or money laundering were brought against the Group or its employees.

12. Community Investment

The Group recognizes its corporate social responsibility in giving back to our community. We aim to demonstrate our commitment to community with the focusing area of education and labour needs. The Group also endeavours in building a win-win relationship with our community encouraging our employees to participate in different community activities to serve the underprivileged and the needy in the society.

Visit to Zhuangzitou Primary School

On 31 December 2021, under the leadership of Mr. Chen Yuewu, an executive Director and the Vice President of AUSTAR Group, the Group supported the charity activities of Chinese red cross and made a special visit to Zhuangzitou Primary School. The Group donated the epidemic caring pack, books and drawing tool and materials to the students, to spread our love and warmth to the children and enrich their extra-curriculum experiences.

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, prioritize, 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.	1. Emissions
KPI A1.1	The types of emissions and respective emission 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 emission 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.	11. 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 and mobile) 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 impact 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, 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.	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, 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 relating to preventing child and forced labour: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	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 relating to health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	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, how they are implemented and monitored.	10. Product Responsibility – 10.2 Protecting Customer Information

ESG Reporting Guide		Section/Explanation
B7 Anti-Corruption		
B7	General Disclosure Information relating to bribery, extortion, fraud, and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	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, 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 121 to 213, comprise:

- the consolidated balance sheet as at 31 December 2021;
- 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 2021, 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)

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 2021, the gross amounts of trade receivables and contract assets totalling approximately RMB303 million and RMB386 million where allowance for credit losses totalling RMB41 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 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 receivable and contract assets relating to customers with known financial difficulties or significant doubt on collection of trade receivables and contract assets are assessed individually and provided for credit loss. Expected credit losses are also estimated by grouping the remaining trade receivables and contract assets based on similar credit risk characteristics and collectively assessed for likelihood of recovery by taking into account of their credit history, as well as the prevailing market conditions. Both current economic conditions and forward looking information were also taken into consideration by management in the estimation such as changes in macroeconomic conditions and industry trends, where appropriate. We focused on auditing the impairment of trade receivables and contract assets because the balances of trade receivables and contract assets were significant, and the estimation of impairment provisions was subject to high degree of estimation uncertainty. The inherent risk in relation to the 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 judgements 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.

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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

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)

- 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 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, 25 March 2022

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**188,452**	68,625
Right-of-use assets	7	**123,353**	117,300
Intangible assets	8	**21,113**	23,459
Deferred income tax assets	10	**8,915**	7,047
Investments accounted for using the equity method	9	**39,703**	62,940
Prepayments and other receivables	14	**—**	10,190
Total non-current assets		**381,536**	289,561
Current assets			
Inventories	11	**423,261**	209,240
Contract assets	12	**377,937**	238,119
Trade and notes receivables	13	**296,299**	279,417
Prepayments and other receivables	14	**173,686**	56,469
Pledged bank deposits	15	**172,317**	127,927
Term deposits with initial terms of over three months	15	**21,294**	162
Cash and cash equivalents	15	**198,447**	177,949
Total current assets		**1,663,241**	1,089,283
Total assets		**2,044,777**	1,378,844

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
EQUITY			
Equity attribute to the owners of the Company			
Share capital	17	**4,071**	4,071
Reserves		**371,207**	379,822
Retained earnings		**411,306**	134,006
		786,584	517,899
Non-controlling interests		**1,836**	6,675
Total equity		**788,420**	524,574
LIABILITIES			
Non-current liabilities			
Lease liabilities	7	**34,890**	32,337
Long-term borrowings	19	**54,271**	—
Deferred income	18	**746**	452
Deferred income tax liabilities	10	**30,254**	15,797
Total non-current liabilities		**120,161**	48,586
Current liabilities			
Trade and other payables	21	**598,992**	439,957
Contract liabilities	12	**466,689**	322,177
Current income tax liabilities		**5,716**	832
Short-term borrowings	20	**54,830**	30,000
Lease liabilities	7	**9,969**	12,718
Total current liabilities		**1,136,196**	805,684
Total liabilities		**1,256,357**	854,270
Total equity and liabilities		**2,044,777**	1,378,844

The accompanying notes on pages 128 to 213 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 121 to 213 were approved by the Board of Directors on 25 March 2022 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 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Revenue	5	**2,015,028**	1,295,980
Cost of sales	5, 22	**(1,536,020)**	(972,450)
Gross profit		**479,008**	323,530
Selling and marketing expenses	22	**(170,289)**	(148,692)
Administrative expenses	22	**(128,094)**	(98,695)
Net impairment losses on financial and contract assets	3	**(6,243)**	(12,139)
Research and development expenses	22	**(65,598)**	(48,268)
Other income	23	**6,330**	8,039
Other gains — net	24	**196,804**	6,955
Operating profit		**311,918**	30,730
Finance income	26	**1,471**	3,115
Finance costs	26	**(4,824)**	(2,833)
Finance (cost)/income — net		**(3,353)**	282
Share of net profit of investments accounted for using the equity method	9	**10,660**	10,477
Profit before income tax		**319,225**	41,489
Income tax expense	27	**(46,601)**	(9,884)
Profit for the year		**272,624**	31,605
Profit attributable to:			
The owners of the Company		**277,300**	33,100
Non-controlling interests		**(4,676)**	(1,495)
Earnings per share for profit attributable to the owners of the Company — basic and diluted (RMB)	28	**0.54**	0.06

The accompanying notes on pages 128 to 213 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**For the year ended 31 December 2021 RMB'000**	For the year ended 31 December 2020 RMB'000
Profit for the year		**272,624**	31,605
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(8,767)**	(10,441)
Changes in the fair value of financial assets at fair value through other comprehensive income		**—**	74
Share of other comprehensive (loss)/income of investments accounted for using the equity method	9	**(11)**	711
Other comprehensive loss for the year, net of tax		**(8,778)**	(9,656)
Total comprehensive income for the year		**263,846**	21,949
Total comprehensive income attributable to:			
The owners of the Company		**268,685**	23,362
Non-controlling interests		**(4,839)**	(1,413)
		263,846	21,949

The accompanying notes on pages 128 to 213 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

The accompanying notes on pages 128 to 213 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company							
	Notes	Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Retained earnings RMB'000	Currency translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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)
Changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	–	–	–	–	–
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 128 to 213 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2021 RMB'000	Year ended 31 December 2020 RMB'000
Cash flows from operating activities			
Cash (used)/generated from operations	30(a)	**(97,021)**	55,201
Income taxes paid		**(7,809)**	(5,601)
Interest received	26	**1,379**	2,624
Net cash (used)/generated from operating activities		**(103,451)**	52,224
Cash flows from investing activities			
Increase in term deposits with initial terms of over three months	15	**(21,132)**	47
Dividend received from joint ventures	9	**6,189**	7,128
Payment for property, plant and equipment		**(100,571)**	(26,540)
Payment for intangible assets		**(8,447)**	(1,336)
Payment for land use right		**(6,863)**	(39,347)
Proceeds from disposal of property, plant and equipment		**173**	242
Repayment of loans by a joint venture		**10,282**	—
Proceeds from disposal of a joint venture		**185,391**	—
Net cash generated/(used) in investing activities		**65,022**	(59,806)
Cash flows from financing activities			
Interest paid		**(4,402)**	(2,793)
Proceeds from borrowings	30(c)	**109,101**	45,000
Repayment of loan from a non-controlling shareholder of a subsidiary	30(c)	**—**	(153)
Repayments of borrowings	30(c)	**(30,000)**	(35,000)
Principal elements of lease payments	30(c)	**(15,350)**	(12,567)
Net cash generated/(used) in financing activities		**59,349**	(5,513)
Net increase/(decrease) in cash and cash equivalents		**20,920**	(13,095)
Cash and cash equivalents at beginning of year	15	**177,949**	191,084
Exchange losses on cash and cash equivalents	26	**(422)**	(40)
Cash and cash equivalents at end of year	15	**198,447**	177,949

The accompanying notes on pages 128 to 213 are an integral part of these 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 equipment and consumables in the People's Republic of China (the "**PRC**"). The ultimate holding company of the Company is Standard Fortune Holdings Limited, a company incorporated in the British Virgin Islands (the "**BVI**") with limited liability and wholly owned by Mr. Ho Kwok Keung, Mars ("**Mr. Mars Ho**", also the "**Controlling Shareholder**"), Chairman of the Board of Directors and the Chief Executive Officer of the Company (the "**Chief Executive Officer**").

Ordinary shares of HK$0.01 each in the share capital of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 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 25 March 2022.

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 for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform — Phase 2 — amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

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 2021 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 HKD.

(b) Transactions and balances

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

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

(c) Group companies

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

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

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

2.7 Property, plant and equipment

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

Construction in progress is stated at cost, including the costs of construction, machinery and other expenditures for the purpose of preparing the construction-in-progress for its intended use and borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction 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 determing the length of useful life of trademarks and know-how, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

2.9 Research and development

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

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

2.11 Financial assets

2.11.1 Classification

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

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

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

2.11.2 Recognition and derecognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.3 Measurement

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

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

Debt instruments

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.3 Measurement (Continued)

Equity instruments

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

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

2.11.4 Impairment

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

For trade receivables 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. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

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

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

2.20 Borrowing costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax (Continued)

(c) Offsetting

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

2.22 Employee benefits

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

Pension and social obligations

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Provisions

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

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

2.24 Revenue recognition

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

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

(a) Revenue from system engineering contract

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

(b) Revenue from sale of goods

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

(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 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 2021, 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 RMB1,541,000 (as at 31 December 2020: RMB372,000) 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 2021, 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 RMB3,656,000 (as at 31 December 2020: RMB2,341,000) 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, 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 low credit risk when they have a low risk of default and the accepting bank has a strong capacity to meet its contractual cash flow obligations in the near term. The identified impairment loss was immaterial.

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles of sales over a period of 84 months before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group considers the following indicator in forward looking estimates, such as changes in macroeconomic conditions, time value, industry trends and accordingly adjusts the historical loss rates based on expected changes in these factors.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

On that basis, the loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows for both trade receivables and contract assets.

31 December 2021	**With in 6 months**	**6 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected loss rate	**0.67%**	**3.64%**	**15.89%**	**34.30%**	**70.19%**	
Gross carrying amount — trade receivables	**176,966**	**45,925**	**37,157**	**26,120**	**10,417**	**296,585**
Gross carrying amount — contract assets	**349,790**	**22,619**	**7,809**	**875**	**490**	**381,583**
Loss allowance	**3,529**	**2,495**	**7,145**	**9,259**	**7,656**	**30,084**

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

As at 31 December 2021, specific provisions of RMB11,244,000 (2020: RMB5,751,000) have been provided against trade receivables and contract assets of RMB11,244,000 (2020: RMB5,751,000) for customers with known financial difficulties.

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

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)

	2021 RMB'000	2020 RMB'000
Opening loss allowance at 1 January	**37,055**	26,647
Increase in loss allowance recognised in profit or loss during the year	**5,957**	12,245
Reversal of previous impairment loss	**(264)**	(310)
Receivables written off during the year as uncollectible	**(1,420)**	(1,527)
Closing loss allowance at 31 December	**41,328**	37,055

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:

	2021 **RMB'000**	2020 RMB'000
Opening loss allowance at 1 January	**320**	116
Increase in loss allowance recognised in profit or loss during the year	**550**	204
Closing loss allowance at 31 December	**870**	320

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:

	2021 RMB'000	2020 RMB'000
Impairment losses for trade receivables and contract assets	**5,693**	11,935
Provision for impairment on other financial assets at amortised cost	**550**	204
Net impairment losses on financial and contract assets	**6,243**	12,139

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 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	**56,092**	**—**	**—**	**56,092**	**54,830**
Long-term borrowings	**—**	**60,003**	**—**	**60,003**	**54,271**
Financial guarantee contracts	**6,404**	**—**	**—**	**6,404**	**—**
	548,533	**89,110**	**12,299**	**649,942**	**626,834**

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

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 2021 and 2020 are as follows:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Total debt (Note 30(c))	**155,223**	76,465
Total equity	**788,420**	524,574
Total capital	**943,643**	601,039
Gearing ratio	**16%**	13%

The gearing ratio increased from 13% to 16% as a result of the increase in short-term borrowings and long-term borrowings in 2021.

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 2021			
Financial assets			
FVOCI			
— Notes receivable	—	10,011	—
Total financial assets	—	10,011	—

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Financial assets (Continued)

(i) *Fair value hierarchy* (Continued)

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of trade receivables and contract assets

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

(b) Revenue recognised over time

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

(c) Impairment of inventories

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

(d) Income taxes and deferred income taxation

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

5. SEGMENT INFORMATION

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

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

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

The segment results for the year ended 31 December 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 profits of investments accounted for using the equity method	6,356	639	—	—	3,665	—	10,660

5. SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2020 are as follows:

	Liquid and Bioprocess System RMB'000	Clean Room and Automation Control and Monitoring System RMB'000	Powder and Solid System RMB'000	GMP Compliance Service RMB'000	Life Science Consumables RMB'000	Distribution and Agency of Pharmaceutical Equipment RMB'000	Total RMB'000
Segment revenue and results							
Segment revenue	634,619	303,465	120,822	55,595	254,508	20,800	1,389,809
Inter-segment revenue	(46,131)	(39,029)	(297)	(2,866)	(4,338)	(1,168)	(93,829)
Revenue	588,488	264,436	120,525	52,729	250,170	19,632	1,295,980
Recognised at a point in time	139,202	42,855	13,741	2,162	250,170	19,632	467,762
Recognised over time	449,286	221,581	106,784	50,567	—	—	828,218
Cost of sales	(498,237)	(207,239)	(86,414)	(26,754)	(140,819)	(12,987)	(972,450)
Segment results							
Gross profit	90,251	57,197	34,111	25,975	109,351	6,645	323,530
Other segment items							
Amortisation	2,715	704	54	23	—	9	3,505
Depreciation	16,729	5,957	1,435	801	3,066	407	28,395
Provision for impairment losses on financial and contract assets	7,670	1,899	783	357	1,293	137	12,139
(Reversal of)/provision for impairment of inventories	(818)	1,021	518	218	(533)	70	476
Impairment of goodwill	3,141	—	—	—	—	—	3,141
Share of net profits of investments accounted for using the equity method	7,559	123	—	—	2,795	—	10,477

5. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Liquid and Bioprocess System	**143,745**	90,251
Clean Room and Automation Control and Monitoring System	**90,275**	57,197
Powder and Solid System	**41,694**	34,111
GMP Compliance Service	**28,381**	25,975
Life Science Consumables	**163,044**	109,351
Distribution and Agency of Pharmaceutical Equipment	**11,869**	6,645
Total gross profit for reportable segments	**479,008**	323,530
Selling and marketing expenses	**(170,289)**	(148,692)
Administrative expenses	**(128,094)**	(98,695)
Net impairment losses on financial and contract assets	**(6,243)**	(12,139)
Research and development expenses	**(65,598)**	(48,268)
Other income	**6,330**	8,039
Other gains — net	**196,804**	6,955
Finance (cost)/income — net	**(3,353)**	282
Share of net profits of investments accounted for using the equity method	**10,660**	10,477
Profit before income tax	**319,225**	41,489

5. SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2021 and 2020 are as follows:

	As at 31 December 2021		As at 31 December 2020	
	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	**834,531**	**17,890**	543,838	17,758
Clean Room and Automation Control and Monitoring System	**362,161**	**21,813**	255,687	23,010
Powder and Solid System	**100,912**	**—**	71,943	—
GMP Compliance Service	**36,464**	**—**	33,197	—
Life Science Consumables	**259,063**	**—**	159,687	22,172
Distribution and Agency of Pharmaceutical Equipment	**9,254**	**—**	6,745	—
Total segment assets	**1,602,385**	**39,703**	1,071,097	62,940
Unallocated				
Deferred income tax assets	**8,915**		7,047	
Headquarter assets	**433,477**		300,700	
Total assets	**2,044,777**		1,378,844	

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 2021 Total liabilities RMB'000	As at 31 December 2020 Total liabilities RMB'000
Liquid and Bioprocess System	**561,002**	415,592
Clean Room and Automation Control and Monitoring System	**182,630**	133,377
Powder and Solid System	**55,585**	47,894
GMP Compliance Service	**32,435**	22,280
Life Science Consumables	**168,289**	97,089
Distribution and Agency of Pharmaceutical Equipment	**7,861**	5,503
Total segment liabilities	**1,007,802**	721,735
Unallocated		
Deferred income tax liabilities	**30,254**	15,797
Short-term borrowings	**54,830**	30,000
Long-term borrowings	**54,271**	—
Headquarter liabilities	**109,200**	86,738
Total liabilities	**1,256,357**	854,270

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 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Revenue		
Mainland China	**1,890,654**	1,219,015
Other locations	**124,374**	76,965
	2,015,028	1,295,980

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Non-current assets other than financial assets and deferred tax assets		
Mainland China	**303,794**	192,213
Other locations	**68,827**	80,111
	372,621	272,324

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 2020						
Opening net book value	6,351	32,934	1,069	5,257	9,394	55,005
Additions	7	3,437	188	17,525	6,569	27,726
Transfer upon completion of construction	—	373	—	(373)	—	—
Transfer to intangible assets (Note 8)	—	—	—	(1,782)	—	(1,782)
Depreciation charge (Note 22)	(739)	(7,015)	(260)	—	(3,991)	(12,005)
Disposal	—	(57)	—	—	(262)	(319)
Closing net book value	5,619	29,672	997	20,627	11,710	68,625
As at 31 December 2020						
Cost	16,450	61,602	4,941	20,627	34,698	138,318
Accumulated depreciation	(10,831)	(31,930)	(3,944)	—	(22,988)	(69,693)
Net book value	5,619	29,672	997	20,627	11,710	68,625
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 22)	**(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**

As at 31 December 2021, certain property, plant and equipment of the Group amounting to RMB90,657,000 (2020: RMB 5,612,000) were secured to bank borrowings (Note 33).

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 2021 RMB'000	As at 31 December 2020 RMB'000
Right-of-use assets		
Land use right	**77,957**	73,351
Buildings	**45,396**	43,949
	123,353	117,300
Lease liabilities		
Current	**9,969**	12,718
Non-current	**34,890**	32,337
	44,859	45,055

Additions to the right-of-use assets during the 2021 financial year were RMB15,154,000 (2020: RMB20,738,000).

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 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Depreciation charge of right-of use assets	Note 22		
Land use right		**2,257**	2,257
Buildings		**13,707**	14,133
		15,964	16,390
Interest expense (included in finance costs)	Note 26	**2,021**	1,755

The total cash outflow for leases in 2021 was RMB17,371,000 (2020: RMB14,322,000). The details are as follows:

Payment for principle elements of leases — RMB15,350,000 (2020: RMB12,567,000)

Payment for interest elements of leases — RMB2,021,000 (2020: RMB1,755,000)

(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 2021 and 2020, the Group's land use right for the value of RMB5,050,000 (2020: RMB5,200,000) were pledge as security for short-term borrowings (Note 20).

(f) As at 31 December 2021 and 2020, the Group's land use right for the value of RMB66,044,000 (2020: Nil) were pledge as security for long-term borrowings (Note 19).

8. INTANGIBLE ASSETS

	Software and others RMB'000	Trademarks RMB'000	Know-how RMB'000	Goodwill RMB'000	Total RMB'000
Year ended 31 December 2020					
Opening net book value	8,276	3,295	10,037	4,645	26,253
Additions	1,625	—	—	—	1,625
Transfer from construction in progress (Note 6)	1,782	—	—	—	1,782
Exchange differences	—	94	285	125	504
Impairment charge	—	—	—	(3,200)	(3,200)
Amortisation charge (Note 22)	(2,061)	(357)	(1,087)	—	(3,505)
Closing net book value	9,622	3,032	9,235	1,570	23,459
As at 31 December 2020					
Cost	18,067	3,531	10,753	4,770	37,121
Accumulated amortisation and impairment	(8,445)	(499)	(1,518)	(3,200)	(13,662)
Net book value	9,622	3,032	9,235	1,570	23,459
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 22)	**(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**

8. INTANGIBLE ASSETS (Continued)

Note:

(a) Amortisation expenses are included in cost of sales RMB105,000 (2020: RMB101,000), selling and marketing expenses RMB24,000 (2020: RMB18,000), and administrative expenses RMB3,546,000 (2020: RMB3,386,000).

(b) The carrying amount of goodwill at the end of the reporting period is attributable to acquisition of a subsidiary, which is identified as a cash generating unit ("**CGU**").

The recoverable amount of the above CGU is determined based on value in use calculation. The calculation uses cash flow projections based on the financial budget of five years approved by management and a pre-tax discount rate of 17%. Cash flows beyond the five-year period are maintained constant. Key assumptions in preparing the cash flow projection are gross margin and annual growth rates in revenue which are determined based on past performance and management's expectation on the future trend of service orders in the following 5 years. The impairment charge for the 2021 financial year is mainly due to the descending prospective income by the consideration of COVID-19.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	2021 **RMB'000**	2020 RMB'000
Opening balance at 1 January	**62,940**	57,509
Share of net profit	**10,660**	10,477
Share of other comprehensive income	**(11)**	711
Exchange differences	**(1,835)**	1,371
Dividend received	**(6,189)**	(7,128)
Disposal (Note)	**(25,862)**	—
Closing balance at 31 December	**39,703**	62,940

Note:

On 11 February 2021, the Group entered into an agreement with Beckman Coulter Hong Kong Limited ("**Purchaser**"), which indirectly owned 40% of the issued shares of PALL-AUSTAR Lifesciences Limited ("**PALL-AUSTAR JV**") to dispose the 60% of the issued shares of PALL-AUSTAR JV held by the Group at an aggregate consideration of US$ 34,000,000 (equivalent to approximately RMB225,000,000) ("**Disposal**").

Upon completion of the Disposal, the Group ceased to have any equity interest in PALL-AUSTAR JV.

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

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.

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

Summarised balance sheet

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

	STERIS-AUSTAR JV*		ROTA KG*	
	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000
Current				
Cash and cash equivalents	**31,873**	32,384	**65**	1,711
Other current assets	**61,193**	46,942	**40,510**	105,197
Total current assets	**93,066**	79,326	**40,575**	106,908
Financial liabilities (excluding trade payables)	**(5,467)**	(5,318)	**(920)**	(6,767)
Other current liabilities (including trade payables)	**(52,932)**	(38,538)	**(41,250)**	(100,195)
Total current liabilities	**(58,399)**	(43,856)	**(42,170)**	(106,962)
Non-current				
Assets	**3,820**	2,905	**51,245**	60,840
Financial liabilities	**—**	—	**(17,052)**	(18,313)
Other liabilities	**(1,977)**	(2,134)	**(5,627)**	(6,486)
Net assets	**36,510**	36,241	**26,971**	35,987

* 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*	
	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000	**For the year ended 31 December 2021 RMB'000**	For the year ended 31 December 2020 RMB'000
Revenue	**92,935**	76,965	**189,265**	138,096
Depreciation and amortisation	**(318)**	(296)	**(4,067)**	(3,930)
Interest income	**254**	224	**—**	—
Interest expense	**(11)**	(7)	**(1,389)**	(2,259)
Profit before income tax	**17,612**	21,611	**2,184**	419
Income tax expense	**(4,640)**	(6,184)	**(267)**	(51)
Profit for the year	**12,972**	15,427	**1,917**	368
Other comprehensive income	**(73)**	(86)	**(10,933)**	(2,652)
Total comprehensive income	**12,899**	15,341	**(9,016)**	(2,284)
Dividends received from joint ventures	**6,189**	7,128	**—**	—

* The financial information includes its respective subsidiaries.

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

Summarised financial information

	STERIS-AUSTAR JV*		ROTA KG*	
	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000
Opening net assets as at 1 January	**36,241**	35,446	**35,987**	38,271
Profit for the year	**12,972**	15,427	**1,917**	368
Dividends	**(12,630)**	(14,546)	**—**	—
Other comprehensive income	**(73)**	(86)	**(10,933)**	(2,652)
Closing net assets	**36,510**	36,241	**26,971**	35,987
Interest	**17,890**	17,758	**13,053**	14,252
Goodwill	**—**	—	**8,760**	8,760
Carrying value	**17,890**	17,758	**21,813**	23,012

* 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 2021 RMB'000	As at 31 December 2020 RMB'000
Deferred income tax assets		
— to be recovered within 12 months	**8,803**	6,979
— to be recovered after more than 12 months	**112**	68
	8,915	7,047
Deferred income tax liabilities		
— to be recovered within 12 months	**(167)**	(185)
— to be recovered after more than 12 months	**(30,087)**	(15,612)
	(30,254)	(15,797)
	(21,339)	(8,750)

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

The gross movement of the deferred income tax account is as follows:

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
As at 31 December 2020	**(8,750)**	(4,392)
Charged/(credited) directly to equity	**176**	(45)
Charged to the consolidated income statement (Note 27)	**(12,765)**	(4,313)
As at 31 December 2021	**(21,339)**	(8,750)

10. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax assets is as follows:

	Tax losses RMB'000	Impairment provision of receivables and inventories RMB'000	Warranty provisions and others RMB'000	Total RMB'000
As at 31 December 2019	362	5,015	1,181	6,558
(Charged)/credited to the consolidated income statement	(362)	747	104	489
As at 31 December 2020	—	5,762	1,285	7,047
credited to the consolidated income statement	—	1,494	374	1,868
As at 31 December 2021	**—**	**7,256**	**1,659**	**8,915**

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 2021, the Group did not recognise deferred income tax assets of RMB29,801,000 (2020: RMB32,923,000) in respect of losses amounting to RMB184,329,000 (2020: RMB200,859,000) as utilisation of such tax losses before expiry is uncertain.

For the year ended 31 December 2021, the Group did not recognise deferred income tax assets of RMB2,831,000 (2020: RMB1,901,000) in respect of deductible temporary differences amounting to RMB21,148,000 (2020: RMB12,676,000) 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 2019	(9,219)	(1,731)	(10,950)
(Charged)/credited to the consolidated income statement	(4,984)	182	(4,802)
Charged directly to equity	—	(45)	(45)
As at 31 December 2020	(14,203)	(1,594)	(15,797)
(Charged)/credited 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)**

11. INVENTORIES

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Raw materials	**205,587**	87,073
Work in progress	**110,280**	82,647
Finished goods	**121,073**	49,344
	436,940	219,064
Less: provision for inventories	**(13,679)**	(9,824)
	423,261	209,240

11. INVENTORIES (Continued)

Movements of provision for inventories are analysed as follows:

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Beginning of the year	(9,824)	(14,612)
Addition	(6,544)	(2,021)
Reversal	—	1,545
Write-off	2,689	5,264
End of the year	(13,679)	(9,824)

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 2021 RMB'000	As at 31 December 2020 RMB'000
Contract assets	(i)	386,482	240,778
Loss allowance		(9,951)	(4,699)
		376,531	236,079
Costs incurred to obtain contracts	(iii)	1,406	2,040
Total contract assets		377,937	238,119
Contract liabilities	(i)	(466,689)	(322,177)

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 2021 RMB'000	As at 31 December 2020 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**238,348**	123,606

(ii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts.

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	**1,592,716**	1,242,050

As of 31 December 2021, the aggregate amount of the transaction price allocated to the remaining performance obligation ("**backlog**") is RMB1,592.7 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 2021 RMB'000	As at 31 December 2020 RMB'000
Asset recognized from costs incurred to obtain contracts at 31 December	**1,406**	2,040
Amortisation recognized as cost of satisfying performance obligations during the year	**658**	2,304

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 related to, consistent with the pattern of recognition of the associated revenue.

13. TRADE AND NOTES RECEIVABLES

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Trade receivables (Note (b))	**302,930**	265,311
Notes receivable (Note (a))	**24,746**	46,462
	327,676	311,773
Less: loss allowance	**(31,377)**	(32,356)
	296,299	279,417

13. TRADE AND NOTES RECEIVABLES (Continued)

(a) Most of the notes receivable are bank acceptance with maturity dates within six months (2020: within six months).

(b) The ageing analysis of gross trade receivables (including amounts due from related parties of trading in nature) based on sales contracts at the respective balance sheet dates is as follows:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Within 6 months	**176,980**	165,784
6 months to 1 year	**45,925**	20,817
1 to 2 years	**38,582**	41,513
2 to 3 years	**27,210**	10,594
Over 3 years	**14,233**	26,603
	302,930	265,311

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

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
RMB	**272,659**	264,712
US$	**7,216**	3,794
HK$	**731**	2,419
EUR	**15,229**	8,486
Others	**464**	6
	296,299	279,417

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Current:		
Non-financial assets		
— Prepayments to suppliers	**103,057**	34,863
— Staff advance	**3,830**	2,352
— Others	**18,418**	5,867
	125,305	43,082
Less: provision for impairment (Note (c))	**(931)**	(544)
	124,374	42,538
Financial assets at amortised cost		
— Receivables from disposal of a joint venture	**10,970**	—
— Deposits as guarantee for tender	**39,212**	14,251
Less : loss allowance (Note 3.1(b))	**(870)**	(320)
	49,312	13,931
	173,686	56,469
Non-current:		
Loan and interest to PALL-AUSTAR JV (Note (b), Note 32(c)(i))	**—**	10,190
	—	10,190

(a) As at 31 December 2021 and 2020, the carrying amounts of other receivables are approximated at their fair values.

(b) This loan is unsecured and bearing interest rate at LIBOR plus an interest rate variable as prescribed in the loan agreement. Upon disposal of PALL-AUSTAR JV, the loan was repaid to the Group in March 2021.

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(c) 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 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Beginning of the year	**(544)**	(650)
Addition	**(387)**	98
Write-off	**—**	8
End of the year	**(931)**	(544)

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
RMB	**45,484**	20,233
US$	**11,836**	—
HK$	**252**	65
	57,572	20,298

15. CASH AND BANK BALANCES

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Cash and cash equivalents		
— Cash in hand	**185**	5,737
— Deposits at bank	**198,262**	172,212
	198,447	177,949
Pledged bank deposits (Note (a))	**172,317**	127,927
Term deposits with initial terms of over three months	**21,294**	162
	392,058	306,038

(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 2021 RMB'000	As at 31 December 2020 RMB'000
US$	**153,071**	39,291
RMB	**140,203**	159,665
HK$	**80,736**	96,226
EUR	**14,990**	9,424
Others	**3,058**	1,432
	392,058	306,038

16. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Financial assets		
Financial assets at amortised cost		
— Loan and interest to PALL—AUSTAR JV (Note 14)	—	10,190
— Trade receivables (Note 13)	302,930	265,311
— Notes receivables (Note 13)	14,735	31,586
— Deposits as guarantee for bidding (Note 14)	39,212	14,251
— Pledged bank deposits (Note 15)	172,317	127,927
— Term deposits with initial terms of over three months (Note 15)	21,294	162
— Cash and cash equivalents (Note 15)	198,447	177,949
Financial assets at fair value through other comprehensive income (FVOCI)		
— Notes receivables	10,011	14,876
Total	758,946	642,252
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and other payables (Note 3.1(c))	472,874	348,028
— Borrowings (Note 19 and Note 20)	109,101	30,000
Lease liabilities (Note 7)	44,859	45,055
Total	626,834	423,083

17. SHARE CAPITAL

	Number of ordinary shares Thousands	Nominal value of ordinary shares HK$'000
Authorised, HK$0.01 each:		
At 31 December 2020 and 2021	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 2020 and 2021	512,582	5,126	4,071

18. DEFERRED INCOME

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
At beginning of the year	**452**	1,972
Additions of government grant obtained	**1,000**	300
Credited to consolidated income statement	**(706)**	(1,820)
At end of the year	**746**	452

19. LONG-TERM BORROWINGS

	As at 31 December 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Bank borrowings, secured (note)	**54,271**	—

Note:

As at 31 December 2021, secured long-term bank borrowings are denominated in RMB and secured by the Group's buildings, land use right and construction in progress (Note 6 and 7). For the year ended 31 December 2021, the long-term bank borrowings bear interest rate of 4.65% and 4.75% per annum (2020: Nil) and are repayable by quarterly instalments up to 29 December 2025.

20. SHORT-TERM BORROWINGS

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Bank borrowings, secured (Note (a))	**20,000**	20,000
Bank borrowings, guaranteed (Note (b))	**34,830**	10,000
	54,830	30,000

(a) As at 31 December 2021, 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 2021, the short-term bank borrowings bear interest rate of 4.57% (2020: 4.57%) per annum and is repayable within one year.

(b) As at 31 December 2021, certain short-term bank borrowings were guaranteed by Austar SJZ and Austar Equipment Limited, subsidiaries of the Company. For the year ended 31 December 2021, the short-term bank borrowings bear interest rates range from 3.00% and 5.00% per annum and are repayable within one year (2020: 3.65%)

21. TRADE AND OTHER PAYABLES

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Trade payables	**350,846**	280,591
Notes payables	**1,500**	16,331
Payroll and welfare payable	**98,623**	64,499
Taxes other than income taxes payable	**13,410**	15,067
Warranty provision	**13,517**	12,109
Accrued expenses	**40,119**	17,401
Employee payable	**3,208**	3,494
Loan from a non-controlling shareholder of a subsidiary (Note (a))	**1,263**	1,410
Others	**76,506**	29,055
	598,992	439,957

(a) As at 31 December 2021 and 2020, the loan from a non-controlling shareholder of a subsidiary is unsecured, bearing interest at 5.00% per annum and repayable on demand.

(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 2021 RMB' 000	As at 31 December 2020 RMB' 000
Within 6 months	**326,305**	247,112
6 months to 1 year	**7,335**	12,667
1 to 2 years	**4,419**	13,036
2 to 3 years	**5,546**	2,146
Over 3 years	**7,241**	5,630
	350,846	280,591

21. TRADE AND OTHER PAYABLES (Continued)

(c) As at 31 December 2021 and 2020, 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 2021 RMB' 000	As at 31 December 2020 RMB' 000
RMB	**573,395**	412,195
US$	**12,026**	17,279
HK$	**230**	25
EUR	**11,711**	10,457
Others	**1,630**	—
	598,992	439,957

(e) As at 31 December 2021, payments for trade payables RMB13,970,000 (31 December 2020: RMB27,551,000) with notes receivable were not derecognised.

22. EXPENSES BY NATURE

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Raw materials	**1,202,876**	722,907
Staff costs, including directors' emoluments (Note 25)	**414,432**	308,833
On-site subcontract fee	**67,864**	48,225
Travel expenses	**34,693**	33,676
Freight and port charges	**28,153**	22,796
Depreciation		
— Property, plant and equipment (Note 6)	**11,936**	12,005
— Right-of-use assets (Note 7)	**15,964**	16,390
Professional fees	**17,929**	12,319
Technical service fee	**13,055**	9,768
Promotion expenses	**12,764**	12,681
Business entertainment expenses	**12,561**	8,535
Sales tax and surcharges	**10,439**	8,180
Warranty provision	**9,521**	8,663
Office expenses	**7,931**	7,233
Impairment of inventories (Note 11)	**6,544**	476
Auditor's remuneration		
— Audit service	**3,599**	3,991
— Non audit service	**725**	724
Amortisation (Note 8)	**3,675**	3,505
Repair and maintenance	**2,186**	2,618
Bank charges	**1,920**	1,818
Communication expenses	**1,879**	2,560
Human resources management expenses	**1,356**	1,873
Impairment of goodwill	**1,091**	3,141
Labour insurance premiums	**681**	676
Convention service expenses	**674**	1,423
Property management fee	**429**	1,306
Renovation expenses	**198**	562
Other operating expenses	**14,926**	11,221
	1,900,001	1,268,105

23. OTHER INCOME

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Government grants (Note)	**5,900**	7,618
Rental income (Note 32 (b) (iv))	**430**	421
	6,330	8,039

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

24. OTHER GAINS — NET

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Gains on disposal of a joint venture	**198,988**	—
Losses on disposal of property, plant and equipment	**(716)**	(47)
Exchange (losses)/gains	**(3,322)**	4,396
Others	**1,854**	2,606
	196,804	6,955

25. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Salaries and bonuses	**318,805**	277,392
Pension and social obligations	**95,627**	31,441
	414,432	308,833

25. 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 2021	For the year ended 31 December 2020
Directors	**1**	2
Non-director individuals	**4**	3
	5	5

The Directors' emoluments were reflected in the analysis presented below. The emoluments payable to the remaining individuals were as follows:

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Basic salaries and allowances	**3,366**	3,336
Discretionary bonuses	**1,435**	1,113
Other benefits including pension	**94**	53
	4,895	4,502

The emoluments fell within the following bands:

	Number of individuals	
	For the year ended 31 December 2021	For the year ended 31 December 2020
Emolument bands		
HK$1,500,001~HK$2,000,000	**2**	3
HK$2,000,001 and above	**2**	—
	4	3

25. 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 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	40	–	–	–	–	–	145	976
Non-Executive Directors										
Ji Lingling	591	–	–	–	–	–	–	–	–	591
Chiu Hoi Shan	149	–	–	–	–	–	–	–	–	149
Cheung Lap Kei	149	–	–	–	–	–	–	–	–	149
Leung Oi Kin	149	–	–	–	–	–	–	–	–	149

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

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

For the year ended 31 December 2020 (RMB'000):

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Other	Total
Executive Directors										
Ho Kwok Keung, Mars	—	911	—	—	—	—	—	—	16	927
Ho Kin Hung	—	1,811	89	—	—	—	—	—	16	1,916
Chen Yuewu	—	957	1,220	—	—	—	—	—	51	2,228
Zhou Ning	—	641	119	—	—	—	—	—	101	861
Non-Executive Directors										
Ji Lingling	472	—	—	—	—	—	—	—	—	472
Chiu Hoi Shan	143	—	—	—	—	—	—	—	—	143
Cheung Lap Kei	143	—	—	—	—	—	—	—	—	143
Leung Oi Kin	143	—	—	—	—	—	—	—	—	143

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

(c) Directors' retirement benefits

During the year ended 31 December 2021, 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 (2020: Nil).

(d) Directors' termination benefits

During the year ended 31 December 2021, 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 (2020: Nil).

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

During the year ended 31 December 2021, no consideration was provided to or receivable by third parties for making available director's services (2020: 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 (2020: 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 (2020: Nil).

26. FINANCE (COST)/INCOME — NET

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Finance costs		
— Bank borrowings	**(2,381)**	(1,038)
— Lease liabilities	**(2,021)**	(1,755)
Exchange losses	**(422)**	(40)
	(4,824)	(2,833)
Finance income		
— Bank deposits	**1,379**	2,624
— Loan to PALL-AUSTAR JV (Note 14, Note 32 (b) (v))	**92**	491
	1,471	3,115
	(3,353)	282

27. INCOME TAX EXPENSE

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Current income tax expense	**33,836**	5,571
Deferred income tax expense (Note 10)	**12,765**	4,313
	46,601	9,884

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 of the BVI are exempted from local income tax.

27. 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 (2020: 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 (2020: 30%).

Corporate income tax in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%, except for certain subsidiaries which are taxed at preferential tax rates. Shanghai Austar Pharmaceutical Technology Equipment Ltd. ("**Shanghai Austar**"), Austar Hansen Lifesciences (Shanghai) Ltd. ("**Austar Hansen**") and Austar Pharmaceutical Equipment (Shijiazhuang) Ltd. ("**Austar SJZ**") are high and new technology enterprises certified by relevant local authorities in the PRC. These entities are entitled to preferential corporate income tax rates of 15% upon fulfilment of certain conditions under the tax ruling. Austar SJZ has been enjoying preferential corporate income tax rate since 2014 and renewed its "High and New Technology Enterprise" qualification for another three years in 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 2019.

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 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Profit before income tax	**319,225**	41,489
Tax expense calculated at applicable statutory tax rate	**66,401**	10,550
Impact of preferential corporate income tax rates	**(13,515)**	(5,459)
Impact of disposal of a joint venture	**(12,934)**	—
Non-taxable income	**(591)**	(480)
Expenses not deductible for taxation purposes	**1,183**	1,385
Impact of losses not recognised as deferred income tax assets	**5,416**	3,235
Other deductible temporary differences not recognised as deferred income tax assets	**930**	1,138
Utilisation of previously unrecognised tax losses	**(7,344)**	(1,383)
Additional deduction of research and development expense	**(7,755)**	(4,086)
Withholding tax on dividend	**14,810**	4,984
Income tax expense	**46,601**	9,884

28. 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 2021	For the year ended 31 December 2020
Profit attributable to the owners of the Company (RMB'000)	**277,300**	33,100
Weighted average number of ordinary shares in issue (Thousands)	**512,582**	512,582
Basic earnings per share (RMB)	**0.54**	0.06

(b) Diluted

As the Company had no dilutive ordinary shares for each of the years ended 31 December 2021 and 2020, diluted earnings per share for the years ended 31 December 2021 and 2020 are the same as basic earnings per share.

29. DIVIDENDS

The Board of Directors did not propose any final dividend for the year ended 31 December 2021 (2020: Nil).

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December 2021 RMB'000	Year ended 31 December 2020 RMB'000
Profit before income tax	**319,225**	41,489
Adjustments for:		
Depreciation		
— property, plant and equipment (Note 6)	**11,936**	12,005
— Right-of-use assets (Note 7)	**15,964**	16,390
Amortisation (Note 8)	**3,675**	3,505
Net impairment losses on financial assets and contract assets	**6,243**	12,139
Losses on disposals on property, plant and equipment (Note 24)	**716**	47
Provision/(reversal of) for impairment of prepayments and other receivables (excluding financial assets measured at amortised cost)	**387**	(98)
Impairment of goodwill (Note 8)	**1,091**	3,141
Gains on disposal of a joint venture (Note 24)	**(198,988)**	—
Impairment of inventories (Note 11)	**6,544**	476
Share of net profit of investments accounted for using the equity method (Note 9)	**(10,660)**	(10,477)
Finance income — net (Note 26)	**3,353**	(282)
Deferred income (Note 18)	**(706)**	(1,820)
Changes in working capital:		
Increase in restricted cash	**(44,390)**	(39,149)
Increase in inventories	**(222,690)**	(47,274)
Increase/(decrease) in trade and other receivables	**(113,021)**	61,006
Increase/(decrease) in trade and other payables	**124,873**	(41,676)
Increase in contract liabilities	**144,513**	99,901
Increase in contract assets	**(146,086)**	(54,422)
Increase in deferred income	**1,000**	300
Cash (used)/generated from operations	**(97,021)**	55,201

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

(b) Non-cash investing and financing activities

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Acquisition of property, plant and equipment transferred from inventories	**2,125**	1,075

Non-cash investing and financing activities disclosed in Note 7 are related to acquisition of right-of-use assets.

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Cash and cash equivalents (Note 15)	**198,447**	177,949
Lease liabilities (Note 7)	**(44,859)**	(45,055)
Borrowings (Note 19, Note 20)	**(109,101)**	(30,000)
Loan from a non-controlling shareholder of a subsidiary (Note 21)	**(1,263)**	(1,410)
Net debt	**43,224**	101,484
Cash and liquid investments (Note 15)	**198,447**	177,949
Gross debt	**(155,223)**	(76,465)
Net debt (Note)	**43,224**	101,484

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

(c) Net debt reconciliation

Note:

The positive value means that the Group has net cash.

	Liabilities from financing activities				Other assets	
	Borrowings RMB'000	Loan from a non-controlling shareholder of a subsidiary RMB'000	Leases RMB'000	Sub-total RMB'000	Cash RMB'000	Total RMB'000
Net debt as at 31 December 2019	(20,000)	(1,563)	(36,884)	(58,447)	191,084	132,637
Cash flows	(10,000)	129	12,567	2,696	(13,095)	(10,399)
Foreign exchange adjustments	—	24	—	24	(40)	(16)
Other non-cash movements	—	—	(20,738)	(20,738)	—	(20,738)
Net debt as at 31 December 2020	(30,000)	(1,410)	(45,055)	(76,465)	177,949	101,484
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**

31 COMMITMENTS

(a) Capital commitments

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Capital expenditure contracted for but not yet incurred:		
Property, plant and equipment	**100,963**	104,700
Intangible assets	**432**	331
	101,395	105,031

32. 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 2021 and 2020:

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 of 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. The related party transactions amount between the Group and the above companies disclosed in this report occurred during the period from 1 January 2021 to 31 March 2021.

32. 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 2021 RMB'000	For the year ended 31 December 2020 RMB'000
STERIS-AUSTAR WFOE	**101,953**	75,832
PALL-AUSTAR WFOE	**19,266**	42,797
H+E GmbH		
— engineering and non-engineering	**1,595**	3,347
ROTA KG	**32**	1,031
	122,846	123,007

(ii) Sales of goods and services

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
H+E GmbH		
— pre-assembly and assembly services	**11,908**	14,830
— other services	**669**	3,915
STERIS-AUSTAR WFOE	**10,543**	22,296
ROTA KG	**3,406**	2,616
PALL-AUSTAR WFOE	**411**	3,566
	26,937	47,223

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (Continued)

(iii) Rental expenses

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Madam Gu Xun	**891**	891
Austar Limited	**127**	141
Aquarion AG	**120**	186
	1,138	1,218

(iv) Rental fee and miscellaneous income

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
STERIS-AUSTAR WFOE	**452**	421

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

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
PALL-AUSTAR JV	**92**	491

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

(i) Receivable due from/prepayments to related parties

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Receivable due from:		
STERIS-AUSTAR WFOE	12,812	12,340
ROTA KG	3,993	1,242
H+E GmbH	1,435	3,969
PALL-AUSTAR WFOE	—	502
PALL-AUSTAR JV	—	10,190
Madam Gu Xun	—	234
Prepayments to:		
STERIS-AUSTAR WFOE	17,053	17,160
ROTA KG	625	—
Madam Gu Xun	468	468
Austar Limited	22	22
	36,408	46,127

(ii) Payable due to related parties

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
STERIS-AUSTAR WFOE	43,617	34,660
Aquarion AG	1,826	1,864
H+E GmbH	43	3,891
PALL-AUSTAR WFOE	—	10,280
	45,486	50,695

32. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Salaries and bonuses	**8,289**	9,006
Pension and others	**768**	338
	9,057	9,344

33. ASSETS PLEDGED AS SECURITY

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Property plant and equipment		
— Buildings	**4,874**	5,612
— Construction in progress	**85,783**	—
Right-of-use assets		
— Land use right	**71,094**	5,200
Total assets pledged as security	**161,751**	10,812

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**100,804**	103,768
	100,804	103,768
Current assets		
Prepayments and other receivables	**309,141**	318,993
Cash and cash equivalents	**2,753**	13,592
Term deposits with initial terms of over three months	**8,228**	—
Total assets	**420,926**	436,353
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	**12,229**	24,645
Retained earnings	**(8,794)**	(5,906)
Total equity	**419,385**	434,689
Liabilities		
Non-current liabilities		
Trade and other payables	**1,541**	1,664
Total liabilities	**1,541**	1,664
Total equity and liabilities	**420,926**	436,353

The balance sheet of the Company was approved by the Board of Directors on 25 March 2022 and was signed on its behalf:

Mr. Ho Kwok Keung, Mars
Executive Director

Madam Zhou Ning
Executive Director

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

Reserve movement of the Company

	Share premium RMB'000	Capital surplus RMB'000	Currency translation differences RMB'000	Accumulated losses RMB'000
At 1 January 2020	314,009	97,870	52,545	(14,100)
Profit for the year	—	—	—	8,194
Currency translation differences	—	—	(27,900)	—
At 31 December 2020	314,009	97,870	24,645	(5,906)
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)**

35. SUBSIDIARIES

The following is a list of subsidiaries as at 31 December 2021:

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	RMB12,000,000	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 ("Austar Europe")	Limited liability company	Italy/27 July 2012	EUR20,000	100%	Provision of consulting service/ Italy

35. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar Pharmaceutical 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	RMB500,000	100%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/the PRC
Austar Biosciences Investment Limited (奧星生物科技投資有限公司)	Limited liability company	BVI/1 April 2015	US$100	100%	Investment holding/BVI
Austar Biosciences Limited (奧星生物科技有限公司)	Limited liability company	Hong Kong/20 April 2015	HK$100	100%	Investment holding/Hong Kong
Austar Pharmaceutical Technology Investment (SJZ) Limited (奧星製藥科技投資(石家莊)有限公司)	Limited liability company	BVI/12 January 2015	US$12,048,383	100%	Investment holding/BVI
Austar Pharmaceutical Equipment Investment (NJ) Limited (奧星製藥設備投資(南京)有限公司)	Limited liability company	BVI/12 January 2015	US$209,717	100%	Investment holding/BVI

35. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar 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 Asia Investment Ltd. (奧星亞洲投資有限公司)	Limited liability company	BVI/19 July 2017	US$1	100%	Investment holding/BVI
Austar Hansen lifesciences (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	RMB9,000,000	100%	Distribution and agency/the PRC
Shanghai Austar Pharmaceutical Science and Technology Limited (上海奧星医药科技有限公司)	Limited liability company	Shanghai, the PRC/ 7 August 2017	RMB2,150,000	100%	Investment holding/the PRC
Shanghai Aunity Pharmaceutical Science and Technology Limited (上海奧恒医药科技有限公司)	Limited liability company	Shanghai, the PRC/ 24 October 2017	RMB4,200,000	60%	Investment holding/the PRC
Hebei Aunity Engineering Consulting Limited (河北奧恒工程設計咨询有限公司)	Limited liability company	Hebei, the PRC/ 2 November 2017	RMB3,822,000	60%	Provision of pharmaceutical engineering design/the PRC
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

35. SUBSIDIARIES (Continued)

Company name	Kind of legal entity	Country/place and date of incorporation	Issued and paid-up capital	Attributable equity interest of the Group	Principal activities/ place of operation
Indirectly owned:					
Austar Malaysia Ltd.	Limited liability company	Malaysia/13 November 2019	US$100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
AUSTARUNION Malaysia Sdn Bhd	Limited liability company	Malaysia/5 December 2019	RM100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and distribution/Malaysia
H+E Pharma GmbH	Limited liability company	Germany/26 September 2018	EUR51,020	51%	Provision of integrated engineering solutions, pharmaceutical equipment and manufacturing/Germany
S-Tec GmbH	Limited liability company	Germany/14 August 2013	EUR100,000	51%	Assembly and pre-assembly service/Germany
Austar Luxembourg S.a.r.l	Limited liability company	Luxembourg/21 August 2019	EUR12,000	100%	Investment holding/Luxembourg
Austar UK Limited	Limited liability company	Cardiff/31 March 2020	GBP100	100%	Provision of integrated engineering solutions and pharmaceutical equipment, and manufacturing/ United Kingdom
Austar Europe Asset Holdings Limited (奧星歐洲資產控股有限公司)	Limited liability company	Hong Kong/ 30 October 2020	HK$10,000,000	100%	Investment holding/Hong Kong

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

36. CONTINGENT LIABILITIES

The Group has been named in a number of lawsuits and other legal proceedings arising in the ordinary course of business. Provision is made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits based on management's judgments and legal advice. No provision is made for pending lawsuits when management believes the outflow of resources is not probable.

As at 31 December 2021, the Group provides guarantee to banks in respect of two irrevocable letters of credit utilised by ROTA KG totalling EUR 887,000 approximated at RMB6,404,000. It sets forth the maximum exposure of these guarantees to the Group.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**2,015,028**	1,295,980	1,049,021	816,585	546,933
Cost of sales	**(1,536,020)**	(972,450)	(764,777)	(612,191)	(425,401)
Gross profit	**479,008**	323,530	284,244	204,394	121,532
Selling and marketing expenses	**(170,289)**	(148,692)	(137,077)	(105,635)	(100,473)
Administrative expenses	**(128,094)**	(98,695)	(108,731)	(77,450)	(70,946)
Net impairment losses on financial and contract assets	**(6,243)**	(12,139)	(5,109)	(4,066)	—
Research and development expenses	**(65,598)**	(48,268)	(42,577)	(30,308)	(26,062)
Other income	**6,330**	8,039	9,153	3,148	7,438
Other gains/(losses) — net	**196,804**	6,955	146	(1,667)	1,001
Operating profit/(loss)	**311,918**	30,730	49	(11,584)	(67,510)
Finance (cost)/income — net	**(3,353)**	282	1,967	3,420	3,909
Share of net profit of investments accounted for using the equity method	**10,660**	10,477	10,192	11,662	5,181
Profit/(loss) before income tax	**319,225**	41,489	12,208	3,498	(58,420)
Income tax (expense)/credit	**(46,601)**	(9,884)	(4,744)	(3,378)	4,223
Profit/(loss) for the year	**272,624**	31,605	7,464	120	(54,197)
Profit/(loss) attributable to:					
The owners of the Company	**277,300**	33,100	8,091	107	(54,085)
Non-controlling interests	**(4,676)**	(1,495)	(627)	13	(112)
Profit/(loss) for the year	**272,624**	31,605	7,464	120	(54,197)

ASSETS AND LIABILITIES

	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	**2,044,777**	1,378,844	1,174,322	1,071,370	881,567
Total liabilities	**1,256,357**	854,270	671,697	588,447	401,180
Total assets less current liabilities	**908,581**	573,160	540,535	494,443	489,905
Total equity attributable to the owners of the Company	**786,584**	517,899	494,537	480,964	478,441